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Royal London Short Term Fixed Income Fund

Quarterly Investment Report

30 September 2024



Quarterly Report

The fund as at 30 September 2024

The purpose of this report is to provide an update on the Royal London Short Term Fixed Income 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's investment objective is to achieve a total return over rolling 12-month periods by primarily investing (at least 70% of its assets) in Short Term Fixed Income Securities. The Fund's comparator benchmark is the Bank of England Sterling Overnight Interbank Average (SONIA) plus 0.5%. For the most appropriate comparison, this should be considered on a 'before the deduction of fees' basis. SONIA is the average overnight interest rate UK banks pay for unsecured transactions in sterling. It is considered to be an appropriate benchmark as it is a widely recognised approach to benchmarking short-term money market and fixed income funds.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
30 September 2024	3,942.90

Fund analytics

	Fund
Fund launch date	15 June 2011
Duration (years)	0.19
Gross redemption yield (%)	5.20
Number of issuers	45

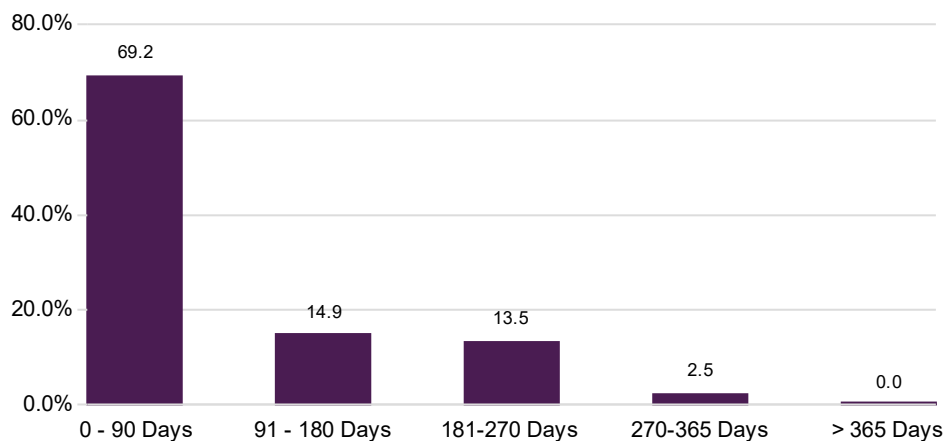
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.47	1.25	0.22
YTD	4.42	3.83	0.58
1 Year	5.97	5.17	0.80
3 Years (p.a.)	3.55	3.27	0.28
5 Years (p.a.)	2.42	2.03	0.38
10 Years (p.a.)	1.58	1.19	0.39
Since inception (p.a.)	1.48	1.03	0.44

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on RL Short Term Fixed Income Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 21 May 2012.

Duration profile



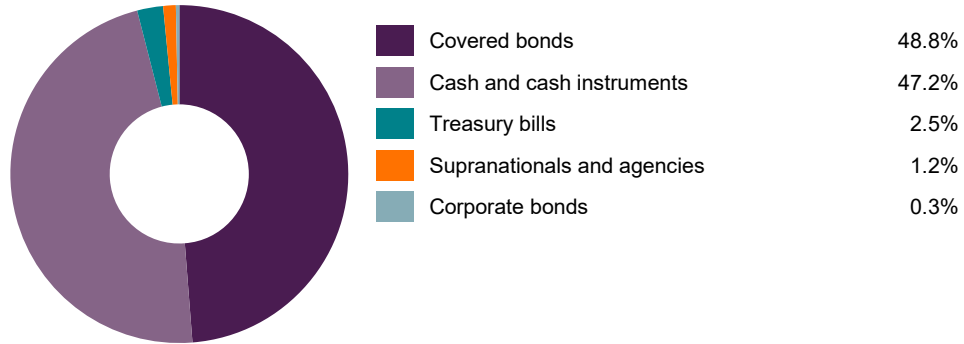
Performance commentary

As we highlighted last quarter, after UK money market rates rose through most of 2022 and 2023, these have been relatively stable in 2024 – even after factoring in the Bank of England rate cut in August. During the quarter, with market pricing looking more measured, we were happy to extend maturities within our money market exposure, locking in attractive yields. With the rate cut prompting a re-pricing of expectations, we have reduced this once more – with additional yield for longer maturity money market instruments no longer so appealing.

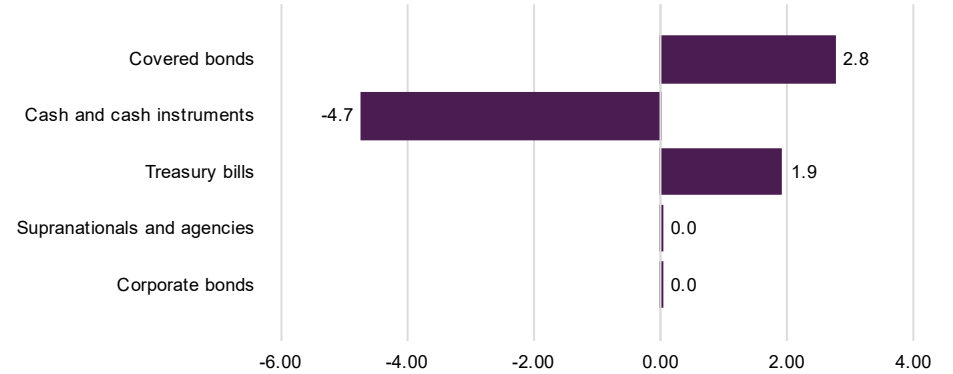
For the fund, covered bonds still account for the majority of non-money market exposure. These were helpful for returns over quarter as these pay a premium over SONIA, while the carry built into the portfolio was also helpful.

Performance and activity

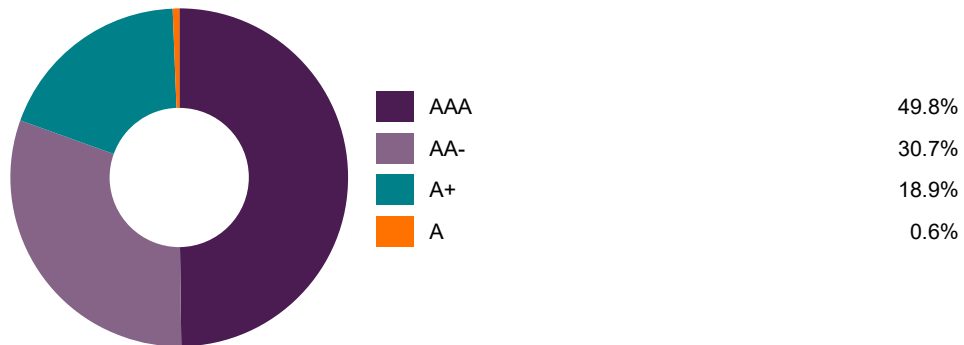
Asset allocation profile



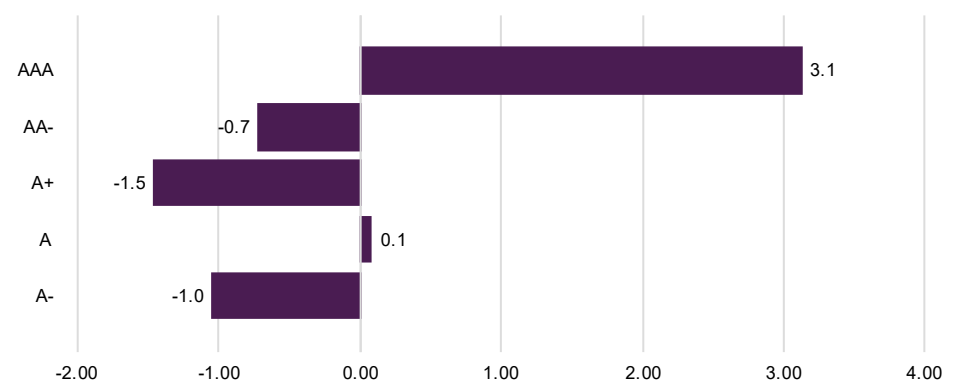
Change since last quarter (asset allocation) %



Credit rating profile

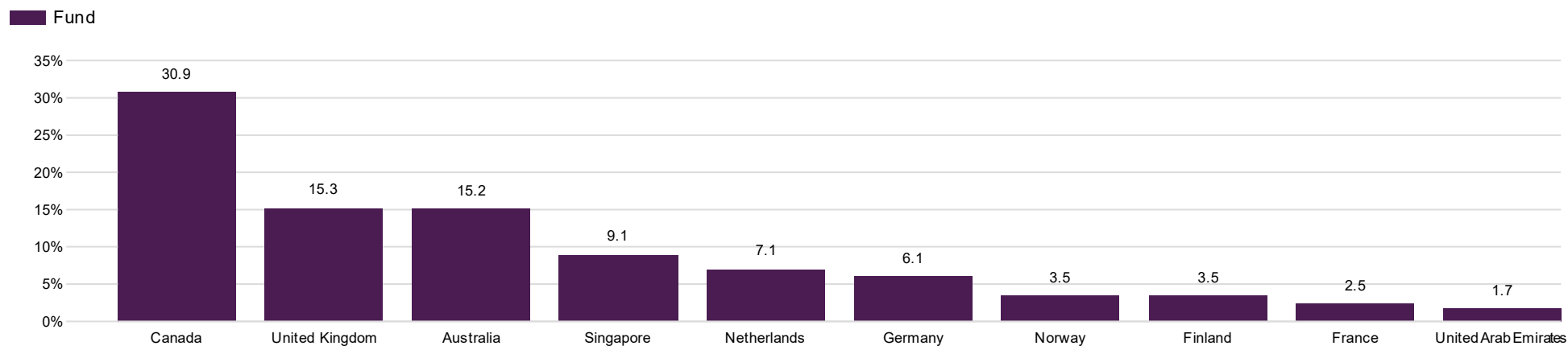


Change since last quarter (rating) %

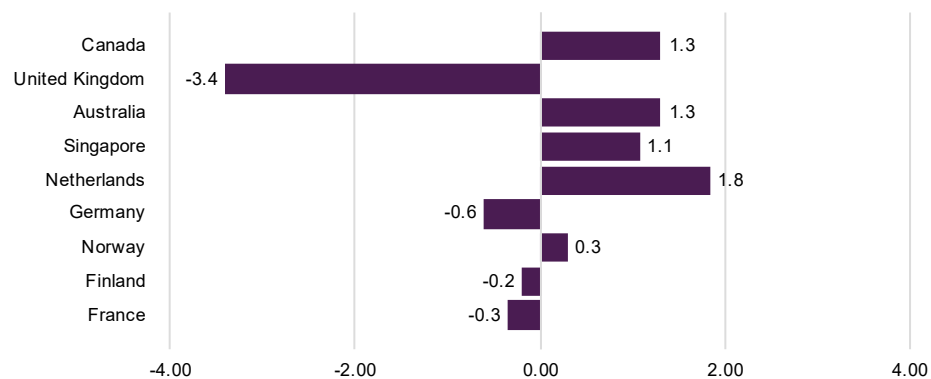


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Fund activity

With rate expectations swinging between overly positive to overly negative during the quarter, we looked for opportunistic purchases of longer paper – typically in the one-year area, through names such as DNB, HSBC and Toronto Dominion Bank.

Covered bonds from favoured issuers are always attractive for fund, and remain a significant part of the portfolio. Issuance remain light, but we did buy a new issue five-year covered bond from TSB, while also adding one-year DBS and four-year Westpac covered bonds in the secondary market, both scoring highly against our credit quality and ESG measures.

Market commentary

Market overview

Markets continued to focus on central bank actions during the quarter, as both the Federal Reserve (Fed) and Bank of England (BoE) followed the European Central Bank in making the first rate cuts after raising these significantly through 2022 and 2023 as part of efforts to reduce inflation. Along with a significant stimulus package in China, this generally helped markets, with bond markets seeing yields fall to reflect lower central bank interest rates. Despite guidance from central banks that further cuts will be measured, markets are still pricing in material rate cuts over the next year or so.

After elections in the UK and France grabbed headlines in the second quarter, attention moved firmly to the forthcoming US elections. Markets believe that a Trump presidency would see looser fiscal policy and higher tariffs and protectionism, and markets have swung on the fortunes of the early days of the race, first following the Trump assassination attempt and debate against President Biden, which appeared to favour Trump, but then swung back as Kamala Harris emerged as a credible candidate and performed strongly in her debate with the former president.

In the US, in contrast to most economist expectations, but in line with what the market had been increasingly pricing, the Fed cut 50bps to 4.75%-5%. Their forecasts and language indicated that they anticipated that as the beginning of a series of cuts, returning rates “to a more neutral stance.” In the euro area, the ECB cut the deposit rate 25bps to 3.50% on the back of inflation data coming in “broadly as expected” and “still subdued” economic activity.

UK data released in Q3 were consistent with the UK economy growing modestly, while headline inflation has been running close to the 2% target. Q2 GDP saw modest growth, although later in the period there was a worrying fall in consumer confidence in September, which may have reflected some concern over what the October Budget might bring after the new government flagged that ‘painful’ decisions may be required. The BoE cut rates 25bps, though with (only) a 5-4 vote, warning that they need to be careful not to cut too quickly – duly leaving rates unchanged in September.

Government yields generally fell over the quarter, reflecting the start of the rate cutting cycle. In the US, 10-year treasury yields fell from 4.40% to 3.79%, while German 10-year bunds similarly saw yields fall from 2.50% to 2.13%. Benchmark 10-year gilt yields dipped from 4.18% to 4.01%. The sterling investment grade credit market (iBoxx non-gilt index) returned 2.28% 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) ending the period unchanged at 1.03% (iBoxx).

UK money market rates had been flat for most of 2024, reflecting that attention was on the Bank of England and a first rate cut in this cycle. With this arriving in August, SONIA fell from 5.20% to 4.95% over the quarter. Two-year gilts, often seen as a proxy for market expectations of BoE rates, started at 4.22% and then trended lower until the rate cut to hit 3.55%, but the accompanying guidance that further rate cuts were to be more limited meant that yields then edged higher to end the quarter at 4.00%.

Outlook

As we enter the final months of 2024, market focus has moved from when markets will first cut interest rates, to the scale and timetable of those cuts. As we saw at the start of 2024, markets have generally been overly aggressive in their expectations – at one point in September two-year and five-year treasury yields had dropped further below the Fed Funds rate than any point in recent decades. While this has at times been supported by commentary from central bank members, we have generally been more cautious. Our caution reflects that while headline inflation may have come down, service and wage inflation are still generally at levels that are not normally consistent with significant rate cuts. After a decade that includes a world-wide pandemic, a European land war, and the election of a TV reality star as US president, perhaps there is no ‘normal’ to fall back on, but we are certainly more cautious about the rate outlook.

Geopolitics has played a greater role in markets over the past few years after a lengthy period where it was often seen as mere background noise. The forthcoming US Presidential election is too close to call as we head into October, but with meaningful differences between the two candidates, this will weigh on markets in the run-up to November 5. Meanwhile, events in the Middle East that have the potential to materially impact oil supply and pricing further increase uncertainty.

In general, we have been cautious during the past few months on both maturities and credit risk. We remain comfortable with this approach, given our view that credit risk within the very short-dated space is not particularly well rewarded, and are therefore to have higher than normal exposure to areas such as treasury bills or gilts.

We continue to incorporate assessment of ESG risks into our holdings. While the primary consideration in looking at a bank will be assets and cashflows, ESG risks are increasingly material. In addition, we believe that our exposure to covered bonds also helps manage risk, with these being regulated instruments and exempt from bail-in, so if a bank does get into difficulty, these assets are not bailed into the wind-up process.

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

For professional clients only, not suitable for retail clients.

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Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

Issued in October 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797.

The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

The "SONIA" mark is used under licence from the Bank of England (the benchmark administrator of SONIA), and the use of such mark does not imply or express any approval or endorsement by the Bank of England. "Bank of England" and "SONIA" are registered trademarks of the Bank of England.

Risks and Warnings

Investment risk

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk

Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM techniques risk

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Interest rate risk

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

Counterparty risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Government and public securities risk

The Fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

Inflation risk

Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Performance to 30 September 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	1.47	2.93	5.97	11.05	12.69	3.55	2.42
Fund (net)	1.46	2.92	5.94	10.95	12.52	3.52	2.38

Year on year performance (%)

	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020
Fund (gross)	5.97	4.71	0.08	0.33	1.14
Fund (net)	5.94	4.68	0.05	0.30	1.11

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 September 2024. All figures are mid-price to mid-price in GBP for the RL Short Term Fixed Income Fund (Z Inc).

Glossary

Asset allocation

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

Duration

Measure of sensitivity of a Fixed Income instrument to changes in interest rates, indicating the potential impact of interest rate fluctuations on the value of the investment.

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

Number of 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.