For professional clients only, not suitable for retail clients.

Royal London Sterling Liquidity Money Market 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 Sterling Liquidity Money Market 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 investment objective of the fund is to provide a return in line with money market rates or preserve the value of the investment. The fund intends to maintain a stable Net Asset Value per Share of £1.00 for any Distribution Class. The Fund seeks to achieve its investment objective by outperforming its benchmark, the Sterling Overnight Index Average (the "Benchmark"). The Benchmark reflects bank overnight funding rates in Sterling. The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
30 June 2024	6,716.88

Fund analytics

	Fund
Fund launch date	17 April 2018
Duration (days)	48.72
Gross redemption yield (%)	5.27
Number of issuers	37

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.32	1.27	0.05
YTD	2.67	2.56	0.11
1 Year	5.45	5.18	0.27
3 Years (p.a.)	3.02	2.85	0.16
Since inception (p.a.)	2.13	1.99	0.14

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 Royal London Sterling Liquidity Money Market (Y Dist). Source: Royal London Asset Management;Gross performance; Since inception date of the shareclass is 25 February 2020.

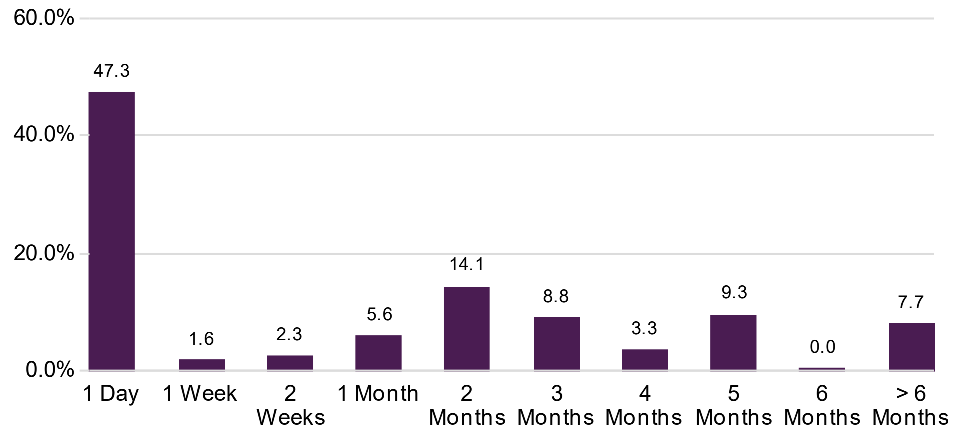
Performance commentary

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.

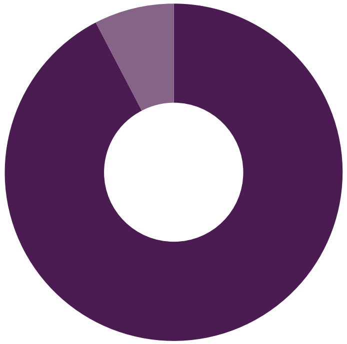
For the Sterling Liquidity Fund, we still focus on short paper – reflecting the fund's objective. Our focus in recent months has been at the shorter end of the money market curve. As the quarter progressed and the market has moved to price in a more cautious view on rate cuts, we have added more to longer-maturity paper as this now offers better value than was the case six months ago.

Duration profile



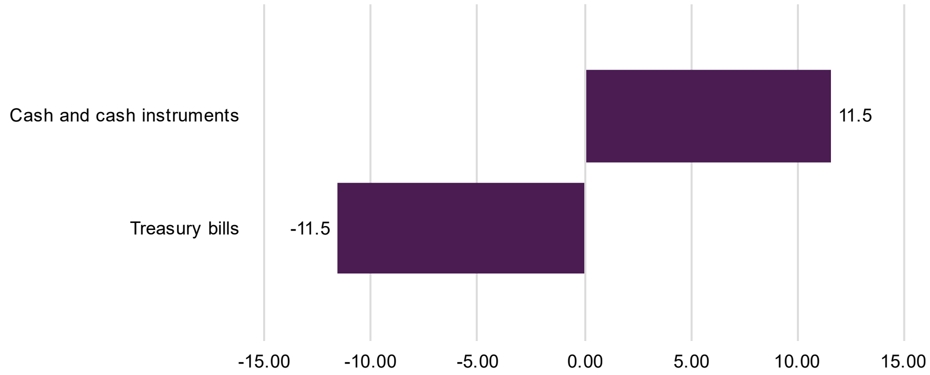
Performance and activity

Asset allocation profile

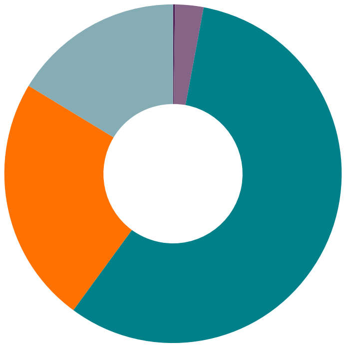


Cash and cash instruments	92.4%
Treasury bills	7.6%

Change since last quarter (asset allocation) %

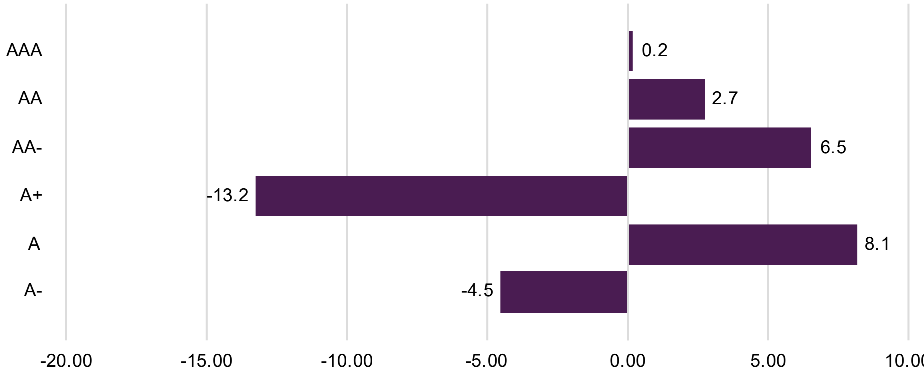


Credit rating profile



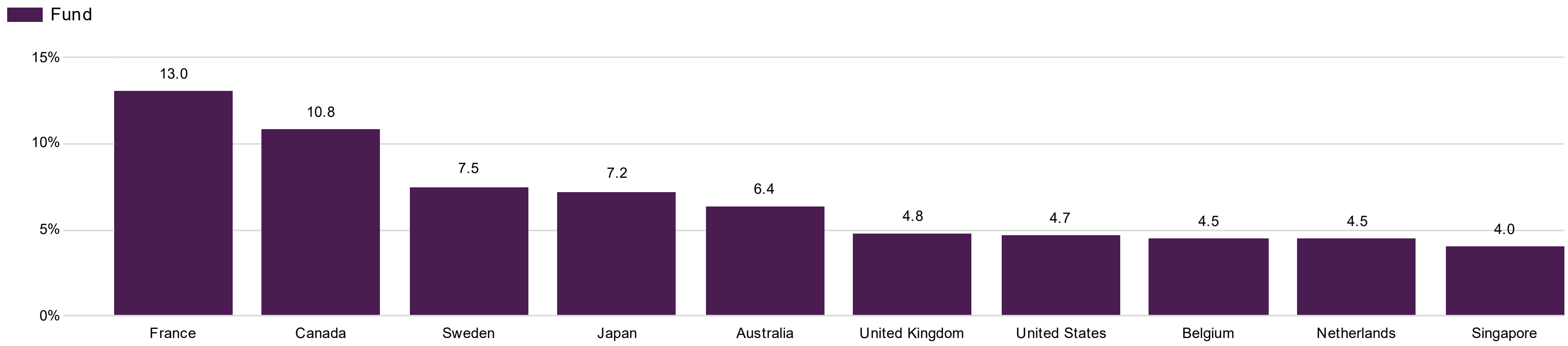
AAA	0.2%
AA	2.7%
AA-	57.1%
A+	23.6%
A	16.3%

Change since last quarter (rating) %

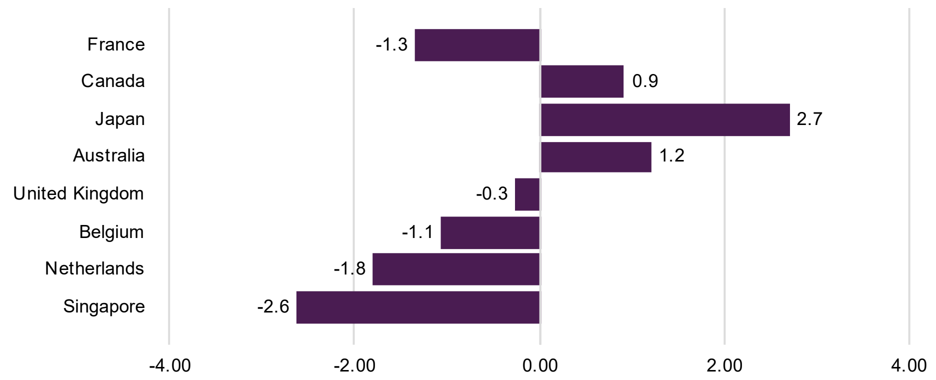


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Top 10 issuers

	Weighting (%)
United Kingdom Treasury Bill	7.58
BNP Paribas SA	7.18
Royal Bank of Canada	4.66
DBS Bank Ltd	4.60
KBC Bank NV	4.47
Banco Santander SA	4.42
DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt Am	3.52
Nordea Bank AB	3.43
Svenska Handelsbanken AB	3.42
National Australia Bank Ltd	3.40
Total	**46.68**

Fund activity

Technical factors helped drive greater use of overnight repo – as the Bank of England (BoE) has been draining liquidity from the banking system due to the unwinding of its quantitative easing programme (known as quantitative tightening, or QT) – also pushing repo rates higher. As a result, we have been happy to use repo more in the portfolio – the combination of secured lending, daily liquidity and rates at or above overnight lending made this an attractive area. At the same time, our activity in treasury bills decreased slightly, reflecting better value in CDs.

Issuance of certificates of deposit (CDs) has increased slightly over the quarter. In line with the portfolio’s objectives, most activity in this area is focused on short-dated paper, such as three-month CDs from Bank of Nova Scotia, KBC and United Overseas Bank. 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 early 2025 that therefore avoid maturing just head of the year end when liquidity can be somewhat lower than normal. Examples included nine-month paper from Macquarie Bank, which scored well in our reviews and adds to overall diversification, and one-year paper from HSBC. We also added one-year floating rate CDs from ING, locking in a healthy premium over SONIA.

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 or 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:

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.

Disclaimers

Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

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 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: 33 rue de Gasperich, L - 5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited.

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.

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.

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.

Stable NAV risk

The Fund is not the same as a bank deposit account. It is designed such that it will seek, for the Distribution Classes, to maintain the Net Asset Value per Share at a fixed value by distributing income from the Fund as it arises. However, whilst the Fund's investments are reasonably believed by the Investment Manager to be of high quality, there is always a risk that an underlying issuer could default or otherwise fall in value, resulting in the Fund being unable to maintain the Net Asset Value per Share at a fixed value and therefore a loss of capital will occur. The risk of loss is to be borne by the investor. There is no representation or warranty that the Fund will be able to maintain a stable Net Asset Value per Share.

Inflation risk

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

Money market fund risks

A Money Market Fund is not a guaranteed investment, and is different from an investment in deposits. The principal invested in the Fund is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The Fund does not rely on external support for guaranteeing the liquidity of the Fund or stabilising the NAV per share.

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.

Performance to 30 June 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	1.32	2.67	5.45	9.33	9.58
Fund (net)	1.30	2.62	5.35	9.00	9.11

Annualised (%)

	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	3.02	2.13
Fund (net)	2.91	2.02

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)	5.45	3.27	0.40	0.11	-
Fund (net)	5.35	3.16	0.30	0.01	-

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 Royal London Sterling Liquidity Money Market (Y Dist); Since inception date 25 February 2020.

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.