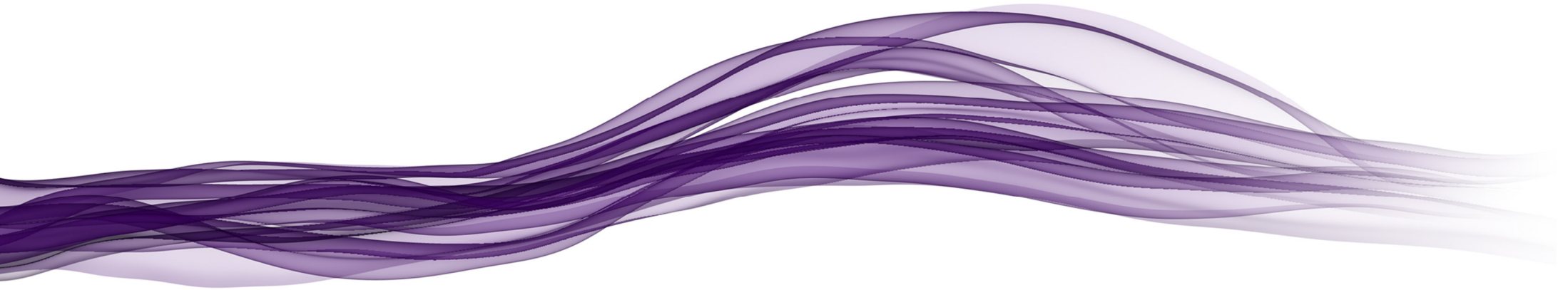


For professional clients only, not suitable for retail clients.



Royal London Global Sustainable Credit Fund

Quarterly Investment Report

31 December 2024



Quarterly Report

The fund as at 31 December 2024

The purpose of this report is to provide an update on the Royal London Global Sustainable Credit 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.

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The fund

Fund performance objective and benchmark

The Fund's investment objective is to outperform the Bloomberg Global Aggregate Corporate Hedged USD (the "Benchmark") by 0.75% per annum over rolling three year periods (gross of fees). The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track it.

Benchmark: Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD

Fund value

	Total \$m
31 December 2024	439.06

Fund analytics

	Fund	Benchmark
Fund launch date	10 February 2021	
Base currency	USD	
Duration (years)	6.20	5.86
Gross redemption yield (%)	5.61	4.81
Number of holdings	285	16,723
Number of issuers	171	2,875

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(1.40)	(1.54)	0.15
1 Year	4.63	3.69	0.94
3 Years (p.a.)	(0.83)	(0.95)	0.12
Since inception (p.a.)	(0.66)	(0.73)	0.07

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 Z Acc USD. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 10 February 2021.

Performance commentary

The fund modestly outperformed the index over the quarter (M Acc USD). The main negative over the period was our long duration stance, which hurt returns due to the rise in underlying government bond yields. However, this was more than offset by the ongoing tightening in credit spreads and the additional yield built into the portfolio.

All issuers within our sustainable holdings offer a net benefit to society through either their products/services or their operations. As well as reducing risk, we seek out opportunities that are under-researched e.g., bonds that do not fall into mainstream indices or benchmarks and/or are unrated by ratings agencies. Importantly, the sustainable credit proposition provides access to critical sectors that most investors can't access via equity markets. Key themes in the funds include social housing, social & environmental infrastructure, community funding (regulated banks and building societies focused on SME and retail lending), financial inclusion & resilience (such as insurers offering products which protect individuals and businesses from unexpected events) and the energy transition. On sustainability grounds, we have no exposure to bonds of oil & gas companies or extractive industries. We are also underweight in the general industrial and consumer goods sectors, and to a lesser extent in consumer services.

Driving the outperformance was our stock selection, where our bank and insurance bonds were standout performers, led by insurance perpetual bonds from Axa, ASR and Allianz. Stock selection in structured bonds was also positive for performance, including positive contributions in relation to UK 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 (%)
LLOYDS BANKING GROUP PLC 7.953 15 Nov 2033	1.36
LEGAL & GENERAL GROUP PLC 5.25 21 Mar 2047	0.99
HSBC HOLDINGS PLC 7.39 03 Nov 2028	0.98
REPUBLIC SERVICES INC 2.3 01 Mar 2030	0.96
NN GROUP NV 4.625 13 Jan 2048	0.96
PHOENIX GROUP HOLDINGS PLC 5.375 06 Jul 2027	0.91
PRUDENTIAL FINANCIAL INC 5.375 15 May 2045	0.90
M&G PLC 6.5 20 Oct 2048	0.86
AVISTA CORPORATION 4.35 01 Jun 2048	0.82
AGILENT TECHNOLOGIES INC 2.3 12 Mar 2031	0.81
Total	9.55

Fund activity

We continued to invest in bonds that meet both our demanding financial and sustainable criteria, and which fit into the sustainable themes that we think will endure and offer long-term solutions to the challenges that the world faces. We also aim to construct the fund to ensure that it yields more than the benchmark index. We believe that this positioning will be beneficial in the medium term, given the current valuation of credit markets and attractive opportunities we see.

The additional sustainable criteria we use mean that our portfolio will tend to have certain differences with the benchmark index. For instance, while it will have significant exposure to the banking sector, this is typically much lower in US banks than the index, reflecting the higher weighting of investment banks that typically do not score well on our criteria. In addition, the portfolio will usually have much lower exposure to China and India, where issuers may look attractive in financial terms, with many offering significant yield premia, but again do not score well on our criteria.

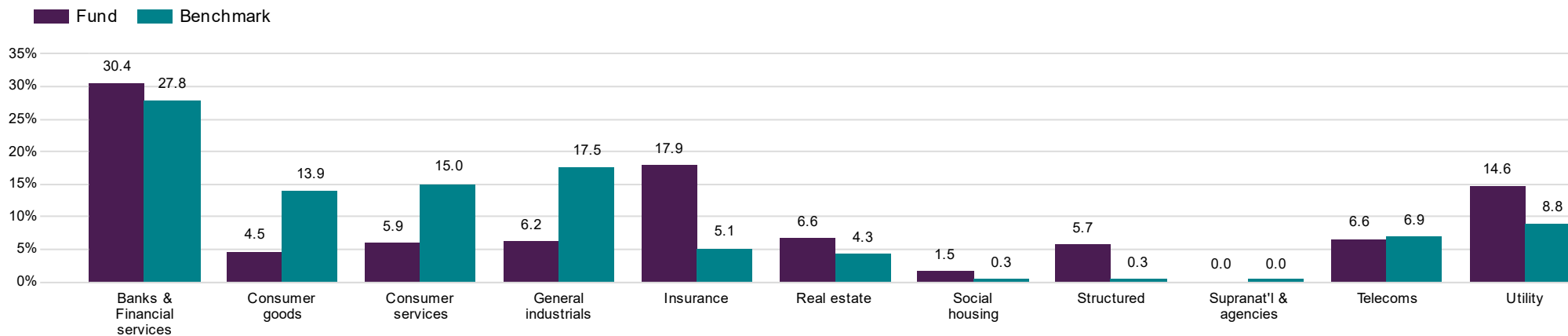
Global investment grade new issue markets saw the same trends in the fourth quarter as with most of 2024 – with US dollar issuance very high, strong growth in euro issuance and somewhat subdued sterling markets. With credit spreads continuing to tighten over the quarter, we looked for opportunities to reduce risk through taking profits. This was perhaps most notable in subordinated financials, where there has been broad-based strong performance in 2024. During the quarter we trimmed a number of positions, including Munich Re, BPCE, HSBC, Nordea and Westpac. But this activity was visible across a range of issues, including US health tech provider Iqvia and electronic connector firm Amphenol.

With a slightly more cautious outlook given spread tightening, our new issue activity was more focused on lower risk bonds – for example adding senior bonds from ABN Amro, Credit Mutuel Arkea and Banco Santander Mexico. All came at attractive yield premiums to the wider market. We also added a short-dated new issue from internet services provider Equinix.

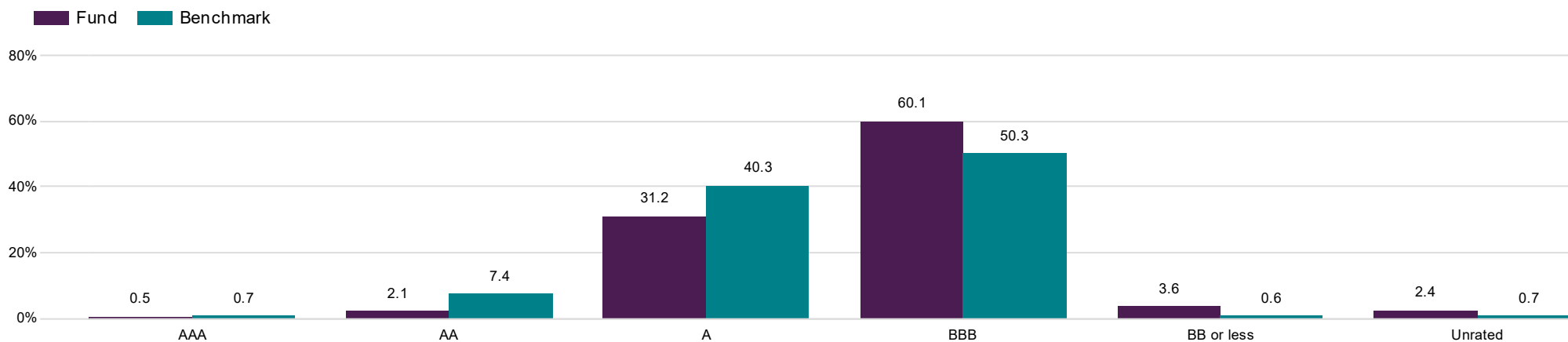
In the secondary market, we added to preferred issuers such as UK insurer Rothesay and secured bonds from UK hospital operator Derby Healthcare. We also effected a switch in logistics REIT Prologis, selling 2030 bonds into 2031 from the same provider for an additional 50bps of credit spread.

Fund breakdown

Sector breakdown

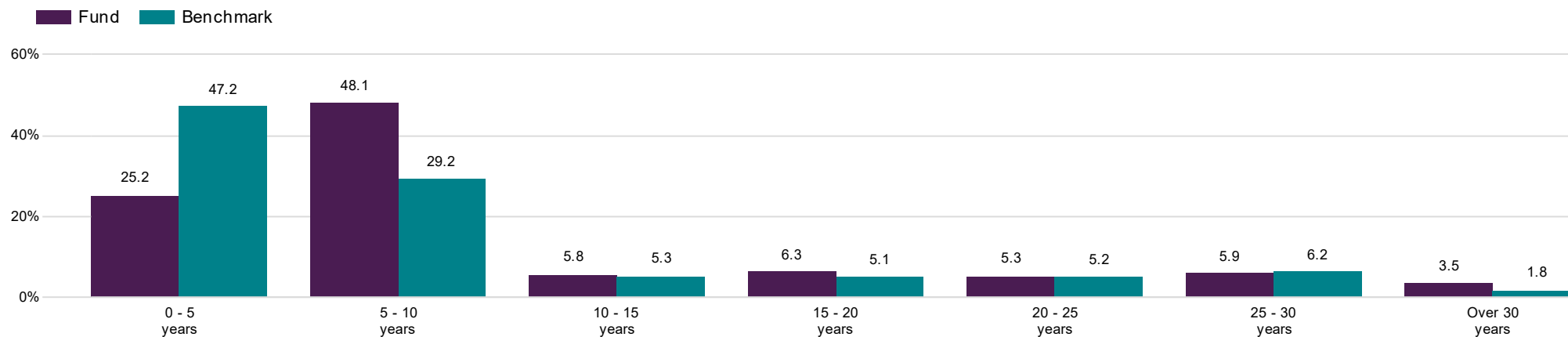


Credit ratings



Fund breakdown

Maturity profile



Characteristics and climate

ESG characteristics rationale

The Fund focuses on the sustainability of the products and services of the companies it invests in, as well as their standards of environmental, social, governance ("ESG") management, alongside financial analysis. The investment approach is fundamentally based on positive screening; identifying companies that are making a positive contribution towards a cleaner, healthier, safer and more inclusive society, through assessing both what a company does and how it does it, and through active engagement to encourage continual improvement. The fund will not invest in companies that undertake business activities deemed to be detrimental to society and that breach our Do No Significant Harm principle. Further details of the Funds Sustainable Investment process can be found in the ethical and sustainable investment policy at www.rlam.com/uk/individual-investors/policies-and-regulatory/

ESG characteristics

Royal London Asset Management has a controversial weapons exclusion across all investments. Our full policy can be found on our website:

www.rlam.com/globalassets/media/literature/policies/controversial-weapons-policy.pdf

	Yes	No
ESG integration	✓	
Promotes environmental or social characteristics	✓	
Sustainable fund objective	✓	
Additional exclusions	✓	

Additional exclusions

Exclusion criteria that make sure a fund does not invest into a specific service or product. Royal London Asset Management has a controversial weapons exclusion across all investments.

Adult entertainment	✓	High environmental impact	✓
Alcohol	✓	Human rights issues	✓
Animal welfare	✓	Nuclear power	✓
Armaments	✓	Nuclear weapons	✓
Fossil fuels	✓	Tobacco	✓
Gambling	✓		

Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO2e)	10,770	n/a	n/a
Financed emissions coverage	86.19%	n/a	n/a
Carbon footprint (tCO2e/\$M invested)	24.84	72.88	(65.92)
Carbon footprint coverage	86.19%	93.66%	(7.98)
Weighted average carbon intensity (tCO2e/\$M sales)	102.76	225.16	(54.36)
Weighted average carbon intensity coverage	97.05%	96.21%	0.87

All climate metrics presented above are for Scope 1-2 emissions. Unless specified in the objective, the data is for information only and should not be taken to mean they are being managed to/controlled.

Implied temperature rise

	Fund (%)	Benchmark (%)	Difference (%)
Implied temperature rise (ITR) coverage	84.48	92.69	(8.86)
% of portfolio below 2°C ITR	54.03	45.75	18.09
% of portfolio below 1.5°C ITR	27.18	16.33	66.46

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	15.27	14.57	4.82
SBTi Near-Term committed	11.61	5.89	97.30
SBTi Near-Term targets set	18.63	22.39	(16.80)

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	23	38
Number of engagements	26	83

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	1	Technology, Innovation & Society	2
Climate	9	Technology & Society	2
Climate - Transition Risk	8	Other	1
Climate - Physical Risk	1		
Governance	7		
Remuneration	4		
Corporate Governance	3		
Health	7		
Mental Health	7		
Social & Financial Inclusion	3		
Social & Financial inclusion	2		
Just transition	1		

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.

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

Fund Engagement

Engagement outcomes

Lloyds Banking Group Plc - Just transition

Purpose:

We met with Lloyds Banking Group, UK-based financial services group, as part of our collaborative engagement with banks on just transition, aiming for the bank to integrate this issue throughout its climate transition plan and demonstrate implementation at product, sector, and regional levels.

Outcome:

Lloyds Banking Group continues to view just transition as integral to the company's purpose and growth strategy. The positive call highlighted several innovative projects, supporting its alignment with just transition principles. Lloyds found our investor expectations helpful but noted that a sector lens might miss interdependencies, advocating for a system-based approach instead. The company provided examples of just transition integration across various systems, such as sustainable farming, greening the built environment, low carbon transport, and energy transition.

Lloyds has launched several innovative products aligned with just transition, including a £500mn social housing retrofit product. Lloyds have developed a roadmap with the Green Finance Institute and NatWest for property-linked finance for retrofit projects. The bank's regional approach to lending addresses challenges in across the UK, with initiatives like working with local authorities to tackle local issues, expected to create jobs and reduce regional inequalities. Combined with balance sheet lending for regional projects, Lloyds' approach appears relatively advanced.

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.

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 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. France’s finance minister was replaced after Barnier’s budget failed to pass and Germany will now have early elections in the first quarter of 2025.

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.

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.

Global corporate bonds saw mixed returns in local currency terms over the quarter. For US dollar and sterling markets, the impact of rising government bond yields more than offset the positive impact of tighter credit spreads and the carry on the asset class. Euro investment grade markets saw positive returns, with the impact of rising government bond yields much smaller than in the US and UK.

Outlook

Perhaps the most unexpected aspect of fixed income markets in 2024 was the rise in yields. Markets started the year expecting that falling inflation would lead to a number of rate cuts that would drag government bond yields lower. In the event, although we got rate cuts, these really only impacted the short end – with longer yields pushed higher because inflation did not come down as expected and Trump presidency is widely seen as more inflationary.

Investment grade markets partially 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 economy, 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 investment grade all-in yields remain attractive but the relative attraction between government bond yield and credit spread has changed, with a larger component of the yield being sought from government bonds. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

Further Information

Please click on the links below for further information:



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.

Disclaimers

Important information

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Issued in January 2025 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds.

Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under the Financial Services and Markets Act 2000.

The Management Company is FundRock Management Company SA, Registered office: Airport Center Building, 5 Heienhaff, L-1736 Senningerberg, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited.

The Prospectus and Key Investor Information Document (KIID) are available in English via the relevant Fund Information page on www.rlam.com. A summary of investor rights is also available in English, and can be accessed at www.rlam.com/uk/policies-and-regulatory

RLAM may terminate the arrangements made for marketing of the fund pursuant to Article 93a of Directive 2009/65/EC.

For more information on the Fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

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Risks and Warnings

Investment risk

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk

Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM techniques risk

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange rate risk

Changes in currency exchange rates may affect the value of your investment.

Interest rate 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.

Liquidity risk

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging markets risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Responsible investment risk

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

Derivative risk

Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

Performance to 31 December 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	(1.40)	3.57	4.63	(2.47)	(2.55)	(0.83)	(0.66)
Fund (net)	(1.50)	3.36	4.21	(3.64)	(4.05)	(1.23)	(1.06)

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)	4.63	9.33	(14.74)	-	-
Fund (net)	4.21	8.89	(15.08)	-	-

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 Royal London Global Sustainable Credit Fund Z Acc USD share class. Since inception date 10 February 2021.

Glossary

Asset allocation

Based on RLAM's holistic approach to fixed income management and fund weights relative to their respective benchmarks. May not reflect tactical exposures.

Carbon footprint

Exposure to high emitters in the portfolio, expressed in tCO₂e/\$M invested. Financed emissions are divided by the portfolio value, the same approach for listed companies and private issuers is applied in this metric.

ESG Integration

The consideration of environmental, social and governance (ESG) risk as part of the investment process. ESG integration does not mean the fund is trying to achieve a particular positive ESG outcome. Please check prospectus documentation for details on specific fund-level objectives.

Exclusions

Explicitly prohibits investing in a particular company, sector, business activity, country or region.

Financed emissions

The emissions from activities in the real economy that are financed through lending and investment portfolios, expressed in tCO₂e. Emissions are attributed to a portfolio based on the portion of the company's value the portfolio holds, and using different accounting values for public and private corporates. We provide financed emissions for scope 1 and 2 emissions.

Fund restrictions definitions

Animal Welfare: Companies that conduct animal testing (other than for purposes of human or animal health and/or where it is required by law or regulation).

Armaments: Companies who manufacture armaments or nuclear weapons or associated products.

Controversial Weapons: Weapons which have an indiscriminate and disproportional impact on civilians or weapons that are illegal and prohibited by international conventions and treaties.

Fossil Fuels: Companies involved in the exploration, extraction or refining of oil, or gas, or coal, plus any activity relating to thermal coal.

Gambling: Companies who promote irresponsible gambling which includes betting shops, casinos or amusement arcades.

High Environmental Impact: Companies which have a high environmental impact, and which have 'no evidence' of appropriate environmental management systems.

Human Rights Risks: Companies with a strategic presence operating in countries of concern and which have 'no evidence' of policies or systems to manage human rights risks.

Nuclear Power: Companies who generate energy from Nuclear Power.

Nuclear Weapons: Companies that manufacture, nuclear; or are involved in the production of intended-use parts, whole weapons systems, or exclusive delivery platforms.

Tobacco: Companies which are growing, processing or selling tobacco products.

Adult Entertainment: Companies which own or produce adult entertainment services, or engage in the distribution or sale of adult entertainment services.

Alcohol: Companies which have involvement in brewing, distillation or sale of alcoholic drinks.

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.

Implied temperature rise (ITR)

ITR aims to measure the global warming outcome from the emissions trajectory of a company, if the whole economy followed the same trajectory.

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.

Promotes environmental or social factors

An ESG Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

SBTi

The Science-Based Targets initiative is a consortium of organisations that set up the definition and promotion of science-based target setting.

Glossary

Sustainable fund objective

A product that has sustainable investment or a reduction in carbon emissions as its objective.

Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.

Weighted Average Carbon Intensity (WACI)

Portfolio's exposure to carbon-intensive companies, expressed in tCO₂e / \$M revenue. Scope 1 and scope 2 GHG emissions are divided by companies revenues, then multiplied based on portfolio weights (the current value of the investment relative to the current portfolio value). The WACI is calculated as a weighted average sum of the holdings with carbon intensity coverage.

In line with our bespoke and targeted approach to credit analysis, we have developed an in-house carbon data tool that addresses coverage and mapping issues with third party systems. The development of this tool has been a critical element of RLAM's ESG integration into our credit process, addressing coverage and mapping issues with third party systems. This enhanced coverage is reflected in the WACI figures provided in this report, with all other metrics instead being based on data from MSCI.