Royal London Fixed Income Funds

Fund Manager Commentary

May 2024

FOR PROFESSIONAL CLIENTS ONLY, NOT SUITABLE FOR RETAIL CLIENTS.

ROYAL LONDON
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Economic Developments

- The Bank of England's Monetary Policy Committee (MPC) again voted to keep rates on hold at 5.25%. There was, however, a further dovish shift with two members voting for an immediate cut. According to Governor Bailey: "It is likely we will need to cut Bank rate over the coming quarters and make policy somewhat less restrictive over the forecast period." May data painted a mixed picture of economic activity with unemployment rising to 4.3% However, whilst April headline and core CPI inflation fell, it was by less than expected and real pay growth remained strong. Q1 GDP rose 0.6% on a quarterly basis, with the UK exiting technical recession. However, economic news was largely overshadowed by the announcement of a UK general election despite polls showing a substantial lead for the opposition Labour Party.
- As expected, the Fed kept rates on hold and slowed the pace of balance sheet reduction. They noted a lack of further progress towards the 2% inflation objective although Chair Powell described a rate hike as unlikely. US April inflation data was more reassuring (from a central bank perspective), with CPI weaker than expected. Average hourly earnings rose slightly while non-farm payrolls rose at a much slower pace than March. Activity data over the month tended to come in on the soft side, notably with Q1 GDP revised down.
- ECB speakers continued to indicate that a June rate cut was likely but signalling remained less clear for following meetings. CPI and pay data were less reassuring for the ECB with headline and core CPI higher than expected. Activity data released over the month remained mixed, but generally a bit stronger. New European Commission forecasts showed higher deficits for the euro area and a number of economies now look set to enter an Excessive Deficit Procedure later this year which would see the EU require fiscal tightening adjustments.

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Royal London Asset Management Credit Fund Performance

	1 month (%)	Rolling 12 Months (%)
RL Corporate Bond Fund Z Inc	**0.61**	**10.41**
IA Sterling Corporate Bond Sector	0.44	7.95
iBoxx Sterling Non-Gilts All Maturities Index	0.77	7.48
RL Ethical Bond Fund Z Inc	**0.57**	**9.36**
IA Sterling Strategic Bond Sector	0.62	7.50
iBoxx Sterling Non-Gilts All Maturities Index	0.77	7.48
RL Global Bond Opportunities Fund Z Inc	**1.06**	**10.45**
IA Global Mixed Bond Sector	0.41	3.54
RL Investment Grade Short Dated Credit Fund Z Inc	**0.83**	**8.35**
IA Sterling Corporate Bond Sector	0.44	7.95
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.70	6.70
RL Short Duration Credit Fund Z Inc	**0.75**	**9.67**
IA Sterling Strategic Bond Sector	0.62	7.50
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.70	6.70
RL Sterling Credit Fund Z Inc	**0.64**	**10.48**
IA Sterling Corporate Bond Sector	0.44	7.95
iBoxx Sterling Non-Gilts All Maturities Index	0.77	7.48
RL Sterling Extra Yield Bond Fund A Inc	**1.30**	**11.85**
RL Sterling Extra Yield Bond Fund B Inc	**1.27**	**11.46**
RL Sterling Extra Yield Bond Fund Y Inc	**1.35**	**12.33**
RL Sterling Extra Yield Bond Fund Z Inc	**1.33**	**12.33**
IA Sterling Corporate Bond Sector	0.44	7.95
IA Sterling High Yield Sector	0.96	10.50
IA Sterling Strategic Bond Sector	0.62	7.50

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

Source: Royal London Asset Management and FE, as of 31 May 2024. Returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparison were provided by Lipper so there may be some differences compared to the data provided historically.

All IA sector performance shown is for the median.

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Credit Market Review

Market highlights – sterling investment grade credit

- The sterling investment grade market (iBoxx) produced positive returns in May, with a return of 0.77%. With government yields relatively flat, returns were driven primarily by the additional income on corporate bonds. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightened marginally from 1.01% to 1.00%.
- In UK investment grade markets, there were broad-based gains across all sectors. Banks, insurance, real estate, and utilities were the best performing sectors, while supranationals lagged market gains significantly.
- May was a mixed month for global government bonds, with changing expectations of the timing of first-rate cuts still driving markets, although the net effect over the month as a whole was relatively small. US treasury 10-year yields fell from 4.69% to 4.50%, while German bund 10-year yields climbed from 2.59% to 2.67%. In the UK, the benchmark 10-year gilt yield ended marginally lower, falling from 4.35% to 4.32% at the end of May, with the FTSE UK Conventional Gilt All-Stocks index returning 0.82% for the month.

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Royal London Corporate Bond Fund

Portfolio commentary

- The fund marginally underperformed its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, in May. On a year-to-date basis, the fund has posted positive total returns and remains well ahead of the benchmark.
- UK government bond yields moved broadly sideways in May, while credit spreads were virtually unchanged. The sterling credit market outperformed gilts over the month, helped by the additional income on corporate bonds.
- For May, the combination of sector and stock selection was the main driver of returns. Our low exposure to supranationals was helpful, as was both our bias towards and stock selection within the banking and insurance sectors. Contributing to the underperformance, however, was our overweighting in the structured sector.
- Primary market activity recovered somewhat in May after a relatively quiet April. In financials, we added AT1 bonds from **Barclays**, these coming with a yield of over 9%. We also added a subordinated bond from specialist UK insurer **Pension Insurance Corporation**, where we felt the high coupon looked attractive for the risk.
- Structured bonds are a key component of our funds and there were several opportunities to buy attractive new issues during May. We added a new secured issue from the **AA**, with the issuer also tendering for its shorter dated bonds at a premium to market pricing. In the utilities sector, we added to a 2041 tap issue of a bond from **Southern Water** at a significant discount to secondary market pricing, and a new hybrid issue from **Centrica** with a first call date in 2030.
- In the secondary market, we sold long-dated subordinated bonds from **Aviva** after strong performance. Regulated utilities offered a number of opportunities during the month, and we added to a corporate hybrid from **National Grid** and increased our holding in gas distributor **Cadent**, which trades significantly wider than regulated electricity peers.

Investment outlook

- In recent months sentiment on the outlook for interest rate reductions has swung with various economic data, but it now seems unlikely that we will see significant moves in interest rates this year. We expect yields to remain sensitive to economic data, and unless there is a significant deterioration in underlying trends, this should lead to range-bound yields and the opportunity to add/trim duration as markets react to individual data points.
- Headline inflation is expected to reach the 2% Bank of England target level in the next few months although services sector price pressures remain elevated. The general election will dominate UK news flow and it is highly unlikely that we will get an interest rate cut from the Bank of England during the campaign. The UK growth outlook has improved in recent months, but government debt levels have shown a deterioration. Overall, the global tone is that rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.
- With bond yields higher than they were at the start of the year, and interest rate cuts now closer, government bond yields look attractive. Credit spreads have remained at relatively tight levels, but in our view, continue to compensate credit investors for the risk of default. From a credit spread perspective we continue to find better value in shorter-dated credit bonds, but with absolute yields at attractive levels we prefer to be broadly neutral in overall duration positioning, with a bias to extend on further rises in yields.
- 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.

ROYAL LONDON ASSET MANAGEMENT

Key views within the fund

- Well diversified, with over 300 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall fund performance of any deterioration in the creditworthiness of an individual holding.
- A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Duration slightly longer than the benchmark, which has been increased as yields have risen. Interest rate sensitivity is broadly neutral when factoring in a number of bonds which have theoretical duration but are not as interest rate sensitive.
- An overweight position in subordinated financial debt, where we believe yields are attractive.
- Orientated towards secured bonds in the asset-rich investment trust, property, and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.
- Environmental, social and governance (ESG) risk factors are fully integrated in the management of the portfolio. The WACI (weighted average carbon intensity) of the portfolio is below that of the index.

Shalin Shah
Senior Fund Manager

Matt Franklin
Fund Manager

ROYAL LONDON
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Royal London Ethical Bond Fund

Portfolio commentary

- The fund underperformed its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, in May. On a year-to-date basis, the fund has posted positive total returns and remains well ahead of the benchmark.
- UK government bond yields moved broadly sideways in May, while credit spreads were virtually unchanged. The sterling credit market outperformed gilts over the month, helped by the additional income on corporate bonds.
- For May, the combination of sector and stock selection was the main driver of positive relative returns. Our low exposure to supranationals was helpful, as was both our bias towards and stock selection within the banking and insurance sectors. Contributing to the underperformance, however, was our overweighting in the structured sector.
- Primary market activity recovered somewhat in May after a relatively quiet April. In financials, we added a new issue of senior bonds from French banking group **BPCE** (which includes Banque Populaire, Caisse d'Epargne and Natixis brands). We also added AT1 bonds from **Barclays**, these coming with a yield of over 9%. Finally, we added a subordinated bond from specialist UK insurer **Pension Insurance Corporation**, where we felt the high coupon looked attractive for the risk.
- Structured bonds are a key component of our funds and there were several opportunities to buy attractive new issues during May. We added a new issue from the **AA**, secured on the operating business. In the utilities sector, we added a 2041 new issue from **Southern Water** and a new hybrid issue from **Centrica** with a first call date in 2030.
- 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 very attractive levels. Regulated utilities offered a number of opportunities during the month, and we added long-dated bonds from **National Grid** and increased our holding in **Cadent**.

Investment outlook

- The rally in bond yields seen late last year, prompted by hopes that falling inflation would lead to relatively rapid and numerous interest rate cuts, was largely unwound in the first two weeks of 2024. Since then, sentiment has swung with various economic data, but it now seems unlikely that we will see the moves previously anticipated.
- Overall, the global tone is that rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.
- With bond yields higher than they were at the start of the year, and interest rate cuts now closer, we believe that overall government bond yields look attractive. Credit spreads have remained at relatively tight levels, but in our view, continue to compensate credit investors for the risk of downgrade.
- We target – and achieve – a material yield premium over the market level in our credit strategies. Given the potential challenges in the outlook, we remain focused on identifying companies with attractive financial characteristics and ensuring that we are diversified across issuers and sectors. Our view remains that over the medium term our focus on delivering strong income will generate attractive performance.

ROYAL LONDON ASSET MANAGEMENT

Key views within the fund

- The fund is diversified in order to improve portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.
- The fund has a significant underweight position in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Duration is broadly in line with the benchmark.

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Eric Holt
Senior Fund Manager

Paola Binns
Head of Sterling Credit

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Royal London Global Bond Opportunities Fund

Market highlights

Index	Total return (%)	Spread at end of month (basis points)	Spread change over month (basis points)
HY global non-financial corps **ICE BofA ML global non-financial high yield index**	1.23	345	(4)
AT1 **ICE BofA ML contingent capital index**	1.87	307	(20)
Emerging market **ICE BofA ML**	1.76	388	(20)
HY global non-financial hybrid corps **ICE BofA ML global hybrid non-financial high yield index**	1.15	230	(17)
IG global non-financial hybrid corps **ICE BofA ML global hybrid non-financial corporate index**	0.72	193	(3)
Dollar investment grade corporate bonds **ICE BofA ML US corporate index**	1.85	88	(3)
Sterling investment grade corporate bonds **ICE BofA ML sterling corporate and collateralised index**	0.97	117	(3)
Euro investment grade corporate bonds **ICE BofA ML euro corporate and Pfandbriefe index**	0.24	104	(5)

Source: Bloomberg

- As expected, the Fed kept rates on hold and slowed the pace of balance sheet reduction. They noted a lack of further progress towards the 2% inflation objective although Chair Powell described a rate hike as unlikely. US April inflation data was more reassuring (from a central bank perspective), with CPI weaker than expected. Average hourly earnings rose slightly while non-farm payrolls rose at a much slower pace than March. Activity data over the month tended to come in on the soft side, notably with Q1 GDP revised down.
- ECB speakers continued to indicate that a June rate cut was likely but signalling remained less clear for following meetings. CPI and pay data were less reassuring for the ECB with headline and core CPI higher than expected. Activity data released over the month remained mixed, but generally a bit stronger. New European Commission forecasts showed higher deficits for the euro area and a number of economies now look set to enter an Excessive Deficit Procedure later this year which would see the EU require fiscal tightening adjustments.
- The Bank of England's Monetary Policy Committee (MPC) again voted to keep rates on hold at 5.25%. There was, however, a further dovish shift with two members voting for an immediate cut. According to Governor Bailey: "It is likely we will need to cut Bank rate over the coming quarters and make policy somewhat less restrictive over the forecast period." May data painted a mixed picture of economic activity with unemployment rising to 4.3% However, whilst April headline and core CPI inflation fell, it was by less than expected and real pay growth remained strong. Q1 GDP rose 0.6% on a quarterly basis, with the UK exiting technical recession. However, economic news was largely overshadowed by the announcement of a UK general election despite polls showing a substantial lead for the opposition Labour Party.
- May was a mixed month for global government bonds, with changing expectations of the timing of first-rate cuts still driving markets, although the net effect over the month as a whole was relatively small. US treasury 10-year yields fell from 4.69% to 4.50%, while German bund 10-year yields climbed from 2.59% to 2.67%. In the UK, the benchmark 10-year gilt yield ended marginally lower, falling from 4.35% to 4.32% at the end of May.

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- Global investment grade markets saw positive returns for the month. Credit spreads ended the period virtually unchanged, as were government bond yields, but overall returns were helped by the impact of income on corporate bonds.

Portfolio commentary

- The fund recorded a net return of 1.06% (M Acc share class) in May, broadly in line with high yield markets and better than euro and sterling investment grade indices. Exposure to AT1 bonds was helpful, as was the high degree of carry built into the portfolio.
- Primary market activity was more buoyant in May. In financials, we added AT1 bonds from **Barclays**, these coming at a yield of over 9%, **NatWest** and **DNB Bank** at a yield of almost 8%, as well as subordinated bonds from Italian insurer **UnipolSai** at a healthy yield premium to underlying government bonds.
- Looking beyond financials, we added short-dated bonds from Norwegian oil and gas operator **DNO** as well as senior secured bonds from specialist oilfield services company **Excellence Logging** yielding over 11%, and bonds from US regulated utility **NiSource**, the bonds yielding 7.2%.

Investment outlook

- In recent months sentiment on the outlook for interest rate reductions has swung with various economic data, but it now seems unlikely that we will see significant moves in interest rates this year. We expect yields to remain sensitive to economic data, and unless there is a significant deterioration in underlying trends, this should lead to range-bound yields.
- With bond yields higher than they were at the start of the year, and interest rate cuts now closer, we believe that overall government bond yields look attractive. Credit spreads have remained at relatively tight levels, but in our view, continue to compensate credit investors for the risk of default.
- We target – and achieve – a material yield premium over the market level in our credit strategies. Given the potential challenges in the outlook, we remain focused on identifying companies with attractive financial characteristics and ensuring that we are diversified across issuers and sectors. Our view remains that over the medium term our focus on delivering strong income will generate attractive performance.

Eric Holt
Senior Fund Manager

Rachid Semaoune
Senior Fund Manager

ROYAL LONDON
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Royal London Investment Grade Short Dated Credit Fund

Portfolio commentary

- The fund outperformed its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index, in May. On a year-to-date basis, the fund has posted positive total returns and remains well ahead of the benchmark.
- UK government bond yields moved broadly sideways in May, while credit spreads were virtually unchanged. The sterling credit market outperformed gilts over the month, helped by the additional income on corporate bonds.
- For May, the combination of sector and stock selection was the main driver of positive relative returns. Our low exposure to supranationals was helpful, as was both our bias towards and stock selection within the banking and insurance sectors. One negative, however, was our overweighting in the structured sector.
- Primary market activity recovered somewhat in May after a relatively quiet April. In financials, we added a new issue of senior bonds from French banking group **BPCE** (which includes Banque Populaire, Caisse d'Epargne and Natixis brands).
- Structured bonds are a key component of our funds and there were several opportunities to buy attractive new issues during May. We added a new issue from the **AA**, secured on the operating business as well as an RMBS, **Exmoor Funding**, secured on a portfolio of mortgages from specialist mortgage provider LiveMore.
- In the secondary market, we added to our short-dated senior **NatWest** position, buying highly rated 2028 at an attractive spread.

Investment outlook

- In recent months sentiment on the outlook for interest rate reductions has swung with various economic data, but it now seems unlikely that we will see significant moves in interest rates this year. We expect yields to remain sensitive to economic data, and unless there is a significant deterioration in underlying trends, this should lead to range-bound yields and the opportunity to add/trim duration as markets react to individual data points.
- Headline inflation is expected to reach the 2% Bank of England target level in the next few months although services sector price pressures remain elevated. The general election will dominate UK news flow and it is highly unlikely that we will get an interest rate cut from the Bank of England during the campaign. The UK growth outlook has improved in recent months, but government debt levels have shown a deterioration. Overall, the global tone is that rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.
- With bond yields higher than they were at the start of the year, and interest rate cuts now closer, government bond yields look attractive. Credit spreads have remained at relatively tight levels, but in our view, continue to compensate credit investors for the risk of default. From a credit spread perspective we continue to find better value in shorter-dated credit bonds, but with absolute yields at attractive levels we prefer to be broadly neutral in overall duration positioning, with a bias to extend on further rises in yields.
- 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.

Key views within the fund

- The fund is well diversified in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.
- It has a minimal weighting in supranational bonds, as we expect corporate debt to outperform over the medium term.
- Fund duration was marginally longer than the benchmark at month end.
- It has an overweight position in subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards structured debt, which benefits from a claim on assets and cashflows; secured issues in the asset-rich property and social housing sectors; and covered bonds (i.e., senior bank debt benefiting from a first claim on a specified over-collateralised pool of assets).

Paola Binns
Head of Sterling Credit

ROYAL LONDON ASSET MANAGEMENT

Royal London Short Duration Credit Fund

Portfolio commentary

- The fund outperformed its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index, in May. On a year-to-date basis, the fund has posted positive total returns and remains well ahead of the benchmark.
- UK government bond yields moved broadly sideways in May, while credit spreads were virtually unchanged. The sterling credit market outperformed gilts over the month, helped by the additional income on corporate bonds.
- For May, the combination of sector and stock selection was the main driver of positive relative returns. Our low exposure to supranationals was helpful, as was both our bias towards and stock selection within the banking and insurance sectors. The one negative was our overweight position in the structured sector.
- Primary market activity recovered somewhat in May after a relatively quiet April. In financials, we added a new issue of senior bonds from French banking group **BPCE** (which includes Banque Populaire, Caisse d'Epargne and Natixis brands). We also added AT1 bonds from **Barclays** and **NatWest**, these coming with a yield of over 9% and 8%, respectively.
- Structured bonds are a key component of our funds and there were several opportunities to buy attractive new issues during May. We added a new issue from the **AA**, secured on the operating business as well as an RMBS, **Exmoor Funding**, secured on a portfolio of mortgages from specialist mortgage provider LiveMore. In the utilities sector, we added a new hybrid issue from **Centrica** with a first call date in 2030.
- In the secondary market, we added to a recently built position in US dollar secured bond from Norwegian oil and gas firm **Okea**.

Investment outlook

- In recent months sentiment on the outlook for interest rate reductions has swung with various economic data, but it now seems unlikely that we will see significant moves in interest rates this year. We expect yields to remain sensitive to economic data, and unless there is a significant deterioration in underlying trends, this should lead to range-bound yields and the opportunity to add/trim duration as markets react to individual data points.
- Headline inflation is expected to reach the 2% Bank of England target level in the next few months although services sector price pressures remain elevated. The general election will dominate UK news flow and it is highly unlikely that we will get an interest rate cut from the Bank of England during the campaign. The UK growth outlook has improved in recent months, but government debt levels have shown a deterioration. Overall, the global tone is that rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.
- With bond yields higher than they were at the start of the year, and interest rate cuts now closer, government bond yields look attractive. Credit spreads have remained at relatively tight levels, but in our view, continue to compensate credit investors for the risk of default. From a credit spread perspective we continue to find better value in shorter-dated credit bonds, but with absolute yields at attractive levels we prefer to be broadly neutral in overall duration positioning, with a bias to extend on further rises in yields.
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ROYAL LONDON ASSET MANAGEMENT

Key views within the fund

- The fund is well diversified, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual exposure.
- The fund has a significant underweight in supranational bonds, as we expect corporate debt to outperform over the medium term.
- The fund's duration slightly below that of the benchmark at month end.
- The fund has an overweight position in subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards secured bonds in the asset-rich investment trust, property, and social housing sectors, and towards structured issues, which benefit from a claim on assets and cashflows

Paola Binns
Senior Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

Royal London Sterling Credit Fund

Portfolio commentary

- The fund underperformed its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, in May. On a year-to-date basis, the fund has posted positive total returns and remains well ahead of the benchmark.
- UK government bond yields moved broadly sideways in May, while credit spreads were virtually unchanged. The sterling credit market outperformed gilts over the month, helped by the additional income on corporate bonds.
- For May, the combination of sector and stock selection was the main driver of positive relative returns. Our low exposure to supranationals was helpful, as was both our bias towards and stock selection within the banking and insurance sectors. Contributing to the underperformance, however, was our overweighting in the structured sector.
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- Structured bonds are a key component of our funds and there were several opportunities to buy attractive new issues during May. We added a new issue from the **AA**, secured on the operating business. In the utilities sector, we added a 2041 new issue from **Southern Water** and a new hybrid issue from **Centrica** with a first call date in 2030.
- 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 very attractive levels. Regulated utilities offered a number of opportunities during the month, and we added long-dated bonds from **National Grid** and increased our holding in **Cadent**.

Investment outlook

- In recent months sentiment on the outlook for interest rate reductions has swung with various economic data, but it now seems unlikely that we will see significant moves in interest rates this year. We expect yields to remain sensitive to economic data, and unless there is a significant deterioration in underlying trends, this should lead to range-bound yields and the opportunity to add/trim duration as markets react to individual data points.
- Headline inflation is expected to reach the 2% Bank of England target level in the next few months although services sector price pressures remain elevated. The general election will dominate UK news flow and it is highly unlikely that we will get an interest rate cut from the Bank of England during the campaign. The UK growth outlook has improved in recent months, but government debt levels have shown a deterioration. Overall, the global tone is that rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.
- With bond yields higher than they were at the start of the year, and interest rate cuts now closer, government bond yields look attractive. Credit spreads have remained at relatively tight levels, but in our view, continue to compensate credit investors for the risk of default. From a credit spread perspective we continue to find better value in shorter-dated credit bonds, but with absolute yields at attractive levels we prefer to be broadly neutral in overall duration positioning, with a bias to extend on further rises in yields.
- 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.

ROYAL LONDON
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Key views within the fund

- Well diversified, with around 350 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.
- A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Fund duration was broadly in line with the benchmark at month end.
- Orientated towards subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and structured bonds, which benefit from a claim on assets and cashflows.

Paola Binns
Senior Fund Manager

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Royal London Sterling Extra Yield Bond Fund

Portfolio commentary

- The fund recorded returns in May of 1.30%, 1.27%, 1.35% and 1.33% respectively for the A, B, Y and Z class shares. These bring 2024 year to date returns to end April to 4.60%, 4.38%, 4.80% and 4.72% respectively for these share classes.
- While bond market was fairly volatile on the flow of economic data through the month – the ten-year gilt yield moved in the range of 4.04% to 4.40% in the month, equivalent to a price range of some 3% - overall the backdrop supported the prospect of interest rates reducing in the months ahead, albeit at a very different pace to that anticipated at the start of the year. Sweden edged its interest rates lower in the month, while Canada and the Eurozone reduced rates in the early days of June. Against this background bond markets posted positive returns in the month; gilts and Sterling investment grade corporate bonds posted index returns of 0.84% and 0.87% respectively in the month, while came in at 1.62%, with European and Global sub-investment grade bonds achieving slightly higher index returns in May, at 0.96% and 1.23%. 2024 year to date returns for these four asset classes were -4.19%, -0.94%, 2.57% and 2.47% at end May. The year-to-date gilt return reflect primarily the change in expectations for interest rates cuts, after near euphoria in the final weeks of 2023, with the impact of this on Sterling investment grade corporate bonds being significantly offset by a sharp narrowing of the average yield differential between these asset classes, down from 1.16% to 0.97% since end 2023, while for sub-investment grade bonds returns are supported by their higher income generation.
- Against this generally benign market background positive price performance, supported by robust income generation, was very broadly based across the fund. Unsurprisingly holdings in the financial sectors were notably buoyant in May, with holdings of banks **BNP**, **NatWest**, **Royal Bank of Canada** and **Standard Chartered** and of insurers **Allianz**, **M&G** and **Pension Insurance** all up around 2% in the month. Other areas of strong performance were French government owned utility **EDF**, also up some 2% in price May, **Shamaran**, the energy company which announced a partial early repayment triggering a 5% rise in price to the bonds par value, and the shares of **DOF Group**, a holding received under an equitization of bonds in June last year, were up a further 17% - the holding was further reduced at the higher level. **Thames Water** bonds did not participate in the move up in markets, while virtually the only holdings which were subdued in the month were small holdings microfinance business **Bayport** and Finnish leisure business **Sunborn**.
- The fund participated in the flow of new issues including BBB rated bonds of motoring group AA, yield 6.85% to 2031, and of **Southern Water Services**, yield 7⅜% to 2041, together with subordinated bons of **Barclays**, yield 8.5% to first call in 2030, and leisure business **Center Parcs**, 7⅞% to 2029, together with unrated US$ denominated bonds of energy services business **Excellence Logging**. Market purchases in the month included bonds of Dutch banking group Rabobank and of **Virgin Money**, currently being taken over by Nationwide Building Society. Sales included crystallising capital profits on recent issues of Spanish banking group **Caixabank** and of French industrial business **Eramet,** and selling bonds of engineering group **Rolls Royce**, which had performed strongly after recent upgrade to BBB credit rating by S&P and Fitch. During the month both UK utility business **Centrica** and Norwegian energy business **DNO** announced tenders for their existing short-dated bonds at a premium to their recent market price, while offering new attractively priced bonds. In each case the fund benefited from the uplift from prevailing market price to the tender level, preferential allocation on the new bonds which were attractively priced and traded up, and an uplift in income generation on coupon increase from old to new bonds – 5¼% to 6½% and 7⅞% to 9¼% respectively for these issuers. Activity in the month in short-dated gilts reflected liquidity management.

ROYAL LONDON
ASSET MANAGEMENT

Key views within the fund

- The fund's objective is to achieve a high level of income by seeking attractive investments across a broad spectrum of fixed income opportunities, encompassing investment grade, sub-investment grade and unrated bonds.
- The fund mitigates stock-specific risk by holding a diversified portfolio of investments, so that no individual investment can in isolation have an undue impact on overall performance. In addition, where possible within the yield objective of the fund, investments are focused on bonds where risk is mitigated by structure or a claim on assets or cashflows.

Rachid Semaoune
Senior Fund Manager

Eric Holt
Senior Fund Manager

Royal London Asset Management Government Bond Fund Performance

	1 month (%)	Rolling 12 Months (%)
RL Global Index Linked Bond Fund Z Inc	**0.33**	**1.30**
Global Inflation Linked Bond Sector	1.27	1.54
Bloomberg World Government Inflation-Linked Bond Index – Total Return (GBP Hedged)	0.54	1.19
RL Index Linked Bond Fund M Inc	**(0.24)**	**(2.27)**
0IA UK Index Linked Gilts Sector	(0.29)	1.02
FTSE Actuaries UK Index-Linked All Stocks Index	1.44	2.58
RL Short Duration Gilt Fund Z Inc	**0.24**	**4.52**
IA UK Gilts Sector	0.00	2.46
FTSE Actuaries UK Conventional Gilts up to 5 Years Index	0.50	4.35
RL Short Duration Global Index Linked Bond Fund Z Inc	**0.44**	**3.46**
Global Inflation Linked Bond Sector	0.54	1.19
RL Short Duration Global Index Linked Composite Benchmark[1]	0.92	3.68
RL UK Government Bond Fund Z Inc	**(0.06)**	**2.90**
IA UK Gilts Sector	0.00	2.4
FTSE Actuaries UK Conventional Gilts All Stocks Index	0.82	3.04

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

Source: Royal London Asset Management and FE, correct as of 31 May 2024. Returns quoted are net of fees. Please note the fund returns are based on mid-day pricing, and benchmark returns are priced at end of day. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically.

All IA sector performance shown is for the median.

1 The composite benchmark consists of: 30% Bloomberg UK government Inflation Linked Bond 1–10-year index, 70% Bloomberg World Government Inflation Linked Bond (Ex UK) 1–10-year index (GBP Hedged).

ROYAL LONDON ASSET MANAGEMENT

Government Bond Market Review

Market highlights

- May was a mixed month for global government bonds, as market continue to grapple with volatile economic data and ever-changing expectations about when. Central Banks will start cutting base rates. Subsequently, there was a divergence in the performance of global bond markets, where US treasury 10-year yields fell from 4.69% to 4.50%, while German bund 10-year yields climbed from 2.59% to 2.67%.
- In the UK, the benchmark 10-year gilt yield ended marginally lower, falling from 4.35% to 4.32% at the end of May, with the FTSE UK Conventional Gilt All-Stocks index returning 0.82% for the month.
- The Bank of England's Monetary Policy Committee (MPC) again voted to keep rates on hold at 5.25%. There was, however, a further dovish shift with two members voting for an immediate cut. According to Governor Bailey: "It is likely we will need to cut Bank rate over the coming quarters and make policy somewhat less restrictive over the forecast period." May data painted a mixed picture of economic activity with unemployment rising to 4.3%. However, whilst April headline and core CPI inflation fell, it was by less than expected and real pay growth remained strong. Q1 GDP rose 0.6% on a quarterly basis, with the UK exiting its technical recession. However, economic news was largely overshadowed by the announcement of a UK general election despite polls showing a substantial lead for the opposition Labour Party.
- As expected, the Fed kept rates on hold and slowed the pace of balance sheet reduction. They noted a lack of further progress towards the 2% inflation objective although Chair Powell described a rate hike as unlikely. US April inflation data was more reassuring (from a central bank perspective), with CPI weaker than expected. Average hourly earnings rose slightly while non-farm payrolls rose at a much slower pace than March. Activity data over the month tended to come in on the soft side, notably with Q1 GDP revised down.
- ECB speakers continued to indicate that a June rate cut was likely but signalling remained less clear for following meetings. CPI and pay data were less reassuring for the ECB with headline and core CPI higher than expected. Activity data released over the month remained mixed, but generally a bit stronger. New European Commission forecasts showed higher deficits for the euro area and a number of economies now look set to enter an Excessive Deficit Procedure later this year which would see the EU require fiscal tightening adjustments.
- The sterling investment grade market (iBoxx) produced positive returns in May, with a return of 0.77%. With government yields relatively flat, returns were driven primarily by the additional income on corporate bonds. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightened marginally from 1.01% to 1.00%.

ROYAL LONDON
ASSET MANAGEMENT

Royal London Global Index Linked Bond Fund

Portfolio commentary

- Net of fund management fees, the fund returned 0.33% in May (Z Inc share class), against benchmark returns of 1.27%. It should be noted that returns can be distorted by the differing valuation points of the fund and index. On a like-for-like basis, the fund outperformed the index over the month.
- May was a mixed month for global government bonds, with changing expectations of the timing of first-rate cuts still driving markets, although the net effect over the month as a whole was relatively small. Index linked moves were mixed during the month but remained volatile around data points and supply events.
- European yields rose during the month with the catalyst for the sell-off being UK inflation not falling as much as expected. US yields ended the month lower but only as a response to weaker data on the last day of the month and strong month end buying on asset allocation switches. Japanese yields rose as the yen continued to weaken, putting pressure on the Bank of Japan to raise rates further. Yields rose above 1% – their highest level since 2011.
- Breakeven rates in G3 were largely unchanged or marginally softer as energy prices fell. Energy prices ended the month lower with the oil price falling to $75 having peaked at $87 in April. The exception in G10 countries was Japan, where breakeven rates rose above 1.5% – their highest level in a decade.
- Duration positioning was the main positive for the fund over the month. We had a long position at the start of the month and benefitted as yields fell following the weak US non-farm payrolls figure. We trimmed exposure into market strength, which helped relative returns later in the month following the UK inflation figure which pushed yields higher once more, and we used this weakness we rebuild our position to end the month with a virtually unchanged long duration position.
- Cross-market positioning was mixed over the month. Our Australian exposure was negative with as these underperformed UK equivalents, although this was mitigated by the positive impact of our US holdings which performed well into weak employment data.
- Curve and breakevens effects were not material over the month. Curve positioning was a small negative as we had a 5s-30s flattener in the US, where five-year bonds outperformed. In breakevens, we traded these tactically, selling breakevens prior to supply events and inflation data.

Investment outlook

- We expect markets to remain volatile around economic data points and envisage continuing to trade duration tactically. However, we feel valuations in certain markets have now reached valuations that look attractive to hold a long duration position on a more strategic basis.
- At the end of 2023 we were at peak optimism, where economists were calling for 5-6 rate cuts in the US in 2024. We have now almost reached peak pessimism as the same economists are calling for only one cut. We still expect the Federal Reserve, ECB, and Bank of England to cut rates in 2024 and rates to fall more aggressively in 2025. We believe that this will lead to lower yields – particularly in the UK and dollar markets. Softer data of late has added to this expectation.
- After the recent push higher in UK breakevens we believe these are overvalued, particularly with five linker auctions in the second quarter. This applies to UK real yields given that TIPs above 2.20% and Australia at 1.95% offer more attractive yields. The recent weakness in France has led to French linkers looking attractive to the UK.

Key views within the fund

- The portfolio has a long duration position, as excessive market pessimism means yields are at attractive levels months.
- The fund has no strategic curve position but will take tactical positions to reflect the heavy supply into the gilt market.
- The fund has no strategic breakeven positions, but we will look for tactical opportunities to sell breakevens as we move through 2024.
- The fund is underweight in the UK relative to global markets given the negative outlook from supply, with an overweight in Australia and France.

Paul Rayner
Head of Alpha Strategies

Gareth Hill
Fund Manager

ROYAL LONDON ASSET MANAGEMENT

Royal London Index Linked Bond Fund

Portfolio commentary

- Net of fund management fees, the fund returned -0.24% in May (M Inc share class), against returns of 1.44% for benchmark. It should be noted that returns can be distorted by the differing valuation points of the fund and index. On a like-for-like basis, the fund slightly outperformed the index.
- May was a mixed month for global government bonds, with changing expectations of the timing of first-rate cuts still driving markets, although the net effect over the month as a whole was relatively small. Index linked moves were mixed during the month but remained volatile around data points and supply events.
- European yields rose during the month with the catalyst for the sell-off being UK inflation not falling as much as expected. US yields ended the month lower but only as a response to weaker data on the last day of the month and strong month end buying on asset allocation switches. Japanese yields rose as the yen continued to weaken, putting pressure on the Bank of Japan to raise rates further. Yields rose above 1% – their highest level since 2011.
- Breakeven rates in G3 were largely unchanged or marginally softer as energy prices fell. Energy prices ended the month lower with the oil price falling to $75 having peaked at $87 in April. The exception in G10 countries was Japan, where breakeven rates rose above 1.5% – their highest level in a decade.
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- Cross-market positioning was mixed over the month. Our Australian exposure was negative with as these underperformed UK equivalents, although this was mitigated by the positive impact of our US holdings which performed well into weak employment data.
- Curve and breakevens effects were not material over the month. The UK curve did not shift significantly over the month, while in breakevens, we traded these tactically, selling breakevens prior to supply events and inflation data.

Investment outlook

- We expect markets to remain volatile around economic data points and envisage continuing to trade duration tactically. However, we feel valuations in certain markets have now reached valuations that look attractive to hold a long duration position on a more strategic basis.
- At the end of 2023 we were at peak optimism, where economists were calling for 5-6 rate cuts in the US in 2024. We have now almost reached peak pessimism as the same economists are calling for only one cut. We still expect the Federal Reserve, ECB, and Bank of England to cut rates in 2024 and rates to fall more aggressively in 2025. We believe that this will lead to lower yields – particularly in the UK and dollar markets. Softer data of late has added to this expectation.
- After the recent push higher in UK breakevens we believe these are overvalued, particularly with five linker auctions in the second quarter. This applies to UK real yields given that TIPs above 2.20% and Australia at 1.95% offer more attractive yields. The recent weakness in France has led to French linkers looking attractive to the UK.

ROYAL LONDON
ASSET MANAGEMENT

Key views within the fund

- The portfolio has a long duration position, as excessive market pessimism means yields are at attractive levels months.
- The fund has no strategic curve position but will take tactical positions to reflect the heavy supply into the gilt market.
- The fund has no strategic breakeven positions, but we will look for tactical opportunities to sell breakevens as we move through 2024.
- The fund is underweight in the UK relative to global markets given the negative outlook from supply, with an overweight in Australia and France.

Paul Rayner
Head of Alpha Strategies

Ben Nicholl
Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

Royal London Short Duration Global Index Linked Bond Fund

Portfolio commentary

- Net of fund management fees, the fund returned 0.44% in May (Z Inc share class), compared to benchmark returns of 0.92. It should be noted that returns can be distorted by the differing valuation points of the fund and index. On a like-for-like basis, the fund slightly outperformed the index over the month.
- May was a mixed month for global government bonds, with changing expectations of the timing of first-rate cuts still driving markets, although the net effect over the month as a whole was relatively small. Index linked moves were mixed during the month but remained volatile around data points and supply events.
- European yields rose during the month with the catalyst for the sell-off being UK inflation not falling as much as expected. US yields ended the month lower but only as a response to weaker data on the last day of the month and strong month end buying on asset allocation switches. Japanese yields rose as the yen continued to weaken, putting pressure on the Bank of Japan to raise rates further. Yields rose above 1% – their highest level since 2011.
- Breakeven rates in G3 were largely unchanged or marginally softer as energy prices fell. Energy prices ended the month lower with the oil price falling to $75 having peaked at $87 in April. The exception in G10 countries was Japan, where breakeven rates rose above 1.5% – their highest level in a decade.
- Duration positioning was the main positive for the fund over the month. We had a long position at the start of the month and benefitted as yields fell following the weak US non-farm payrolls figure. We trimmed exposure into market strength, which helped relative returns later in the month following the UK inflation figure which pushed yields higher once more, and we used this weakness we rebuild our position to end the month with a virtually unchanged long duration position.
- Cross-market positioning was mixed over the month. Our Australian exposure was negative with as these underperformed UK equivalents, although this was mitigated by the positive impact of our US holdings which performed well into weak employment data.
- Curve and breakevens effects were not material over the month. Curve positioning was a small negative as we had a 5s-10s flattener in the US, where five-year bonds outperformed. In breakevens, we traded these tactically, selling breakevens prior to supply events and inflation data.

Investment outlook

- We expect markets to remain volatile around economic data points and envisage continuing to trade duration tactically. However, we feel valuations in certain markets have now reached valuations that look attractive to hold a long duration position on a more strategic basis.
- At the end of 2023 we were at peak optimism, where economists were calling for 5-6 rate cuts in the US in 2024. We have now almost reached peak pessimism as the same economists are calling for only one cut. We still expect the Federal Reserve, ECB, and Bank of England to cut rates in 2024 and rates to fall more aggressively in 2025. We believe that this will lead to lower yields – particularly in the UK and dollar markets. Softer data of late has added to this expectation.
- After the recent push higher in UK breakevens we believe these are overvalued, particularly with five linker auctions in the second quarter. This applies to UK real yields given that TIPs above 2.20% and Australia at 1.95% offer more attractive yields. The recent weakness in France has led to French linkers looking attractive to the UK.

ROYAL LONDON ASSET MANAGEMENT

Key views within the fund

- The portfolio has a long duration position, as excessive market pessimism means yields are at attractive levels months.
- The fund has no strategic curve position but will take tactical positions to reflect the heavy supply into the gilt market.
- The fund has no strategic breakeven positions, but we will look for tactical opportunities to sell breakevens as we move through 2024.
- The fund is underweight in the UK relative to global markets given the negative outlook from supply, with an overweight in Australia and core Europe.

CITYWIRE A

Paul Rayner
Head of Alpha Strategies

CITYWIRE A

Ben Nicholl
Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

Royal London Short Duration Gilt Fund

Portfolio commentary

- Net of fees, the fund was behind its benchmark in May, but it should be noted that returns can be distorted by the differing valuation points of the fund (12:00) and index (16:15). On a like-for-like timing basis, the fund outperformed the index.
- Yields on 10-year gilts ended May broadly around the level they started the month, which masked the underlying volatility throughout the period. Central to this was global economic data, particularly in the US.
- As has been the case for some time now, economic data has set the tone for short term market sentiment and expectations for the pricing of rate cuts, and May was very much a tale of two halves: data disappointing to the downside in the first half, before improving and surprising to the upside in the second half.
- With yields broadly unchanged over the month, the fund's strategic duration and curve positions were neutral for performance.
- The fund started the month 0.55 of a yearlong, which was trimmed to 0.35 of a year as the market rallied and yields hit their monthly lows, before adding duration during the sell off into month end, ending the period back at 0.55 of a yearlong.
- During the month, we took profit on a recently built position in 2029 US Treasury bonds – selling half our position. We added a new position in dollar markets, buying 2030 nominal Aussie government bonds.
- The fund remains overweight in the two-to-three-year part of the curve.
- The fund has no inflation exposure.

Investment outlook

- We believe that inflation will continue to drift lower in 2024, although it is likely to remain above target in most economies by the end of the year. Shallow recessions are possible but are unlikely to be deep enough at this stage to ease the excessive tightness seen in labour markets. As we move through 2024, central banks are likely to start reducing rates, but with yields below base rates in all markets, this is well priced.
- In the UK, the market is now assuming base rates have peaked at 5.25%, with the first cut fully priced in for August 2024, with a 10% chance of June, and falling to a terminal level of around 3.5% by late-2026.
- Supply will remain high for the next few years, with around £200bn per annum forecast over each of the next five years. Alongside quantitative tightening (where the BoE is selling its gilt holdings back into the market), this could represent a headwind for gilts. However, when considering gilts in a global context, we believe the gilt market is somewhat priced for this, with the UK curve much steeper than both the US and German bonds.

ROYAL LONDON
ASSET MANAGEMENT

Key views within the fund

- The portfolio's duration is long of the benchmark, including the impact of cash holdings on duration.
- The portfolio has allocations to high quality corporate bonds, which we expect to outperform gilts.

Paul Rayner
Head of Alpha Strategies

Ben Nicholl
Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

Royal London UK Government Bond Fund

Portfolio commentary

- Net of fees, the fund was behind its benchmark in May, but it should be noted that returns can be distorted by the differing valuation points of the fund (12:00) and index (16:15). On a like-for-like timing basis, the fund outperformed the index.
- Yields on 10-year gilts ended May broadly around the level they started the month, which masked the underlying volatility throughout the period. Central to this was global economic data, particularly in the US.
- As has been the case for some time now, economic data has set the tone for short term market sentiment and expectations for the pricing of rate cuts, and May was very much a tale of two halves: data disappointing to the downside in the first half, before improving and surprising to the upside in the second half.
- With yields broadly unchanged over the month, the fund's strategic duration and curve positions were neutral for performance.
- Performance during the month was driven by managing the funds relative duration positioning, with the fund actively trading market volatility around economic data releases.
- The fund started the period 0.8 of a yearlong relative to the benchmark. This was trimmed to 0.5 of a yearlong as bond markets rallied into the middle of the month but was then extended to 0.7 of a yearlong as markets sold off into month-end.
- After picking up positions in 30-year US TIPS, 7-year US Treasury bonds and 30-year nominal Aussie government bonds last month, these positions were beneficial for the fund in May – particularly the two US positions as US bond markets outperformed UK gilts during May.
- A small portion of the fund is still invested in high-quality credit, but it is now focused on sub-5-year bonds and is much reduced from prior levels.

Investment outlook

- We believe that inflation will continue to drift lower in 2024, although it is likely to remain above target in most economies by the end of the year. Shallow recessions are possible but are unlikely to be deep enough at this stage to ease the excessive tightness seen in labour markets. As we move through 2024, central banks are likely to start reducing rates, but with yields below base rates in all markets, this is well priced.
- In the UK, the market is now assuming base rates have peaked at 5.25%, with the first cut fully priced in for August 2024, with a 10% chance of June, and falling to a terminal level of around 3.5% by late-2026.
- Supply will remain high for the next few years, with around £200bn per annum forecast over each of the next five years. Alongside quantitative tightening (where the BoE is selling its gilt holdings back into the market), this could represent a headwind for gilts. However, when considering gilts in a global context, we believe the gilt market is somewhat priced for this, with the UK curve much steeper than both the US and German bonds.

ROYAL LONDON ASSET MANAGEMENT

Key views within the fund

- The portfolio's duration is long versus the index, including the impact of cash holdings on duration, although we continue to trade around this as market volatility provides opportunities to add value.
- The fund retains an exposure to steepening via its overweight in 5-year maturity bonds versus 10-year maturity bonds, but then a flattening bias thereafter due to an overweight in 30-year maturity bonds.
- The fund holds positions in overseas government bonds, both nominal and inflation linked bonds.
- The portfolio has a small allocation to high quality corporate bonds which provide additional yield for the portfolio.

Paul Rayner
Head of Alpha Strategies

Ben Nicholl
Fund Manager

ROYAL LONDON ASSET MANAGEMENT

Royal London Asset Management Global High Yield Fund Performance

	1 month (%)	Rolling 12 Months (%)
RL Global High Yield Bond Fund M Inc	**1.08**	**9.22**
RL Global High Yield Bond Fund Z Inc	**1.10**	**9.45**
IA Sterling High Yield Sector	0.96	10.50
ICE BofA ML BB-B Global Non-Financial High Yield Constrained Index	1.16	10.57
RL Short Duration Global High Yield Bond Fund A Inc	**0.66**	**6.79**
RL Short Duration Global High Yield Bond Fund M Inc	**0.69**	**7.21**
RL Short Duration Global High Yield Bond Fund Z Inc	**0.69**	**7.33**
IA Sterling High Yield Sector	0.96	10.50
Sterling Overnight Index Average Rate (SONIA)[1]	0.43	5.13

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

Source: RLAM and Morningstar, correct as of 31 May 2024. Returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically.

All IA sector performance shown is for the median.

ROYAL LONDON
ASSET MANAGEMENT

Royal London Global High Yield Bond Fund

Portfolio commentary

- The fund returned 1.10% (Z Inc, net of fees), in May, which broadly tracked the benchmark, the ICE BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained Index (100% GBP hedged), return of 1.16%. Gross of fees, the fund returned 1.15%. Against the fund's objective, outperforming its benchmark by 1% per annum over rolling thee-year periods, it is behind of the benchmark, gross of fees (-0.35% versus 0.02%).
- The global high yield market rebounded in May and produced a GBP-hedged monthly return of 1.16%. The primary contributor during the month was the government yield curve which fell 14bps. Global high yield spreads (BB-B index) tightened 9bps during the month and have now tightened every month since January. The high yield market is now yielding 7.05% (YTW) with a duration of 3.6 years. Price returns were 0.6%, while income returns were 0.5%.
- The fund's FX-adjusted yield stood at 7.51% at the end of May, with a duration of 3.9 years.
- The month of May saw a continuation of the high issuance seen in previous months, with the amount of global high yield new issuance at $59.0bn which is the highest amount of monthly new issuance since September 2021. In the US, $33.8bn of high yield debt was issued which consequently is also the highest monthly amount since September 2021. Out of the $33.8bn of new issuance, $20.3bn was issued by single B rated companies.
- The US high yield default rate fell to 2.0% in May from 2.3% in April – hitting its lowest mark since August 2023. May's figure now means the US high yield default rate has been sitting in a range between 2.0% and 2.6% since April 2023. For comparison, during the GFC the default rate was seen over 20% and it was over 7% during the Covid pandemic. The global high yield rate inched lower to 2.8% in May from 2.9% in April and is lower than the 3.0% seen in May last year.
- These default levels would be entirely normal in an historic context, but the nature of the economic backdrop and strong company balance sheets means we expect default rates to grind higher, instead of sharply spiking.
- In the fund, our holdings in basic industry, services and telecommunications contributed strongly to our performance, while our energy and utility bonds were behind the benchmark's returns. By rating, both our BB and B rated bonds contributed positively to performance, but our BB bonds were behind the benchmark. While outside the benchmark, our BBB & Above and CCC & Below bonds contributed positively to performance. By region, all areas were positive, with our US, Europe, and UK holdings ahead of the benchmark while RoW was the relative underperformer.
- For the market, all regions produced positive returns during the month with the RoW outperforming on a relative basis. With respect to sectors, all sectors produced positive returns with real estate underperforming relatively.

*YIELD-TO-WORST REFERS TO THE REDEMPTION DATE THAT PRODUCES THE LOWEST RETURN

Investment 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 at around 2-3%, with global defaults not much higher, and we expect this to track to 3%-5% over the course of next year. We expect that most high yield issuers will wait for interest rates to recede from their relatively high levels before returning to the tap markets. They 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.
- With a dovish update in March, companies are becoming less focused on the US Federal Reserve as they adapt to the 'higher for longer' environment. With monetary policy lags appearing longer than they used to be there is some recognition by central banks that policy tightening needs time to work and that the impacts of policy tightening are still feeding through. This is causing spreads to tighten as investors are now convinced the fallout won't be coming until late 2024 or early 2025.
- In our view, the way through difficult 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.

ROYAL LONDON ASSET MANAGEMENT

Key views within the fund

- The fund's objective is to achieve a combination of capital growth and income. The fund seeks to achieve its investment objective by outperforming its benchmark, the BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained index, 100% hedged to sterling, by 1% per annum over rolling three-year periods.
- The fund seeks to mitigate stock-specific risk by holding a diversified portfolio of investments, so that no individual investment can, in isolation, have an excessive adverse impact on overall fund performance. Currency risk associated with holdings of bonds is hedged through the use of forward currency transactions.
- We expect market volatility to continue due to market expectations surrounding Federal Reserve monetary policy. As such, we believe bonds with near-term catalysts, which mitigate market risk, are an important attribute underpinning investment performance over the medium term. There seems little chance of a near-term resolution of the conflict in Ukraine – this also has significant implications for the global economy, particularly if ongoing higher energy prices and supply chain disruption exacerbate a global economic slowdown.

Azhar Hussain
Head of Global Credit

Stephen Tapley
Global Credit Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

Royal London Short Duration Global High Yield Bond Fund

Portfolio commentary

- The monthly return was 0.69% (Z Inc, net of fees) in May, while the benchmark returned 0.43%. On a gross basis, the fund returned 0.74%.
- The global high yield market rebounded in May and produced a GBP-hedged monthly return of 1.16%. The primary contributor during the month was the government yield curve which fell 14bps. Global high yield spreads (BB-B index) tightened 9bps during the month and have now tightened every month since January. The high yield market is now yielding 7.05% (YTW) with a duration of 3.6 years. Price returns were 0.6%, while income returns were 0.5%.
- The fund's GBP-expected FX-adjusted yield increased by 14bps to 7.10% with an expected duration of 1.13 years.
- The month of May saw a continuation of the high issuance seen in previous months, with the amount of global high yield new issuance at $59.0bn which is the highest amount of monthly new issuance since September 2021. In the US, $33.8bn of high yield debt was issued which consequently is also the highest monthly amount since September 2021. Out of the $33.8bn of new issuance, $20.3bn was issued by single B rated companies.
- The US high yield default rate fell to 2.0% in May from 2.3% in April – hitting its lowest mark since August 2023. May's figure now means the US high yield default rate has been sitting in a range between 2.0% and 2.6% since April 2023. For comparison, during the GFC the default rate was seen over 20% and it was over 7% during the Covid pandemic. The global high yield rate inched lower to 2.8% in May from 2.9% in April and is lower than the 3.0% seen in May last year.
- These default levels would be entirely normal in an historic context, but the nature of economic backdrop and a strong company balance sheets means we expect default rates to grind higher, instead of sharply spiking. Decomposing the funds' assets: all regions produced positive returns with RoW and UK assets outperforming on a relative basis. By rating, the fund's BBB assets relatively outperformed, with BB and single B assets still producing positive returns. With respect to sector, our services, telecommunications, and transportation holdings were the largest contributors to performance.
- Asset composition by region and rating were both broadly unchanged on the month.
- With the continued new issuance, the fund's holdings in **AA**, **Adevinta** and **Centre Parcs** were redeemed in May while Telecom Italia's 2024 bond matured and was repaid. During the month, cash was spent on adding to existing positions as well as new positions in **Aggreko**, **Carnival Cruises**, **Cheplapharm**, **Premier Foods**, **Post Holdings** and **Tui**.
- Overall, the cash level was 3.9% at end of the month.
- Fund NAV was £1.26bn (+£2m on the month).

*FX ADJUSTED YIELD IS THE GROSS RATE OF RETURN TO THE EXPECTED MATURITY ADJUSTED FOR HEDGING AND INCLUSDES THE IMPACT OF CASH

Investment 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 at around 2-3%, with global defaults not much higher, and we expect this to track to 3%-5% over the course of next year. We expect that most high yield issuers will wait for interest rates to recede from their relatively high levels before returning to the tap markets. They 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.
- With a dovish update in March, companies are becoming less focused on the US Federal Reserve as they adapt to the 'higher for longer' environment. With monetary policy lags appearing longer than they used to be there is some recognition by central banks that policy tightening needs time to work and that the impacts of policy tightening are still feeding through. This is causing spreads to tighten as investors are now convinced the fallout won't be coming until late 2024 or early 2025.
- In our view, the way through difficult 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.
- With yields at current levels and appealing potential returns, we will be paid sufficiently for maintaining a lower-risk position for at least another quarter until there is more clarity about the outlook. In keeping with the core focus of the strategy, we will keep 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 and we continue to favour companies with contracted revenues. With regards to geography, our global outlook provides diversification away from country-specific risks.

Key views within the fund

- The fund's objective is to provide income. The manager seeks to achieve this by outperforming the benchmark, SONIA, by 2% per annum over rolling three-year periods.
- The fund is diversified in order to improve overall portfolio liquidity and to reduce the effect on overall fund performance of any deterioration in the creditworthiness of an individual holding.
- We expect market volatility to continue due to market expectations surrounding Federal Reserve monetary policy. As such, we believe bonds with near-term catalysts, which mitigate market risk, are an important attribute underpinning investment performance over the medium term. There seems little chance of a near-term resolution of the conflict in Ukraine – this also has significant implications for the global economy, particularly if ongoing higher energy prices and supply chain disruption exacerbate a global economic slowdown

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ASSET MANAGEMENT

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