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Royal London Short Duration Global Index Linked 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 Duration Global Index Linked 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 Fund's investment objective is to achieve a total return (combination of capital growth and income) over the medium term (3-5 years) by investing at least 80% in short-duration (1-10 years) index-linked bonds. The Fund's performance target is to outperform, after the deduction of charges, a composite benchmark of the 30% Bloomberg UK Government Inflation Linked Bond 1-10 year Total Return GBP Index, 70% Bloomberg World Government Inflation Linked Bond (ex UK) 1-10 year Total Return GBP Index (the "Index") over rolling 5-year periods. The Index is a good measure of the performance of index-linked UK government bonds and government bonds globally. The Index is considered an appropriate benchmark for the Fund's performance, as many of the Fund's potential investments will be included in either the Bloomberg UK Government Inflation Linked Bond 1- 10 year Total Return GBP Index or the Bloomberg World Government Inflation Linked Bond (ex UK) 1- 10 year Total Return GBP Index. Both the Index and the IA Global Inflation Linked Bond sector are considered appropriate benchmark for performance comparison.

Fund analytics

	Fund	Benchmark
Fund launch date	23 February 2016	
Fund base currency	GBP	
Benchmark	Composite benchmark, please see prospectus for details	
Duration (years)	5.35	4.92
Real yield (%)	1.74	1.67
Number of holdings	55	92

Fund value

	Total £m
31 March 2025	527.38

Asset allocation

	Fund (%)	Benchmark (%)
Index linked foreign sovereigns	67.82	70.00
Index linked gilts	30.76	30.00
Conventional gilts	1.42	-

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.26	2.29	(0.04)
1 Year	4.39	4.41	(0.02)
3 Years (p.a.)	1.29	1.26	0.03
5 Years (p.a.)	2.78	2.74	0.03
Since inception (p.a.)	2.37	2.40	(0.02)

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 Inc GBP. Source: Royal London Asset Management; Net performance; Since inception date of the share class is 23 February 2016.

Performance commentary

Against a backdrop of rising volatility, global index linked markets generally delivered a positive return for the quarter. Yield curves were generally steeper as short-dated real yields fell – most notably in the US. The UK was a notable outlier, seeing negative overall returns as further concerns over the UK's fiscal position and the collapse in demand from LDI buyers pushed yields higher, particularly at the long end of the curve.

The fund produced a positive absolute return for the quarter, broadly in line with the benchmark. The fund had a long duration position during the quarter. This was not a significant long, given that we expected market volatility to remain high, but at the margin, we felt that real yields looked attractive and hence were happy to have a long bias. This was a small positive over the period with short-dated real yields edging lower. Tactical changes in our stance around supply events was also helpful.

Our cross market positions were positive for performance over the quarter. We have had a long-term bias to Australia, reflecting the yield premium over gilts and more favourable fiscal position. This helped performance over the quarter, as did our tactical positioning, notably benefiting from volatility between UK and US yields.

Performance and activity

Fund activity

Activity during the quarter continued to look for tactical opportunities. Duration positioning was long throughout the quarter, reflecting our view that real yields looked attractive, but we traded this actively to benefit from market issuance and ongoing volatility. For instance, we increased the size of the long duration position early in the quarter, as markets again focused on the sustainability of UK public finances, pushing yields higher. After yields rebounded, we trimmed the position locking in profits but retaining a small long position, also due to our view that the 2049 syndication in February would push yields higher once more. Yields did increase following the syndication, and we added to duration once more – buying the new 2049 bonds with real yields in excess of 2%.

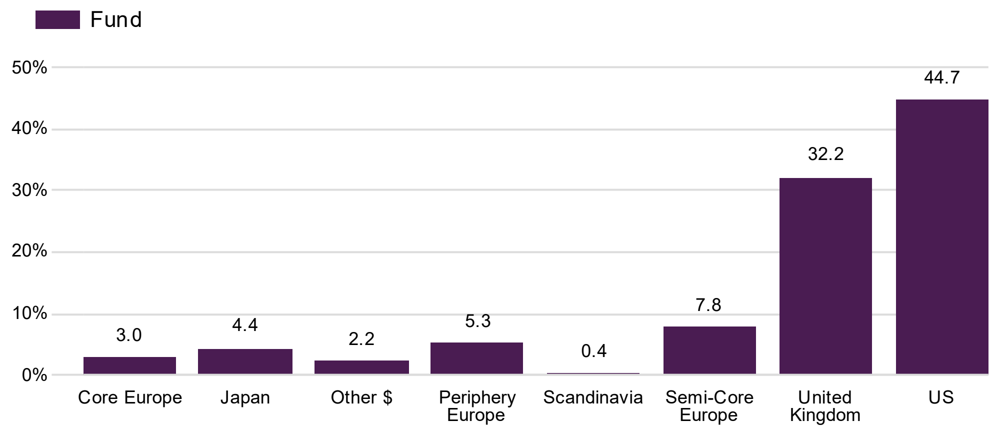
In terms of cross market activity, we had started the quarter with a modest strategic position in Australia and tactical position in the US. With the UK underperforming early in the quarter, we were happy to take profits on the US position – then moving underweight in the US in February, adding further to our Australia exposure which we felt looked better value within dollar bloc markets. The announcement of the German €500 billion fiscal plan saw increased activity for the fund, with strong performance from Germany and France, and we switched back in UK bonds, with these underperforming ahead of the Spring Statement. We ended the quarter with a modest long position in Germany, with an underweight in peripheral Europe.

We had a bias towards flatter yield curves through the quarter, adding to this marginally through the period by increasing holdings in 10-year UK and US bonds, funding this change through sales of 5-7 year bonds.

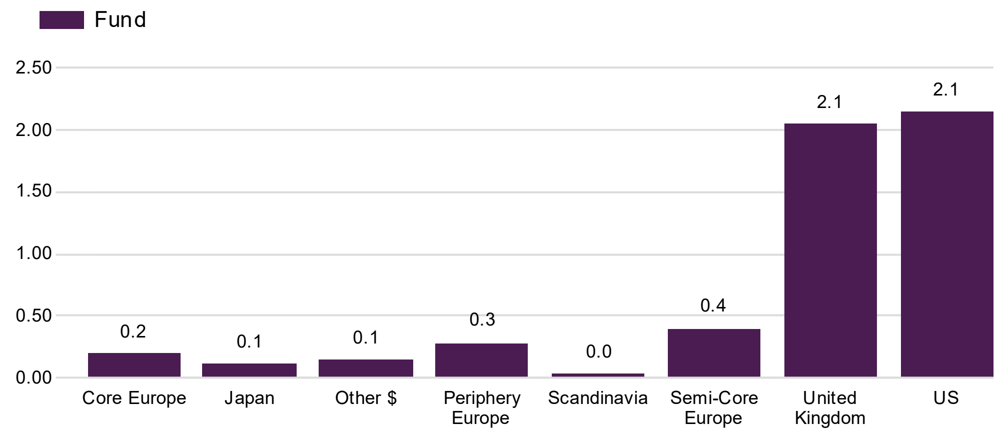
At the end of the quarter, we generally held only small cross market positions. From a UK perspective, with index linked gilts underperforming in the first quarter, we feel that these look attractive relative to other markets. We continue to favour Australia, where real yields are close to 2.2% and supply is likely to be limited – certainly compared to other major markets.

Fund breakdown

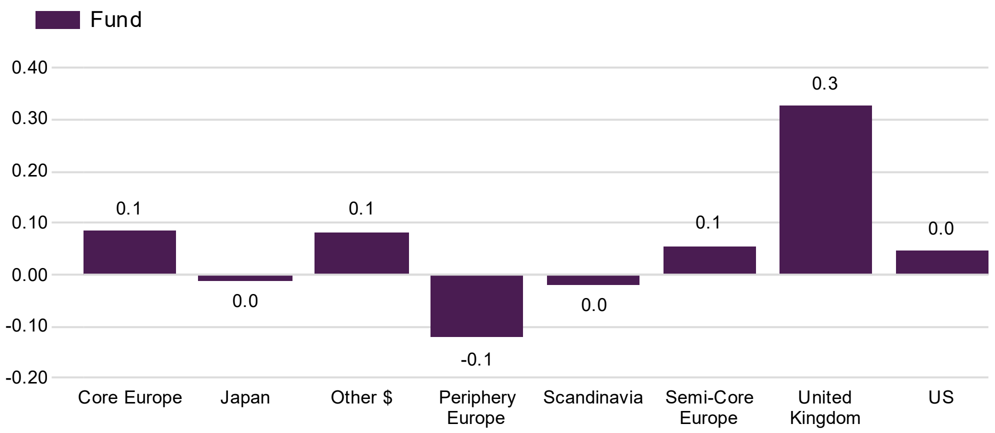
Geographic split by % weight



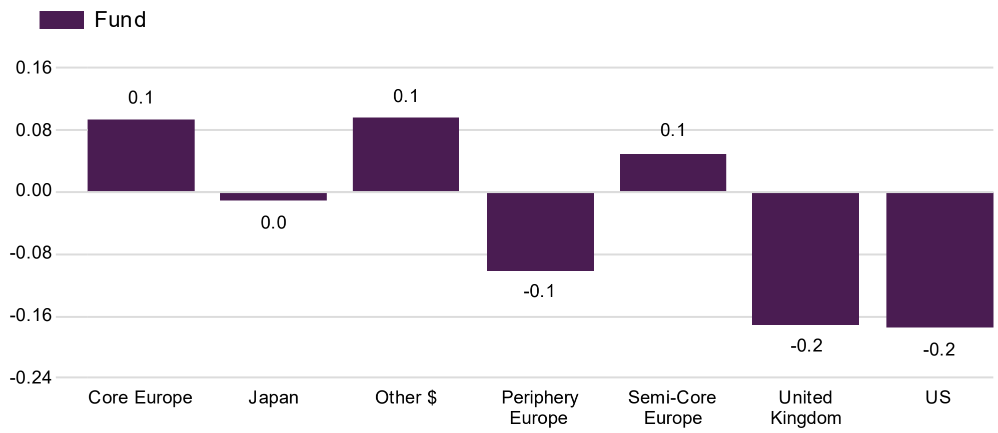
Geographic split by duration



Duration position relative to benchmark

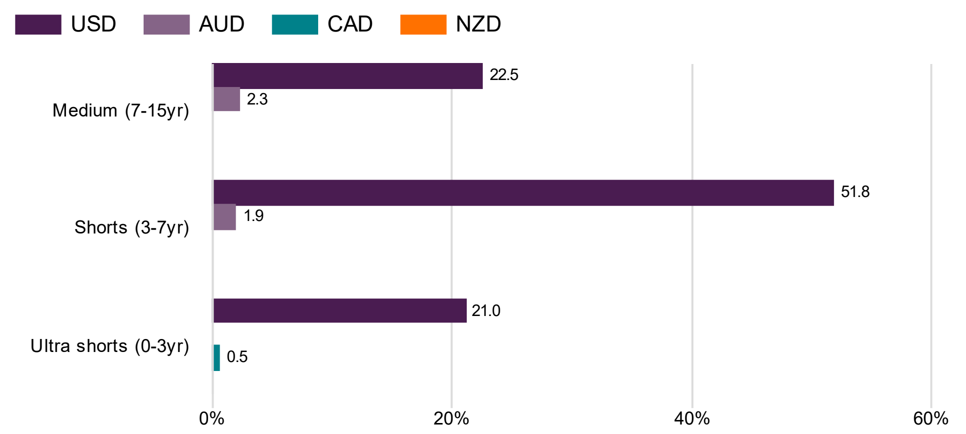


Relative duration quarter on quarter

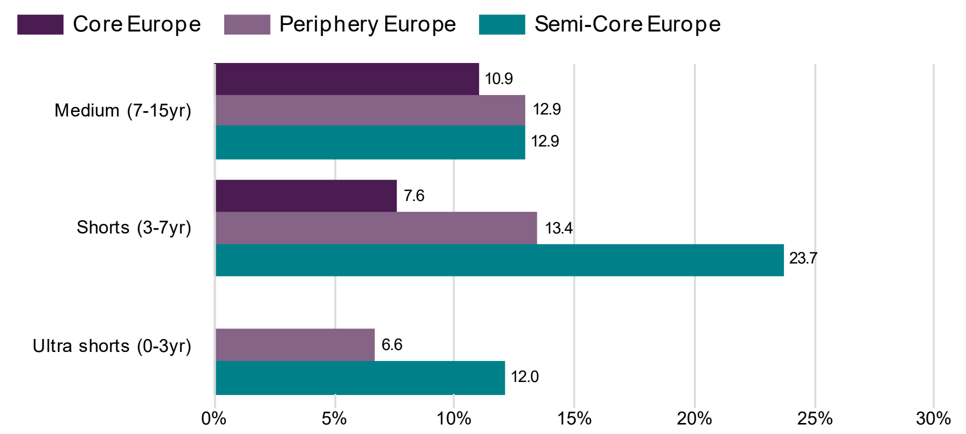


Fund breakdown

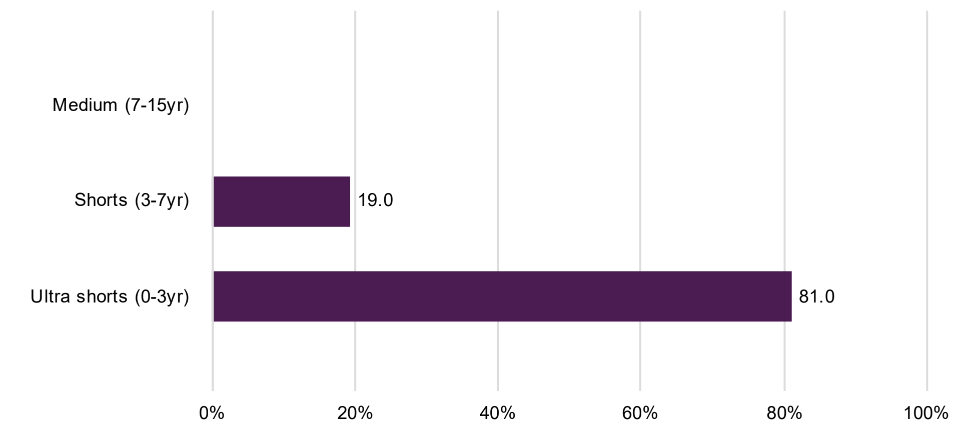
Dollar bloc



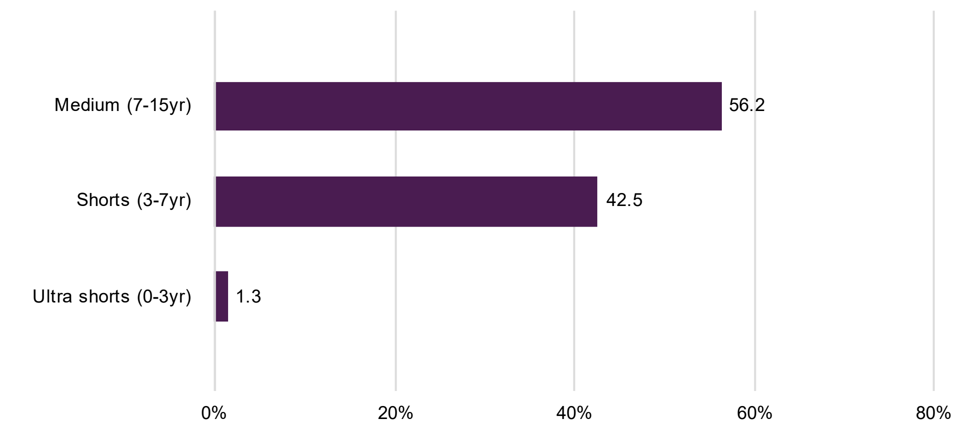
Euro bloc



Japan



UK



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 inauguration of President following his election victory last November has led to a raft of policy decisions that have left markets clouded with uncertainty. At the end of the first quarter, attention was firmly fixed on the announcement and implementation of new US tariffs. For investors in UK government bond markets, ongoing uncertainty around the UK fiscal decision and impact of the new gilt remit have only added to wider global uncertainty.

After rising in recent months, we feel that real yields look attractive. We believe that a world of rising tariffs is helpful for index linked assets as we expect these to be ultimately deflationary, and would also expect rate cuts across the globe to add to interest in this area. In addition, we believe that in general, curves are too steep, and as a result, we have a bias towards long duration positioning, with a modest overweight in long-dated bonds. For the UK, real yields are now close to levels last seen in the Truss sell-off, but we will be cautious about adding materially to long duration positioning until there is more clarity on tariffs and what these may mean for global trade and inflation.

The Spring Statement produced a lot of headlines but in the end, had little impact on our view going forward. The gilt remit was of more interest, but although index linked issuance will be slightly lower in percentage terms (11% vs 10%), overall issuance is increasing, meaning that overall linger issuance will be little changed. The impact of reduced LDI demand can be seen in those figures, with index-linked issuance accounting for over 20% some five years ago.

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 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.

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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.

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.

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.

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.

Performance to 31 March 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	2.31	1.10	4.62	4.61	15.95
Fund (net)	2.26	0.99	4.39	3.92	14.68

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	1.51	3.00
Fund (net)	1.29	2.78

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)	4.62	2.81	(2.74)	4.89	5.67
Fund (net)	4.39	2.58	(2.96)	4.66	5.44

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 Duration Global Index Linked Fund Z Inc 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 analytics

All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.
This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Number of holdings

Total number of unique holdings of 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.

Real yield

Real yield shows the inflation-adjusted redemption yield for the underlying fund and therefore does not include the impact of fees. For share class level yields, please see the latest factsheet.