Royal London Absolute Return Government Bond 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 Absolute Return Government 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.

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ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The investment objective of the fund is to target absolute positive capital growth and the fund will seek to achieve its objective on an active basis. The Fund seeks to achieve its investment objective by outperforming its benchmark, the Sterling Overnight Index (the "Benchmark") on an annual basis by 2.5% over rolling three year periods and aims to provide positive performance over 12 month periods. The Benchmark is an index which tracks overnight funding rates in the Sterling market. The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Fund value

	Total £m
31 March 2025	1,085.37

Asset allocation

	Fund (%)
Conventional credit bonds	51.41
Money Market Instruments	26.04
Conventional foreign sovereigns	8.73
Conventional gilts	7.28
Index linked foreign sovereigns	5.08
Index linked gilts	0.92
Index linked credit bonds	0.54

Fund analytics

	Fund
Fund launch date	17 November 2014
Fund base currency	GBP
Benchmark	Sterling Overnight Index Average (SONIA)

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.47	1.10	0.37
1 Year	6.56	4.90	1.66
3 Years (p.a.)	5.93	4.02	1.91
5 Years (p.a.)	4.40	2.43	1.97
10 Years (p.a.)	2.46	1.45	1.01
Since inception (p.a.)	2.42	1.41	1.01

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 Z Acc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 17 November 2014.

Performance commentary

The fund posted a strong return over the quarter, outperforming its cash benchmark, and remains significantly ahead of benchmark over one and three years. Year to date the fund has achieved higher returns than both all stock UK and global bond indices.

The largest contributor to performance was again from the core holdings of sterling money market instruments. These assets yielded above 4.75% and benefited from expectations that UK rates would be cut over the next 12 months.

Duration positions added value, particularly through tactically trading the volatility seen in markets as economic data continued to be mixed. Long positions in the US and short-dated UK bonds were the main positives for the portfolio. Duration positions in Japan and Europe marginally detracted, notably in Japan where yields hit multi-year highs.

Curve were also positive, with steepening positions in the US and Europe adding value, as did our curve flattener in Japan.

Inflation positions helped performance through long European and US breakeven positions in March, as well the short position in five-year RPI.

Cross market positions were mixed with the long UK vs Europe detracting from performance due to concerns over UK debt sustainability whilst long positions in Australia added value.

Performance and activity

Return Contribution

	Quarter	1 year	Target return (of live trades)
Inflation	17.95	93.84	342.31
Curve	14.44	34.05	57.78
Duration	9.59	64.73	207.27
Relative Value	8.38	10.87	20.63
Cross Market	(0.05)	(5.03)	161.99
FX Hedges	0.00	0.00	0.00
Cash	108.37	429.23	988.30
Total	**158.69**	**627.68**	**1,778.26**

Top Contributors

	Strategy	Q1 Contribution (bps)
Cash	Cash	103.00
Duration	US	19.00
Duration	UK	10.95
Curve	Japan	8.76
Inflation	EUR	8.42

Bottom Contributors

	Strategy	Q1 Contribution (bps)
Duration	EUR	(6.56)
Duration	Japan	(5.84)
Cross Market	US/UK	(5.14)
Cross Market	AUS/UK	(1.77)

Performance and activity

Portfolio Exposure

Trades	Position size	Net duration exposure	Market beta	Target return (bps)
Inflation				
Long Japanese Breakeven	0.10	0.00	(0.03)	2.00
Long UK 30y Break even	0.20	0.00	0.00	5.00
Long UK 20 year Breakeven	0.30	0.00	0.00	7.00
Curve				
US 5-30 steepener	0.20	0.00	0.00	5.00
German 10-30 steepener	0.20	0.00	0.00	5.00
Cross Market				
Long Spain vs France	0.20	0.00	0.00	2.00
Long Aus ry vs UK	0.10	0.00	0.00	3.00
Long UK 1y1y vs US	0.30	0.00	0.00	15.00
Long 30 year australia vs US	0.20	0.00	0.00	5.00
Relative Value				
Short 30 year Iota	0.20	0.00	0.00	5.00
Duration				
Long UK 7 year and 10 year	0.40	0.50	0.40	10.00
Long 30 year RY	0.20	0.20	0.20	10.00
Long 10 year Australia	0.10	0.10	0.05	5.00
Long 30 year Japan	0.40	0.40	0.20	20.00

Performance and activity

Portfolio Exposure

Trades	Position size	Net duration exposure	Market beta	Target return (bps)
Cash				
Cash	0.20	0.25	-	425.00
Overall Net Duration Position	**3.50**	**1.45**	**0.82**	**529.00**

Performance and activity

Asset allocation – duration

	0 -2 yrs	2 -7 yrs	7 - 12 yrs	12 - 17 yrs	17 -22 yrs	22 -27 yrs	>27 yrs	Total
Australia	0.01	0.00	0.21	0.00	0.21	0.00	0.00	0.43
Canada	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.04
European Union	(0.01)	0.00	0.23	0.00	0.00	0.00	0.00	0.22
Finland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
France	0.01	0.00	(0.20)	0.00	0.00	0.00	0.00	(0.19)
Germany	0.00	0.00	0.12	0.00	(0.34)	0.00	0.00	(0.21)
Italy	0.00	0.00	(0.05)	0.00	0.00	0.00	0.00	(0.05)
Japan	0.06	0.00	(0.11)	0.00	0.45	0.00	0.00	0.40
Netherlands	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norway	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.02
Singapore	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.00	0.00	0.21	0.17	0.00	0.00	0.00	0.38
Supranational	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.02
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.43	0.12	0.12	0.00	0.34	(0.09)	0.00	0.92
United States	(0.32)	0.22	0.00	(0.43)	0.00	0.00	0.00	(0.54)
Total								1.44

Performance and activity

Asset allocation - inflation

	0 -2 yrs	2 -7 yrs	7 - 12 yrs	12 - 17 yrs	17 -22 yrs	22 -27 yrs	>27 yrs	Total
Australia	0.00	0.00	(0.10)	0.00	0.00	0.00	0.00	(0.10)
Canada	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
European Union	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
France	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Germany	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Italy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan	(0.07)	0.00	0.00	0.00	0.00	0.00	0.00	(0.07)
Netherlands	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norway	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Supranational	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	(0.71)	0.00	0.11	0.00	0.00	0.10	0.00	(0.50)
United States	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total								(0.67)

Performance and activity

Stand alone risk contribution

	Quarterly Vol (%)	Annual Vol (%)
Inflation	(0.01)	(0.01)
Curve	0.04	0.08
Duration	0.33	0.66
Relative Value	0.02	0.05
Cross Market	0.14	0.28
FX Hedges	0.10	0.20
IOTA	(0.00)	(0.01)
Cash	0.08	0.15
Futures	0.02	0.03
Overall Volatility	**0.71**	**1.43**

Risk Model Factor Risk Breakdown

	Standalone Risk Portfolio (bp)	Risk Contribution Portfolio (bp)	% of overall risk
Rates	137.29	132.31	92.60
Inflation	24.87	1.55	1.08
Spreads	27.93	9.24	6.47
Foreign Exchange	1.61	(0.22)	(0.15)
Time	0.00	-	-
Other	0.00	-	-
Total	**191.70**	**142.88**	**100.00**

Diversification across Risk Factors (%)	**(25)**

Performance and activity

Fund activity

The portfolio began the quarter around 1 years long, and ended the quarter at 1.4 years. During the quarter the range was 0.7 years to 2.1 years. Duration was added both in early January as UK yields rose on debt sustainability fears and in early March as Germany announced the intention to increase fiscal spending by €500bn. In between, markets had periods of strength as data particularly in the US disappointed and yields fell on expectations of deeper rate cuts.

We also added duration at a number of syndications including 30-year UK real yields 10-year Australia, and European new issues. These positions were more tactical.

During the quarter we entered into a number of cross market positions, selling the US after a period of strength into the UK and Australia, and receiving UK 1y1y rates vs the US as we expect larger rate cuts in the UK than is priced in by markets.

Curve positions in the US and Europe were traded actively. We added to both the US and European positions, also adding to our Japan curve position as the 30-year yield hit a new high yield of 2.5%.

UK gilts outperformed swaps, and we therefore closed our long-held swap position as spreads narrowed by 15bps. With German supply expected to increase we entered a short bund swap position during the quarter.

Inflation positions were increased, buying long-dated RPI and US and German breakevens. After a rise in breakevens on tariff fears we sold the US and German positions believing that tariffs in the long term will prove deflationary.

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 the US, at its final meeting of the quarter, the Federal Reserve, as expected, kept rates on hold with the Fed Funds target range at 4.25-4.50%. With them seeing the US economy as "strong overall", the Fed feels they are in a good place. Chair Powell noted that they are at a position, where the bank can cut and they can hold (perhaps notably not mentioning a possible hike). Participant forecasts still have two rate cuts in them for 2025. Broader Fed commentary continued to indicate that they are not in a hurry to cut rates. In a very uncertain environment, it makes sense to wait until things are clearer and "we'll be adapting as we go," said Powell.

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 minutes from March's meeting flagged increased trade uncertainty, tariff, geopolitical uncertainty, a global rise in financial market volatility and Germany's fiscal plans.

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%.

Outlook

The key event early in the quarter will be 'Liberation Day' where the extent of tariffs will be known. We will look to add duration on any increase in yields as we believe tariffs will ultimately prov to be deflationary.

We expect markets to remain volatile around economic data and supply points. Towards the end of the year future rate cut expectations were pared back and fears of a surge in supply in January saw yields rise to their highest level in over a year. In our view, valuations in certain markets look very attractive and we will use supply events to add duration.

We do expect further rate cuts across the globe – more than are priced in by markets. This supports our long duration stance. However markets will remain choppy particularly around inflation data which still looks to be unacceptably high.

Inflation is now more fairly valued in Japan and any further tightening of monetary policy could impact breakevens. We will use strength to reduce this position further.

In our view, UK short-dated inflation looks overvalued given the chances of a UK recession has increased following 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.

With the Bank of Japan expected to raise short-term rates further – particularly given the weakness of the yen – we expect the Japanese curve, which is the steepest amongst G10 nations, to flatten. However given the rise in 10-year yields we prefer to hold Japan as a long duration position in 30 years where the hedged yield is close to 6%.

With yields high globally, cross market risk is generally light, with the focus on buying markets which offer value. However we are still running an underweight position in France where the political outlook remains fragile.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

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.

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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: 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.

The Prospectus and Key Investor Information Document (KIID) are available in English via the relevant Fund Information page on www.rlam.com. A summary of investor rights is also available in English, and can be accessed at www.rlam.com/uk/policies-and-regulatory

RLAM may terminate the arrangements made for marketing of the fund pursuant to Article 93a of Directive 2009/65/EC.

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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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.

Derivative risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

EPM techniques risk

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange rate risk

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

Interest rate risk

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

Liquidity risk

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

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.

Performance to 31 March 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.47	3.21	6.56	18.90	24.05
Fund (net)	1.40	3.06	6.24	17.79	21.86

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	5.93	4.40
Fund (net)	5.61	4.03

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)	6.56	6.82	4.45	0.26	4.06
Fund (net)	6.24	6.50	4.10	(0.16)	3.62

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 Absolute Return Government Bond Fund Z Acc GBP share class.

Glossary

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.

Performance

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

VaR

VaR is a statistical measure of the level of financial risk within the fund over a specific time.