For professional clients only, not suitable for retail clients.

Royal London Sterling Liquidity Money Market 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 Sterling Liquidity Money Market Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

Contents

ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The investment objective of the fund is to provide a return in line with money market rates or preserve the value of the investment. The fund intends to maintain a stable Net Asset Value per Share of £1.00 for any Distribution Class. The Fund seeks to achieve its investment objective by outperforming its benchmark, the Sterling Overnight Index Average (the "Benchmark"). The Benchmark reflects bank overnight funding rates in Sterling. The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund analytics

	Fund
Fund launch date	17 April 2018
Duration (days)	41.63
Gross redemption yield (%)	4.95
Number of issuers	35

Fund value

	Total £m
30 September 2024	6,205.83

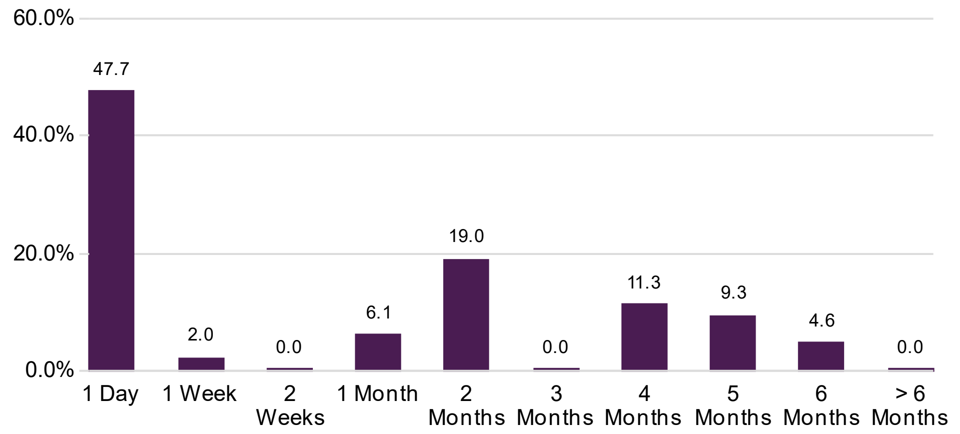
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.32	1.25	0.08
YTD	4.03	3.83	0.20
1 Year	5.46	5.17	0.29
3 Years (p.a.)	3.46	3.27	0.19
Since inception (p.a.)	2.30	2.15	0.15

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 Royal London Sterling Liquidity Money Market (Y Dist). Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 25 February 2020.

Duration profile



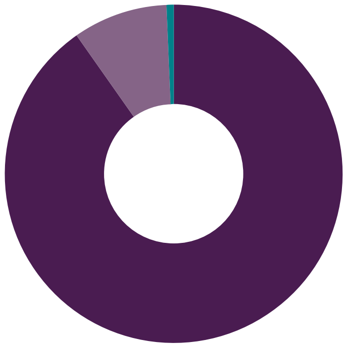
Performance commentary

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.

Performance within our money market exposure was positive. We generally had a bias towards extending maturities to take advantage of attractive yields on offer, and also benefited from the general fall in yields in the second half of the quarter. In addition, our selective use of overnight repo exposure was also helpful due to downward sloping curves, while we also saw strong returns from treasury bills – adding to exposure here as rates looked attractive relative to CDs, without the accompanying credit risk.

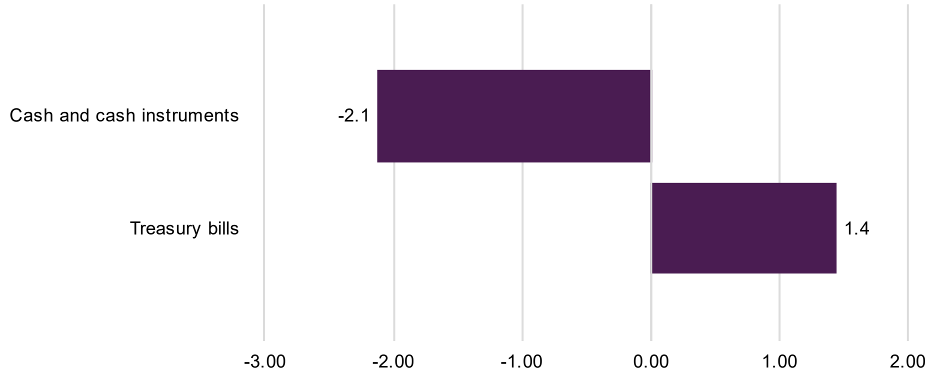
Performance and activity

Asset allocation profile

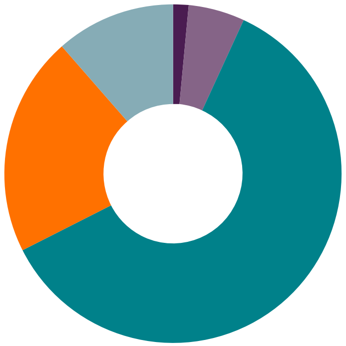


Cash and cash instruments	90.3%
Treasury bills	9.1%
Covered bonds	0.7%

Change since last quarter (asset allocation) %

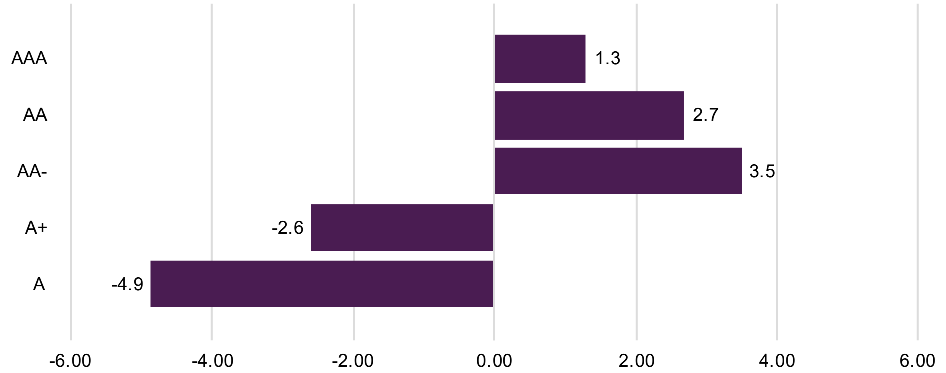


Credit rating profile



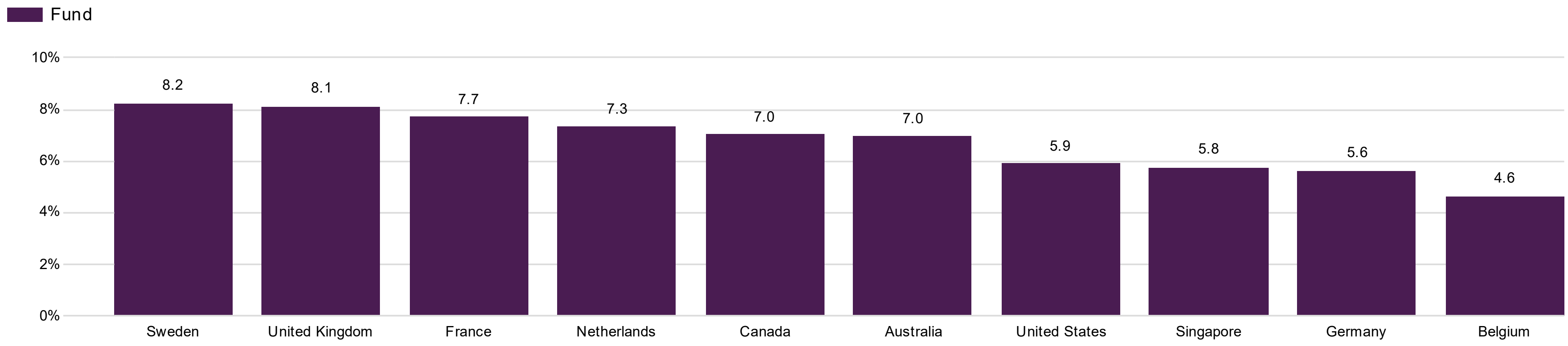
AAA	1.5%
AA	5.4%
AA-	60.6%
A+	21.0%
A	11.5%

Change since last quarter (rating) %

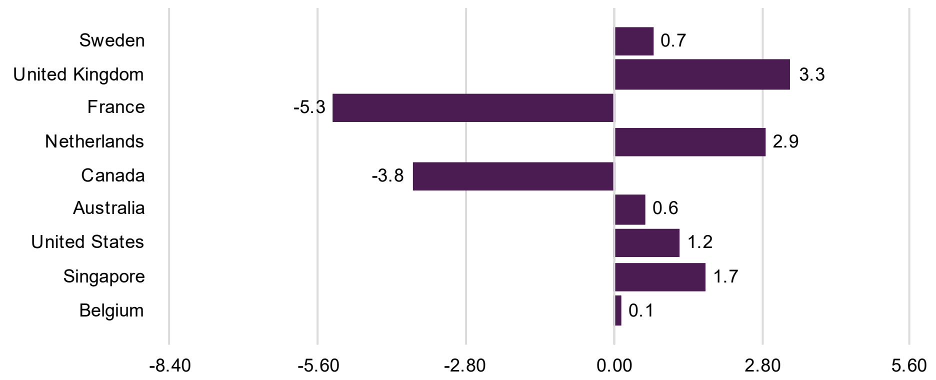


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Fund activity

We still focus on short paper – reflecting the fund's objective. As we move into the second half of the year, we look to ensure that we are avoiding excessive exposure to instruments maturing before the year end and will therefore look to extend beyond that where it fits the risk and return profile we require.

We looked at six-month paper in a number of areas – partly because we felt that pricing in this area was overly pessimistic (ie market too pessimistic about potential rate cuts), and because these now mature after year end. Examples during the quarter included CDs from Citibank, ANZ and NatWest, as well as treasury bills. In addition, we added a one-year floating rate CD from Australian institution Commonwealth Bank of Australia – who scored well on our ESG and Governance screen and offer an attractive premium to SONIA and a strong rating. Finally we added four-month paper from German supranational KfW – who also score strongly on ESG – as well as picking up treasury bills at auction, notably in July when six-month T-bills were paying over 5%.

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:

Stewardship and responsible investment at RLAM

Royal London Sterling credit ESG analysis

TCFD climate report

Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Disclaimers

Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

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 Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds.

Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under the Financial Services and Markets Act 2000.

The Management Company is FundRock Management Company SA, Registered office: 33 rue de Gasperich, L - 5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited.

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

Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

The "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.

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.

Stable NAV risk

The Fund is not the same as a bank deposit account. It is designed such that it will seek, for the Distribution Classes, to maintain the Net Asset Value per Share at a fixed value by distributing income from the Fund as it arises. However, whilst the Fund's investments are reasonably believed by the Investment Manager to be of high quality, there is always a risk that an underlying issuer could default or otherwise fall in value, resulting in the Fund being unable to maintain the Net Asset Value per Share at a fixed value and therefore a loss of capital will occur. The risk of loss is to be borne by the investor. There is no representation or warranty that the Fund will be able to maintain a stable Net Asset Value per Share.

Inflation risk

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

Money market fund risks

A Money Market Fund is not a guaranteed investment, and is different from an investment in deposits. The principal invested in the Fund is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The Fund does not rely on external support for guaranteeing the liquidity of the Fund or stabilising the NAV per share.

Responsible investment risk

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

Sterling Liquidity Money Market Fund

The Fund has been authorised as a Low Volatility Net Asset Value (LVNAF) MMF and is a short-term money market fund in accordance with MMF Regulation which seeks to maintain a stable NAV under the condition that the stable NAV does not deviate from the Net Asset Value per share by more than 20 basis points. In case of a deviation of more than 20 basis points between the stable NAV and the Net Asset Value per share, the following redemption or issue of Shares will be undertaken at a price that is equal to the Net Asset Value per Share.

Performance to 30 September 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	1.32	2.66	5.46	10.75	11.03
Fund (net)	1.30	2.61	5.35	10.42	10.52

Annualised (%)

3 Years (p.a.)	Since Inception (p.a.)
3.46	2.30
3.36	2.20

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)	5.46	4.21	0.77	0.10	-
Fund (net)	5.35	4.11	0.67	0.00	-

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 Royal London Sterling Liquidity Money Market (Y Dist); Since inception date 25 February 2020.

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.