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Royal London Multi Asset Credit 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 Multi Asset Credit 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 with the report. All data within this report is at the report date unless otherwise stated.

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The fund

Fund performance objective and benchmark

The fund will seek to outperform its benchmark, SONIA, by 4-6% per annum over rolling three year periods (gross of fees).

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
30 June 2024	831.77

Fund analytics

	Fund
Fund launch date	3 July 2017
Base currency	GBP
Duration to worst (years)	2.76
FX adjusted yield (%)	7.54

Past performance is not a guide to future performance.
Please refer to the glossary for a description of the yield used.

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.43	1.27	0.15
YTD	2.85	2.56	0.29
1 Year	9.11	5.18	3.93
3 Years (p.a.)	1.93	2.85	(0.93)
5 Years (p.a.)	3.38	1.85	1.53
Since inception (p.a.)	3.35	1.56	1.79

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 Multi Asset Credit Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date for the share class is 9 October 2017.

Performance commentary

The fund outperformed its benchmark in the quarter.

High yield markets were fairly benign in the second quarter with the themes seen in the first quarter continuing to play out in the second quarter. Spreads tightened, but not much, while rates behaved themselves with carry offering the return for the fund. A key development through the quarter was the heightened supply seen but the majority of this was companies taking advantage of current market conditions to extend and lock in debt at levels they're happy with as opposed to fresh new issues.

Increased refinancing has come as companies wrestle with current valuation levels versus higher yields. In our view, we are not seeing valuations adjust to the 'higher-for-longer' market environment, where yields are expected to stay at elevated levels as major central banks hold off on an aggressive rate cutting cycles as global economies show modest growth.

As companies struggle to attain the value they are hoping for in private markets, they instead chose refinancing debt in public markets. Which has led to the large amount of supply – which in turn is keeping defaults low, which is keeping spreads in line.

Low default rates are also indicative of a high yield market that is more robust than in the past. The CCC portion of the market is now a relatively small portion of the market, with issuers now typically larger and in better financial standing. We are seeing the majority of the market handling the higher cost of capital. Liquidity and flexibility mean that defaults are being deferred and the most recent data also shows how issuers in distress are not defaulting.

With compressed spreads, and high liquidity, companies can seek refinancing at comfortable rates. We will, however, begin to see higher levels of cashflow spent on debt servicing if yields remain this high – which is where we see a disconnect with equity valuations.

Performance and activity

Top 10 holdings

	Weighting (%)
SPRINT LLC 7.625000000 2025-02-15	1.15
HTA GROUP LTD 7.500000000 2029-06-04	0.97
TECHEM VERWALTUNGSGES 6.000000000 2026-07-30	0.87
ROLLS-ROYCE PLC 5.750000000 2027-10-15	0.85
GEMS MENASA KY LTD/GEMS 7.125000000 2026-07-31	0.85
WALGREENS BOOTS ALLIANCE 3.600000000 2025-11-20	0.81
ACTINA TL B3 1L LOAN 6.875999928 30/09/2028	0.81
DRYD 2017-56X ANE 4.716000000 2032-01-15	0.79
TEVA PHARMACEUTICALS NE 3.150000000 2026-10-01	0.79
APCOA PARKING HOLDINGS G 8.906000000 2027-01-15	0.78
Total	8.67

Fund activity

We are happy with the position of the fund as we seek to pick out idiosyncratic factors to pick up spread and yield. We are in a permissive credit climate where covenants are loosening further as the weight of demand is suppressing not only spreads but also protective features.

Technicals matter in the loan market, where the fund remains active, but we are similar trends in the loan market to the high yield market: where we are not seeing much new issuance but instead supply has been focused on refinancing.

There remains a lot of demand in the loan market, which is encouraging market participants to refinance – which is keeping defaults low. The loan market is more leveraged than the high yield market, so this low default rate environment is proving conducive for refinancing.

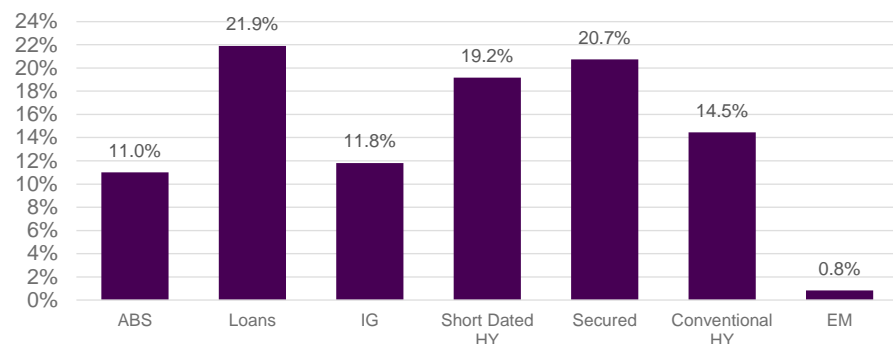
The low default rates being seen are indicative of a high yield market that is more robust than in the past. The CCC portion of the market is now a relatively small portion of the market, with issuers now typically larger and in better financial standing. We believe the majority of the market can handle the higher cost of capital and are adjusting to the environment. Liquidity and flexibility mean that defaults are being deferred and the most recent data also shows how issuers in distress are not defaulting.

We have looked to add CLO tranches during the period, increasing our CLO exposure through new issues, as we are seeing high yields on offer, especially in the investment grade market.

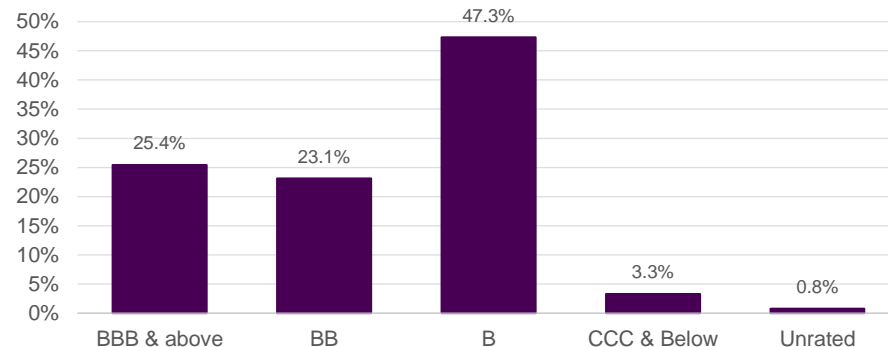
The benefit of the loan book in the portfolio includes the high carry, the short interest rate duration risk and convexity (as most high quality loans trade below par) so there is optionality on a refinancing in a defensive instrument.

Asset allocation

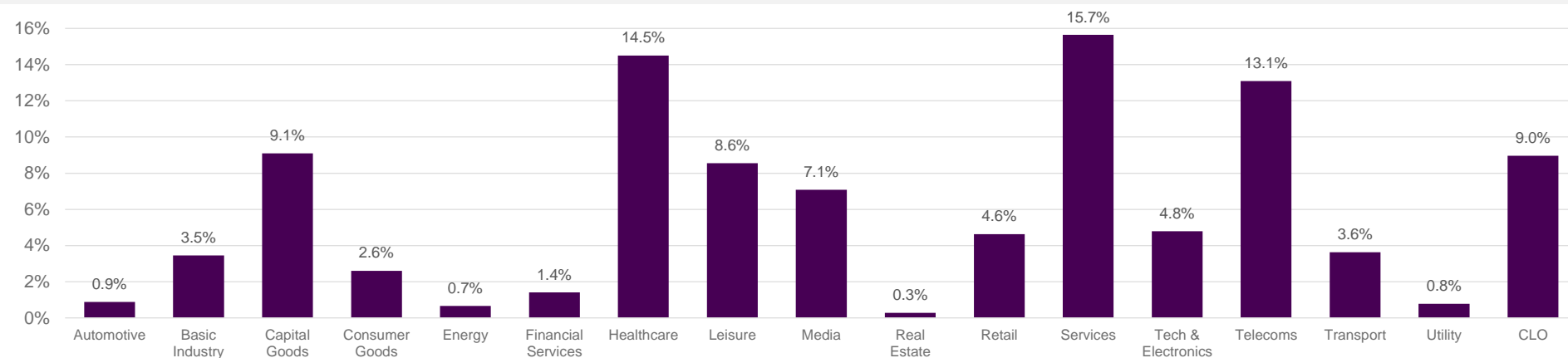
Asset allocation



Credit ratings

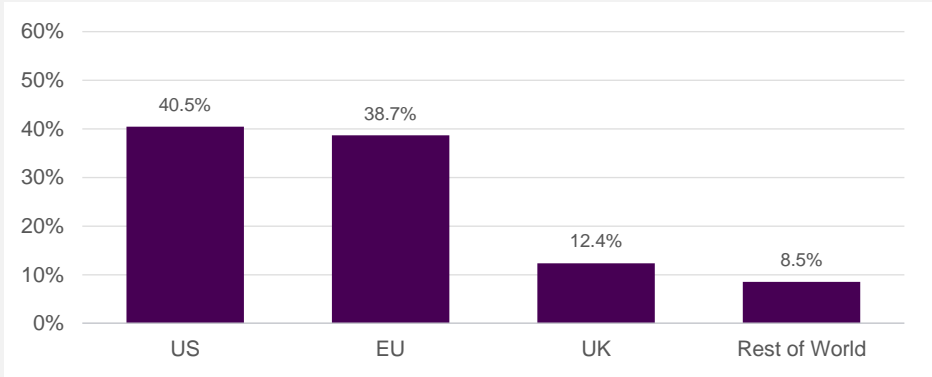


Sector allocation

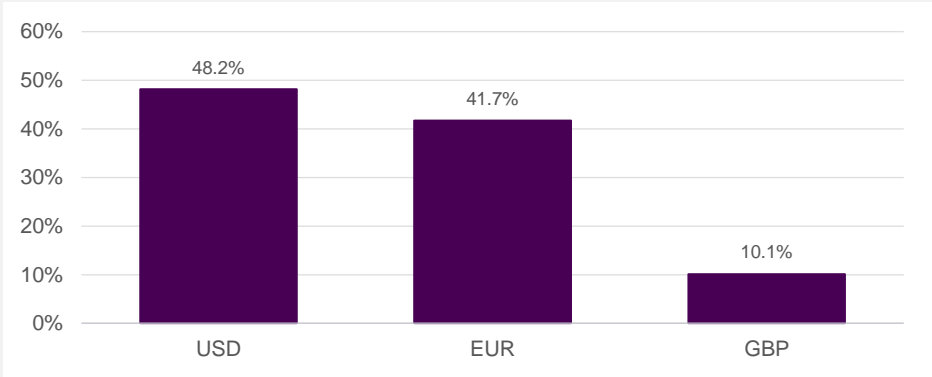


Asset allocation

Regional profile



Currency 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%.

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.

In the high yield market, the ICE BofAML (BB-B) Global Non-Financial High Yield Index (sterling hedged) benchmark returned 1.31% in the quarter as spreads hit 282bps. At the end of the period, the index's yield-to-worst stood at 6.97%, in line from 7.05% at the start of the year. In the broader-based high yield index, which includes CCC rated bonds, spreads tightened to 358bps, with a yield-to-worst of 7.74%.

Outlook

High yield fundamentals are well supported and that has resulted in a very moderate default climate up to now. Current US high yield default rates are very low, sitting below 2% with global defaults below 3%. While companies are relatively comfortable with the position that credit spreads are not going to be too volatile, and they have a good handle on the strength of their balance sheets, we can see a scenario where current tight spreads tighten further – with not many new issues and yields remaining high.

Market commentary

As spreads tighten, there become a perception that the high yield market is risky for investors, but we feel this does not tell the full story. The fundamentals in the market are considerably better than previously with the quality of names improving. We believe that the combination of attractive valuations, robust fundamentals, and the fact that macro headwinds have abated with the US monetary tightening cycle coming to an end, provides a constructive environment for 2024 and 2025.

In our view, the way through markets is to focus on those risks that you can control and know what you own. We will keep spread duration low and focus on the quality of issuers' financials, rather than relying on third-party ratings: at a sectoral level, cashflows are the key factor, meaning we need to know about on- and off-balance sheet leverage. We prefer not to wait for defaults as the recovery process can take time: however, should they occur, the key is to have an adequate solvency cushion.

We still believe 2024 should play out similarly to 2023: maturity wall concerns being overplayed; companies holding high liquidity; private debt markets eating the bottom cohort of public markets; public markets remaining open, with solid issuance levels. As long as public markets stay open, any maturity wall concerns will be swept away. And, as long as private markets are taking away the weakest parts of public markets, we believe defaults should stay low.

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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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 Investment Funds ICAV, an Irish collective asset-management vehicle authorised by the Central Bank of Ireland pursuant to the Irish Collective Asset-management Vehicles Act 2015 and the AIFM Regulations, and has been established as an umbrella fund with segregated liability between Funds.

It is not a recognised scheme under the Financial Services and Markets Act 200.

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 available via the relevant Fund Information page on www.rlam.com.

Most of the protection 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 trade marks of the Bank of England.

CIBOR (Copenhagen Interbank Offered Rate) is owned and administered by Danish Financial Benchmark facility (DFPF). The use of CIBOR does not imply or express any approval or endorsement by DFBF.

Risk 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.

Concentration risk

The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

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.

Leverage risk

The Fund employs leverage with the aim of increasing the Fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the Fund's losses can be magnified significantly.

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 purpose of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as 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 the these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

Efficient Portfolio Management (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.

Performance to 31 March 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 years
Funds (gross)	1.43	2.85	9.11	5.89	18.09
Fund (net)	1.41	2.81	9.03	5.67	17.74

Annualised (%)

3 Years (p.a.)	5 years (p.a.)
1.93	3.38
1.85	3.32

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
Funds (gross)	9.11	6.89	(9.20)	11.97	(0.41)
Fund (net)	9.03	6.82	(9.27)	11.89	(0.42)

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 Multi Asset Credit Fund (Z Inc).

Glossary

Asset allocation

ABS includes asset backed bonds and CLOs. EM comprises emerging market debt.

Credit ratings

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

FX adjusted yield

FX adjusted yield is the gross rate of return to the expected maturity adjusted for hedging and excludes the impact of cash.

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 valuations are based on signed off prices and are on a mid-price basis.

Performance

Performance is calculated using the signed off NAV per share. The impact of fees or other charged include tax, where applicable, can be material on the performance of your investment. The impact of fees reduce the return.

Regional profile

Rest of World includes all non-North America, non-Europe and non-UK holdings, which includes emerging market debt as shown in asset class positioning .

Sector allocation

The global funds sector classifications are based on ICE BofA sector level 3 classifications.

Top 10 holdings

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