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Royal London Global Bond Opportunities 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 Global Bond Opportunities 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 achieve a high level of income with the opportunity for capital growth. The Fund is actively managed and is not managed in reference to any benchmark index.

Fund value

	Total £m
30 June 2024	262.52

Asset allocation

	Fund (%)
Conventional credit bonds	98.01%
Conventional foreign sovereign	0.66%
Securitised	0.26%
Other	1.07%

Fund analytics

	Fund
Fund launch date	8 December 2015
Base currency	GBP
Duration (years)	4.60
Gross redemption yield (%)	6.47
Number of holdings	265
Number of issuers	202

Performance and activity

Performance

	Fund (%)
Quarter	1.13
YTD	4.21
1 Year	11.47
3 Years (p.a.)	3.18
5 Years (p.a.)	4.21
Since inception (p.a.)	5.36

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 Global Bond Opportunities Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 8 December 2015.

Performance commentary

The fund saw a positive return over the quarter. While investment grade returns were essentially flat, we saw positive returns from a number of different areas including global high yield, corporate hybrids and contingent capital bonds (cocos) over the period.

The fund has a high degree of diversification, with material exposure to a range of assets including US dollar, euro and sterling investment grade bonds, high yield and unrated bonds. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 bonds: these performed well during the period, albeit with gains tempered in June when subordinated financials underperformed. Ongoing restructuring from companies also helped, with bonds being called at attractive levels and refinanced at lower levels, an example during the quarter being DNO, the Norwegian oil and gas operator, which called existing bonds at a premium ahead of a new bond issue.

Although credit spreads have been tighter in many areas in recent quarters, these are still attractive and with government bond yields still elevated after the rate rises seen by major central banks in 2022 and 2023, the portfolio has what we believe is a very healthy yield. This can mitigate against softer markets such as those seen in the second quarter.

Performance and activity

Top 10 holdings

	Weighting (%)
STICHTING AK RABOBANK 6.500000000	1.84
LLOYDS BANKING GROUP PLC 7.500000000	1.37
ELECTRICITE DE FRANCE SA 5.375000000	1.15
ARGENTUM (SWISS RE LTD) 5.524000000	1.11
AGGRE MICRO PWR INF 2 8.000000000 2036-10-17	1.09
ENERGY TRANSFER LP 6.750000000	1.09
QBE INSURANCE GROUP LTD 6.750000000 2044-12-02	1.08
ALTERA SHUTTLE TANKERS 9.000000000 2028-03-13	1.05
AXA SA 6.375000000	1.03
M&G PLC 6.500000000 2048-10-20	1.02
Total	**11.83**

Fund activity

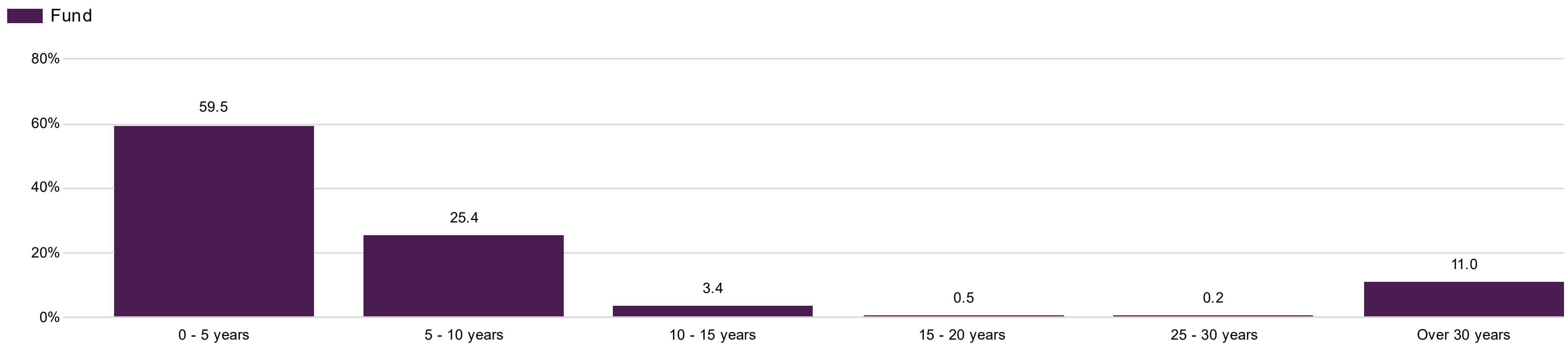
New issue activity was buoyant during the quarter. Financials remain a key area of interest and we took advantage of attractive pricing to add to subordinated bonds, including AT1 bonds from DNB Bank, Barclays, NatWest and Coventry Building Society, all yielding in the 8% to 9% range. Away from AT1, we added subordinated US dollar bonds from Royal Bank of Canada and tier 2 sterling bonds from UK bulk annuity provider Rothesay yielding 7.5%.

While we retain a focus towards financials, there were numerous opportunities in other sectors, providing attractive yields and increasing overall portfolio diversification. Norlandia Health & Care was perhaps the best example of this. NHC is a leading Nordic provider of care services in areas such as preschools, care and integration services, with operations across Norway, Sweden, Finland, Poland, the Netherlands and Germany. During the quarter the company issued four-year senior secured floating rate bonds paying a spread premium of almost 6%. We also added a new issue of euro-denominated hybrid green bonds from Italian electricity grid operator Terna, the proceeds being used to finance the company's eligible green projects.

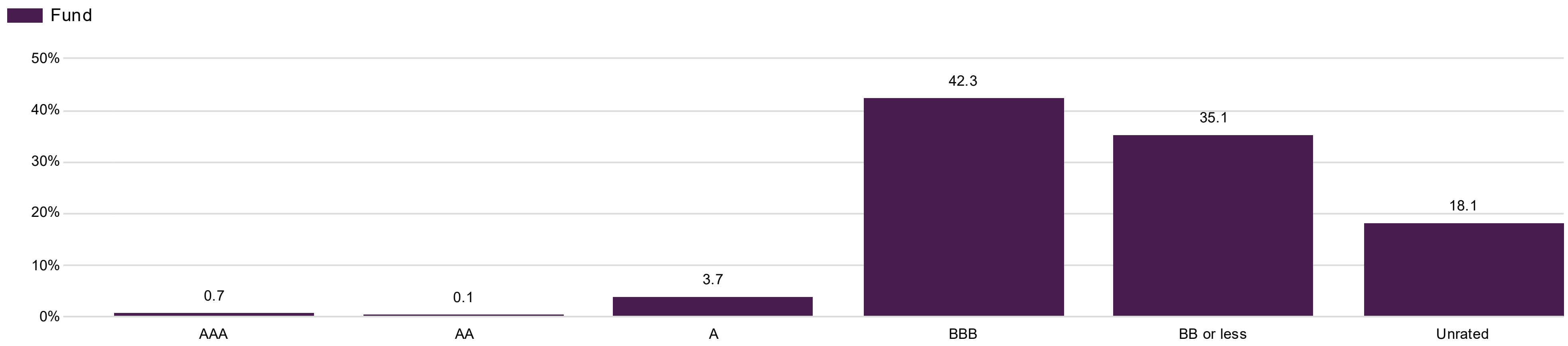
The oil and gas sector continues to provide income opportunities. During the quarter we participated in the new senior unsecured DNO issue outlined in the Performance section, replacing existing bonds, with the bonds coming with a coupon of 9.25%. We also added senior secured US dollar bonds from specialist oilfield services company Excellence Logging at a yield of over 11%, and a tap of Southern Water bonds, with the latter coming at higher yield due to pressure on the water sector.

Fund breakdown

Maturity profile

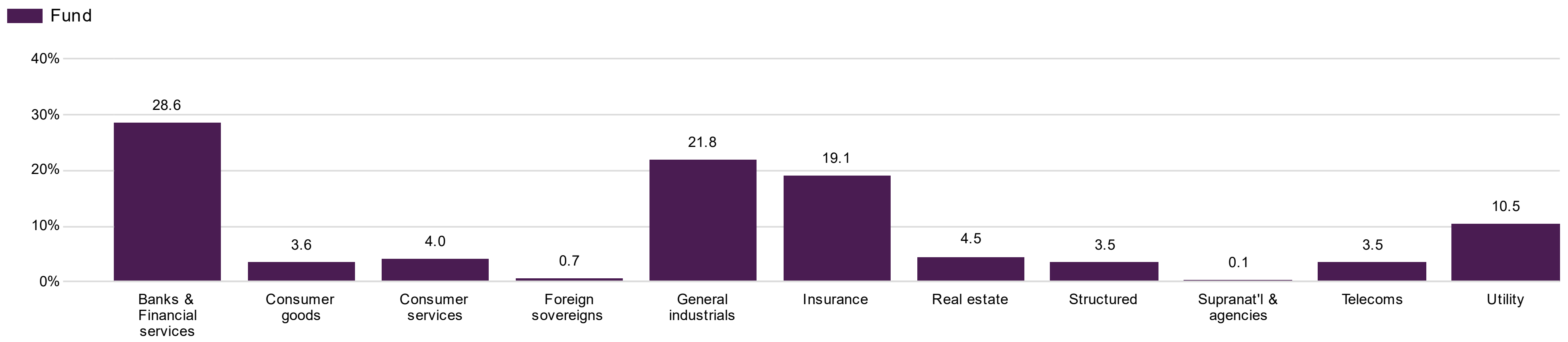


Credit ratings



Fund breakdown

Sector breakdown



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	8	26
Number of engagements	12	63

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	**6**
Climate - Transition Risk	5
Climate - Physical Risk	1
Environment	**1**
Governance	**2**
Corporate Governance	1
Remuneration	1
Social & Financial Inclusion	**2**
Just transition	2
Technology, Innovation & Society	**2**
Technology & Society	2

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

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.

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.

E.ON SE – Net zero

Purpose:

We engaged with the company's Senior Sustainability Manager and Economic and Public Affairs Managers as part of the Climate Action 100+ (CA100+) collaborative initiative to discuss the company's preliminary climate assessment.

Outcome:

We believe that the company is making progress, however, the impact on the CA100+ benchmark's assessment remains to be seen. The company finds this assessment challenging as it feels the methodology does not fully consider its business structure, for example the benchmark's expectations for 'just transition' disclosures when E.ON has a few generation sites that require closing. The company welcomed our suggestion to emphasise 'transitioning-in' and transparent disclosure of employee training initiatives. The company will publish a lobbying report to address one of the assessment's indicators. We facilitated dialogues with InfluenceMap and BDI (the Federation of German Industries), which the company found constructive and valuable. The conversations appear to be informative for both E.ON and BDI.

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. 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%.

Global corporate bonds saw broadly flat returns over the quarter, with the impact of higher underlying government bond yields and slightly wider credit spreads mitigated by the positive carry on the asset class. In local currency terms, US and euro investment grade markets outperformed sterling equivalents.

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.

Bond yields generally are still at attractive levels in our view – both in absolute terms and relative to government bonds – and given the supportive economic backdrop, we believe that credit spreads continue to compensate credit investors for the risk of default. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

Further Information

Please click on the links below for further information:

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.

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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 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 portfolio has no index as a comparison.

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.

Exchange rate risk

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

Interest rate risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

Liquidity risk

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

Emerging markets risk

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

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.

Sub-investment grade investment risk

Lower rated investment grade securities may have large uncertainties or major risk exposures to adverse conditions. The market value of securities in lower rated investment grade categories is more volatile than that of higher quality securities, and the markets in which these securities are traded are less liquid than those in which higher rated securities are traded.

Unrated bond risk

Non-rated bonds may have the characteristics of either investment or sub-investment grade bonds. Market activity in unrated securities and instruments may be low for a considerable period of time and this may impact on liquidity.

Performance to 30 June 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.13	4.21	11.47	9.86	22.95
Fund (net)	1.03	3.97	10.93	8.19	19.94

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
3.18	4.21
2.66	3.70

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)	11.47	5.49	(6.57)	12.90	(0.87)
Fund (net)	10.93	4.94	(7.06)	12.31	(1.29)

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 Global Bond Opportunities Fund (Z Inc).

Glossary

Asset allocation

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

Credit ratings

Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

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.