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Royal London Corporate Bond Monthly Income Trust

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 Corporate Bond Monthly Income Trust. 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 Fund's investment objective is to achieve a consistent monthly income with capital growth over the medium term (3-5 years) by investing at least 80% in sterling-denominated corporate bonds. Both the Markit iBoxx Sterling Non-Gilts All Maturity Total Return GBP Index (the "Index") and the IA Sterling Corporate Bond Sector are considered appropriate benchmarks for performance comparison. The Index is regarded as a good measure of the performance of corporate bonds valued in sterling. This is considered an appropriate benchmark for performance comparison, as many of the Scheme's potential investments will predominantly be included in the Index.

Benchmark: Markit iBoxx Sterling Non-Gilts All Maturity TR Index

Fund value

	Total £m
30 September 2024	192.92

Asset allocation

	Fund (%)	Benchmark
Conventional credit bonds	94.95%	99.41%
Securitised	4.80%	-
Conventional foreign sovereign	0.25%	0.59%

Fund analytics

	Fund	Benchmark
Fund launch date	29 September 2003	
Base currency	GBP	
Duration (years)	5.79	5.54
Gross redemption yield (%)	5.93	5.01
Number of holdings	265	1,245
Number of issuers	188	495

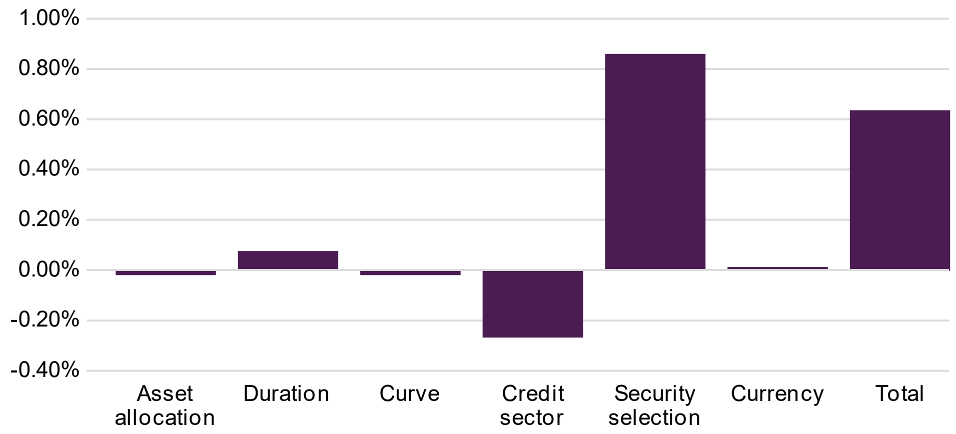
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	3.01	2.28	0.73
YTD	5.01	2.21	2.80
1 Year	13.01	9.72	3.29
3 Years (p.a.)	(0.60)	(2.87)	2.26
5 Years (p.a.)	0.95	(1.07)	2.02
10 Years (p.a.)	3.50	2.19	1.31
Since inception (p.a.)	4.06	3.95	0.11

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 Corporate Bond Monthly Income Trust (A Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 29 September 2003.

Attribution over the quarter



Performance commentary

The third quarter was positive for fixed income investors, with strong absolute returns from sterling credit markets. The portfolio outperformed its benchmark index over the period, with positive contributions from a number of areas. The combination of stock and sector positioning was also positive – within the banking sector, our exposure to subordinated bonds was again helpful while in insurance, our exposure to selected long-dated bonds was also beneficial. Selected tenders such as Just Group and Aviva contributed to our outperformance, with the companies buying back bonds at above market levels.

Against this, our exposure to structured bonds was a small negative. This was largely due to ongoing volatility in the water sector, with bonds in Thames Water weaker over the quarter. This followed a harsher than expected draft outcome of the regulatory review by Ofwat, and rating agencies downgrading Thames bonds earlier in the quarter. While there are undoubtedly issues in the sector, we do believe that a resolution will be found. We continue to review the holdings we have in the sector and believe that the market more than discounts most negative outcomes for the sector. Nonetheless, patience is likely to be necessary before the final resolution is clear. While this underperformance is disappointing, it does highlight the benefit of diversification in our approach, given that the overall effect of our exposure to the structured sector has been positive this year. Outside of exposure to water, our structured sector holdings again performed well and remain a key element of our sterling credit exposure. Structured bonds play a significant part in our approach, helping with the strategy of creating highly diversified portfolios with a focus on security and above-market yields, whilst preventing individual bonds from derailing overall performance.

Performance and activity

Top 10 holdings

	Weighting (%)
FIN FOR RESID SOC HOUS 8.369000000 2058-10-04	1.48
BARCLAYS PLC 7.090000000 2029-11-06	1.42
HSBC HOLDINGS PLC 8.201000000 2034-11-16	1.39
TESCO PROPERTY FIN 4 PLC 5.800600000 2040-10-13	1.11
HARBOUR FUNDING PLC 5.280000000 2034-03-31	1.08
INVESTEC PLC 1.875000000 2028-07-16	0.99
SUNDERLAND (SHG) FINANCE 6.380000000 2042-03-31	0.89
BRITLD-BEARER BD 5.264000000 2035-09-24	0.89
M&G PLC 6.340000000 2063-12-19	0.88
SALTAIRE FINANCE PLC 4.818000000 2033-12-01	0.83
Total	**10.96**

Fund activity

Financials remain the focus of activity across both new issue and secondary markets. In the insurance sector, we added a new issue from US insurer MassMutual. These bonds rank alongside policyholders, offering strong downside protection and were attractively priced. We added the new issue of subordinated bonds from Just Group, the insurer looking stronger with an improved balance sheet and solvency ratios. Their existing bonds were tendered at just 35bps over gilts with the new issue coming at just over 300bps over gilts.

Within the bank and insurance sectors, so-called ‘legacy bonds’ are those that no longer meet the current requirements of today’s regulatory environment, and as such can become inefficient for issuers to leave outstanding. As a result, we continue to expect to see old bonds called and new ones reissued. We hold a number of positions in these bonds, as the call price is typically above market levels – meaning we receive a higher price than prevailing for the existing bond, and often an attractive price and allocation to the new bond. This has supported performance over the past few years and the most recent example this quarter was Aviva, who called their 2036 bonds at a premium to market pricing. We then added the new 2054 replacements, which came to market with an attractive yield premium.

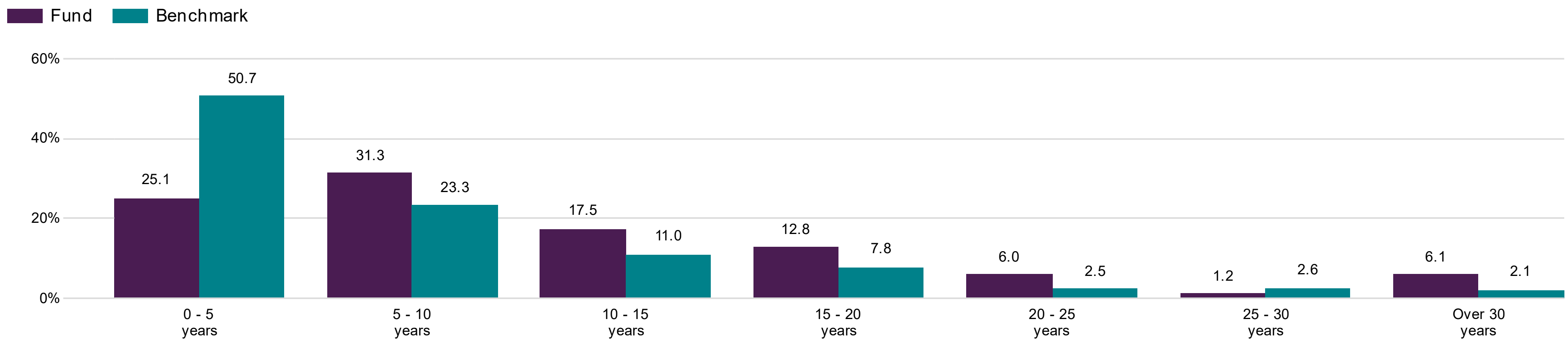
In the structured area, we added bonds from Channel Link Enterprises in the secondary market. These are super senior long-dated, floating rate bonds secured on the company’s assets, namely the concession to operate the Channel Tunnel, which represents a key economic link between the UK and Europe. We felt that these bonds were very attractively priced, being less favourably viewed by the market as they are ‘off the run’ bonds, with more recent, and junior, issues trading at tighter levels.

We continue to see value in regulated utilities, with attractive spreads and supporting key infrastructure assets. During the quarter, we added bonds in Gwynt y Môr OFTO, an offshore transmission operator that connects the windfarm to the National Grid. The bonds were very attractively priced and offer strong sustainability characteristics given the nature of the business as an enabler of the transition to a low carbon economy.

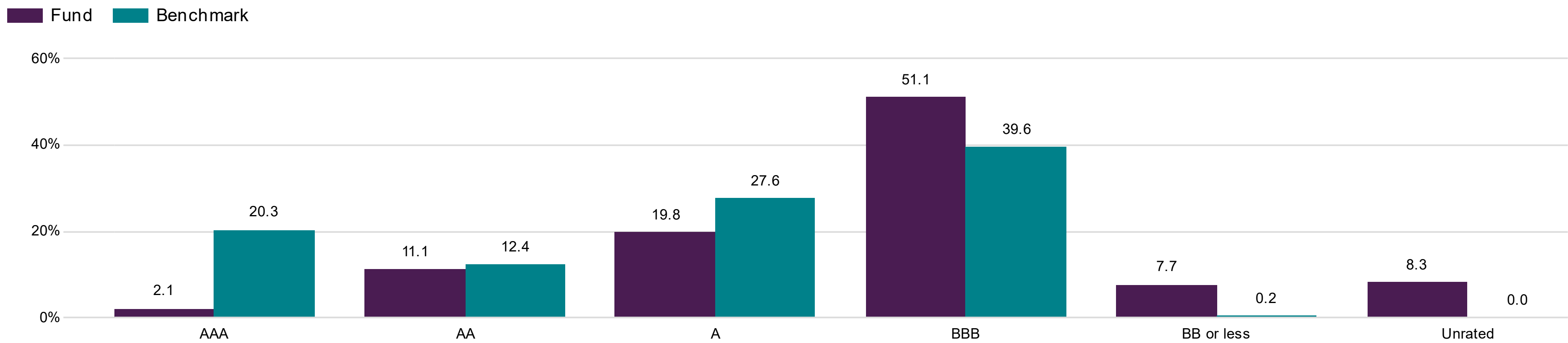
While areas such as financials and structured bonds remain the largest in our portfolios, we look for opportunities in other areas to aid overall portfolio diversification. The real estate sector has struggled in recent years, but has recently started to close the valuation gap with European assets while also benefiting from expectations of falling interest rates. During the quarter we added a new issue from Great Portland Estates – prime West End London properties with a low loan-to-value and strong environmental credentials. In the transport sector, we added East Japan Railway, attractive long-dated bonds supporting critical infrastructure.

Fund breakdown

Maturity profile

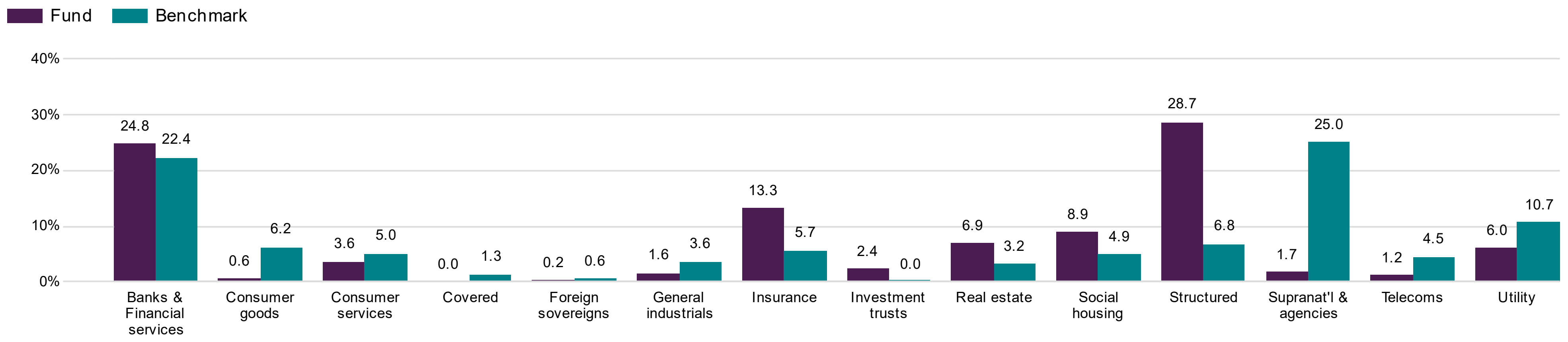


Credit ratings



Fund breakdown

Sector breakdown



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 this cycle. This follows the significant rises through 2022 and 2023 as part of efforts to reduce inflation. Along with a significant stimulus package in China, this policy shift generally helped fixed income markets to perform positively over the quarter as yields fell to reflect lower central bank interest rates. After initial weakness, equity markets started to rise once more, reflecting the hope that the policy easing would result in a soft landing for the economy with the US S&P 500 index hitting an all-time high. 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. Sentiment has 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 Kamela Harris emerged as a credible candidate and performed strongly in her debate with the former president. Somewhat remarkably, markets have remained sanguine about rising geopolitical tensions in the Middle East.

As mentioned above, the Fed cut 50bps to 4.75%-5%. This was in contrast to most economist expectations, but in line with what the market had been increasingly pricing. Their forecasts and language indicated that they anticipate the change 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. The BoE cut rates 25bp, 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%. These gilt yields had been as low as 3.75% in mid-September, many attributed the increase at the end of the quarter to concerns that the Budget might see a further increase in gilt issuance.

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 1.07% (iBoxx).

Outlook

As we enter the final months of 2024, market focus has moved from when central banks 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 many 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. In terms of bond yields, we have a general preference to be long duration, and are more cautious about the short end of the market if rate cut expectations are not met, but see the environment as one that requires considerable tactical agility rather than taking a strong strategic view on yields.

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 election day. Meanwhile, events in the Middle East have the potential to impact oil supply and further increase uncertainty.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive, both in absolute terms but also relative to government bonds. Credit spreads continue to compensate investors for the risk of default and, despite the uncertainties highlighted above, the outlook for the corporate sector remains relatively benign.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. As ever, the risks inherent in our investment grade credit portfolios are mitigated 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, achieved with superior downside protections, will generate outperformance.

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.

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The Trust is an authorised unit trust scheme. The Manager is RLUM Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144032.

For more information on the Trust 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.

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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.

Derivative risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

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.

Performance to 30 September 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	3.01	3.70	13.01	(1.80)	4.84
Fund (net)	2.86	3.39	12.31	(3.83)	0.84

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
(0.60)	0.95
(1.29)	0.17

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)	13.01	8.12	(19.63)	2.82	3.83
Fund (net)	12.31	7.35	(20.23)	1.99	2.80

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 Corporate Bond Monthly Income Trust (A Inc).

Glossary

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

Attribution
Attribution is shown for the most recent quarter. Attribution figures are based on end of business returns for both the fund and the index whereas performance figures are based on midday returns for the fund and end of business for the index. Therefore the performance will not include market moves between midday when the fund is priced, and end of business when the index is calculated. This may result in a different figure being shown for the quarterly performance vs attribution data.

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

Distribution yield
The distribution yield reflects the amounts that may be expected to be distributed over the next 12 months. It is calculated net of standard management charges. It reflects RLAM's current perception of market conventions around timing of bond cash flows.

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

Fund analytics
All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.

This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

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

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

Number of holdings
Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Number of issuers
Number of unique issuers of all assets held by the Fund, excluding cash, currency and derivatives.

Performance
Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

Sector breakdown
Breakdown of the fixed income assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme. Figures are subject to rounding.