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Royal London Government Bond Funds

Fund Manager Commentary

28 February 2025

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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 Global Index Linked Bond Fund Z Inc	**1.02**	**3.98**
Bloomberg World Government Inflation-Linked Bond Index – Total Return (GBP Hedged)	1.18	3.49
Gobal Inflation Linked Bond Sector	0.95	4.07
RL Index Linked Bond Fund M Inc	**-0.45**	**-1.38**
FTSE Actuaries UK Index-Linked All Stocks Index	-0.59	-3.65
IA UK Index Linked Gilts Sector	-0.54	-2.64
RL Short Duration Gilts Fund Z Inc	**0.49**	**4.87**
FTSE Actuaries UK Conventional Gilts up to 5 Years Index	0.46	4.56
IA UK Gilts Sector	0.73	2.29
RL Short Duration Global Index Linked Bond Fund Z Inc	**0.84**	**5.40**
RL Short Duration Global Index Linked Composite Benchmark[1]	0.83	5.13
Global Inflation Linked Bond Sector	0.95	4.07
RL UK Government Bond Fund Z Inc	**0.77**	**2.99**
FTSE Actuaries UK Conventional Gilts All Stocks Index	0.76	1.54
IA UK Gilts Sector	0.73	2.29

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: Royal London Asset Management and FE, correct as of 28 February 2025. Returns quoted are net of fees. Please note the fund returns are based on mid-day pricing, and benchmark returns are priced at end of day. All IA sector performance shown is for the median. [1] The composite benchmark consists of: 30% Bloomberg UK government Inflation Linked Bond 1-10 year index, 70% Bloomberg World Government Inflation Linked Bond (Ex UK) 1-10 year index (GBP Hedged).

Government Bond Market Review

Market highlights

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%.

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. On the fiscal side, the government remains under pressure, with the rise in bond yields and a weaker growth environment all but eliminating the governments headroom against its new fiscal rules.

Data released during February was generally a little stronger than expected, but nevertheless showed a flattish picture of economic activity. Labour market-related surveys continued reflect a deteriorating picture, even while the official figures were healthier than expected (the measure of payroll employees rose on the January figures). Fourth quarter GDP growth (released in February) were weak, but stronger than expected at 0.1% quarter-on-quarter, with most of the growth coming from government spending. CPI inflation was two tenths higher than expected, remaining above the Bank of England’s 2% target, at 3.0% year-on-year after 2.5%. Services inflation was a touch lower than expected though – albeit still high at 5.0% year-on-year. The Bank of England in their February forecasts said that they expect CPI to reach 3.7% in the third quarter (before falling back).

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 were elevated over the month. Federal Reserve speakers, meanwhile, continued to indicate that they were in no hurry to cut rates. In general, data disappointed. Non-farm payrolls were weaker than expected at 143K on the month, but recent past figures were revised up. CPI inflation rose from 2.9% year-on-year to 3.0%, with core rising a stronger than expected 0.4% month-on-month. The core PCE deflator rose 0.3% month-on-month. Average hourly earnings picked up too at 0.5% month-on-month (after 0.3%).

European markets were relatively quiet on the monetary policy front with no meeting during February. However, expectation were maintained for a further 25 basis point rate cut at the meeting in March. ECB President Christine Lagarde did comment mid-month that the disinflation process was 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. January CPI (released in February) rose, with headline CPI at 2.5% year-on-year after 2.4%, remaining above the ECB’s 2% target. Core CPI remained 2.7% year-on-year. Activity data released over the month were somewhat lacklustre.

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.

ROYAL LONDON
ASSET MANAGEMENT

Royal London Global Index Linked Bond Fund

Portfolio commentary

Net of fund management fees, the fund produced positive returns in February, slightly lagging the benchmark. It should be noted that returns can be distorted by the differing valuation points of the fund and index. On a like-for-like basis, the fund was broadly in line with the benchmark.

Performance across bond markets in February was driven by any news relating to tariffs being implemented by the US. This created volatility around any policymaker comments with tariffs generally seen as inflationary in Europe but growth negative for the US. Yields on 10-year benchmark bonds fell globally but the largest falls of around 30 basis points were seen in the US, with European yields falling around 5 basis points.

Inflation data in both the UK and US surprised to the upside in mid-February, but generally were not market moving. Yield curves globally marginally steeper with the exception of Japan where the expectation of further rate hikes grew putting pressure on the 10-year sector, while breakeven rates were lower globally where the imposition of tariffs was deemed more a tax on future growth particularly in the US.

Tactical cross-market positioning helped performance during the month. We started February with a long France position vs the UK which helped performance early in the month. We closed the position after strong performance, but then put this in place once more ahead of the UK 2049 syndication, which saw the UK underperform once more. We also cut our overweight in the US relative to the UK, moving back to neutral.

Investment outlook

We expect markets to remain volatile around economic data points and envisage to continue trading duration – particularly around supply events where we expect larger discounts in 2025. Trump policies and geopolitics will continue to add to volatility.

We have moved from peak optimism at the end of 2023 to almost peak pessimism at the end of 2024 where only two rate cuts were expected in 2025 with bond yields in the UK, and to a lesser extent the US following the February rally, close to levels not seen since the great financial crisis.

We expect to continue to add duration gradually and will use supply events in March to add. In the UK, we believe that short-dated inflation looks overvalued given the chances of a UK recession has increased post the budget. However longer-dated inflation looks cheap, particularly with CPIH now higher than RPI, so the spectre of RPI would seem less of an issue.

CITYWIRE A

Paul Rayner

Head of Alpha Strategy

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Gareth Hill

Senior Fund Manager

Royal London Index Linked Bond Fund

Portfolio commentary

Net of fund management fees, the fund produced negative returns in February, albeit less so than the benchmark. It should be noted that returns can be distorted by the differing valuation points of the fund and index. On a like-for-like basis, the fund was also ahead of the benchmark.

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Tactical duration and cross-market positioning helped performance during the month. We started February with a long France position vs the UK which helped performance early in the month. We closed the position after strong performance, but then put this in place once more ahead of the UK 2049 syndication, which saw the UK underperform once more. In duration, we increased our long position as UK 30-year real yields approached 2%, before taking profits as these fell back. Finally, we traded around the 2049 syndication, selling 2046 and 2050 bonds early in the month expecting supply to weaken these, before adding at more favourable levels after these cheapened as the syndication approached.

Investment outlook

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Royal London Short Duration Gilts Fund

Portfolio commentary

Net of fees, the fund was flat versus its benchmark in February.

Over the course of February 10-year gilt yields traded within a tight range, following a rather volatile January. As a result, the shape of the yield curve was also little changed.

The UK government bond market has found itself stuck between the political uncertainty playing out in Europe and the US, leaving gilts as bystanders amidst the sell-off in the month.

The fund started the month half a year long duration versus the benchmark. We added value by tactically trading the position throughout the month but ended back at half a year long. The fund traded with a tight range, between 0.4 of a year long and 0.65 of a year long.

Performance in the month was driven by our strategic long duration position and trading the market volatility.

The fund's relative value position was neutral for performance.

The fund has no inflation exposure.

The fund ended the month with no cross-market exposure as we feel gilts are attractively priced both in their own right, and relative to global markets.

Investment outlook

We believe that spot inflation will remain stubborn and is likely to remain above central bank targets in most economies as we progress through 2025. We still forecast central banks to be cutting rates during 2025 as they move from being restrictive to somewhat more neutral.

In the UK, the BoE faces a unique set of challenges. With economic growth in decline, and expected to stagnate for much of 2025, the BoE should be cutting rates from their current restrictive levels. However, with inflation remaining sticky, and forecast to remain well above the BoE's CPI target for much of 2025, delivering cuts in a 'stagflationary' environment may be somewhat more challenging. Royal London Asset Management still forecasts three further cuts from the BoE this year to leave rates at 3.75% at year end.

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Head of Rates and Cash

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Senior Fund Manager

Royal London Short Duration Gilts Fund continued

One area that remains a concern for the market is the sheer amount of bond supply to come in gilts over the next few years; a feature that has only been exacerbated by Labour's economic budget. The market has reacted by pushing longer maturity government bond yields higher, steepening the curve and leaving 30-year maturity bonds yields above 5%. We believe these yield levels are attractive for longer term investors, particularly if the UK Debt Management office reacts to changing market dynamics by reducing longer issuance as a portion of the overall gilt remit even further.

Key views within the fund

The portfolio's duration is long of the benchmark, including the impact of cash holdings on duration.

The portfolio has allocations to high quality corporate bonds, which we expect to outperform gilts.

Royal London Short Duration Global Index Linked Bond Fund

Portfolio commentary

Net of fund management fees, the fund produced positive returns in February, slightly ahead of the benchmark. It should be noted that returns can be distorted by the differing valuation points of the fund and index. On a like-for-like basis, the fund was broadly in line with the benchmark.

Performance across bond markets in February was driven by any news relating to tariffs being implemented by the US. This created volatility around any policymaker comments with tariffs generally seen as inflationary in Europe but growth negative for the US. Yields on 10-year benchmark bonds fell globally but the largest falls of around 30 basis points were seen in the US, with European yields falling around 5 basis points.

Inflation data in both the UK and US surprised to the upside in mid February, but generally were not market moving. Yield curves globally marginally steeper with the exception of Japan where the expectation of further rate hikes grew putting pressure on the 10-year sector, while breakeven rates were lower globally where the imposition of tariffs was deemed more a tax on future growth particularly in the US.

Tactical cross-market positioning helped performance during the month. We started February with a long France position vs the UK which helped performance early in the month. We closed the position after strong performance, but then put this in place once more ahead of the UK 2049 syndication, which saw the UK underperform once more. We also cut our overweight in the US relative to the UK, moving back to neutral.

Investment outlook

We expect markets to remain volatile around economic data points and envisage to continue trading duration – particularly around supply events where we expect larger discounts in 2025. Trump policies and geopolitics will continue to add to volatility.

We have moved from peak optimism at the end of 2023 to almost peak pessimism at the end of 2024 where only two rate cuts were expected in 2025 with bond yields in the UK, and to a lesser extent the US following the February rally, close to levels not seen since the great financial crisis.

We expect to continue to add duration gradually and will use supply events in March to add. In the UK, we believe that short-dated inflation looks overvalued given the chances of a UK recession has increased post the budget. However longer-dated inflation looks cheap, particularly with CPIH now higher than RPI, so the spectre of RPI would seem less of an issue.

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Royal London UK Government Bond Fund

Portfolio commentary

Net of fees, the fund was in line with its benchmark in February.

Over the course of February 10-year gilt yields traded within a tight range, following a rather volatile January. As a result, the shape of the yield curve was also little changed.

The UK government bond market has found itself stuck between the political uncertainty playing out in Europe and the US, leaving gilts as bystanders amidst the sell-off in the month.

With yields ending the month broadly flat, our strategic duration position was broadly neutral for performance. The fund started the month about half a year long, which we tactically traded throughout the month. The fund ended the month about half a year long.

During the month, we added UK inflation exposure into the fund, buying 20-year breakevens.

On a cross-market basis, the fund took part in a syndication of 10-year Australian government bonds but then sold out of the position within the month. The fund ended the month with no cross-market positions as we feel gilts are attractively priced both in their own right, and versus other markets.

For our curve positioning, we trimmed our short position in the belly of the curve, although the funds retains a large underweight in 10 -to-20-year maturity bonds. To do this, we sold 5-year and 40-year gilts into 12-year gilts.

Investment outlook

We believe that spot inflation will remain stubborn and is likely to remain above central bank targets in most economies as we progress through 2025. We still forecast central banks to be cutting rates during 2025 as they move from being restrictive to somewhat more neutral.

In the UK, the BoE faces a unique set of challenges. With economic growth in decline, and expected to stagnate for much of 2025, the BoE should be cutting rates from their current restrictive levels. However, with inflation remaining sticky, and forecast to remain well above the BoE's CPI target for much of 2025, delivering cuts in a 'stagflationary' environment may be somewhat more challenging. Royal London Asset Management still forecasts three further cuts from the BoE this year to leave rates at 3.75% at year end.

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Royal London UK Government Bond Fund continued

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Key views within the fund

The portfolio’s duration is long versus the index, including the impact of cash holdings on duration, although we continue to trade around this as market volatility provides opportunities to add value.

The fund retains an exposure to steepening via its overweight in 7-year maturity bonds versus 10 to 20-year maturity bonds.

The fund holds no positions in overseas government bonds currently.

The portfolio has a small allocation to high quality corporate bonds which provide additional yield for the portfolio.

Disclaimers

Important information

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RL Global Index Linked Fund, RL UK Government Bond fund, RL Index Linked, RL Short Duration Global Index Linked Fund and RL Short Duration Gilts Fund

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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.

Concentration risk

The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the Stockmarket and therefore more volatile.

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.

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.

Exchange rate risk

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

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.

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.

Performance

Cumulative (%) / Annualised (%)

		3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a)	5 Years (p.a)
RL Global Index Linked Bond Fund Z Inc	Gross	-0.16	-0.17	4.35	-9.68	-2.01	-3.33	-0.40
RL Global Index Linked Bond Fund Z Inc	Net	-0.25	-0.35	3.98	-10.65	-3.75	-3.68	-0.76
RL Index Linked Bond Fund M Inc	Gross	-3.99	-5.35	-1.09	-34.77	-31.62	-13.26	-7.32
RL Index Linked Bond Fund M Inc	Net	-4.06	-5.49	-1.38	-35.36	-32.72	-13.53	-7.62
RL Short Duration Gilts Fund Z Inc	Gross	1.12	1.74	5.10	6.28	5.38	2.05	1.05
RL Short Duration Gilts Fund Z Inc	Net	1.07	1.63	4.87	5.58	4.23	1.82	0.83
RL Short Duration Global Index Linked Bond Fund Z Inc	Gross	0.99	1.47	5.63	4.23	13.36	1.39	2.54
RL Short Duration Global Index Linked Bond Fund Z Inc	Net	0.93	1.36	5.40	3.54	12.12	1.17	2.31
RL UK Government Bond Fund Z Inc	Gross	-0.88	-1.63	3.25	-14.55	-19.70	-5.10	-4.29
RL UK Government Bond Fund Z Inc	Net	-0.94	-1.75	2.99	-15.19	-20.86	-5.34	-4.57

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 Global Index Linked Bond Fund Z Inc	Gross	-0.11	4.30	-17.08	5.80	9.43
RL Global Index Linked Bond Fund Z Inc	Net	-0.47	3.93	-17.37	5.42	9.04
RL Index Linked Bond Fund M Inc	Gross	-7.84	1.24	-32.92	4.62	11.95
RL Index Linked Bond Fund M Inc	Net	-8.12	0.93	-33.13	4.24	11.55
RL Short Duration Gilts Fund Z Inc	Gross	2.79	5.07	-3.54	-0.98	1.58
RL Short Duration Gilts Fund Z Inc	Net	2.56	4.84	-3.76	-1.20	1.36
RL Short Duration Global Index Linked Bond Fund Z Inc	Gross	2.12	5.67	-5.20	4.89	5.17
RL Short Duration Global Index Linked Bond Fund Z Inc	Net	1.90	5.44	-5.41	4.66	4.94
RL UK Government Bond Fund Z Inc	Gross	-2.63	5.02	-21.89	-4.68	9.34
RL UK Government Bond Fund Z Inc	Net	-2.88	4.76	-22.10	-5.02	8.96

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