For professional clients only, not suitable for retail clients.

Royal London Short Term Fixed Income Enhanced Fund

Quarterly Investment Report

31 March 2025

Quarterly Report

The fund as at 31 March 2025

The purpose of this report is to provide an update on the Royal London Short Term Fixed Income Enhanced 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.

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The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return over rolling 12-month periods by generally investing (at least 60% of its assets) in Short Term Fixed Income Securities. The Fund's comparator benchmark is the Bank of England Sterling Overnight Interbank Average (SONIA) plus 1.0%. For the most appropriate comparison, this should be considered on a 'before the deduction of fees' basis.

Fund value

	Total £m
31 March 2025	1,351.27

Fund analytics

	Fund
Fund launch date	18 May 2015
Benchmark	Sterling Overnight Index Average (SONIA) plus 1.0%
Duration (years)	1.11
Number of issuers	81
Gross redemption yield (%)	4.86

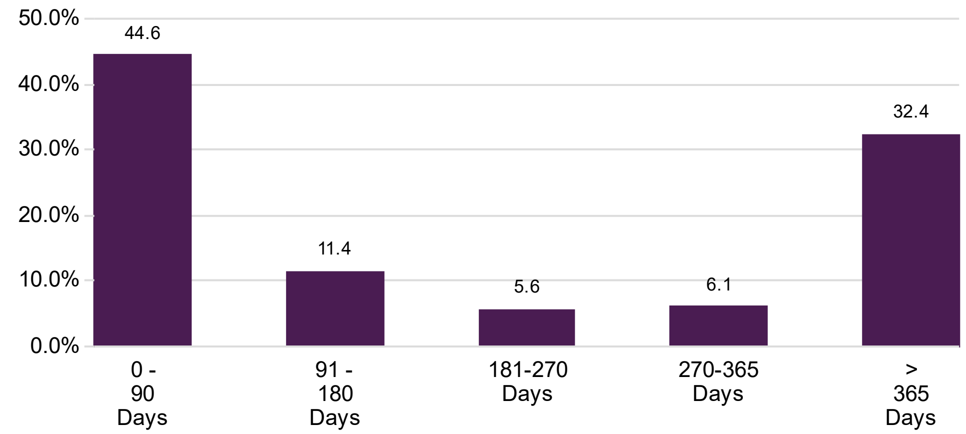
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.43	1.10	0.33
1 Year	5.81	4.90	0.91
3 Years (p.a.)	4.48	4.02	0.46
5 Years (p.a.)	3.06	2.43	0.63
Since inception (p.a.)	2.00	1.42	0.58

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 Y Acc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 18 May 2015.

Duration profile



Performance commentary

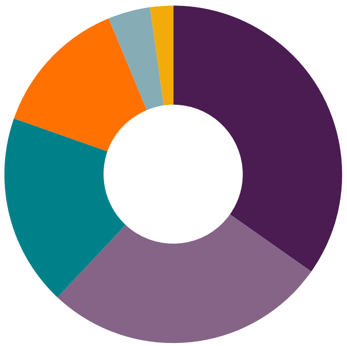
Money market rates fell in line with the Bank of England rate cut in February. Longer maturities have not moved substantially over the period – these were already pricing in modest rates in 2025 at the end of last year, and while the start of the Trump presidency has led to volatility for risk assets and policy expectations, it had little impact on UK economic data and therefore interest rate expectations over the quarter. Our money market exposure therefore remained measured, looking to extend selectively where yields were attractive, but often finding that extending interest rate risk did not look attractive as it did not provide a compensating increase in yield.

Performance was positive over the quarter compared to the SONIA benchmark. At a portfolio level, we had built up a yield premium to the benchmark. Covered bonds account for a material part of non-money market exposure and were a strong driver of returns over the quarter given the premium these pay over SONIA. Although overall credit spreads were slightly wider over the quarter, the spread over SONIA available in the 3-5 year space was little changed, allowing the fund to benefit from the additional yield. Money market exposure was also positive for returns, again helped by selective exposure to longer maturities and the additional yield over SONIA these gave us. Exposure to short-dated bank bonds was mixed: spreads were slightly wider, although this was seen more in the subordinated space than senior bonds where our exposure is focused.

We continued to use short-dated gilts to maintain duration and benefit from the higher yields on offer as the market continued to change expectations of future rate moves. When short-dated yields are more volatile, this is an effective way to benefit from this volatility given these are liquid and cost-efficient.

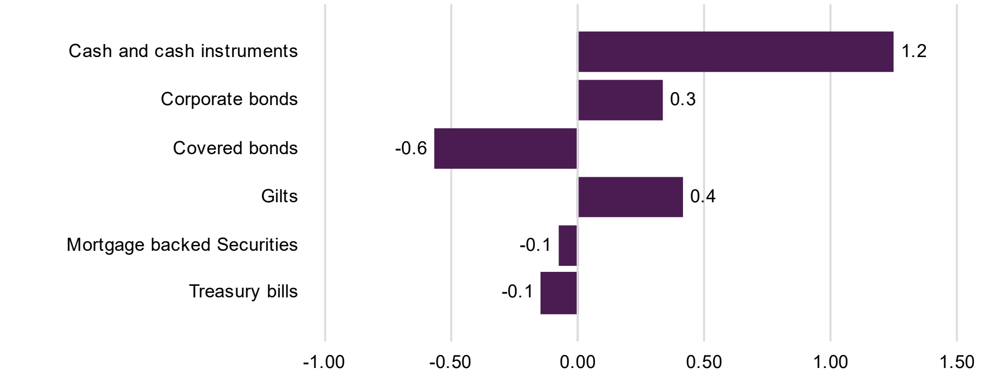
Performance and activity

Asset allocation profile

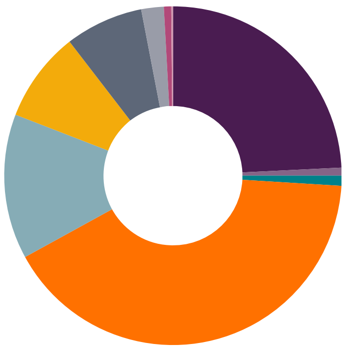


Cash and cash instruments	34.8%
Corporate bonds	27.2%
Covered bonds	18.4%
Gilts	13.4%
Mortgage backed Securities	4.1%
Treasury bills	2.2%

Change since last quarter (asset allocation) %

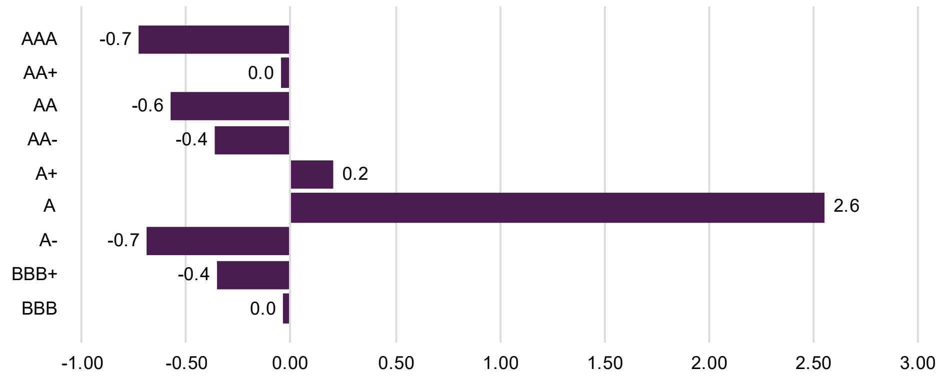


Credit rating profile



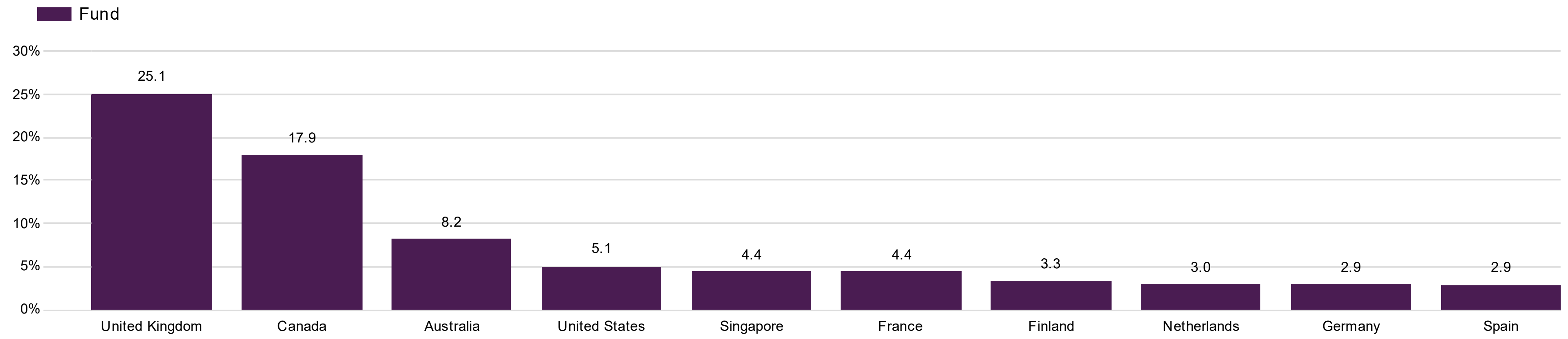
AAA	24.2%
AA+	0.7%
AA	1.0%
AA-	41.1%
A+	13.9%
A	8.7%
A-	7.5%
BBB+	2.2%
BBB	0.7%
BBB-	0.2%

Change since last quarter (rating) %

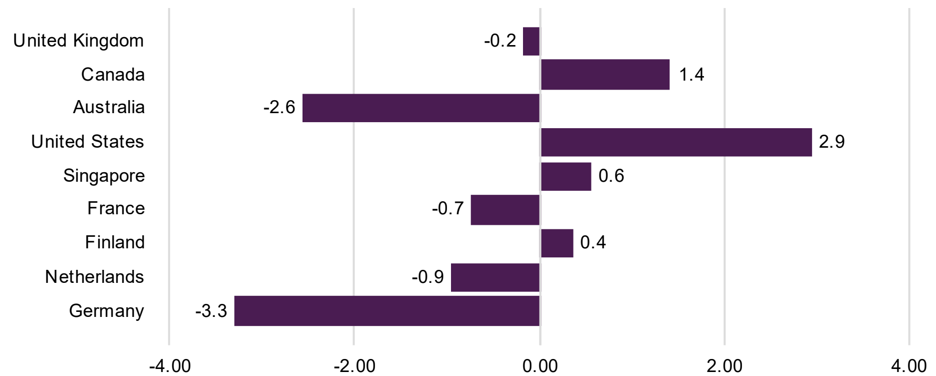


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Fund activity

Activity was generally in overnight deposits, as well as CDs – where we looked to add attractive yield levels. In general, we were happier to buy longer-dated paper earlier in the quarter, with this activity easing as we moved into March and the yields on longer-dated paper looked less attractive on our models. Early in the quarter we were happy to add one-year CDs from Bank of Nova Scotia and Goldman Sachs, with one-year paper from Bank of Montreal the notable purchase later in the period.

Covered bonds from favoured issuers are always attractive for the fund, and remain a material part of the portfolio. We were active in this area, adding Federation des Caisse Desjardins in the new issue market as well as Westpac Corp in the secondary. In short-dated credit, we added new issue senior bonds from Bank of Nova Scotia, BPCE and Nordea, all yielding well over 5%. Finally we added a CMBS from student accommodation provider Unite – purchasing very short-dated bonds and therefore managing overall risk, while achieving an above-market yield.

Market commentary

Market overview

The year kicked off with relative stability, following a turbulent fourth quarter of 2024, with the global economy seeing modest growth and central banks easing monetary policy as inflation remained well below the peak levels of recent years. As the quarter progressed, however, stability gave way to volatility, primarily due to elevated policy uncertainty in the US, with President Donald Trump pivoting away from Europe; the spectre of aggressive tit-for-tat tariffs; and Europe's fiscal regime change, led by Germany looking to alter decades of fiscal policy stability and ramp up spending, principally in relation to defence.

The increasingly uncertain US policy backdrop and related disruptions to global trade seem likely to weigh on growth in the US and beyond. Fiscal stimulus may provide something of a shield in economies like the euro area and China. We anticipate that a few more gradual and careful rate cuts are likely in major economies (except in Japan), but the US inflation outlook is uncertain enough that US rate hikes can't be ruled out either.

Policy uncertainty resulted in significant weakness in global equity indices. US tech stocks had already experienced a dramatic sell-off following news of an apparently low-cost development of advanced AI by a Chinese competitor, DeepSeek. European and UK stocks fared much better, posting positive total returns for the three months as investors also pivoted away from overweight positions in US equities, in part because of the change in German fiscal policy.

In March, as expected, the Bank of England's Monetary Policy Committee voted to keep rates on hold at 4.50%, with an 8-1 vote in favour of keeping rates steady. The Bank continues to see a "gradual and careful approach to the further withdrawal of monetary policy restraint" as appropriate. The BoE has noted that not much in the domestic picture has changed for them. On inflation, although this has been a touch stronger than expected, they see domestic and wage pressures as moderating (but remaining elevated) and they still expect inflation to fall back after an expected rise in CPI in coming months.

Chancellor Rachel Reeves delivered her Spring Statement towards the end of the quarter, with the main headline being the country will need to spend less to meet fiscal rules. The Office of Budget Responsibility revised down their growth forecasts for this year by 1.0% (to 1.0%). They revised up their forecasts for bond yields. Neither of those things were good news for their forecasts for public finances. The Debt Management Office announced that this coming fiscal year will see a net financing requirement of £304bn of which £299bn will be gilt sales.

Government bond markets also saw heightened volatility over the quarter, amid ongoing political noise across Europe and the US. In the US, 10-year treasury yields fell to 4.21% from 4.57%, while German 10-year bunds yields rose to 2.70% from 2.36%. Benchmark 10-year gilt yields increased to 4.68% from 4.57%.

The Bank of England rate cut in February was the focus for money market rates over the quarter. Having started the year at 4.70%, SONIA fell to 4.45% after the cut. Two-year gilts, often seen as a proxy for market expectations of BoE rates, started at 4.38%, fell through February ahead of and after the rate cut, and were then traded sideways for the rest of the quarter in a narrow range just under 4.25%, ending at 4.21%.

Outlook

While risk assets saw increased volatility over the quarter, sterling money markets were relatively calm. The single cut by the BoE was what the market had priced in, and the outlook hasn't changed materially either, with a further 2-3 rate cuts priced in for the rest of 2025. This is line with our own expectations, although at the margin, we perhaps expect the Bank to be slightly more active in cutting rates than the market does – while inflation is still higher than the Bank would like, we believe that the softening services inflation element will give the Bank room to continue cutting rates. The Spring Statement at the end of the quarter was widely covered in the news, but delivered little that was unexpected, with growth forecasts cut and the gilt remit confirming that long-dated issuance would be lower, reflecting the changes in gilt ownership in recent years (see the update from Craig Inches in the Our Views section our website www.rlam.co.uk).

In a falling rate environment, liquidity funds traditionally look to extend maturity to lock in higher rates for longer. However, the money market curve already reflects further action from the BoE. Our focus is therefore more on finding relative value opportunities and ensuring that we have the appropriate balance across our portfolios in terms of security, yield and diversification. In general terms, we won't chase yield at the expense of ramping up risk unless we feel that markets are mis-judging the overall environment. That is not the case right now.

Although rates fell over the quarter as a whole, we believe that the yields across our range of liquidity and short-dated funds remain attractive – particularly in an environment where uncertainty (whether measured in business surveys or looking at market volatility measures) is elevated.

Further Information

Please click on the links below for further information:

- Stewardship and responsible investment at RLAM
- Royal London Sterling credit ESG analysis
- TCFD climate report

Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Disclaimers

Important information

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Issued in April 2025 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 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.

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.

Interest rate risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

Counterparty risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

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.

Inflation risk

Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Performance to 31 March 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.43	2.55	5.81	14.06	16.30
Fund (net)	1.39	2.45	5.62	13.45	15.25

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
4.48	3.06
4.29	2.88

Year on year performance (%)

	31/03/2024 - 31/03/2025	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022	31/03/2020 - 31/03/2021
Fund (gross)	5.81	6.65	1.09	(0.65)	2.63
Fund (net)	5.62	6.45	0.90	(0.83)	2.44

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 31 March 2025. All figures are mid-price to mid-price for the Royal London Short Term Fixed Income Enhanced Fund Y Acc GBP share class.

Glossary

Asset allocation

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

Duration

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

Fund 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.

Number of issuers

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

Performance

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