

For professional clients only, not suitable for retail clients.



# Royal London Short Duration Global High Yield Bond 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 Duration Global High Yield Bond 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

The fund	3
Performance and activity	4
Fund breakdown	6
Market commentary	8
Further information	10
Disclaimers	11
Performance net and gross	13
Glossary	14

# The fund

## Fund performance objective and benchmark

The fund seeks to achieve its investment objective by outperforming its benchmark, SONIA (the "Benchmark"), by 2% per annum over rolling three year periods. 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 value

	Total £m
30 September 2024	1,294.67

## Fund analytics

	Fund
Fund launch date	15 February 2013
Base currency	GBP
Duration to expected (years)	1.11
FX adjusted yield (%)	6.75

# Performance and activity

## Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.58	1.25	1.34
YTD	5.48	3.83	1.64
1 Year	9.43	5.17	4.26
3 Years (p.a.)	3.94	3.27	0.67
5 Years (p.a.)	3.16	2.06	1.11
10 Years (p.a.)	3.48	1.32	2.16
Since inception (p.a.)	3.69	1.21	2.48

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 Duration Global High Yield Bond Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 15 February 2013.

## Performance commentary

The fund significantly outperformed its Sterling overnight Index Average Rate (SONIA) benchmark in the quarter. With spreads in the high yield market remaining essentially flat over the quarter at 283bps, the fund benefited from carry and early takeouts of its holdings.

High yield markets are seeing a ‘goldilocks’ credit environment – where companies are looking to take advantage of tighter spreads and lock in complimentary financing terms while investors are enjoying the sheer volume of new issuance, which is keeping spreads tight and default rates low.

Companies are seeing many routes to market – either public or private – which is leading to the high level of issuance, giving the portfolio many opportunities to engage.

Coming to the current period with credit spreads at historically tight levels and yields at levels companies are very much used to borrowing at, and importantly below the levels direct lending companies have promised capital to their end investors, we are seeing quite an interesting phenomenon which is the return of issuance from private to public markets.

Peak inflation looks to be behind us, and central banks look to have begun their rate cutting cycles. The high yield markets, particularly in the BB and B space, have absorbed the first Fed rate cut well – an oversized 50bps cut in September. The ability of companies to deal with this is down, in large part, to the ongoing theme of a growing private debt market. We think private debt has not displaced liquid debt but played a role in providing capital to issuers – especially smaller companies and weaker more stressed companies that the public markets find challenging to price.

Low default rates are also indicative of a high yield market that is more robust than in the past. We are seeing the majority of the market handling the higher cost of capital. Liquidity and flexibility mean that defaults are being deferred and the most recent data also shows how issuers in distress are not defaulting.

The volatility in public markets is typically coming from idiosyncratic issues, usually from CCC names. The CCC portion of the market is now a relatively small portion of the market, with issuers now typically larger and in better financial standing.

With compressed spreads, and high liquidity, companies can seek refinancing at comfortable rates. We will, however, begin to see higher levels of cashflow spent on debt servicing if yields remain this high – which is where we see a disconnect with equity valuations.

# Performance and activity

## Top 10 holdings

	Weighting (%)
EIRCOM FINANCE DAC 3.500000000 2026-05-15	1.63
FRONTIER COMMUNICATIONS 5.875000000 2027-10-15	1.61
HESS MIDSTREAM OPERATION 5.625000000 2026-02-15	1.59
IRON MOUNTAIN UK PLC 3.875000000 2025-11-15	1.59
IQVIA INC 5.000000000 2026-10-15	1.58
ALTICE FINANCING SA 2.250000000 2025-01-15	1.58
TRANSDIGM INC 5.500000000 2027-11-15	1.55
SIRIUS XM RADIO INC 3.125000000 2026-09-01	1.55
EDGEWELL PERSONAL CARE 5.500000000 2028-06-01	1.53
UNITED GROUP BV 3.125000000 2026-02-15	1.51
<b>Total</b>	<b>15.72</b>

## Fund activity

With companies still coming to the market to refinance their outstanding bonds, we have continued to recycle into new opportunities in both new companies and through adding securities in currently held names in the fund.

As we believe that we are in a benign default environment, we have been recycling our holdings into BB and Single B rated assets with our CCC rated exposure remaining relatively flat over the quarter.

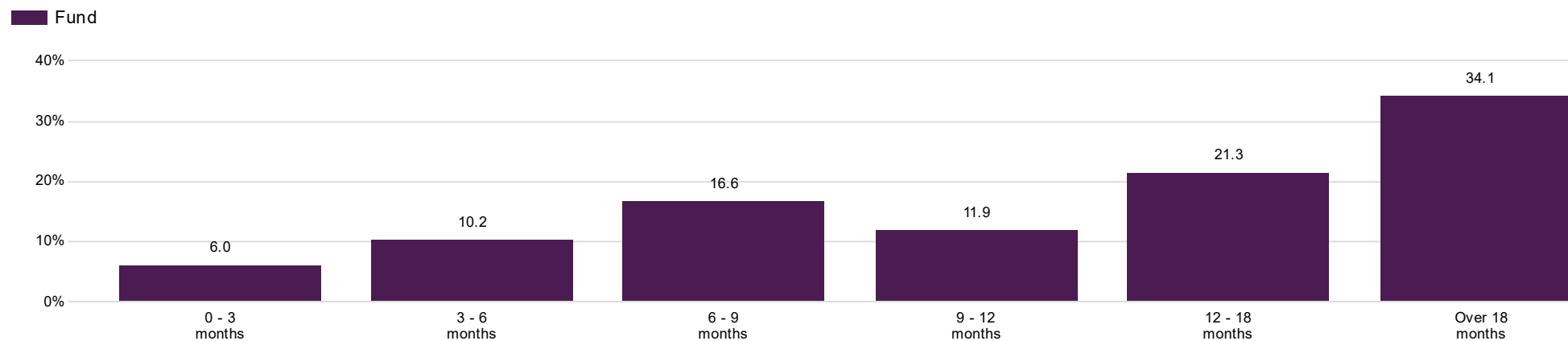
During the quarter, we added names such as Burger King, Clear Channel, Edgewell Personal Care, Infopro Digital, Lorca Telecommunications, Kantar and Teamsystem and Univision.

We have also seen several companies redeem their bonds during the quarter such as Avient, Cinemark, Constellium, GEMS and International Game Technology

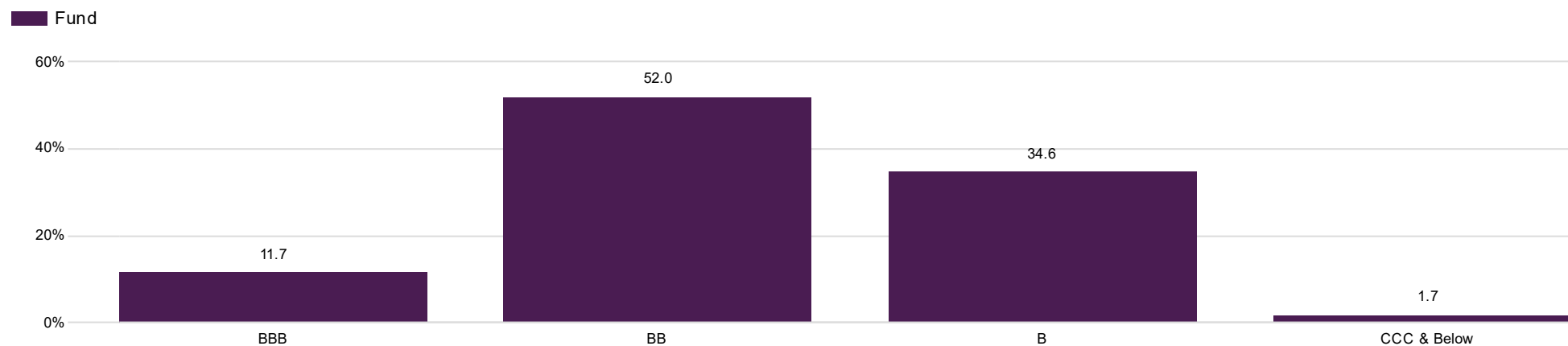
We are happy with the position of the fund as we seek to pick out idiosyncratic factors to pick up spread and yield. We are in a permissive credit climate where covenants are loosening further as the weight of demand is suppressing not only spreads but also protective features.

# Fund breakdown

## Maturity profile

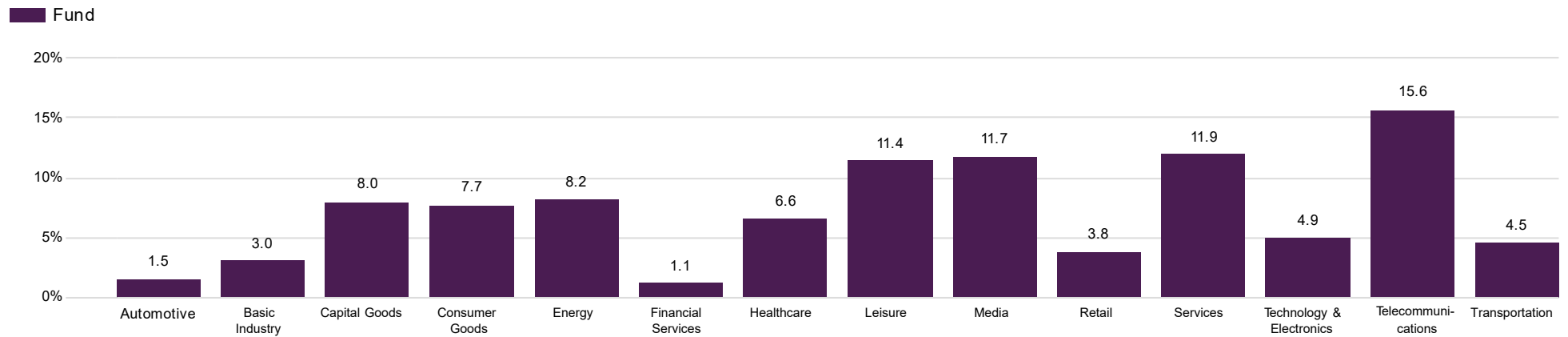


## Credit ratings

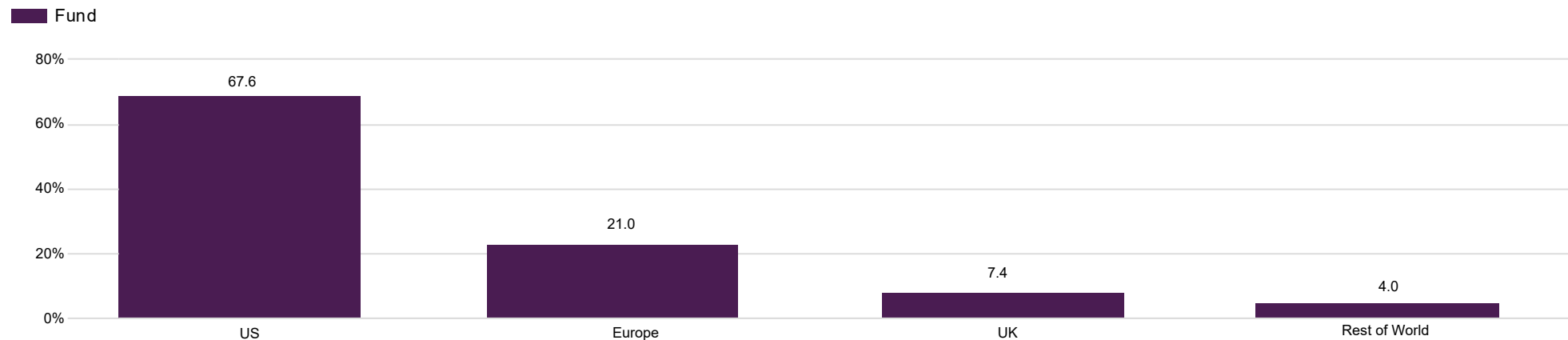


# Fund breakdown

## Sector breakdown



## Regional weights



# 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 (ECB) 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, and equity markets also continuing to rise 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, 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 contrast to most economist expectations, but in line with what the market had been increasingly pricing, the Fed cut 50bps to 4.75%-5%. They saw diminished upside risks to inflation and increased downside risks to employment and cut accordingly. Their forecasts and language indicated that they anticipated that as the beginning of a series of cuts, returning rates “to a more neutral stance.” As of their September meeting, the median forecast of participants showed another 50bps of cuts over the rest of 2024, then a further 100bps over 2025. Inflation data released over the quarter was relatively reassuring both from a core CPI and core PCE perspective, with the latter recording either 0.1% month-on-month or 0.2% for each of the quarter’s releases. Second quarter GDP recorded a strong 3.0% quarter-on-quarter annualised and the Atlanta Fed Nowcast, for example, was consistent with a continued robust pace of growth in third quarter by the end of the quarter. Non-farm payroll gains cooled, below 200K in July and August.

As expected, 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. President Christine Lagarde’s comments at the time didn’t give much away in terms of the likely pace of future cuts (beyond that they expect to be cutting further). Euro area CPI moved from 2.5% year-on-year in June to 2.2% in August, with member country CPI’s consistent with another fall in September by the end of the quarter. There wasn’t much movement in core or services inflation though. Euro area GDP grew 0.2% month-on-month in the second quarter. French politics were a focus for the early part

of the quarter with a hung parliament the end result from the July election. Michel Barnier was selected as PM and delayed a target to bring the deficit back within EU rules until 2029.

In the UK, data released in the third quarter were consistent with the economy growing modestly, while inflation has been running close to the 2% target. Second quarter GDP rose 0.5% quarter-on-quarter in real terms after rising 0.7% in the first quarter. July GDP was flat, but business surveys looked consistent with positive growth over the rest of the quarter. More worrying perhaps was the fall in consumer confidence in September, which may have reflected some concern over what the October Budget might bring after Prime Minister Keir Starmer warned of a “painful” Budget in late August. Meanwhile, CPI inflation rose from 2.0% year-on-year in June to 2.2% in July and August on data published over the quarter, with energy prices playing a role. Core inflation was still 3.6% in August with services inflation an upside surprise. The BoE cut rates 25bps, though with (only) a 5-4 vote and with Governor Andrew Bailey saying that they need to be careful not to cut too quickly. They kept rates on hold at their September meeting. The Labour Party won the UK’s general election in July, winning a sizeable majority in parliament. Chancellor Rachel Reeves identified additional government spending required for 2024-25, to be addressed with some spending cuts and by further measures (“difficult decisions across tax and spending”) to be announced in the Autumn Budget.

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%.

In the high yield market, the ICE BofAML (BB-B) Global Non-Financial High Yield Index (sterling hedged) benchmark returned 4.21% in the quarter with spreads at 283bps. At the end of the period, the index’s yield-to-worst stood at 6.20%, slipping in July but was then steady throughout the quarter, but is down from 7.05% at the start of the year. In the broader-based high yield index, which includes CCC rated bonds, spreads tightened to 345bps, with a yield-to-worst of 6.83%.

## 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, sitting below 1.5%, with global defaults below 2%. While companies 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, we can see a scenario where current tight spreads tighten further – with not many new issues and yields remaining high.



## Market commentary

As spreads tighten, there become a perception that the high yield market is risky for investors, but we feel this does not tell the full story. The fundamentals in the market are considerably better than previously with the quality of names improving. We believe that the combination of attractive valuations, robust fundamentals, and the fact that macro headwinds have abated with the US monetary tightening cycle coming to an end, provides a constructive environment for 2024 and 2025.

In our view, the way through 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 are seeing 2024 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.

The main catalyst for volatility on the horizon is the upcoming US election. Until there is greater clarity on the outcome of the election, high yield spreads are likely to trade sideways, as the risk is politically driven, not market driven. As the quarter moves past the election, however, there is scope for spreads to widen as we expect to see the high pace of issuance continue.

## 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](http://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](http://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](http://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.

## 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.

## Derivative risk

Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

# 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.)
<b>Fund (gross)</b>	2.58	4.30	9.43	12.31	16.88	3.94	3.16
<b>Fund (net)</b>	2.46	4.05	8.91	10.70	14.15	3.44	2.68

## 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
<b>Fund (gross)</b>	9.43	9.60	(6.36)	4.70	(0.60)
<b>Fund (net)</b>	8.91	9.07	(6.81)	4.19	(1.03)

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 Duration Global High Yield Bond 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.

## 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.

## FX adjusted yield

FX adjusted yield is the gross rate of return to the expected maturity adjusted for hedging and excludes the impact of cash.

## 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.

## Maturity Profile

The maturity profile is based on position redemption dates expected by the manager, which may differ from market interpretation of redemptions

## Performance

Performance is calculated using the signed off NAV per share. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces the return.

## RoW

Regional Breakdown - Rest of World (RoW) includes all non-North America, non-Europe and non-UK holdings, which includes emerging market debt as shown in asset class positioning.

## Sector allocation

The global funds sector classifications are based on ICE BofA sector level 3 classifications.

## Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.