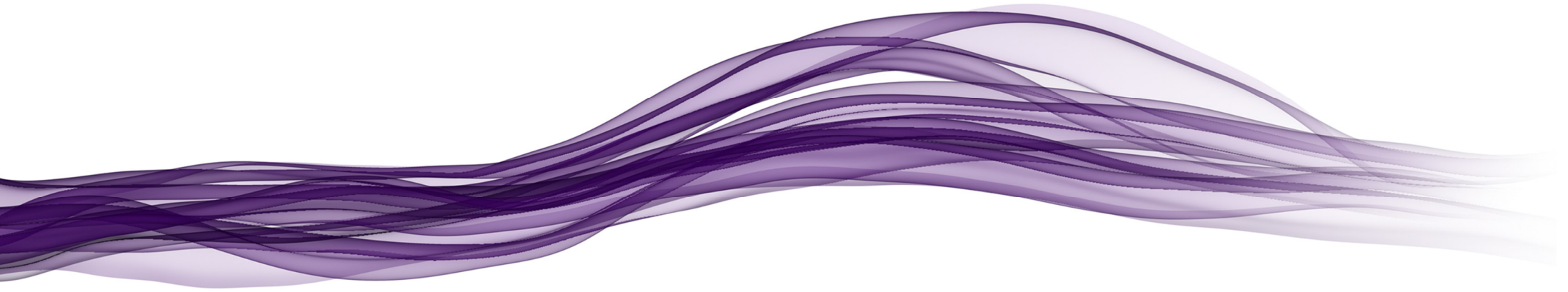


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RLPPC UK Corporate Bond Fund

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 RLPPC UK Corporate 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.

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The fund

Fund performance objective and benchmark

The Fund aims to achieve +0.50% in excess of the benchmark net of fees per annum, on a rolling three year basis. The UK Corporate Bond Fund (UCF) invests predominantly in sterling credit bonds, including unrated bonds and sub-investment grade bonds. The fund may also invest in UK government bonds and non-sterling bonds. The iBoxx Sterling non-Gilt all maturities index is considered an appropriate benchmark for performance comparison.

Benchmark: iBoxx Sterling Non-Gilt All Maturities Index

Fund value

	Total £m
30 June 2024	2,188.91

Asset allocation

	Fund (%)	Benchmark
Conventional credit bonds	96.97%	99.43%
Securitised	2.91%	-
Conventional foreign sovereign	0.12%	0.57%

Fund analytics

	Fund	Benchmark
Fund launch date	31 May 2000	
Base currency	GBP	
Duration (years)	5.74	5.37
Gross redemption yield (%)	6.34	5.31
Number of holdings	435	1,272
Number of issuers	259	497

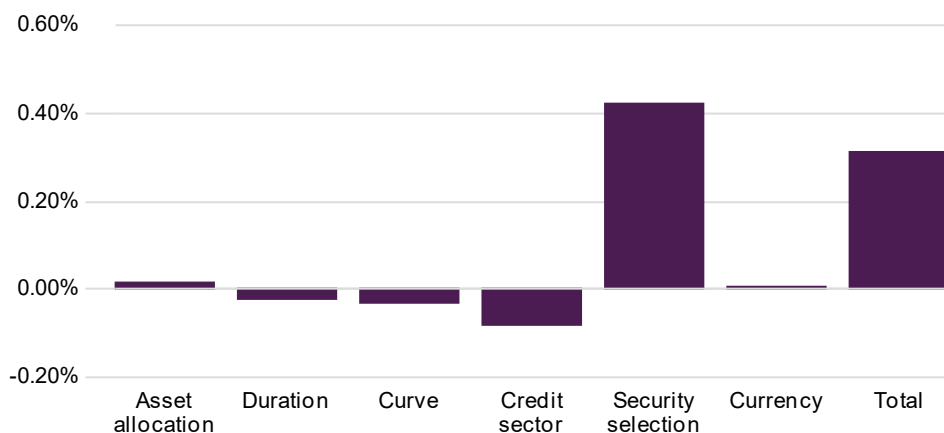
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.17	(0.13)	0.29
YTD	1.33	(0.07)	1.40
1 Year	11.91	9.72	2.19
3 Years (p.a.)	(2.21)	(3.91)	1.70
5 Years (p.a.)	1.00	(0.81)	1.80
10 Years (p.a.)	3.66	2.26	1.40
Since inception (p.a.)	5.91	4.54	1.37

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 RLPPC UK Corporate Bond Fund (Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 31 May 2000.

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 structured bonds were the other area of interest, with strong performance from student loan provider ICSL.

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. We also added AT1 bonds from Coventry Building Society yielding over 8%. 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%.

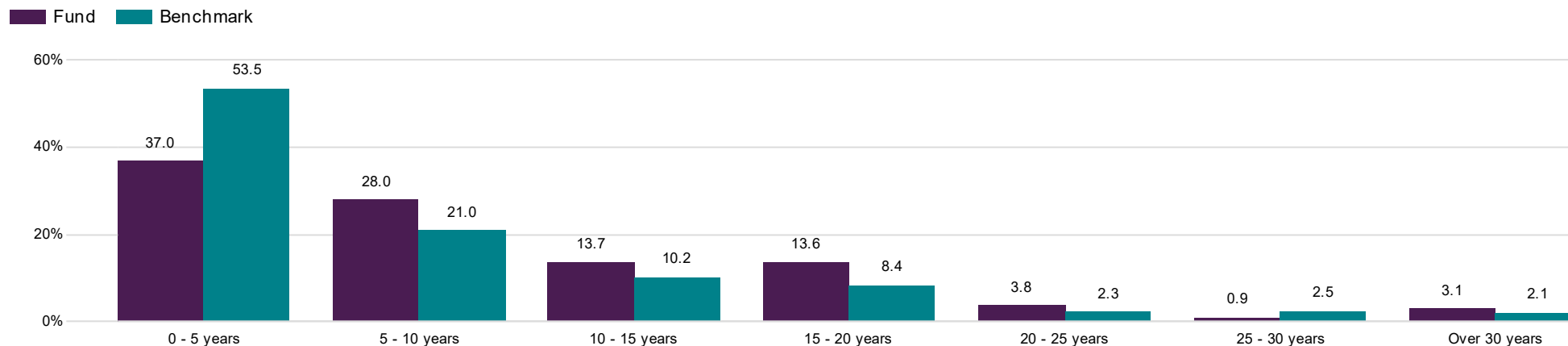
The secondary market was also a source of trades during the quarter. We took profits on senior OSB bonds after strong performance, and added short-dated senior bonds from Co-Operative Bank, also adding Virgin Money subordinated bonds, with the proposed takeover offering the opportunity to buy Nationwide risk at Virgin Money yields.

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. 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.

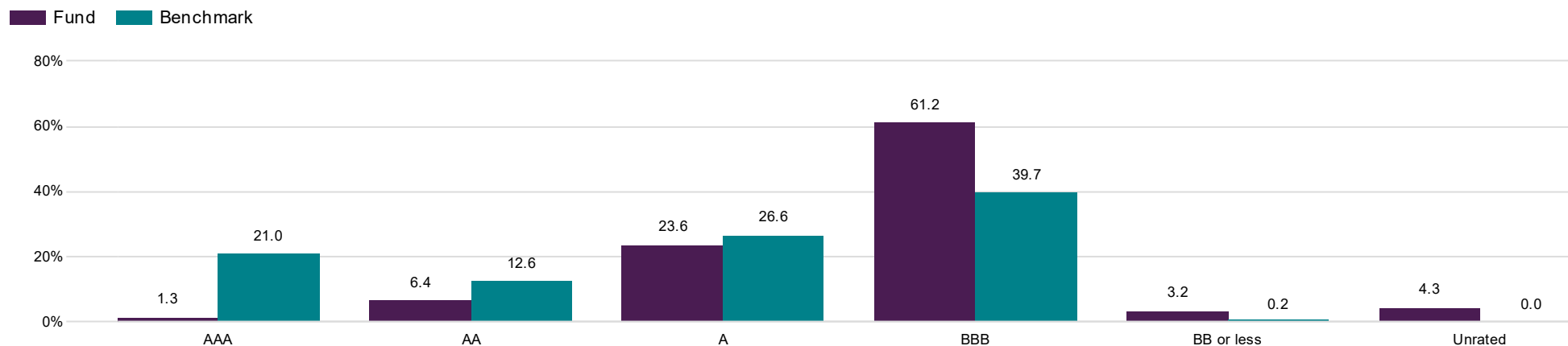
In the secondary market, we bought a commercial mortgage-backed security from Meadowhall Finance, secured on the Sheffield shopping centre; the bonds enjoy a low LTV and pay almost 300bps over equivalent gilts – a significant premium to market levels.

Fund breakdown

Maturity profile

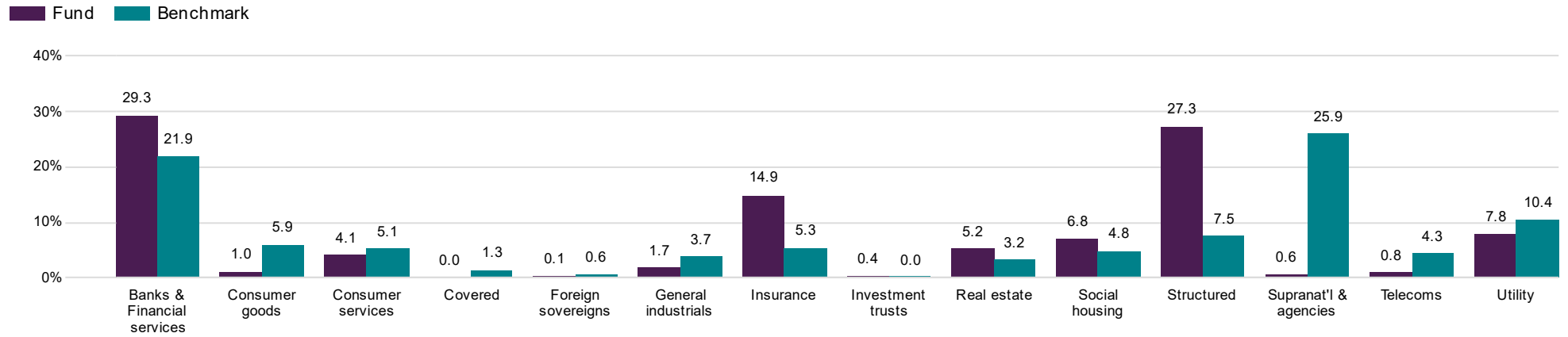


Credit ratings



Fund breakdown

Sector breakdown



Characteristics and climate

Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO ₂ e)	49,003	n/a	n/a
Financed emissions coverage	46.69%	n/a	n/a
Carbon footprint (tCO ₂ e/\$M invested)	17.95	32.37	(44.55)
Carbon footprint coverage	46.69%	46.50%	0.39
Weighted average carbon intensity (tCO ₂ e/\$M sales)	52.02	58.12	(10.50)
Weighted average carbon intensity coverage	93.82%	95.80%	(2.07)

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	46.69	46.50	0.39
% of portfolio below 2°C ITR	36.66	38.51	(4.80)
% of portfolio below 1.5°C ITR	17.96	16.77	7.08

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	9.44	10.67	(11.52)
SBTi Near-Term committed	7.35	6.14	19.73
SBTi Near-Term targets set	10.85	13.95	(22.24)

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	9	45
Number of engagements	13	93

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
Governance	2
Corporate Governance	1
Remuneration	1
Social & Financial Inclusion	3
Just transition	3
Technology, Innovation & Society	3
Technology & Society	2
Cybersecurity	1

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.

BP Plc – Cyber security

Purpose:

Following our meeting with BP plc, we have provided written feedback against our cyber security investor expectations. This feedback reflects our updated assessment of the company's practices in this area.

Outcome:

In our assessment we have identified two key areas where BP can improve its cyber security practices. Firstly, the effectiveness review of the board should explicitly include the oversight of cybersecurity risks. Therefore, we suggested the company to establish a method to assess the board's effectiveness in overseeing cyber security. Additionally, we encouraged the company to integrate the management of cyber risks into the company's broader governance KPIs and aligning this with executive remuneration. BP plc has acknowledged our recommendations and will take them into consideration.

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

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.

InterContinental Hotels Group Plc – Cyber security

Purpose:

In our ongoing collaborative efforts on cyber security, we engaged with the company in 2023 to align on best practices. Subsequently, we reached out for additional details to ensure the company's actions are in accordance with our investor expectations.

Outcome:

The company shared its approach to managing cyber risk, emphasising the Board's active oversight of cybersecurity measures and the promotion of a security-conscious culture throughout the organisation. The representatives detailed the Group's response to a cyber incident in 2022. This did not compromise guest data systems and highlighted the value of engaging external specialists and the Board in managing the situation. Additionally, the company outlined the comprehensive awareness training provided to hotel staff and corporate employees in 2023, covering topics such as social engineering, phishing prevention and the risks associated with generative AI. We will evaluate the company's responses against our investor expectations and provide feedback on areas of improvement.

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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Risks and Warnings

General risks

The degree of investment risk depends on the fund you choose.

The prices of units can go down as well as up.

The return from your investment is not guaranteed; therefore, you may get back less or more than shown in the illustrations.

You may not get back the amount that you originally invested.

Past performance is not a guide to future return.

Inflation may, over time, reduce the value of your investments in real terms.

There may be a variation in performance between funds with similar objectives owing to the different assets selected.

Funds aiming for relatively high performance can incur greater risk than those adopting a more standard investment approach.

The use of derivatives in pursuit of a fund's objective may cause its risk profile to change and this may be material.

Fixed interest security 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. Key determinants include economic growth prospects, inflation, the government's fiscal position, short-term interest rates and international market comparisons. The returns from bonds are fixed as at the time of purchase. Therefore the fixed coupon payable and the final redemption proceeds are known at the outset. This means that if a bond is held until its redemption date, the total return that could be expected is unaltered from its purchase date, subject to counterparty default (see 'Credit risk' below). However, over the life of a bond, the yield priced by the market (as opposed to actual fixed coupons payable) at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase price and a profit or loss may be incurred.

Credit risk

The value of a fixed interest security will fall in the event of the default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. This fund may invest a percentage of its assets in sub-investment grade bonds. Such bonds have characteristics which may result in higher probability of default than investment grade bonds and therefore higher risk.

Overseas markets risk

Funds investing in overseas securities are exposed to, and can hold, currencies other than Sterling. As a result, overseas investments may be affected by the rise and fall in exchange rates.

Derivatives risk for efficient portfolio management

Derivatives may be used by this Fund for the purpose of efficient portfolio management. This restricts the use of derivatives to the reduction of risk and the reduction of cost. Such transactions must be economically appropriate and the exposure fully covered.

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)	0.17	1.33	11.91	(6.49)	5.09	(2.21)	1.00
Fund (net)	0.08	1.16	11.54	(7.41)	3.40	(2.53)	0.67

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)	11.91	(5.09)	(11.96)	5.95	6.08
Fund (net)	11.54	(5.41)	(12.25)	5.60	5.76

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 RLPPC UK Corporate Bond Fund (Acc).

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.

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 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.

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.

Glossary

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.