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Royal London Ethical Bond 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 Ethical 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

The fund	3
Performance and activity	4
Fund breakdown	6
ESG	8
Market commentary	13
Further information	14
Disclaimers	15
Performance net and gross	17
Glossary	18

The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return over the medium term, which should be considered to be a period of 3-5 years, by investing predominantly in sterling-denominated corporate bonds, which meet predetermined ethical criteria. The Fund's performance target is to outperform, after the deduction of charges, the Markit iBoxx Sterling Non-Gilt Total Return All Maturities GBP Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the performance of investment-grade corporate bonds denominated in sterling. The Index is considered an appropriate benchmark for the Fund's performance, as many of the Fund's potential investments will be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA Sterling Strategic Bond sector is considered an appropriate benchmark for performance comparison.

Benchmark: Markit iBoxx Sterling Non-Gilt All Maturities Index

Fund value

	Total £m
30 June 2024	1,227.54

Asset allocation

	Fund (%)	Benchmark
Conventional credit bonds	96.49%	99.43%
Securitised	3.34%	-
Index linked credit bonds	0.17%	-
Conventional foreign sovereign	-	0.57%

Fund analytics

	Fund	Benchmark
Fund launch date	31 January 2007	
Base currency	GBP	
Duration (years)	5.70	5.37
Gross redemption yield (%)	6.74	5.31
Number of holdings	339	1,272
Number of issuers	210	497

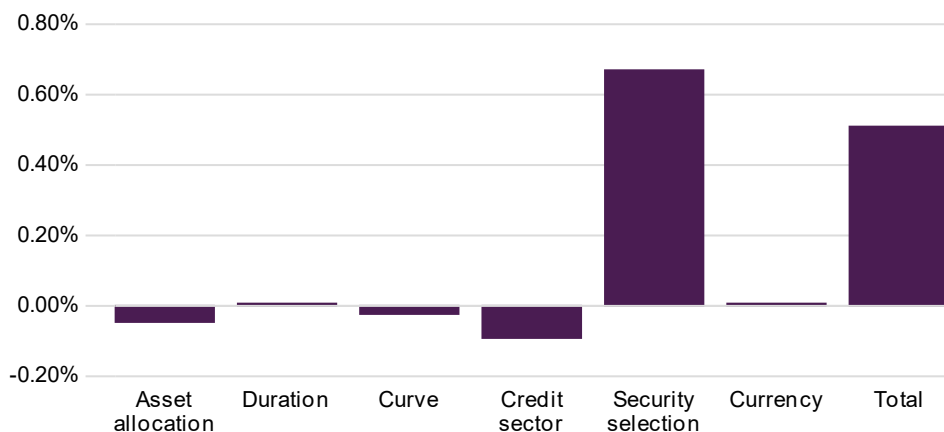
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.60	(0.13)	0.72
YTD	2.13	(0.07)	2.19
1 Year	12.55	9.72	2.83
3 Years (p.a.)	(2.10)	(3.91)	1.81
5 Years (p.a.)	0.99	(0.81)	1.79
10 Years (p.a.)	3.47	2.26	1.21
Since inception (p.a.)	5.22	3.78	1.44

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 Ethical Bond Fund (Z Inc). Source: Royal London Asset Management;Gross performance; Since inception date of the shareclass is 31 October 2009.

Attribution over the quarter



Performance commentary

Despite the slight negative returns for the wider sterling investment grade market, the fund 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 in the AT1 area, holdings in Santander and Lloyds Banking Group performed well. Structured bonds were the other area of interest, with strong performance from 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.

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. We also added AT1 bonds from Barclays and Coventry Building Society AT1s – both yielding over 9%. We also added a new tier 2 issue from asset manager Schroders, issued with a yield of over 6%.

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%.

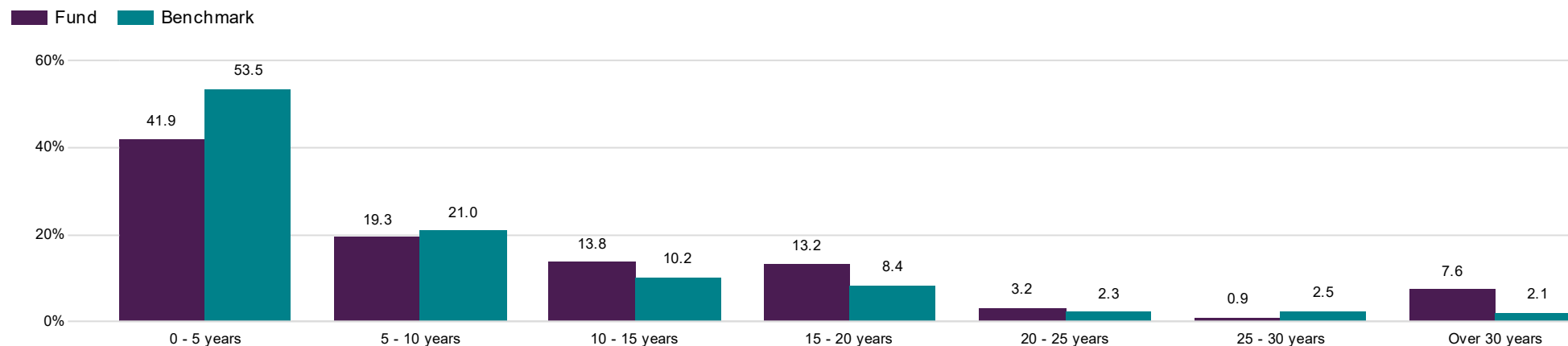
In the structured area, a key component of the portfolio, we continue to believe that the additional security and covenants are underpriced by the wider market. During the quarter, we added a new issue from Vantage Data Centers Jersey, a securitisation of real estate and tenant lease payments from two operating wholesale data centres in Newport. This deal offered a low to value (LTV) and pays an attractive credit spread. We also added 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. In more familiar names, we added a new issue from the AA – these bonds secured on the business and paying an all-in yield of around 7%, with the issuer also tendering for their shorter dated bonds at a premium to market pricing.

In the secondary market, we sold long-dated subordinated bonds from Aviva after strong performance, reinvesting the proceeds into a tap of 2040 bonds from Southern Water at an attractive level.

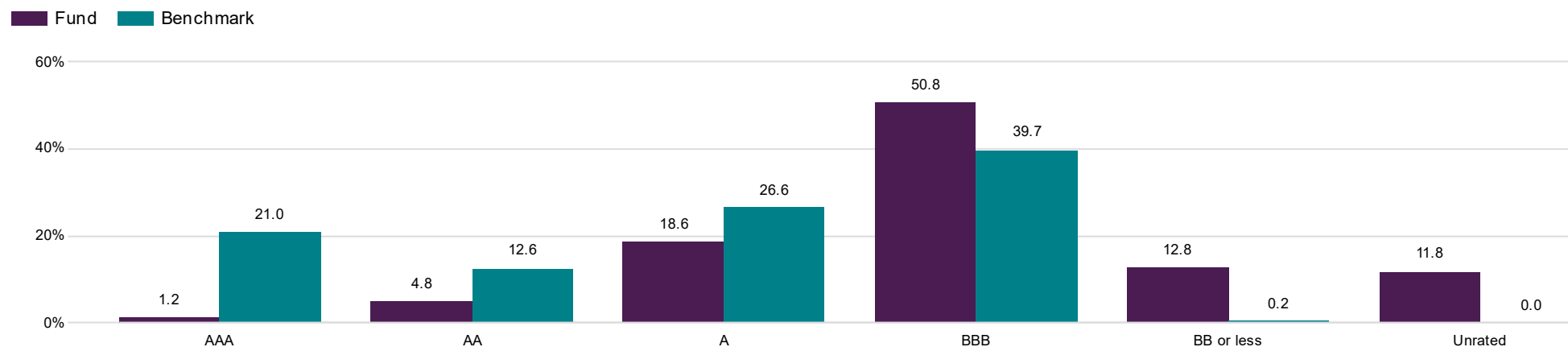
The fund continues to see value in regulated utilities, with attractive spreads and supporting key infrastructure assets. In the primary market, we added a new hybrid from Centrica, while in the secondary market we added a subordinated bond issued by National Grid. We continue to view National Grid as playing a fundamental role in the transition to a greener economy, demonstrated by the investments being made in the grid to meet the growing electricity demand.

Fund breakdown

Maturity profile

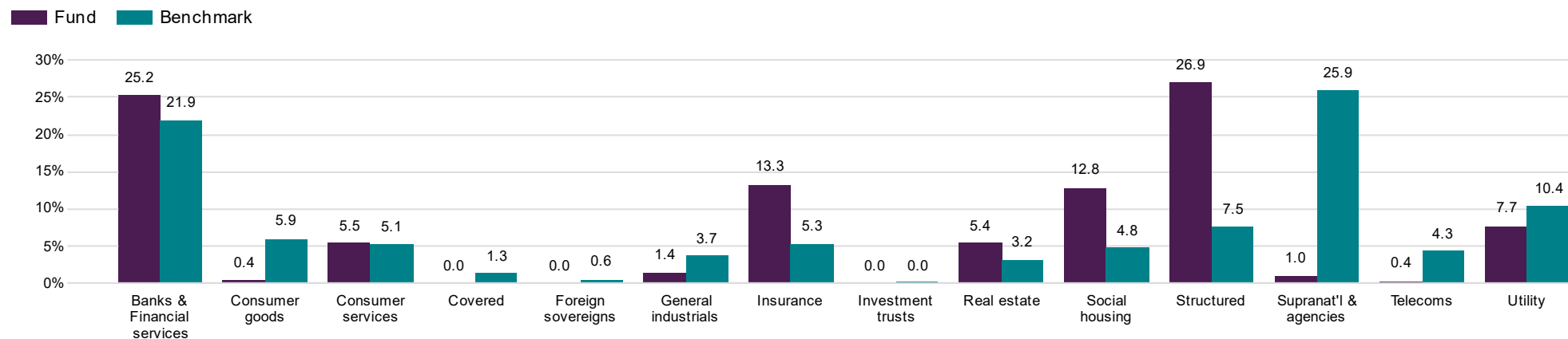


Credit ratings



Fund breakdown

Sector breakdown



Characteristics and climate

ESG characteristics rationale

The fund integrates the assessment of environmental, social, and governance (ESG) risks into the investment decision making process in order to help mitigate ESG risks and/or identify opportunities for investors. In addition to identifying and managing ESG risks, Royal London Asset Management's Ethical Bond Fund applies an additional layer to its process - ethical bond screening. This process identifies bonds which meet predetermined ethical criteria, excluding from investment in the fund bonds which fall short of these requirements. Full details of the exclusions can be found at www.rlam.com











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 weapons	✓
 Armaments	✓	 Tobacco	✓
 Fossil fuels	✓		
 Gambling	✓		

Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO2e)	25,809	n/a	n/a
Financed emissions coverage	37.81%	n/a	n/a
Carbon footprint (tCO2e/\$M invested)	16.69	32.37	(48.44)
Carbon footprint coverage	37.81%	46.50%	(18.69)
Weighted average carbon intensity (tCO2e/\$M sales)	58.25	58.12	0.23
Weighted average carbon intensity coverage	89.99%	95.80%	(6.06)

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	37.81	46.50	(18.69)
% of portfolio below 2°C ITR	35.98	38.51	(6.56)
% of portfolio below 1.5°C ITR	17.53	16.77	4.50

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	9.45	10.67	(11.48)
SBTi Near-Term committed	3.73	6.14	(39.17)
SBTi Near-Term targets set	11.06	13.95	(20.70)

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	7	38
Number of engagements	11	84

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



Climate	5
Climate - Transition Risk	4
Climate - Physical Risk	1
Governance	2
Corporate Governance	1
Remuneration	1
Social & Financial Inclusion	3
Just transition	3
Technology, Innovation & Society	2
Technology & Society	2

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

BNP Paribas SA – Net zero

Purpose:

We, as part of a collaborative investor group coordinated by ShareAction, asked a question at BNP Paribas' AGM regarding its financing of oil and gas companies.

Outcome:

The CEO of BNP Paribas has expressed confidence in the bank's decision to cease involvement in oil and gas bond transactions since mid-February 2023. This move is indicative of the bank's disinterest in participating in oil and gas bonds and is seen as a positive step. BNP Paribas utilises International Energy Agency scenarios as a guide and seeks to reflect its insights in its policies. During our meeting, the CEO reaffirmed the bank's commitments, including its 10-90 goal, which aims for 90% of its energy sector financing to be low carbon, with the remainder for fossil fuels, contingent on suitable opportunities for financing. We will continue to monitor BNP's disclosures and assess the company's progress.

Eskmuir Properties Ltd – Net zero

Purpose:

We participated in Eskmuir's annual bondholder meeting, which provided a valuable platform to engage in discussions about its sustainability initiatives and specifically its progress towards achieving net zero.

Outcome:

Eskmuir shared its current environmental initiatives, highlighting its focus on improving its Global Real Estate Sustainability Benchmark (GRESB) in 2024. The company aims to achieve this through enhanced data collection of energy usage across its portfolio, utilising a platform for live data access, rather than relying on tenant engagement which had a low response rate. Although the adoption of solar panels is minimal due to property constraints, the company is making strides with a majority of its portfolio rated EPC C or above, with a modest Capex spend. Eskmuir is also beginning to address embedded carbon, acknowledging the need for offsetting strategies. We will continue to monitor the company's net zero progress.

Fund Engagement

Engagement outcomes

Heathrow Funding Ltd – Net zero

Purpose:

We engaged with Heathrow's representatives to review the company's sustainability disclosures. We wanted to provide constructive feedback and recommended enhancements to its current practices, focusing on environmental and social governance aspects to better align with industry standards and stakeholder expectations.

Outcome:

During our meeting we emphasised the significance of a 'just transition' and urged the company to develop a comprehensive plan that incorporates this concept into its overall approach. Additionally, we requested greater transparency regarding the decarbonisation strategies for mitigating Scope 1, 2, and 3 emissions. Specifically, we highlighted the importance of focusing on positive lobbying efforts, forging strategic partnerships and biodiversity. We will continue to monitor the company's disclosures and engage further if necessary.

NatWest Group Plc – Just transition

Purpose:

At the 2024 Annual General Meeting, in partnership with Border to Coast and Friend Provident Foundation, we posed a question regarding the company's commitment to integrating the principles of a just transition within its climate transition plan.

Outcome:

The Chair responded that NatWest is determined to be a leading bank on sustainability in general and just transition specifically. The Chair believes that the bank understands the need for a just transition and continues to consider how it can integrate it into its climate plan and sustainability regularly. The bank's current climate transition approach has been informed by best practice guidance, and it uses partnerships to put into practice some of the principles of a just transition. We appreciated the Chair's response to our question, yet the answer did not provide any commitments beyond what we have discussed with the company in private meetings. We have recently published investor expectations for banks on just transition and we will look to use this to continue our engagement with the bank.

Fund Engagement

Engagement outcomes

Vodafone – Ethical AI

Purpose:

We have reached out to Vodafone on behalf of the Investor Group as part of the World Benchmarking Alliance's Ethical AI collaborative engagement. Our aim is to schedule a meeting with the company to gain a deeper understanding of its ethical AI practices and to discuss opportunities for enhancing these practices.

Outcome:

Vodafone has provided a written response outlining its AI governance structure, highlighting the AI Governance Board's role in strategy and policy oversight, chaired by the Chief Commercial Officer and comprising senior executives such as the CEO of Vodafone Business and the Chief Technology Officer. The AI framework emphasises a responsible approach to AI, with a focus on ethical principles and risk management across the AI lifecycle. The company is proactive in human rights due diligence and is enhancing risk assessments to address AI risks effectively with a particular focus on establishing robust controls during the design phase. We continue to seek a detailed dialogue on its ethical AI practices.

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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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 II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128.

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.

iBoxx indexes and data are an intellectual property of Markit North America, Inc., Markit Indices GmbH, Markit Equities Limited and/or its affiliates iBoxx and has been licensed for use in connection with the fund (or other investment vehicle) or securities referenced herein.

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.

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.

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.

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.

Charges from capital risk

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

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)	0.60	2.13	12.55	(6.17)	5.05	(2.10)	0.99
Fund (net)	0.50	1.92	12.10	(7.29)	2.97	(2.49)	0.59

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)	12.55	(5.06)	(12.19)	5.58	6.03
Fund (net)	12.10	(5.43)	(12.54)	5.16	5.61

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 Ethical Bond Fund (Z 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.

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.

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.

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 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 restrictions definitions

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.

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.

Glossary

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.

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.

Performance

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

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.

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.

Sustainable fund objective

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

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.