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RLPPC UK Long Corporate Bond Fund

Quarterly Investment Report

31 December 2024

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 December 2024

The purpose of this report is to provide an update on the RLPPC UK Long Corporate Bond Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

Contents

ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The Fund aims to achieve +0.50% in excess of the benchmark net of fees per annum, on a rolling three year basis. The UK Long Corporate Bond Fund (LCF) invests predominantly in long-dated sterling credit bonds, including unrated bonds and sub-investment grade bonds. The fund may also invest in UK government bonds and non-sterling bonds. The Markit iBoxx GBP Non-Gilts Over 15 Years index is considered an appropriate benchmark for performance comparison.

Benchmark: Markit iBoxx Sterling Non-Gilt over 15 Years Index

Fund value

	Total £m
31 December 2024	184.11

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	94.33	98.84
Conventional gilts	4.49	-
Conventional foreign sovereigns	1.18	1.16

Fund analytics

	Fund	Benchmark
Fund launch date	30 April 2003	
Base currency	GBP	
Duration (years)	12.70	12.59
Gross redemption yield (%)	6.28	5.99
Number of holdings	118	216
Number of issuers	94	145

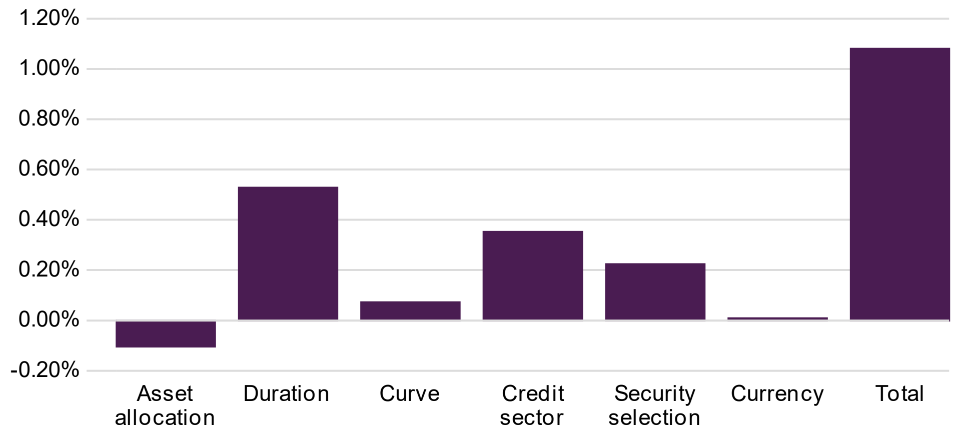
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(2.23)	(3.30)	1.07
1 Year	(3.13)	(5.59)	2.46
3 Years (p.a.)	(9.75)	(11.84)	2.09
5 Years (p.a.)	(4.00)	(5.81)	1.82
10 Years (p.a.)	1.61	0.34	1.27
Since inception (p.a.)	4.70	3.82	0.88

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on A Acc GBP. Source: Royal London Asset Management; Net performance; Since inception date of the share class is 30 April 2003.

Attribution over the quarter



Performance commentary

The final quarter of 2024 was turbulent for fixed income investors amid a series of headwinds coming from rising government bond yields, ongoing political volatility – domestic and abroad – and differences in central bank policies. Credit spreads are at all-time tights, across markets, and gilt yields are at multi-decade highs but we still believe all-in yield from credit is attractive and believe the risk of downgrade or default is still well compensated at current spread levels.

Despite this, the fund was able to achieve strong outperformance in the quarter, driven by the diversification of the portfolio and ability to mitigate risk – where we have reduced exposure to subordinated debt in some instances. A positive for performance was our duration positioning. The fund was short duration versus the benchmark and gilt yields moved higher following the UK budget, where concern lingered around inflation pressures and focus then shifted to the pace of interest cuts from the Bank of England.

Driving the outperformance was our credit allocation and stock selection. Our exposures to insurance and structured bonds, as well as the underweight exposure to supranationals, contributed positively.

Stock selection was positive for performance, including positive contributions in relation to water sector exposure. Following a series of negative headlines there has been a lot of volatility in the sector. Ofwat released their final determination for the water sector in December, which saw a softening in stance from the regulator versus its draft in the summer, and leaves a package that likely works for most firms. It was positive for the sector overall, as it removes a big overhang and should see spreads for most firms in the sector continue to normalise. We also expect to see more issuance as the water firms look to fund this big rise in infrastructure spending.

Performance and activity

Top 10 holdings

	Weighting (%)
ELECTRICITE DE FRANCE SA 6 23 Jan 2114	4.01
UK CONV GILT 0.5 22 Oct 2061	3.10
M&G PLC 6.34 19 Dec 2063	2.53
HEATHROW FUNDING LTD 4.625 31 Oct 2046	2.14
M&G PLC 6.25 20 Oct 2068	2.13
FFRESH_1 8.369 04 Oct 2058	2.06
LEGAL & GENERAL GROUP PLC 5.5 27 Jun 2064	2.00
HARB_03-08 5.28 31 Mar 2044	1.91
WELLCOME TRUST LTD/THE 2.517 07 Feb 2118	1.90
THAMES WATER UTILITIES FINANCE PLC 7.738 09 Apr 2058	1.90
Total	**23.68**

Fund activity

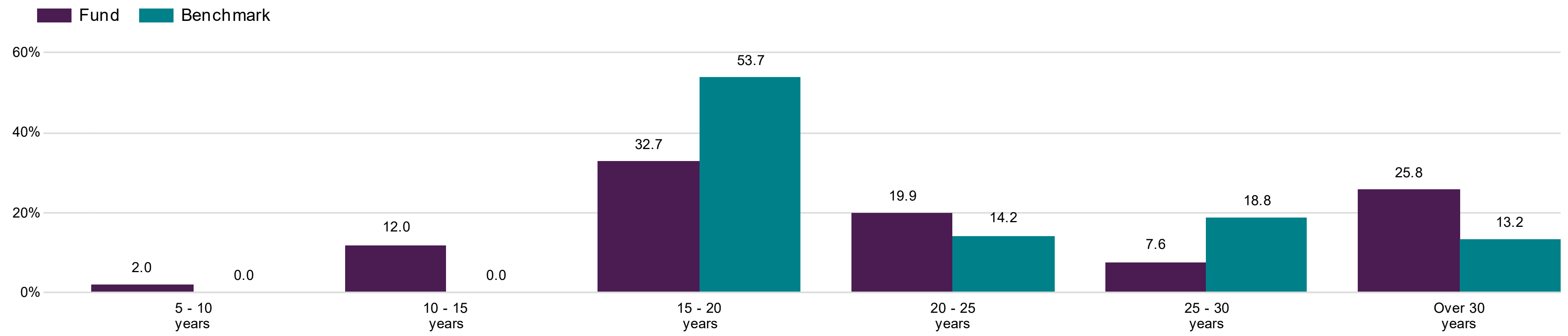
The new issue market was relatively subdued during the fourth quarter, and indeed for 2024 as a whole. Fund activity was also muted over the period.

In recent years, gas-related utilities have struggled relative to electricity distribution, reflecting asset stranding risk. This reasoning was behind our near removal of the sector from our portfolios in 2019, but after a sustained period of underperformance, we believe that the market has over-corrected, and combined with regulatory changes for the sector, the higher spread on gas companies over electricity now more than compensates for this risk. During the quarter, we added a new issue from French energy company Engie, where the issue came at a material yield premium to the market.

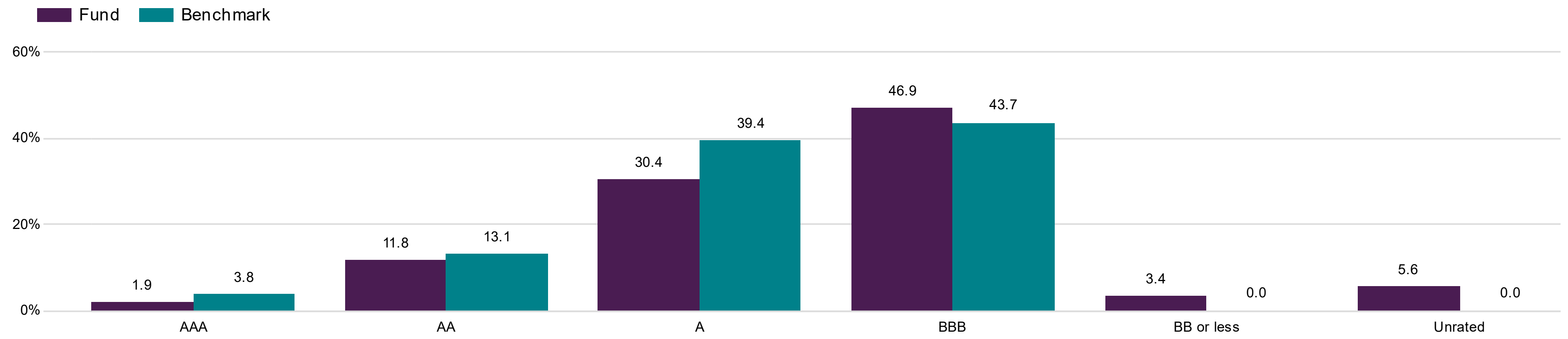
The water sector is part of the utilities sector that has been under greater scrutiny in recent years and in our regular reports and other updates. Late in the fourth quarter, the water regulator produced its final determination for the sector for the next five years. This was less restrictive than the draft determination, and in our view provides scope for spreads to normalise and issuance to pick up as the sector looks to fund a significant increase in capex. During the quarter, we added a new issue from Welsh Water, the customer owned utility with low leverage that tapped an existing issue at 122bps over gilts.

Fund breakdown

Maturity profile

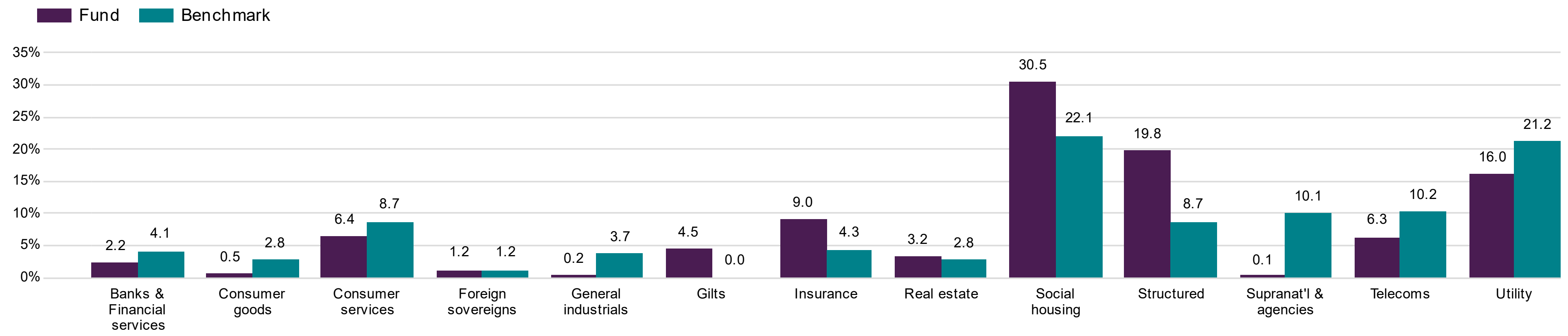


Credit ratings



Fund breakdown

Sector breakdown



Fund Engagement

Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	10	25
Number of engagements	12	55

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Total engagements by theme and topic

Biodiversity	**2**
Climate	**9**
Climate - Transition Risk	8
Climate - Physical Risk	1
Governance	**3**
Corporate Governance	1
Remuneration	1
Strategy	1
Health	**1**
Mental Health	1
Social & Financial Inclusion	**2**
Just transition	1
Social & Financial inclusion	1

The numbers of engagements and themes/topics discussed may differ where a single engagement covers multiple themes/topics.

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Fund Engagement

Engagement outcomes

Electricite De France SA (EDF) – Net zero

Purpose:

We met with EDF's, a French multinational electric utility company, Head of ESG Performance team to discuss its latest results in the Climate Action 100+ (CA100+) benchmark and discuss our 2025 engagement priorities with the company.

Outcome:

EDF performed well in the CA100+ benchmark, showing improvements across several areas. The company is working on clarifying its Scope 3 emissions reduction trajectory, detailing short, medium, and long-term goals. EDF maintains a low carbon intensity in electricity and heat production, which is sometimes under-recognised in CA100+ assessments. Due to EU Taxonomy classification issues related to its UK nuclear assets, specific green CAPEX numbers have not been published, but we will be assessing for improved company disclosures next year. We will continue to engage with EDF to discuss its updated Scope 3 decarbonisation pathways.

Market commentary

Market overview

Markets were volatile during the fourth quarter – with the US elections and the potential for central bank rate cuts the main causes of uncertainty. With the election of Donald Trump as US President, and the Republicans having a majority in both the Senate and House of Representatives, markets moved to price in potentially higher US deficits.

Alongside political events, attention remained on the Federal Reserve, European Central Bank and Bank of England to see if expected rate cuts would materialise. However, with inflation remaining higher than central bankers would like, expectations for rate cuts in 2025 were revised down. This backdrop pushed government bond yields higher, leading to negative absolute returns for most investment grade credit markets despite credit spreads tightening and credit excess returns over government bonds being positive, while equities ended a strong 2024 with another positive quarter, with US stocks – notably the 'magnificent seven' – leading the way.

At its final meeting of 2024, and as expected, the Bank of England kept rates on hold at 4.75%. Meanwhile, according to the minutes, "a gradual approach to removing monetary policy restraint remains appropriate." Away from economic data, the new Labour government presented its first budget. This was less obviously a budget for growth than one for public services repair with a substantial proposed increase in day-to-day fiscal spending and net investment. Public spending was increased substantially, but at the cost of a big increase in taxes. Since the Budget, business optimism has dropped, and firms are indicating a mix of responses to the rise in National Insurance contributions including hiring less and raising prices.

The Federal Reserve cut rates 50bps over the quarter to a 4.25% - 4.5% target range. They signalled fewer cuts for 2025 than previously indicated, indicating only 50bps cuts for 2025 (100bps previously). In November, Donald Trump was elected US President for the second time. A Trump presidency will likely bring a change in both policy making style and substance. It was a clean sweep for the Republicans, winning the White House, Senate and House of Representatives, increasing the prospects of Trump getting his fiscal policies through.

As widely expected, the European Central Bank's final decision of the year saw another 25bps rate cut, taking the deposit rate to 3.00%." The picture for activity outside Germany and France was somewhat better than for those two economies, with both France and Germany affected in recent months by political/policy uncertainty.

Government bond yields rose over the quarter, as central banks continued to struggle to bring inflation back to target levels and amid ongoing political volatility with elections across Europe and the US. In the US, 10-year treasury yields rose to 4.57% from 3.78%, while German 10-year bunds similarly saw yields rise to 2.36% from 2.06%. Benchmark 10-year gilt yields increased to 4.57% from 4.01%.

The sterling investment grade credit market (iBoxx non-gilt index) returned -0.49% over the quarter, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightening over the period from 1.03% to 0.86% (iBoxx). The negative absolute return was broad based across the sterling investment grade credit market with the only sectors seeing positive returns being banks and real estate, with both markets benefitting from the potential of higher interest rates for longer. Consumer services and social housing were the relative laggards.

Outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields. Markets started the year expecting that falling inflation would lead to a number of rate cuts that would drag the entire UK curve lower. In the event, although we got two rate cuts, these really only impacted the short end – with longer yields pushed higher, first because inflation did not come down as expected and Trump presidency is widely seen as more inflationary, and second because issuance is going to be higher than expected. As a result, UK 30-year gilt yields are now at 25-year highs.

UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. As this point, with these back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

Royal London Sterling credit ESG analysis

TCFD climate report

Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

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Risks and Warnings

General risks

The degree of investment risk depends on the fund you choose.

The prices of units can go down as well as up.

The return from your investment is not guaranteed; therefore, you may get back less or more than shown in the illustrations.

You may not get back the amount that you originally invested.

Past performance is not a guide to future return.

Inflation may, over time, reduce the value of your investments in real terms.

There may be a variation in performance between funds with similar objectives owing to the different assets selected.

Funds aiming for relatively high performance can incur greater risk than those adopting a more standard investment approach.

The use of derivatives in pursuit of a fund's objective may cause its risk profile to change and this may be material.

Fixed interest security risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.Key determinants include economic growth prospects, inflation, the government's fiscal position, short-term interest rates and international market comparisons. The returns from bonds are fixed as at the time of purchase. Therefore the fixed coupon payable and the final redemption proceeds are known at the outset. This means that if a bond is held until its redemption date, the total return that could be expected is unaltered from its purchase date, subject to counterparty default (see 'Credit risk' below). However, over the life of a bond, the yield priced by the market (as opposed to actual fixed coupons payable) at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase price and a profit or loss may be incurred.

Credit risk

The value of a fixed interest security will fall in the event of the default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. This fund may invest a percentage of it's assets in sub-investment grade bonds. Such bonds have characteristics which may result in higher probability of default than investment grade bonds and therefore higher risk.

Overseas markets risk

Funds investing in overseas securities are exposed to, and can hold, currencies other than Sterling. As a result, overseas investments may be affected by the rise and fall in exchange rates.

Derivatives risk for efficient portfolio management

Derivatives may be used by this Fund for the purpose of efficient portfolio management. This restricts the use of derivatives to the reduction of risk and the reduction of cost. Such transactions must be economically appropriate and the exposure fully covered.

Performance to 31 December 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	(2.15)	(0.12)	(2.82)	(25.79)	(17.16)
Fund (net)	(2.23)	(0.28)	(3.13)	(26.50)	(18.47)

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	(9.46)	(3.69)
Fund (net)	(9.75)	(4.00)

Year on year performance (%)

	31/12/2023 - 31/12/2024	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020
Fund (gross)	(2.82)	11.93	(31.78)	(3.13)	15.24
Fund (net)	(3.13)	11.57	(31.99)	(3.44)	14.87

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 31 December 2024. All figures are mid-price to mid-price for the RLPPC UK Long Corporate Bond Fund A Acc GBP share class.

Glossary

Asset allocation

Breakdown of the assets by asset classes. Based on RLAM asset classification scheme.

Attribution

Attribution is shown for the most recent quarter. Attribution figures are based on end of business returns for both the fund and the index whereas performance figures are based on midday returns for the fund and end of business for the index. Therefore the performance will not include market moves between midday when the fund is priced, and end of business when the index is calculated. This may result in a different figure being shown for the quarterly performance vs attribution data.

Credit ratings

Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

Duration

Measure of sensitivity of a Fixed Income instrument to changes in interest rates, indicating the potential impact of interest rate fluctuations on the value of the investment.

Fund analytics

All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.
This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Number of issuers

Number of unique issuers of all assets held by the Fund, excluding cash, currency and derivatives.

Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

Sector breakdown

Breakdown of the fixed income assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme. Figures are subject to rounding.