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# Royal London Credit Funds

## Fund Manager Commentary

### 28 February 2025

# Fund Manager Commentary

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The purpose of this report is to provide an update on the Royal London Fixed Income Funds. The report has been produced by Royal London Asset Management. The report starts with a performance summary followed by Fund Manager commentary for each of the Funds. All data within this report is at the report date unless otherwise stated.

# Contents



ROYAL LONDON
ASSET MANAGEMENT

# Performance

| | 1 month (%) | Rolling 12 months (%) |
|---|---|---|
| **RL Corporate Bond Fund Z Inc** | **1.12** | **8.46** |
| iBoxx Sterling Non-Gilts All Maturities Index | 0.52 | 5.02 |
| IA Sterling Corporate Bond Sector | 0.59 | 6.09 |
| | | |
| **RL Ethical Bond Fund Z Inc** | **0.97** | **7.67** |
| iBoxx Sterling Non-Gilts All Maturities Index | 0.52 | 5.02 |
| IA Sterling Strategic Bond Sector | 1.00 | 7.24 |
| | | |
| **RL Global Bond Opportunities Fund Z Inc** | **1.46** | **10.73** |
| IA Global Mixed Bond Sector | 0.64 | 5.53 |
| | | |
| **RL Investment Grade Short Dated Credit Fund Z Inc** | **0.83** | **7.56** |
| ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index | 0.44 | 6.02 |
| IA Sterling Corporate Bond Sector | 0.59 | 6.09 |
| | | |
| **RL Short Duration Credit Fund Z Inc** | **0.86** | **8.97** |
| ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index | 0.44 | 6.02 |
| IA Sterling Strategic Bond Sector | 1.00 | 7.24 |
| | | |
| **RL Sterling Credit Fund Z Inc** | **1.16** | **8.67** |
| iBoxx Sterling Non-Gilts All Maturities Index | 0.52 | 5.02 |
| IA Sterling Corporate Bond Sector | 0.59 | 6.09 |
| | | |
| **RL Sterling Extra Yield Bond Fund A Inc** | **1.05** | **10.81** |
| **RL Sterling Extra Yield Bond Fund B Inc** | **1.05** | **10.47** |
| **RL Sterling Extra Yield Bond Fund Y Inc** | **1.09** | **11.30** |
| **RL Sterling Extra Yield Bond Fund Z Inc** | **1.07** | **11.09** |
| IA Sterling Corporate Bond Sector | 0.59 | 6.09 |
| IA Sterling High Yield Sector | 0.94 | 9.64 |
| IA Sterling Strategic Bond Sector | 1.00 | 7.24 |
| | | |

**Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.**

Source: RLAM and Morningstar, as at 28 February 2025. Returns quoted are net of fees. All IA sector performance shown is for the median.

# Credit Market Review

## Market highlights – sterling investment grade credit

The sterling investment grade market (iBoxx) produced positive returns in February, with a return of 0.52%. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) widened over the month to 0.85% from 0.81%.

Investment grade sterling primary issuance picked up in February from January, rising to £6.7bn from £6.3bn. February's issuance takes the total year-to-date primary issuance to £12.9bn, which is ahead of the £10.7bn seen in the same two-month period to start 2024.

In sterling investment grade markets, returns were broad based with no sector seeing a negative return. Relatively, the insurance, real estate and structured sectors outperformed the rest of the market.

Global government bond yields fell in February; 10-year gilt yields fell to 4.52% from 4.54%, and the FTSE UK Conventional Gilt All-Stocks index returned 0.76%. US treasury 10-year yields fell further to 4.20% from 4.55%, while German bund 10-year yields fell to 2.39% from to 2.43%.

# Royal London Corporate Bond Fund

## Portfolio commentary

The fund posted positive returns in February and was ahead of its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index.

UK government bond yields ended the month largely unmoved, falling slightly, while government bond yields in the US saw a much larger fall. Credit spreads in the sterling investment grade market widened in February, with credit underperforming gilts over the month.

The fund’s outperformance was driven by our credit allocation, security selection and duration positioning. Within security selection, our bank bonds performed well, with short-dated bonds from IG and legacy subordinated bonds from lender HSBC among the top performers. By allocation, our large overweight position in structured bonds was the main positive driver of performance, while our underweight to supranational bonds was a small partially offsetting negative.

The fund was highly active in new issuance over the month, which continued to be dominated by financials. The fund bought into a new sterling-denominated senior debt issue from French banking group BPCE. The fund also took part in new subordinated debt issues from UK high-street lenders Lloyds Banking Group and NatWest.

Away from financials issuance, we added a new 12-year deal from Sage Group, the software accounting firm. Social housing remains a key area for our sterling credit strategies. We added a new issue of 2032 bonds from Places for People. The company owns and manages 240,000 properties across the UK and the bonds came at an attractive spread premium to the market.

Structured bonds also remain a key focus for the fund. During the month we took part in a new issue from Together Financial Services. The bond, issued by a special purpose securitisation vehicle, is supported by a portfolio of second charge owner occupied and buy-to-let loans secured against residential property in England, Scotland and Wales. The fund took part in the AAA tranche of the issue.

We also took part in a new euro-denominated issue from US firm Johnson & Johnson, offering an attractive spread for a AAA rated corporate borrower.

## Investment outlook

We have seen UK investment grade markets mostly mitigate the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads now back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far.

In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection

CITYWIRE AAA

**Shalin Shah**

Senior Fund Manager

CITYWIRE AAA

**Matt Franklin**

Fund Manager

# Royal London Corporate Bond Fund continued

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

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.

## Key views within the fund

Well diversified, with over 300 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall fund performance of any deterioration in the creditworthiness of an individual holding.

A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Duration longer than the benchmark, which has been increased as yields have risen. Interest rate sensitivity is broadly neutral when factoring in a number of bonds which have theoretical duration but are not as interest rate sensitive.

An overweight position in subordinated financial debt, where we believe yields are attractive.

Orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

# Royal London Ethical Bond Fund

## Portfolio commentary

The fund posted positive returns in February and outperformed its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index.

UK government bond yields ended the month largely unmoved, falling slightly, while government bond yields in the US saw a much larger fall. Credit spreads in the sterling investment grade market widened in February, with credit underperforming gilts over the month.

The fund outperformance was driven by our credit allocation and security selection. By security selection, our bank bonds performed well, with bonds from Santander and Standard Chartered among the top performers. Our structured bonds also performed strongly. By allocation, our large overweight position in structured bonds was the main positive driver of performance, while our underweight to supranational bonds was a small partially-offsetting negative.

The fund was active in the month, maintaining its bias towards new issues in financials. The fund took part in new subordinated debt issues from UK high-street lenders Lloyds Banking Group and NatWest.

Outside of financials, social housing remains a key area for our sterling credit strategies. We added a new issue of 2032 bonds from Places for People. The company owns and manages 240,000 properties across the UK and the bonds came at an attractive spread premium to the market.

We opened a new position in Hofseth International. The fund took part in a new Norwegian krone denominated five-year issue from the Norwegian sustainable seafood producer.

## Investment outlook

With spreads now back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far.

In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

**Paola Binns**

Head of Credit

**Eric Holt**

Senior Fund Manager

# Royal London Ethical Bond Fund continued

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.

## Key views within the fund

The fund is diversified in order to improve portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

The fund has a significant underweight position in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Duration is broadly in line with the benchmark.

The fund has an overweight position in subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards secured bonds in the asset-rich property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

# Royal London Global Bond Opportunities Fund

## Market highlights

| | Total return (%) | Spread at end of month (basis points) | Spread change over month (basis points) |
|---|---|---|---|
| HY global non-financial corps<br>ICE BofA ML global non-financial high yield index | 0.86 | 311 | 10 |
| AT1<br>ICE BofA ML contingent capital index | 0.98 | 264 | 12 |
| Emerging market<br>ICE BofA ML | 1.37 | 345 | -2 |
| HY global non-financial hybrid corps<br>ICE BofA ML global hybrid non-financial high yield index | 0.89 | 198 | -2 |
| IG global non-financial hybrid corps<br>ICE BofA ML global hybrid non-financial corporate index | 0.54 | 173 | 7 |
| Dollar investment grade corporate bonds<br>ICE BofA ML US corporate index | 2.03 | 88 | 6 |
| Sterling investment grade corporate bonds<br>ICE BofA ML sterling corporate and collateralised index | 0.49 | 97 | 5 |
| Euro investment grade corporate bonds<br>ICE BofA ML euro corporate and Pfandbriefe index | 0.61 | 87 | -1 |

Source: Bloomberg

The first weeks of Donald Trump's US presidency have seen a large number of executive orders issued and some dramatic changes in policy direction. At the start of February, he raised China tariffs 10%, but gave Mexico and Canada a 30-day reprieve on their 25% increases. There were also large-scale firings of public sector workers, tighter border and immigration controls (including a start to deportations) among a host of actions. Further tariff threats included several categories of goods (including steel, cars and pharmaceuticals) and Trump also indicated that so-called 'reciprocal' tariffs were incoming as were tariffs against the EU. Indicators of US policy uncertainty/uncertainty were elevated over the month. Federal Reserve speakers, meanwhile, continued to indicate that they were in no hurry to cut rates.

The European Central Bank were still expected over the month to cut rates further. President Christine Lagarde commented mid-month that the disinflation process is well on track, though global trade friction continues to pose risks. Meanwhile, German elections results left many analysts expecting a CDU/CSU and SPD government, with some continued expectation of debt brake reform. Meanwhile, pressure rose for increased defence spending in Europe against a backdrop of geopolitical uncertainty, Trump demands for NATO allies to spend more on defence and more constructive relations between the US and Russia.

**Rachid Semaoune**

Senior Fund Manager

**Eric Holt**

Senior Fund Manager

# Royal London Global Bond Opportunities Fund continued

The Bank of England cut rates 25bps in February, as widely expected, although two MPC members wanted a 50bps cut. Governor Andrew Bailey said that a “gradual and careful approach remains appropriate” when it comes to monetary policy. Meanwhile press reports suggested that preliminary forecasts for the OBR from the Chancellor showed that headroom against the fiscal rules had been eliminated by factors including bond yields and lower growth forecasts (therefore raising the prospect of spending cuts/tax increases). Data released during February was stronger than expected, but nevertheless showed a flattish picture of economic activity.

Global government bond yields fell in February; 10-year gilt yields fell to 4.52% from 4.54%, and the FTSE UK Conventional Gilt All-Stocks index returned 0.76%. US treasury 10-year yields fell further to 4.20% from 4.55%, while German bund 10-year yields fell to 2.39% from to 2.43%.

All markets saw positive returns for the month. Investment grade credit spreads ended the period marginally tighter in euro markets, and were slightly wider in the US and UK. Sub investment grade spreads were also generally wider.

## Portfolio commentary

The fund recorded a positive net return in February, with strong returns across the portfolio. While the fall in government bond yields was again a tailwind for performance, the fund outperformed most areas of the fixed income market, including high yield, sterling and euro investment grade and AT1 bonds.

Activity was modest during the month. The fund took part in new subordinated debt issues from UK high-street lenders Lloyds Banking Group and NatWest, as well as French Credit Agricole and UK specialist lender UTB.

Other activity was across diversified sectors, including adding a new issues from Canadian energy name Transcanada Pipelines and Norwegian sustainable seafood provider Hofseth and secondary markets bonds from UK housing association Poplar.

## Investment outlook

We have seen investment grade markets mostly mitigate the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads now back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far.

In our view, given current expectations for the global economy, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

# Royal London Global Bond Opportunities Fund continued

We believe that investment grade all-in yields remain attractive but the relative attraction between government bonds and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the ‘mechanised’ approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

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.

# Royal London Investment Grade Short Dated Credit Fund

## Portfolio commentary

The fund posted positive returns in February and was ahead of its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index.

UK government bond yields ended the month largely unmoved, falling slightly, while government bond yields in the US saw a much larger fall. Credit spreads in the sterling investment grade market widened in February, with credit underperforming gilts over the month.

The fund outperformance was driven by our credit allocation and security selection. By security selection, selected insurance bonds performed well. By sector allocation, our large overweight position in structured bonds was the main positive driver of performance, while our underweight to supranational bonds was a small partially-offsetting negative.

The fund was active in the month, maintaining its bias towards new issues in financials. The fund bought into a new sterling-denominated senior debt issue from French banking group BPCE, as well as new issues from Deutsche Bank, Swedbank, and specialist lender Mitsubishi Capital. The fund also took part in new subordinated debt issues from UK high-street lenders Lloyds Banking Group and NatWest.

Outside of financials, social housing remains a key area for our sterling credit strategies. We added a new issue of 2032 bonds from Places for People. The company owns and manages 240,000 properties across the UK and the bonds came at an attractive spread premium to the market.

Structured bonds also remain a key focus for the fund. During the month we took part in a new issue from Together Financial Services. The bond, issued by a special purpose securitisation vehicle, is supported by a portfolio of second charge owner occupied and buy-to-let loans secured against residential property in England, Scotland and Wales. The fund took part in the AAA tranche of the issue.

## Investment outlook

We have seen UK investment grade markets mostly mitigate the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads now back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far.

In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

CITYWIRE AAA

**Paola Binns**

Head of Credit

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**Eric Holt**

Senior Fund Manager

# Royal London Investment Grade Short Dated Credit Fund continued

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

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.

# Royal London Short Duration Credit Fund

## Portfolio commentary

The fund posted positive returns in February and was ahead of its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index.

UK government bond yields ended the month largely unmoved, falling slightly, while government bond yields in the US saw a much larger fall. Credit spreads in the sterling investment grade market widened in February, with credit underperforming gilts over the month.

The fund's outperformance was driven by our credit allocation and security selection. By security selection, our bank bonds performed well, with short-dated bonds from Barclays among the top performers. Our structured bonds also performed positively. By allocation, our large overweight position in structured bonds was the main positive driver of performance, while our underweight to supranational bonds was a small partially-offsetting negative.

The fund was active in the month, maintaining its bias towards new issues in financials. The fund bought into a new sterling-denominated senior debt issue from French banking group BPCE, as well as new issues from Deutsche Bank, Swedbank, and specialist lender Mitsubishi Capital. The fund also took part in new subordinated debt issues from UK high-street lenders Lloyds Banking Group and NatWest. In addition, we placed an order for a Euro-denominated new issue from Anglo-South African banking group Investec.

Outside of financials, social housing remains a key area for our sterling credit strategies. We added a new issue of 2032 bonds from Places for People. The company owns and manages 240,000 properties across the UK and the bonds came at an attractive spread premium to the market.

Structured bonds also remain a key focus for the fund/portfolio. During the month we took part in a new issue from Together Financial Services. The bond, issued by a special purpose securitisation vehicle, is supported by a portfolio of second charge owner occupied and buy-to-let loans secured against residential property in England, Scotland and Wales. The fund took part in the AAA tranche of the issue.

## Investment outlook

We have seen UK investment grade markets mostly mitigate the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads now back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far.

In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

CITYWIRE AAA

**Paola Binns**

Head of Credit

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**Eric Holt**

Senior Fund Manager

# Royal London Short Duration Credit Fund continued

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

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.

# Royal London Sterling Credit Fund

## Portfolio commentary

The fund posted positive returns in February and was ahead of its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, over the month.

UK government bond yields ended the month largely unmoved, falling slightly, while government bond yields in the US saw a much larger fall. Credit spreads in the sterling investment grade market widened in February, with credit underperforming gilts over the month.

The fund outperformance was driven by our credit allocation and security selection. By security selection, our bank bonds performed well, with short-dated bonds from IG and perpetual bonds from Asian focused lender HSBC among the top performers. By allocation, our large overweight position in structured bonds was the main positive driver of performance, while our underweight to supranational bonds was a small partially-offsetting negative.

The fund was active in the month, maintaining its bias towards new issues in financials. The fund bought into a new sterling-denominated senior debt issue from French banking group BPCE. The fund also took part in new subordinated debt issues from UK high-street lenders Lloyds Banking Group and NatWest.

We opened a new position in Sage Group. The fund took part in a new 12-year senior issue from the software accounting firm.

Outside of financials, social housing remains a key area for our sterling credit strategies. We added a new issue of 2032 bonds from Places for People. The company owns and manages 240,000 properties across the UK and the bonds came at an attractive spread premium to the market.

Structured bonds also remain a key focus for the fund/portfolio. During the month we took part in a new issue from Together Financial Services. The bond, issued by a special purpose securitisation vehicle, is supported by a portfolio of second charge owner occupied and buy-to-let loans secured against residential property in England, Scotland and Wales. The fund took part in the AAA tranche of the issue.

We also took part in a 2039 sterling issue from brewer Carlsberg.

## Investment outlook

We have seen UK investment grade markets mostly mitigate the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads now back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far.

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Senior Fund Manager

# Royal London Sterling Credit Fund continued

In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the ‘mechanised’ approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

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.

## Key views within the fund

Well diversified, with around 300 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Fund duration was broadly in line with the benchmark at month end.

Orientated towards subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and structured bonds, which benefit from a claim on assets and cashflows.

# Royal London Sterling Extra Yield Fund

## Portfolio commentary

In February, the fund recorded returns of 1.05%, 1.05%, 1.08% and 1.07% respectively for the A, B, Y and Z class shares. These bring 2025 year to date performance to 2.28%, 2.29%, 2.35% and 2.32% respectively for these share classes.

After higher volatility in recent months, the gilt market was relatively calm in February. With a cut in UK base rates early in the month and the prospect of interest rates in the eurozone being on a clear downward trend reflecting the lacklustre economic outlook, UK gilt rates edged lower across the whole maturity spectrum. Against a background of a strong flow of new issues of sterling investment grade corporate bonds, the asset class's average yield differential over reference gilts widened from 0.77% to 0.82% in February, compared to 0.80% at the start of the year. Gilts posted a 0.82% index return in February while sterling investment grade corporate bonds' index return was 0.50%. European sub-investment grade bonds reflected the expectation of lower rates ahead, posting an index return 1.04%, while global sub-investment grade bonds, dominated by US dollar issues, posted an index return of 0.86% in the month. 2025 year to date returns for these four asset classes, gilts, sterling investment grade corporate bonds, European sub-investment grade bonds and global sub-investment grade bonds were 1.66%,1.61%, 1.65%, 2.06% respectively at end February.

While most holding were up in price in the month, with returns further supported by income generation, there were a few areas of notable performance. These included some holdings in the financial sectors, with bonds of Santander and insurance company Bupa Finance up around 2% in price on the month, and with subordinated bonds of Metrobank up 8% on further reassessment of business prospects. Bonds of Southern Water Services were up a similar amount on the prospect of additional substantial equity investment in the business against a backdrop of improving sentiment on the prospect of a workable regulatory framework for the sector. Investments in energy businesses DOF Group and Shamaran, each received as part of past business restructurings, moved markedly in price in February. DOF Group shares were down 7% in price in the month – after the holding had been further reduced by sales early in the month and to a level still three times higher than at the start of trading now 18 months ago, while Shamaran shares were up 36% in the month on solid business performance and improving prospects of re-opening of the Kurdistan – Turkey pipeline while would markedly improve cash flow. The holding was progressively reduced in the latter part of the month to crystallise this performance in share price.

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**Rachid Semaoune**

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# Royal London Sterling Extra Yield Fund continued

In quite a busy month there were several other areas of investment activity. These included investment in new issues, including of AT1 bonds of both Lloyds and NatWest, each BBB rated and offering a yield of 7.5% to first call in 2030 and 2032 respectively; unrated AT1 bonds of specialist lender United Trust Bank offering 13% to first call in 2030; and unrated bonds of ASP Data Center – offering a 11.5% yield for their three year term with proceeds used for capital expenditure in growing business capacity, and Hofseth, the Norwegian salmon industry business again with proceeds used for business expansion and offering a 12% yield for their five year term.

Market purchases in the month included bonds of Nationwide Building Society, of energy sector businesses Floatel and Samos Energy Infrastructure, of A rated index linked bonds of Coventry & Rugby Hospital PFI structure, and of secured bonds of UK social housing business Poplar. Trading in both utility EDF and in Heathrow entailed switching longer, from 2027 to 2029 and from 2029 call to 2035 call respectively, extending term at higher, attractive yield levels.

Sales in the month included crystallising profits on some recent new issues that had performed well, including UK government sponsored car leasing business Motability, providing transport for the disabled, motoring services business Circular Tire Services, marine technology company G&O, and logistics business MacGregor. Sales in the month also included insurers Allianz, ASR Nederland and Phoenix after recent strong performance in the sector, and of Spanish bank Banco Bilbao Vizcaya and Co-op Bank, the latter recently taken over by Coventry Building Society.

Funds available for investment were enhanced by the redemption of bonds of property group Bruntwood, while shipping company Altera Shuttle Tankers announced the early redemption of the bonds at a price of 108, after paying 9% p.a. income from issue in February last year. Finally, activity in the month in short-dated gilts reflected liquidity management.

# Disclaimers

## Important information

For professional clients only, not suitable for retail clients.

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**RL Corporate Bond Fund, RL Investment Grade Short Dated Credit Fund and RL Sterling Credit Fund.**

The Funds are sub-funds 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.

**RL Ethical Bond Fund, RL Short Duration Credit Fund**

The Funds are sub-funds of RL Bond Funds II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128. 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.

**RL Global Bond Opportunities Fund, RL Sterling Extra Yield Bond Fund**

The Funds are sub-funds 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 Fund Rock Management Company SA, Registered office: Airport Center Building, 5 Heienhaff, L-1736 Senningerberg, 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.

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# Risk 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.

**Charges from capital risk**

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

**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**

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.

**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.

**Derivative risk**

The 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.

**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.

**Exchange rate risk**

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

**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.

**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.

**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.

**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

## Cumulative (%) / Annualised (%)

| | | 3 Month | 6 Month | 1 Year | 3 Years | 5 Years | 3 Years (p.a) | 5 Years (p.a) |
|---|---|---|---|---|---|---|---|---|
| RL Corporate Bond Fund Z Inc | Gross | 2.00 | 3.29 | 8.84 | 7.34 | 9.54 | 2.39 | 1.84 |
| RL Corporate Bond Fund Z Inc | Net | 1.92 | 3.11 | 8.46 | 6.11 | 7.40 | 1.99 | 1.44 |
| RL Ethical Bond Fund Z Inc | Gross | 1.97 | 3.03 | 8.10 | 3.45 | 3.99 | 1.13 | 0.79 |
| RL Ethical Bond Fund Z Inc | Net | 1.87 | 2.83 | 7.67 | 2.21 | 1.94 | 0.73 | 0.38 |
| RL Global Bond Opportunities Fund Z Inc | Gross | 2.78 | 5.41 | 11.19 | 19.74 | 28.02 | 6.18 | 5.06 |
| RL Global Bond Opportunities Fund Z Inc | Net | 2.67 | 5.20 | 10.73 | 18.02 | 24.89 | 5.67 | 4.54 |
| RL Investment Grade Short Dated Credit Fund Z Inc | Gross | 2.19 | 3.52 | 7.82 | 10.30 | 11.14 | 3.32 | 2.13 |
| RL Investment Grade Short Dated Credit Fund Z Inc | Net | 2.13 | 3.40 | 7.56 | 9.51 | 9.82 | 3.07 | 1.89 |
| RL Short Duration Credit Fund Z Inc | Gross | 2.57 | 4.46 | 9.31 | 14.87 | 17.84 | 4.73 | 3.34 |
| RL Short Duration Credit Fund Z Inc | Net | 2.49 | 4.30 | 8.97 | 13.81 | 16.03 | 4.40 | 3.02 |
| RL Sterling Credit Fund Z Inc | Gross | 2.25 | 3.60 | 9.04 | 6.25 | 7.06 | 2.04 | 1.37 |
| RL Sterling Credit Fund Z Inc | Net | 2.17 | 3.43 | 8.67 | 5.14 | 5.21 | 1.68 | 1.02 |
| RL Sterling Extra Yield Bond Fund A Inc | Gross | 3.24 | 5.79 | 11.74 | 23.06 | 31.32 | 7.15 | 5.60 |
| RL Sterling Extra Yield Bond Fund A Inc | Net | 3.02 | 5.35 | 10.81 | 19.99 | 25.93 | 6.26 | 4.72 |
| RL Sterling Extra Yield Bond Fund B Inc | Gross | 3.24 | 5.80 | 11.75 | 23.07 | 31.30 | 7.16 | 5.59 |
| RL Sterling Extra Yield Bond Fund B Inc | Net | 3.03 | 5.30 | 10.47 | 18.42 | 22.99 | 5.79 | 4.22 |
| RL Sterling Extra Yield Bond Fund Y Inc | Gross | 3.25 | 5.80 | 11.74 | 23.06 | 31.32 | 7.15 | 5.60 |
| RL Sterling Extra Yield Bond Fund Y Inc | Net | 3.14 | 5.59 | 11.30 | 21.59 | 28.73 | 6.73 | 5.18 |
| RL Sterling Extra Yield Bond Fund Z Inc | Gross | 3.24 | 5.79 | 11.73 | 23.06 | 31.32 | 7.15 | 5.60 |
| RL Sterling Extra Yield Bond Fund Z Inc | Net | 3.10 | 5.48 | 11.09 | 20.94 | 27.57 | 6.54 | 4.99 |

**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 28 February 2025 unless otherwise stated. All figures are mid-price to mid-price in GBP.

# Performance

## Year on year performance (%)

| | | 31/12/2023-31/12/2024 | 31/12/2022 – 31/12/2023 | 31/12/2021 – 31/12/2022 | 31/12/2020 – 31/12/2021 | 31/12/2019 – 31/12/2020 |
|---|---|---|---|---|---|---|
| RL Corporate Bond Fund Z Inc | Gross | 5.54 | 11.99 | -15.74 | 1.43 | 8.55 |
| RL Corporate Bond Fund Z Inc | Net | 5.17 | 11.53 | -16.08 | 1.01 | 8.11 |
| | | | | | | |
| RL Ethical Bond Fund Z Inc | Gross | 5.20 | 10.14 | -16.75 | -0.07 | 8.33 |
| RL Ethical Bond Fund Z Inc | Net | 4.78 | 9.70 | -17.08 | -0.47 | 7.89 |
| | | | | | | |
| RL Global Bond Opportunities Fund Z Inc | Gross | 10.14 | 10.40 | -6.64 | 7.08 | 3.63 |
| RL Global Bond Opportunities Fund Z Inc | Net | 9.67 | 9.83 | -7.13 | 6.52 | 3.13 |
| | | | | | | |
| RL Investment Grade Short Dated Credit Fund Z Inc | Gross | 5.63 | 8.63 | -7.54 | -0.05 | 3.79 |
| RL Investment Grade Short Dated Credit Fund Z Inc | Net | 5.38 | 8.37 | -7.76 | -0.29 | 3.54 |
| | | | | | | |
| RL Short Duration Credit Fund Z Inc | Gross | 7.70 | 9.75 | -6.60 | 1.51 | 4.06 |
| RL Short Duration Credit Fund Z Inc | Net | 7.37 | 9.41 | -6.89 | 1.20 | 3.74 |
| | | | | | | |
| RL Sterling Credit Fund Z Inc | Gross | 5.89 | 11.39 | -16.56 | 0.94 | 8.03 |
| RL Sterling Credit Fund Z Inc | Net | 5.52 | 11.00 | -16.85 | 0.59 | 7.65 |
| | | | | | | |
| RL Sterling Extra Yield Bond Fund A Inc | Gross | 11.52 | 10.29 | -4.36 | 8.35 | 1.69 |
| RL Sterling Extra Yield Bond Fund A Inc | Net | 10.59 | 9.37 | -5.16 | 7.45 | 0.87 |
| | | | | | | |
| RL Sterling Extra Yield Bond Fund B Inc | Gross | 11.52 | 10.29 | -4.37 | 8.34 | 1.70 |
| RL Sterling Extra Yield Bond Fund B Inc | Net | 10.15 | 8.81 | -5.65 | 6.89 | 0.35 |
| | | | | | | |
| RL Sterling Extra Yield Bond Fund Y Inc | Gross | 11.54 | 10.27 | -4.37 | 8.36 | 1.69 |
| RL Sterling Extra Yield Bond Fund Y Inc | Net | 11.09 | 9.83 | -4.75 | 7.93 | 1.31 |
| | | | | | | |
| RL Sterling Extra Yield Bond Fund Z Inc | Gross | 11.53 | 10.29 | -4.37 | 8.36 | 1.70 |
| RL Sterling Extra Yield Bond Fund Z Inc | Net | 10.88 | 9.65 | -4.92 | 7.73 | 1.13 |

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Source: RLAM as at 28 February 2025 unless otherwise stated. All figures are mid-price to mid-price in GBP.