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Royal London Corporate Bond Monthly Income Trust

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 Corporate Bond Monthly Income Trust. 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 consistent monthly income with capital growth over the medium term (3-5 years) by investing at least 80% in sterling-denominated corporate bonds. Both the Markit iBoxx Sterling Non-Gilts All Maturity Total Return GBP Index (the "Index") and the IA Sterling Corporate Bond Sector are considered appropriate benchmarks for performance comparison. The Index is regarded as a good measure of the performance of corporate bonds valued in sterling. This is considered an appropriate benchmark for performance comparison, as many of the Scheme's potential investments will predominantly be included in the Index.

Benchmark: Markit iBoxx Sterling Non-Gilts All Maturity TR Index

Fund value

	Total £m
30 June 2024	183.07

Asset allocation

	Fund (%)	Benchmark
Conventional credit bonds	94.86%	99.43%
Securitised	4.89%	-
Conventional foreign sovereign	0.25%	0.57%

Fund analytics

	Fund	Benchmark
Fund launch date	29 September 2003	
Base currency	GBP	
Duration (years)	5.53	5.37
Gross redemption yield (%)	6.42	5.31
Number of holdings	264	1,272
Number of issuers	184	497

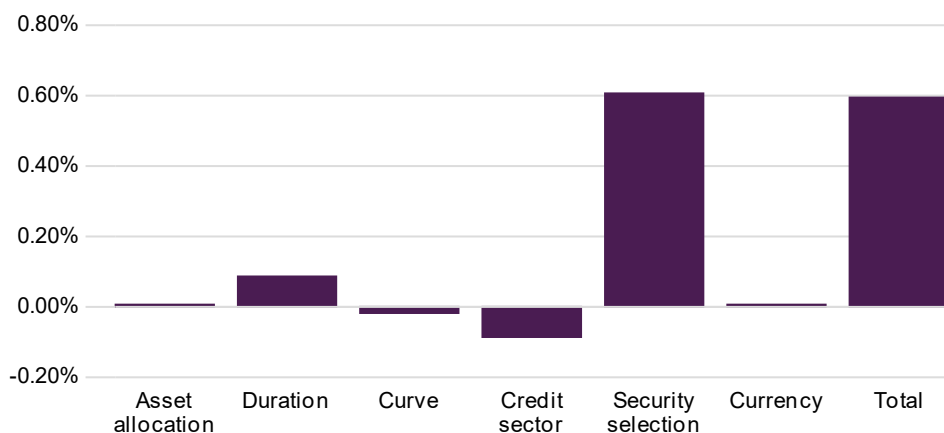
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.67	(0.13)	0.79
YTD	1.94	(0.07)	2.01
1 Year	12.19	9.72	2.47
3 Years (p.a.)	(1.63)	(3.91)	2.28
5 Years (p.a.)	1.02	(0.81)	1.82
10 Years (p.a.)	3.41	2.26	1.15
Since inception (p.a.)	3.96	3.88	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 Royal London Corporate Bond Monthly Income Trust (A Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 29 September 2003.

Attribution over the quarter



Performance commentary

Despite the slight negative returns for the wider sterling investment grade market, the portfolio saw a positive return in the period and therefore outperformed the benchmark. The main driver of positive performance was stock positioning – notably in the bank and structured sectors. This stock selection impact more than offset the negative effect of our underweight in supranationals, which performed well over the quarter. The additional carry built into the portfolio over the benchmark index was also helpful.

Within the banking sector, our exposure to subordinated bonds remained helpful. Subordinated bonds from the likes of Close Brothers and Santander performed strongly, while our exposure to Virgin Money and the Co-operative Bank also did well as the proposed takeovers by Nationwide and Coventry Building Society respectively continued to progress. Structured bonds were the other area of interest, with strong performance from student loan provider ICSSL, real estate vehicle Canary Wharf and Telereal – secured on BT telephone exchanges.

Low exposure to the supranational sector was the main negative over the quarter, with this more defensive area performing well in a quarter where yields were slightly higher. We remain comfortable with the low weighting to this area given our belief that yields in the sector are poor value on a risk-adjusted basis compared to other parts of the market. Our bias towards insurance was also a drag on performance, lagging the wider market after a strong run. The market knows that there will be plenty of supply in this area as some business lines, like bulk annuities, required extra funding. This has caused higher initial yields and some changes in prices during the quarter. However, we still find the sector attractive and will maintain an overweight position.

News flow continues on the water sector as the regulator’s draft decision on spending over the next five years was deferred as a result of the snap election being called. While the commentary on the sector remains febrile, there have been no real developments that require portfolio positioning to be changed, and we continue to support the funding of this critical sector.

Performance and activity

Fund activity

New issue activity provided numerous opportunities for our sterling credit strategy over the quarter. Financials continued to dominate primary market activity and while we have a bias towards subordinated bonds, we found attractive issues at both senior and subordinated levels. We bought senior bonds from French banking group BPCE (which includes Banque Populaire, Caisse d'Epargne and Natixis brands) – although subordinated French bank bonds weakened slightly after President Macron called parliamentary elections, this had little impact on senior bonds.

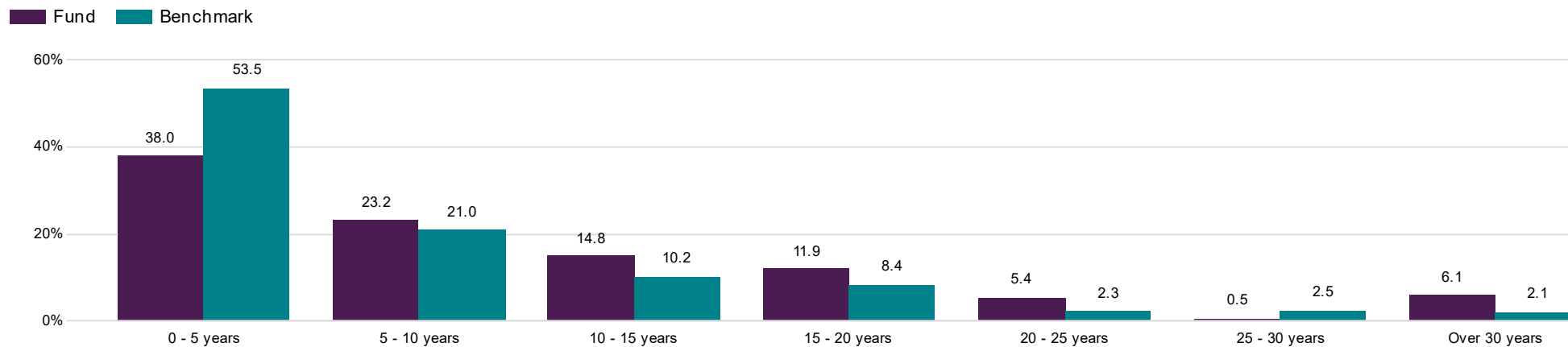
In the insurance sector, we added a new issue from US insurer Protective Life. These bonds rank alongside policyholders, offering strong downside protection and were attractively priced at a yield of over 5%. We also purchased a subordinated bond from specialist UK insurer Pension Insurance Corporation, where we felt the high coupon looked attractive for the risk. In addition, we participated in a new sterling bond from UK bulk annuity provider Rothesay yielding 7%.

In the structured area, a key component of the portfolio, we continue to believe that the additional security and covenants are underpriced by the wider market. During the quarter, we added a new issue from Vantage Data Centers Jersey, a securitisation of real estate and tenant lease payments from two operating wholesale data centres in Newport. This deal offered a low to value (LTV) and pays an attractive credit spread. We also added Exmoor Funding, an RMBS secured on a portfolio of mortgages from specialist mortgage provider LiveMore, which focuses on lending to later life borrowers (50 to 90+ age group) – promoting financial inclusion for a segment of the UK population underserved by traditional high street lenders. We also added a new issue from UK Logistics – a commercial mortgage-backed security FRN, backed by a portfolio of logistics assets mainly in the Greater Manchester area with an attractive loan to value ratio and AAA rating. The assets, which are positioned in a close proximity to urban centres, allow SMEs to reduce their direct emissions as well as transportation costs thanks to being closer to end customers. Finally we added PCL funding, who provide financing for lump sum insurance, professional fees, and school fees.

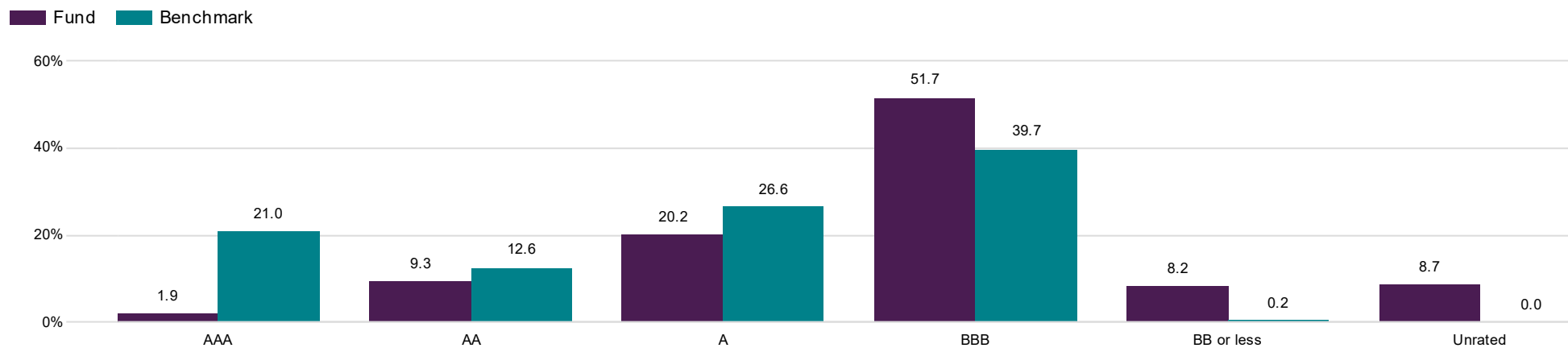
We continue to see value in regulated utilities, with attractive spreads and supporting key infrastructure assets. In the primary market, we added a new hybrid from Centrica, while in the secondary market we increased our holding in Cadent, which recognises the role of gas as a “transition fuel” in the journey towards net zero, representing a lower emitting energy source than oil or coal to both industrial customers for generation as well as households for heating. We also take comfort in Cadent's continued investment to reduce leakage levels, evidenced by the reductions in absolute operational emissions achieved over the past three years.

Fund breakdown

Maturity profile

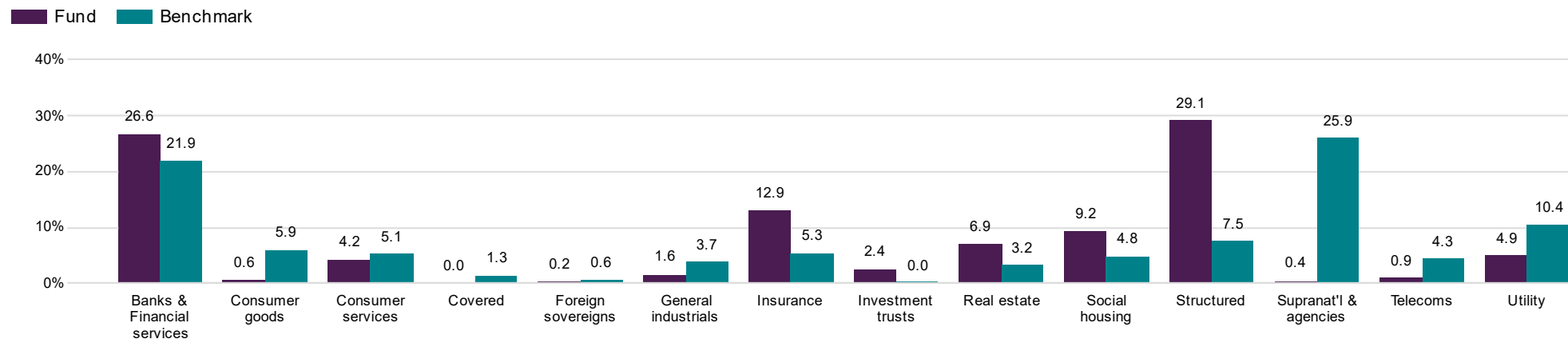


Credit ratings



Fund breakdown

Sector breakdown



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.

The US Federal Reserve continued to keep rates on hold at 5.25-5.50% over the quarter against a still resilient labour market backdrop, and the relatively strong core CPI inflation seen over January to April. The May data (released in June) was more reassuring both from a CPI and core PCE perspective. As of their June meeting, the median forecast of participants changed from showing 75 basis points of rate cuts for 2024 to only 25bps of cuts.

The ECB lowered rates by 25bps in June, following good inflation progress and previous hints from ECB speakers. Further rate moves after June are less certain and depend on data. Euro area CPI went up from 2.4% to 2.6% year-on-year in May, which was unexpected, and services inflation rose above 4.0%. The European elections saw incumbent parties suffer a loss of support and prompted President Macron to call an early parliamentary election. This uncertainty saw French government bonds weaken in relation to German government debt.

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.

Government yields generally rose over the quarter, particularly following poor US inflation data released in April with yields largely range-bound through May and June. In the US, 10-year treasury yields rose from 4.21% to 4.40%, while German 10-year bunds similarly saw yields rise from 2.30% to 2.50%. Benchmark 10-year gilt yields rose from 3.94% to 4.18%.

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). Given the modest rise in yields, sectors with a greater proportion of long-dated bonds performed less well, including utilities and social housing. Of the major sectors, supnationals and banks produced positive returns, while insurance lagged.

Outlook

Last quarter we highlighted that we expected yields to remain sensitive to economic data, and unless there was a significant deterioration in underlying trends, we expected this to lead to range-bound yields. This is the scenario that unfolded over the quarter, with markets seeming to mark time until central banks – notably the Federal Reserve – start to cut rates. We expect a small fall in government bond yields in Q3.

Headline inflation is now significantly lower in the US, euro zone and UK compared to 2023. Base effects account for a material part of these falls. Beyond the headline figures, the likes of services inflation and wage growth remain higher than most central bankers would prefer. That said, we do expect to see more movement from central banks in the second half of the year, even if the quantum of those moves is less than many were forecasting earlier in the year.

Sterling investment grade yields are higher than they were at the start of the year, reflecting higher gilt yields and a small reduction in credit spread. We believe that the all-in yield on the market (using iBoxx), near 5.3% at the end of June, is attractive both in absolute terms but also relative to government bonds. Despite the contraction in credit spreads they continue to compensate investors for the risk of default.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark will generate outperformance.

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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For more information on the Trust 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.

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The Index provided by IHS Markit is subject to disclaimer currently available here (and as updated by IHS Markit from time to time): <https://ihsmarkit.com/Legal/disclaimers.html> and/or in the prospectus for the Fund.

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.

Derivative risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

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.

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)	0.67	1.94	12.19	(4.82)	5.20	(1.63)	1.02
Fund (net)	0.52	1.62	11.48	(6.82)	1.07	(2.33)	0.21

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)	12.19	(4.59)	(11.07)	4.93	5.32
Fund (net)	11.48	(5.30)	(11.74)	4.02	4.28

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 Corporate Bond Monthly Income Trust (A Inc).

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.

Distribution yield

The distribution yield reflects the amounts that may be expected to be distributed over the next 12 months. It is calculated net of standard management charges. It reflects RLAM's current perception of market conventions around timing of bond cash flows.

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.