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Royal London Short Term Fixed Income Fund

Quarterly Investment Report

30 June 2024



Quarterly Report

The fund as at 30 June 2024

The purpose of this report is to provide an update on the Royal London Short Term Fixed Income 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 achieve a total return over rolling 12-month periods by primarily investing in short term fixed income securities. The Fund's performance target is to outperform, before the deduction of charges, the Bank of England Sterling Overnight Interbank Average (SONIA) by 0.50% per annum over rolling 12-month periods. This is the average overnight interest rate UK banks pay for unsecured transactions in sterling and is considered an appropriate benchmark for the Fund's performance.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
30 June 2024	4,054.38

Fund analytics

	Fund
Fund launch date	15 June 2011
Duration (years)	0.23
Gross redemption yield (%)	5.49
Number of issuers	48

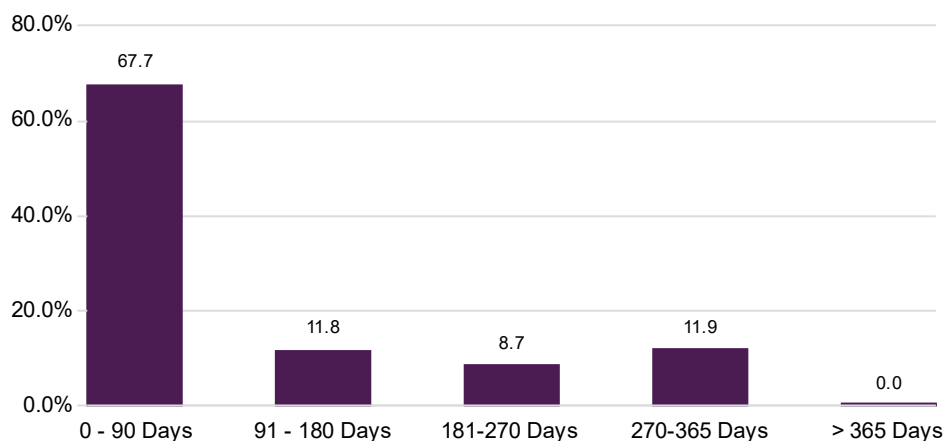
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.45	1.27	0.17
YTD	2.91	2.56	0.35
1 Year	6.05	5.18	0.87
3 Years (p.a.)	3.07	2.85	0.22
5 Years (p.a.)	2.17	1.82	0.36
10 Years (p.a.)	1.46	1.08	0.38
Since inception (p.a.)	1.39	0.95	0.43

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 RL Short Term Fixed Income Fund (Z Inc). Source: Royal London Asset Management;Gross performance; Since inception date of the shareclass is 21 May 2012.

Duration profile



Performance commentary

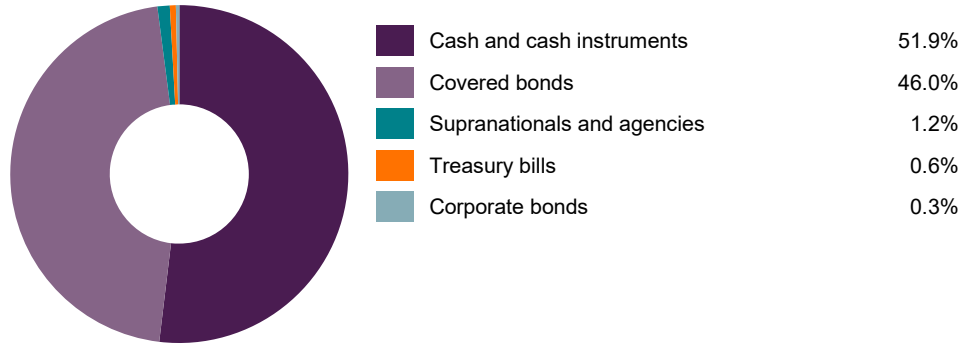
After a period of rising interest rates through 2022 and most of 2023, short-term money markets have essentially been flat in 2024. We have moved from peak optimism at the end of 2023 where economists were calling for five or even six rate cuts in the US in 2024. We have now almost reached peak pessimism as the same economists are calling for only one cut. Our own view was always more cautious than market consensus and we were very selective in adding longer-dated paper where market rate reflected that overly optimistic view that UK rates would be nearer 4% by the end of the year.

However, for our portfolios, this has been a period where we have benefited from activity in previous quarters where we built up portfolio yield. The high level of carry in the portfolios has been a consistent factor in recent strong returns.

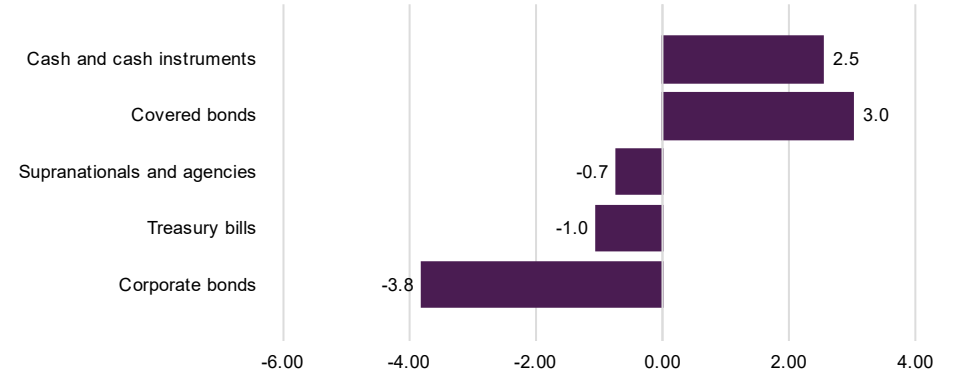
For the Short Term Fixed Income Fund, covered bonds still account for the majority of non-money market exposure. These were helpful for returns over quarter as these pay a premium over SONIA, while the carry built into the portfolio was also helpful.

Performance and activity

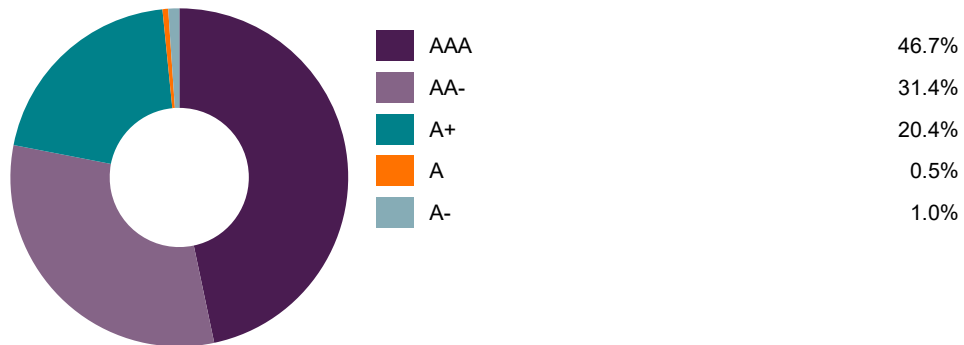
Asset allocation profile



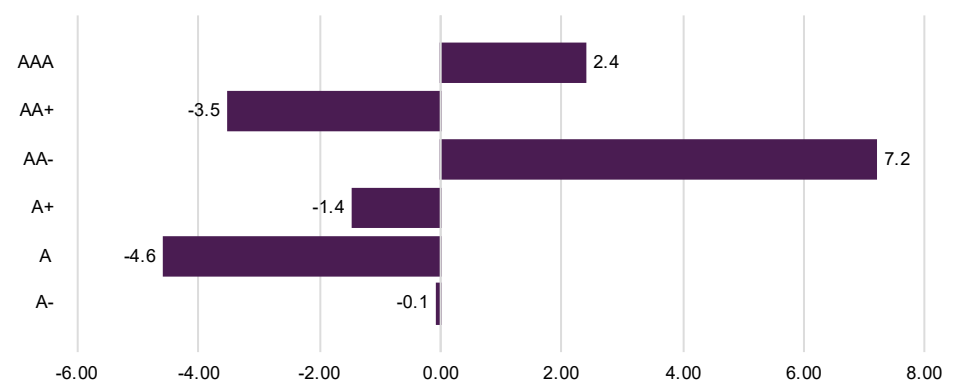
Change since last quarter (asset allocation) %



Credit rating profile

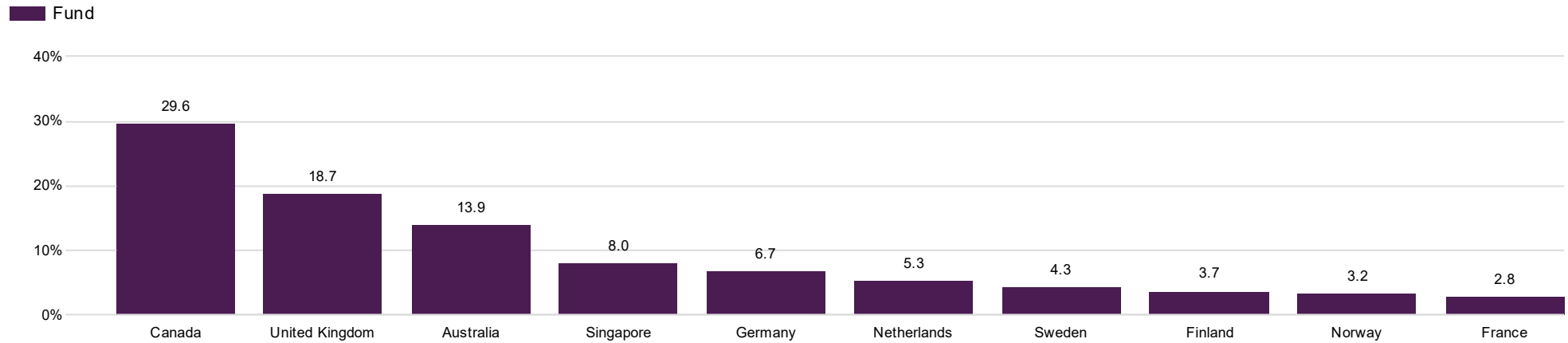


Change since last quarter (rating) %

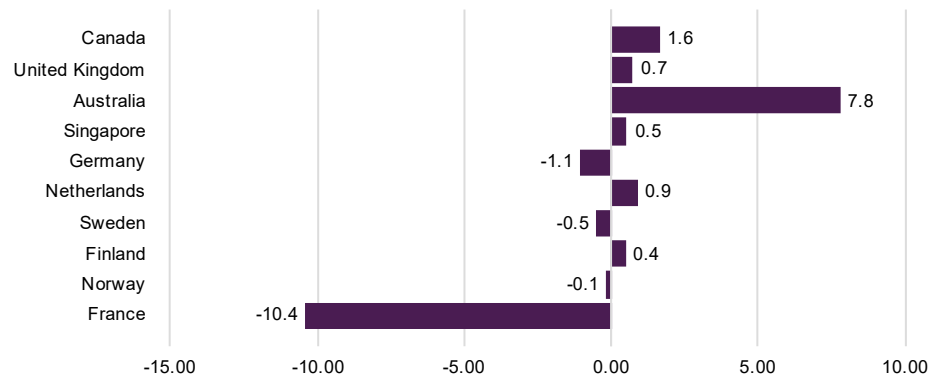


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Top 10 issuers

	Weighting (%)
Royal Bank of Canada	4.93
Canadian Imperial Bank of Commerce	4.35
Toronto-Dominion Bank/The	4.32
Bank of Montreal	4.25
National Australia Bank Ltd	4.20
United Overseas Bank Ltd	4.04
DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt Am	3.80
Bank of Nova Scotia/The	3.78
Federation des Caisses Desjardins du Quebec	3.77
National Bank of Canada	3.62
Total	41.06

Fund activity

Issuance of certificates of deposit (CDs) has increased slightly over the quarter. Ahead of the BoE meeting in June we took advantage of better long-term rates to lock in some of those rates, looking for maturities in 2025 that therefore avoid maturing just head of the year end when liquidity can be somewhat lower than normal. Examples included 12-month paper from Macquarie Bank, which scored well in our reviews and adds to overall diversification, and 12-month paper from Rabobank and ANZ – both names that score highly on our ESG characteristics.

Covered bond activity was a little higher than in previous quarters. During the period we added new issue covered bonds from DBS Bank and WestPac Banking, as well as a new issue of a five-year covered bond from Federation des Caisses Desjardins, also adding to this in the secondary market.

Market commentary

Market overview

Markets have once again been dominated by interest rates during the quarter, despite little or no movement in this area. 2024 started with expectations that central banks would cut early and cut often. However, as the year has progressed, those expectations have changed. Inflation has generally not come down quite as fast as hoped, with services inflation proving sticky, particularly in the UK, while growth has generally not been as weak as feared – particularly in the US. Interest rates were cut just once across the Federal Reserve, European Central Bank and Bank of England, with the ECB cutting rates in June. Most central bank forecasters now only expect one or two cuts from each of these banks over the course of 2024 as a whole.

Ahead of the US Presidential elections in November, snap parliamentary elections were called in the UK and France, providing reminders that voter dissatisfaction with the seeming consensus on economic policy and ongoing lack of consensus on longer-term issues such as climate change create an uncertain backdrop for businesses and consumers alike.

Data released in the UK in the second quarter confirmed that the country bounced out of technical recession in the Q1 and painted a picture of continued positive economic growth. First quarter GDP rose 0.7% quarter-on-quarter in real terms after falling 0.3% in the fourth quarter. Meanwhile inflation also dropped back to the Bank of England's 2% target. The rate of change in the CPI basket fell from 3.4% year-on-year in February to 2.0% in May, helped by lower electricity and gas bills. The Bank of England kept rates at 5.25%, even though headline inflation dropped. This reflected concern about services inflation and pay growth, both of which remain elevated. The calling of UK general election, which has resulted in a change of government, had minor impact on sterling asset prices, reflecting a view that there would be little shift in economic policy.

UK government bonds produced negative returns due to rising yields, delivering a -0.89% return (FTSE Actuaries) over the second quarter with the benchmark 10-year gilt yield rising from 3.94% to 4.18%, with yields rising sharply at the start of the quarter, then largely trading in a range between 4.1% and 4.3% for the rest of the quarter – a similar pattern to that seen in the first quarter. The sterling investment grade credit market (iBoxx non-gilt index) returned -0.13% 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) widening marginally from 1.02% to 1.03% (iBoxx).

UK money market rates were generally flat during the quarter, with some volatility at the longer end of the money market curve as rate expectations changed over the course of the quarter to reflect fewer and later rate cuts in 2024. SONIA started the quarter at 5.19%, and after edging higher to 5.20% early on, remained unchanged for the rest of the quarter, as UK base rates remained unchanged at 5.25% from the Bank of England, while two-year gilts, often seen as a proxy for market expectations of BoE rates, saw some spikes as rate expectations were pushed back, but ended only slightly higher, from 4.18% at the end of the first quarter to 4.22% at the end of June.

Outlook

At the start of this year we felt that the market was expecting too many rate cuts. That is a view that did not really change through the first half of the year – even as the number of forecast rate cuts was reduced, we felt that it was overly optimistic. At the same time, technical factors including the increased use of the Bank of England repo facility and reduced CD issuance have distorted market rates, providing opportunities for active managers.

At the end of June, the possibility of UK rate cuts in the next quarter appears to be increasing. The return of headline inflation to 2% does appear to give the Bank of England the freedom to cut rates, while any reluctance to cut just ahead of a general election will have disappeared after July 4. However, much of the impetus for that fall to 2% has come from base effects rather than underlying inflationary forces, as shown by services and wage inflation that is near 6%. Hence our expectation that we are likely to see only one rate cut this year, unless the growth outlook weakens considerably.

Although the next move in rates is expected to be a cut, the timing of that move remains unclear. Across our strategies, we aim to mitigate this risk partly by taking selective exposure to longer maturity assets, but also through floating rate exposure where available at attractive rates. These lock in an additional spread over SONIA and provide protection in both a rising and falling rate environment.

We continue to incorporate assessment of ESG risks in our holdings. While the primary consideration in looking at a bank will be assets and cashflows, ESG risks are increasingly material as seen with the zero / low exposure to Credit Suisse last year, where we had concerns over the governance at the bank. In addition, we believe that our exposure to covered bonds also helps manage risk, with these being regulated instruments and exempt from bail-in, so if a bank does get into difficulty, these assets are not bailed into the wind-up process.

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

For professional clients only, not suitable for retail clients.

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Issued in July 2024 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 Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797.

The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

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.

The "SONIA" mark is used under licence from the Bank of England (the benchmark administrator of SONIA), and the use of such mark does not imply or express any approval or endorsement by the Bank of England. "Bank of England" and "SONIA" are registered trademarks of the Bank of England.

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.

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.

Counterparty risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Government and public securities risk

The Fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

Inflation risk

Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Performance to 30 June 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	1.45	2.91	6.05	9.50	11.37	3.07	2.17
Fund (net)	1.44	2.89	6.02	9.40	11.20	3.04	2.14

Year on year performance (%)

	30/06/2023 - 30/06/2024	30/06/2022 - 30/06/2023	30/06/2021 - 30/06/2022	30/06/2020 - 30/06/2021	30/06/2019 - 30/06/2020
Fund (gross)	6.05	3.25	0.00	0.65	1.05
Fund (net)	6.02	3.22	(0.03)	0.62	1.02

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 30 June 2024. All figures are mid-price to mid-price in GBP for the RL Short Term Fixed Income Fund (Z Inc).

Glossary

Asset allocation

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

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 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 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.

Top 10 issuers

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