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Royal London Global Bond Opportunities 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 Global Bond Opportunities 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 achieve a high level of income with the opportunity for capital growth. The Fund is actively managed and is not managed in reference to any benchmark. The Fund seeks to achieve its investment objective by investing predominantly in non-Sterling and Sterling denominated Fixed Income securities. These securities form part of a diversified portfolio of global fixed or floating rate debt securities (rated or non-rated), including investment grade, sub-investment grade or high yield.

Fund value

	Total £m
30 September 2024	294.43

Fund analytics

	Fund
Fund launch date	8 December 2015
Base currency	GBP
Duration (years)	4.56
Yield to worst (%)	6.31
Number of holdings	281
Number of issuers	209

Performance and activity

Performance

	Fund (%)
Quarter	4.00
YTD	8.38
1 Year	14.10
3 Years (p.a.)	3.92
5 Years (p.a.)	4.72
Since inception (p.a.)	5.67

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 Global Bond Opportunities Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 8 December 2015.

Performance commentary

The fund saw a positive return over the quarter, with strong returns from both investment grade and high yield exposure with hybrid bonds and contingent capital bonds (cocos) also helpful.

The fund has a high degree of diversification, with material exposure to a range of assets including US dollar, euro and sterling investment grade bonds, high yield and unrated bonds. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 bonds: these performed well during the period, with the likes of Rabobank and Barclays notable performers. Subordinated bonds from insurers such as Legal & General and Argentum also contributed to returns.

Outside of financials, our holding in Amadeo Air saw significant gains on positive news within the leasing industry, while new bonds from DNO, the Norwegian oil and gas operator, also performed well.

The most significant detractor from performance in the period was the investment in Thames Water, where bonds fell by about 20% early in the quarter as markets reacted to adverse news flow, encompassing the regulator OFWAT's initial price determination for the sector for the prospective five-year period and credit rating agency downgraded Thames Water bonds to below investment grade.

Performance and activity

Top 10 holdings

	Weighting (%)
STICHTING AK RABOBANK 6.500000000	1.71
ARGENTUM (SWISS RE LTD) 5.524000000	1.26
LLOYDS BANKING GROUP PLC 7.500000000	1.20
BARCLAYS BANK PLC 6.278000000	1.13
AXA SA 6.375000000	1.00
AGGRE MICRO PWR INF 2 8.000000000 2036-10-17	0.98
LEGAL & GENERAL GROUP 5.250000000 2047-03-21	0.97
ENERGY TRANSFER LP 6.750000000	0.96
QBE INSURANCE GROUP LTD 6.750000000 2044-12-02	0.95
M&G PLC 6.500000000 2048-10-20	0.92
Total	**11.08**

Fund activity

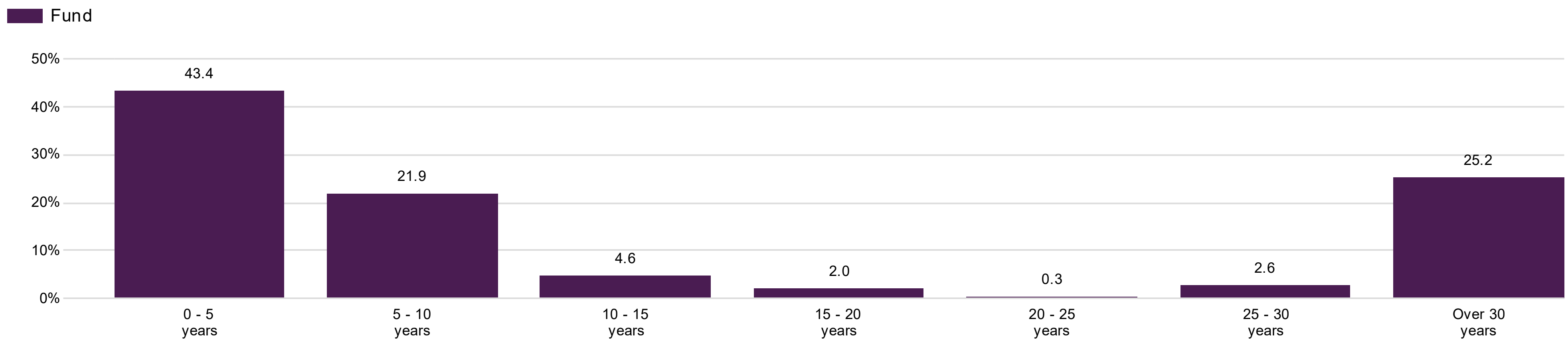
Primary market activity was relatively quiet in July, reflecting the start of the normal summer lull, but accelerated again through August and September. AT1 bonds remain an area of interest and we added new euro-denominated bonds from ABN Amro and US dollar bonds from ING and HSBC over the period, as well as MacQuarie Bank and Rabobank in the secondary market.

Financials remained a key area of interest for new issues, but we saw interesting opportunities in a number of different areas that help maintain the high level of diversification within the fund. New issues of note included a new position in EcoDataCentre, a Swedish data centre provider that is focused on becoming the Nordic region’s leading provider of sustainable and secure data centre solutions, a new floating rate bond from Norwegian oil exploration and production firm Lime Petroleum, these bonds paying more than 9% over NIBOR and shipping company MPC Containers – these senior unsecured sustainability-linked bonds coming to market with a yield of over 7%. We also added a new euro-denominated hybrid issue from EDF and euro-denominated floating rate bonds from UK pub operator Stonegate.

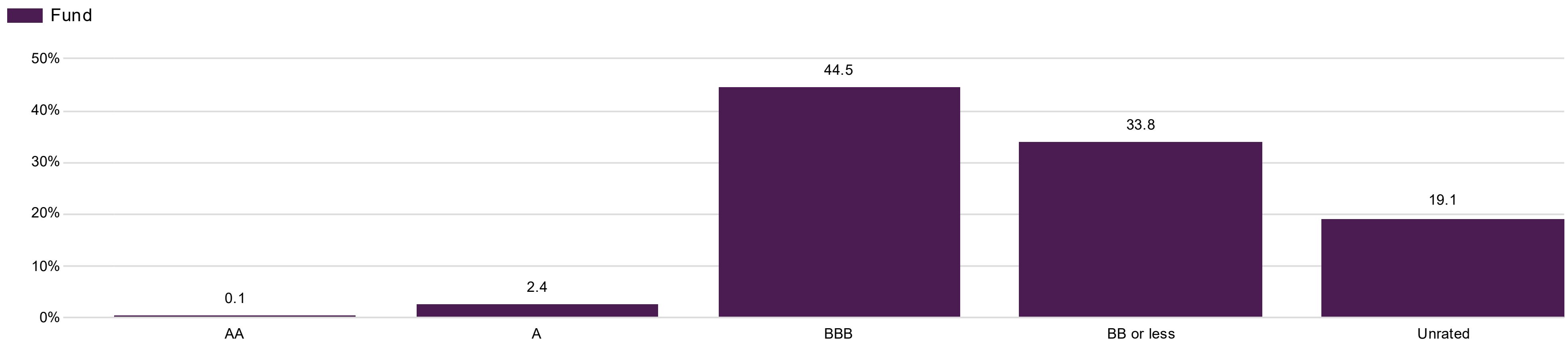
Secondary market activity focused on adding to existing holdings, one purchase of note being Topaz Solar Farms, a solar farm facility in California owned by Berkshire Hathaway, these US dollar bonds coming at a yield of almost 6% and international transport operator Mobico (formerly National Express), shipping providers SFL Corporation and Ocean Yield, and German residential real estate company Grand City Properties.

Fund breakdown

Maturity profile

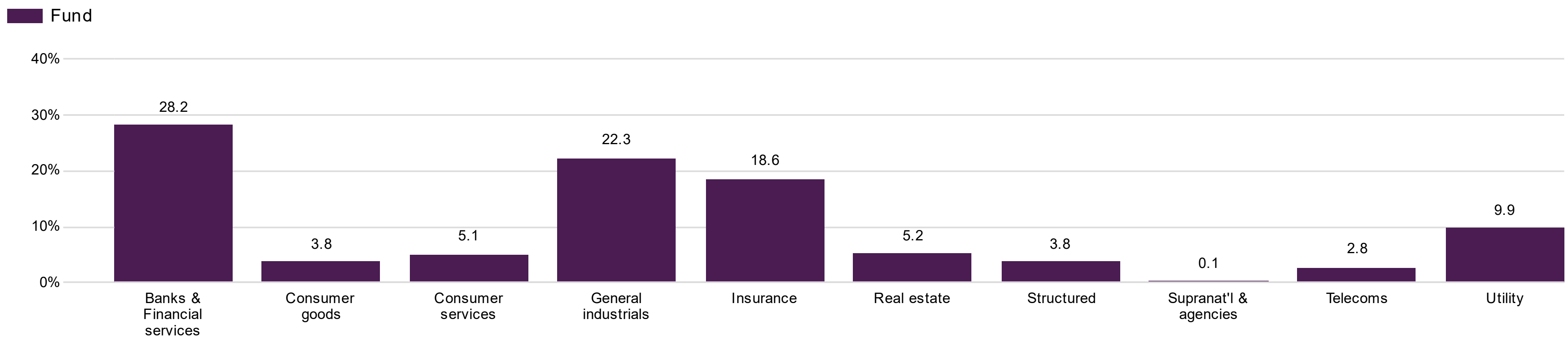


Credit ratings



Fund breakdown

Sector breakdown



Fund Engagement

Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	11	34
Number of engagements	16	83

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Total engagements by theme and topic

Climate	**4**
Climate - Transition Risk	4
Governance	**4**
Remuneration	4
Social & Financial Inclusion	**7**
Just transition	6
Social & Financial inclusion	1
Technology, Innovation & Society	**2**
Cybersecurity	1
Technology & Society	1

The numbers of engagements and themes/topics discussed may differ where a single engagement covers multiple themes/topics.

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Fund Engagement

Engagement outcomes

HSBC Bank Plc - Just transition

Purpose:

Our engagement purpose was to encourage HSBC to disclose its plans for integrating social issues into its decarbonisation strategy, in line with the just transition considerations outlined in the Paris Agreement.

Outcome:

Since publishing its net zero report, the company has been strategically embedding just transition principles. It prioritised innovation in sustainability-related lending, aiming to extend services to a broader customer base, including smaller businesses. The company is exploring the development of sustainability-linked bonds and loans and assessing the necessity of just transition-linked products. In emerging markets, it continues to work on the Just Energy Transition Partnership project. The company is also increasing integration across its retail bank and asset management divisions. While it faces challenges in applying universal principles to both emerging and developed markets, it is committed to supporting just transition while meeting climate targets. The company is enhancing relationship managers' understanding of just transition and incorporating specific questions into climate transition plans for high-emitting sectors. Although further details on its plans are pending, the company has an ambitious work plan for the next five months and plans to include initial disclosures in existing reports, with potential for a standalone plan in the future.

NatWest - Just transition

Purpose:

We engaged with NatWest as part of a collaborative engagement with banks to integrate just transition principles into their climate transition plans. The aim was to address any questions regarding our recently published investor expectations on just transition and the banking sector. We aimed to encourage the bank to align its strategies accordingly.

Outcome:

NatWest initially expressed concerns about being evaluated solely on financial returns, which it felt constrained its incentives for ESG activities. However, the bank recognised the value of aligning with our just transition investor expectations for the sector. It found these guidelines beneficial in setting ambitious goals and taking subsequent actions. NatWest discussed the establishment of a new energy transition fund with a different risk appetite and committed to a social housing fund. The company acknowledged the importance of integrating just transition principles into its plans to enhance credibility and was receptive to our feedback on improving its communication around the issue.

Fund Engagement

Engagement outcomes

Vodafone – Ethical AI

Purpose:

A meeting was organised to discuss Vodafone's approach to ethical AI, focusing on the history, current practices, and future strategies for AI deployment within the company as part of the World Benchmarking Alliance's (WBA) collaborative engagement.

Outcome:

Vodafone has established a comprehensive AI governance structure, ensuring AI is a recognised role within the organisation. A dedicated team manages AI compliance and ethics, embedding new EU data regulations. The governance board oversees AI projects from ideation to implementation, incorporating risk assessments. Vodafone aims to avoid 'shadow AI' (the use of generative AI without the control or knowledge of the business) by embedding AI into its technology architecture which adheres to GDPR and the EU Privacy Directive. The company focuses on responsible AI, complying with the EU AI Act, and participates in forums to stay ahead in AI governance. Ethical principles such as transparency, fairness, and DEI guide its AI development, supported by an AI assessment platform and role-based training for reskilling. We will evaluate the company's performance in comparison to its peers as part of the broader WBA collaborative engagement and identify potential areas for improvement.

Volkswagen – Cyber security

Purpose:

Following our engagement with Volkswagen in March 2024, we aimed to assess its responses to our queries and public disclosures using our cybersecurity scoring methodology. This evaluation was intended to identify areas for improvement and encourage better practices.

Outcome:

We assessed Volkswagen's cybersecurity practices and based on this evaluation, we sent a follow-up email to Volkswagen with several key recommendations. We encouraged timely disclosures of significant cybersecurity incidents to enhance transparency and investor confidence. We suggested incorporating cyber considerations into inorganic growth strategies, adopting a digital-centric approach. We requested detailed information on vulnerability and penetration testing processes. Additionally, we recommended collaboration with peers and government bodies to enhance cyber standards and risk management. We advised evaluating cybersecurity in board effectiveness reviews and integrating cybersecurity KPIs into executive compensation to demonstrate a proactive approach to managing cyber risks. We will continue to monitor the company's disclosure for improvements in cyber security reporting.

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 Kamala 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. As of their September meeting, the median forecast of participants showed another 50bps of cuts over the rest of 2024, then a further 100bps easing over 2025.

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. French politics were a focus for the early part of the quarter with a hung parliament the end result from the July election. Following these election results Michel Barnier – who previously negotiated with the UK over the terms of Brexit - was selected as PM in September and delayed a target to bring the deficit back within EU rules until 2029.

UK data were consistent with the UK economy growing modestly, while inflation has been running close to the 2% target. 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%. 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.

Global corporate bonds saw positive returns in local currency terms over the quarter, with the impact of lower underlying government bond yields, slightly tighter credit spreads and positive carry on the asset class all contributing to returns. In local currency terms, the US was the best performing market, beating both euro and sterling equivalents.

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 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 November 5. Meanwhile, events in the Middle East that have the potential to materially impact oil supply and further increase uncertainty.

Bond yields generally are still at attractive levels in our view – both in absolute terms and relative to government bonds – and given the supportive economic backdrop, we believe that credit spreads continue to compensate credit investors for the risk of default. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

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.

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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 portfolio has no index as a comparison.

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

Credit risk is the potential for loss due to a borrower, debtor or debt issuer defaulting on agreed obligations to make interest or capital repayments. Credit ratings are independent assessments of the credit risk of a debtor or an individual debt security. Securities that have a lower credit rating have a higher 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.

Exchange rate risk

Changes in currency exchange rates may affect the value of your investment.

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.

Liquidity risk

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging markets risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

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.

Sub-investment grade investment risk

Lower rated investment grade securities may have large uncertainties or major risk exposures to adverse conditions. The market value of securities in lower rated investment grade categories is more volatile than that of higher quality securities, and the markets in which these securities are traded are less liquid than those in which higher rated securities are traded.

Unrated bond risk

Non-rated bonds may have the characteristics of either investment or sub-investment grade bonds. Market activity in unrated securities and instruments may be low for a considerable period of time and this may impact on liquidity.

Performance to 30 September 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	4.00	5.18	14.10	12.25	25.97
Fund (net)	3.90	4.97	13.58	10.58	22.88

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
3.92	4.72
3.41	4.20

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)	14.10	8.68	(9.48)	11.33	0.80
Fund (net)	13.58	8.12	(9.95)	10.75	0.34

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 Global Bond Opportunities Fund (Z Inc).

Glossary

Asset allocation

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

Credit ratings

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

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.

Income yield

Income yield reflects the annualised income net of expenses of the Fund as a percentage (calculated in accordance with the relevant accounting standards). Yield to Worst and Income Yield are calculated as a percentage of the mid-price of the Fund as at the date shown and are month end snap shots of the portfolio on that day and do not include any preliminary charges. Investors may be subject to tax on distributions.

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.

Yield to worst

The lowest potential yield that can be received on a bond without the issuer defaulting. The yield shown for the Fund is the average for its individual holdings, weighted by their current market value, net of relevant fund management costs and gross of tax.