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Royal London Sterling Credit Fund

Quarterly Investment Report

31 March 2025

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 March 2025

The purpose of this report is to provide an update on the Royal London Sterling Credit 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.

Contents

The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return over the medium term, which should be considered as a period of 3-5 years, by investing predominantly in sterling-denominated corporate bonds. The Fund's performance target is to outperform, after the deduction of charges, the Markit iBoxx Sterling Non-Gilts Total Return GBP Index (the "Index") over a rolling 5-year period. The Index is regarded as a good measure of the performance of investment grade corporate bonds denominated in sterling. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's potential investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA Sterling Corporate Bond sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
31 March 2025	2,377.40

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	98.45	99.41
Index linked credit bonds	1.25	-
Conventional foreign sovereigns	0.14	0.59
Other	0.16	-

Fund analytics

	Fund	Benchmark
Fund launch date	1 September 2008	
Fund base currency	GBP	
Benchmark	Markit iBoxx GBP Non-Gilts All Maturities	
Duration (years)	6.58	5.34
Gross redemption yield (%)	6.59	5.38
Number of holdings	352	1,240
Number of issuers	227	490

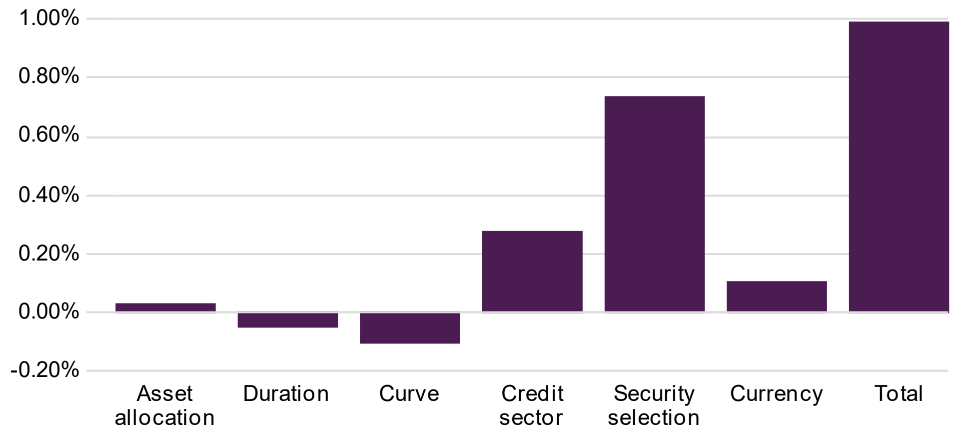
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.75	0.70	1.05
1 Year	5.92	2.36	3.56
3 Years (p.a.)	2.01	(0.82)	2.84
5 Years (p.a.)	2.85	(0.21)	3.06
10 Years (p.a.)	3.27	1.46	1.80
Since inception (p.a.)	5.74	3.93	1.81

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; Gross performance; Since inception date of the share class is 1 September 2008.

Attribution over the quarter



Performance commentary

The first quarter was a strong one for our sterling credit strategies. We saw spreads begin to widen towards the end of the quarter, after two years of near-constant tightening, but it was a relatively calm three months for sterling debt investors. The sterling corporate debt market found a path between the larger US and euro markets – which have seen greater volatility in the period.

Amidst this wider volatility, sterling credit markets have held up well so far, with the main attraction being the all-in yield this asset class continues to offer. While sterling investment grade all-in yields are attractive, their make-up has changed; a larger component of the yield is from government bond yields. The volatility we are seeing in fixed income markets is coming from government bond yields. However, credit spreads also remain susceptible to further weak macroeconomic news.

Looking at headline effects on performance, our sector allocation and stock selection had the largest impact. After a strong start to the year, we looked to reduce the risk in our portfolios, slightly reducing our overweight position in the bank sector, particularly subordinated debt, moving into a favoured sector, structured bonds, where spreads were wider. This general move added to performance: benefiting early on as spreads tightened and then taking risk off ahead of the modest widening we saw later.

Our stock selection was the main driver of outperformance. The story of quarter was our bank and insurance bonds seeing strong performance in the first two months of the year. Our strategies continue to see value in financials – particularly subordinated debt, which offers good value and increased buying opportunities. The sector is also seeing continued issuance, keeping bonds attractively priced. It must be noted that this has slowed slightly in recent months, however, and some widening in the sector has seen us seek opportunities elsewhere.

In the quarter, bonds from Close Brothers saw a strong recovery from the fourth quarter, when negative news headlines around car leasing fines had pushed prices lower. Elsewhere in banks, IG Group and subordinated bonds from Aberdeen, Barclays and Santander also contributed to performance.

Credit allocation was also positive in the quarter, with our large overweight to structured proving positive and large underweight in supranationals contributing a slight negative. For structured bonds, exposure to the sector was helpful as these bonds generally outperformed the market. Selection within the sector was mixed: our exposure to Thames Water was negative, as was the holding in student loans vehicle ICSL, while holdings in secured shopping centre debt from Intu and Trafford performed well – helped by not being interest rate sensitive and the uptick in consumer sentiment.

Performance and activity

Top 10 holdings

	Weighting (%)
LEGAL & GENERAL GROUP PLC 5.5 27 Jun 2064	1.94
AVIVA PLC 6.875 20 May 2058	1.29
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.17
M&G PLC 6.34 19 Dec 2063	1.14
ASSICURAZIONI GENERALI SPA 6.269 31 Dec 2079	1.09
STANDARD CHARTERED PLC 6.0585 31 Dec 2079	1.08
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.02
BARCLAYS BANK PLC 3.211 31 Dec 2079	0.99
ABBEY NATIONAL PLC 10.0625 31 Dec 2079	0.94
ELECTRICITE DE FRANCE SA 6 23 Jan 2114	0.94
Total	**11.61**

Fund activity

Gilt activity was higher than normal during the quarter, due to a growing inefficiency. Market pricing on many corporate bonds often remained focused on credit spread, failing to reflect the increasing difference in yields between low and higher coupon gilts of similar tenors. At times, this meant that bonds with similar credit spreads and maturities could have very different yields. During a period of tight credit spreads and higher volatility, this gave us opportunities to sell corporate bonds referenced to a low coupon gilt, and buy high coupon gilts. In these cases, we were able to remove credit risk on our exposure for very little drop in yield. Examples of these trades in the quarter included sales of Swiss bank UBS, but outside of financials, we made similar moves in bonds that had also performed strongly, such as housing association Myriad Capital.

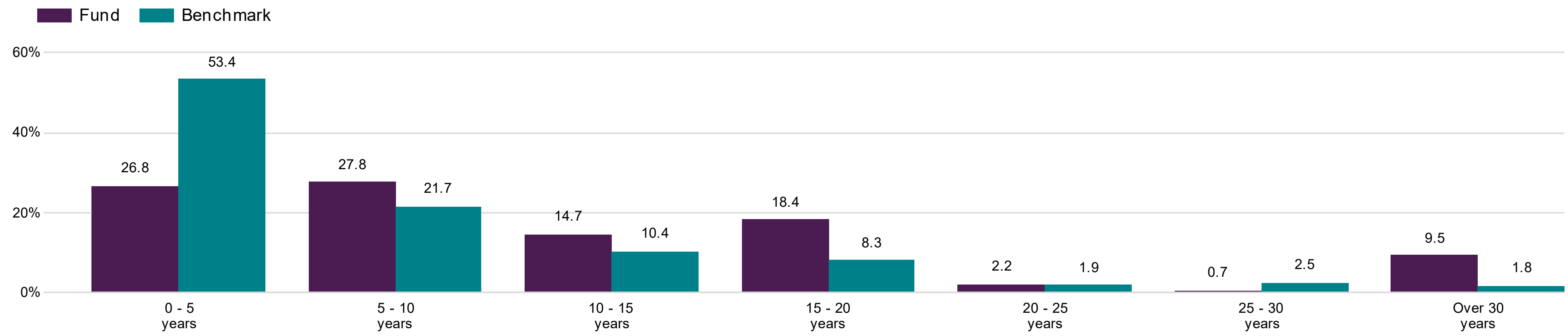
Financials are a major part of credit indices. Earlier in the quarter we added new issues of senior bonds from Credit Agricole. We also bought new tier 2 bonds from Legal & General at a very attractive spread level, and AT1 bonds from Lloyds and NatWest at very attractive yields. As the quarter progressed, with spreads having tightened over recent months, we looked for opportunities to trim risk – for example by selling NatWest 2033 tier 2 bonds into 2034 equivalents for a modest pick-up in credit spread. We also sold Close Brothers 2026 bonds at a high cash price, buying Close 2030s at a lower cash price, reducing risk and enhancing spread.

Structured bonds remain a key exposure for the portfolio. With some other areas looking more expensive, we were happy to take advantage of both new issue and secondary market opportunities to add secured bonds that often offered more attractive spreads than similar unsecured bonds. One example during the quarter was the AAA tranche of an new issue RMBS from specialist finance provider Together, while we also added a CMBS from Taurus, with underlying assets across industrial, retail and office sectors across the UK. We also bought Tesco Property Finance bonds in the secondary market – the latter available with a more attractive credit spread than that on a new unsecured issue we passed on from Sainsburys – demonstrating the value in this area.

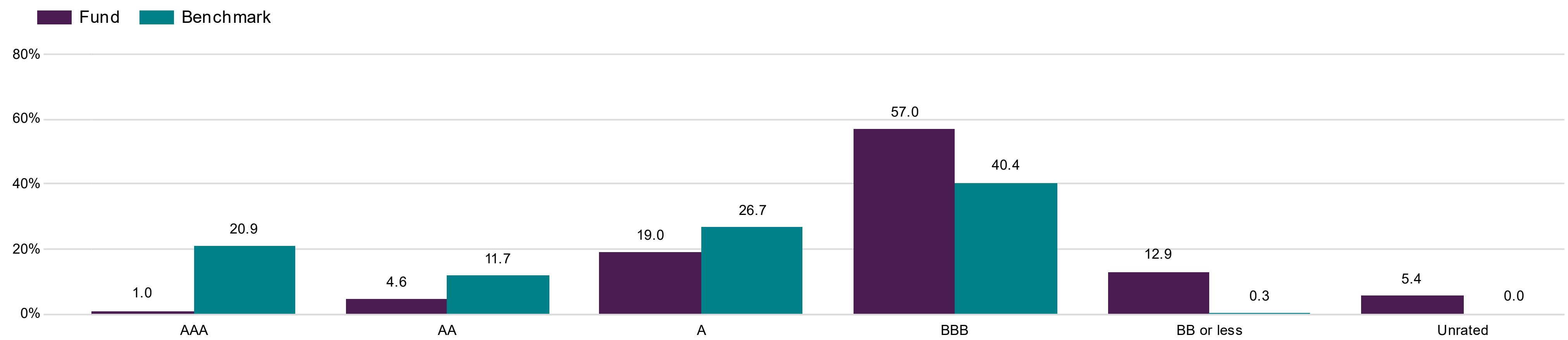
While the portfolio has a bias to bonds in areas such as financials, structured and social housing, we continue to look for ways to add to overall diversification. During the quarter we added global distribution and services group Bunzl business software provider Sage, and Motability. Motability is a scheme to provide recipients of the Disability Living Allowance (DLA) or Personal Independence Payment (PIP) with access to new vehicles on competitive lease terms. With funding provided directly from the UK government to Motability, we see these as high quality bonds with a credit spread in excess of the average in the sterling credit market.

Fund breakdown

Maturity profile

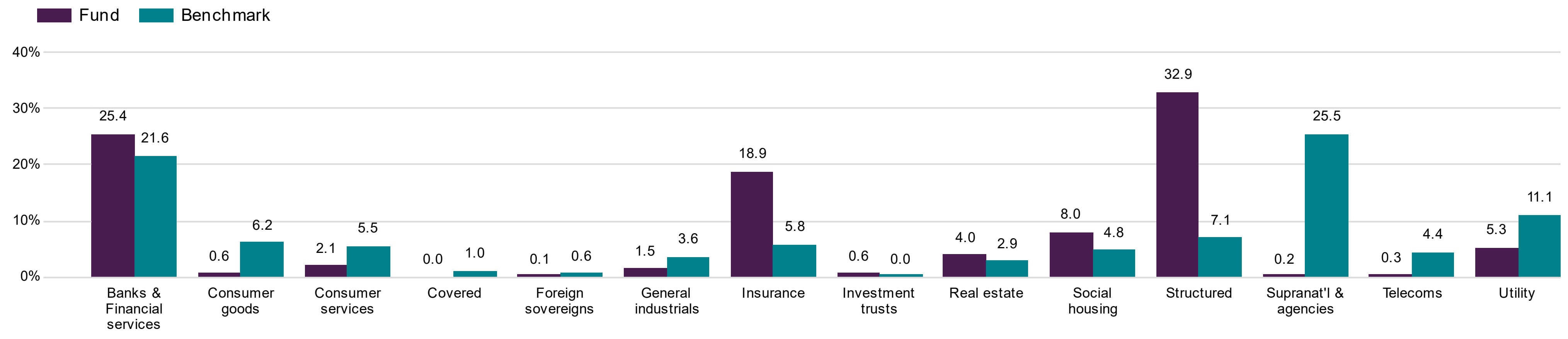


Credit ratings



Fund breakdown

Sector breakdown



Fund Engagement

Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	13	42
Number of engagements	18	99

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Total engagements by theme and topic

Biodiversity	**2**
Climate	**8**
Climate - Transition Risk	5
Climate - Physical Risk	3
Environment	**3**
Governance	**7**
Remuneration	3
Corporate Governance	2
Board	1
Strategy	1
Health	**2**
Health - Community	2

Social & Financial Inclusion	**2**
Just transition	1
Social & Financial inclusion	1

The numbers of engagements and themes/topics discussed may differ where a single engagement covers multiple themes/topics.

Fund Engagement

Engagement outcomes

Unite Group Plc – Remuneration

Purpose:

The purpose of the shareholder consultation letter from Unite Group, the UK's largest provider of student accommodation, was to inform shareholders about the proposed changes to the executive remuneration policy and to invite their feedback. The consultation aimed to gather shareholder input to inform the Remuneration Committee's decision-making process.

Outcome:

The outcome of the consultation was positive, with broad support from shareholders for the proposed changes. The Remuneration Committee received feedback from 12 shareholders representing approximately 45% of the issued share capital, as well as from key proxy advisors. The Committee discussed the feedback in detail and finalised the proposals, which will be submitted for approval at the 2025 AGM. The key changes include increasing the maximum annual bonus opportunity and removing the annual bonus deferral requirement for directors who meet their shareholding guidelines. We view the changes as moderate and reasonable.

Wessex Water Ltd – Water project

Purpose:

Wessex Water responded to our request for a meeting following the release of its updated company scores which were derived from our scoring methodology based on public disclosures and company engagement in 2024. The meeting provided an opportunity to discuss areas for improvement, including pollution management, antimicrobial resistance (AMR), biodiversity, and climate-related physical risks.

Outcome:

The company highlighted its pollution control efforts, including the use of machine learning to detect sewer changes during rain and the importance of predictive analytics in preventing spills. Wessex Water also addressed antimicrobial resistance (AMR), emphasising its participation in the Chemicals Investigations Programme, a UK water industry initiative that investigates trace chemical substances in the water environment to comply with current and emerging legislation, and the need for green prescribing, which supports people to engage in nature-based interventions and activities to improve their mental and physical health.

Wessex Water discussed its approach to managing Sites of Special Scientific Interest (SSSIs) and the challenges posed by nutrient programmes. The company outlined the near-term opportunities and risks associated with its £850m total expenditure. The discussion also covered physical climate risks, particularly the importance of sustainable drainage to manage increased rainfall. Wessex Water plans to initiate the funding process for 2025-2030 and conduct a double materiality assessment, with updates to be provided in the next investor roadshow.

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.

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.

At its final meeting in the quarter, the European Central Bank cut rates 25bps, to 2.50% on the deposit rate, which was very much as expected. The ECB continues to describe the disinflation process as well on track and continues to "follow a data-dependent and meeting-by-meeting approach" without pre-committing to a particular path. They still see the skew of risks to growth as to the downside.

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 sterling investment grade credit market (iBoxx non-gilt index) returned 0.70% over the quarter, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) widening over the period from 0.85% to 0.95% (iBoxx). Most sectors saw positive returns, with the exceptions of utilities, consumer services and social housing. These exceptions were driven more by the greater exposure to long-dated bonds than issues with the sectors themselves.

Outlook

Amidst global geopolitical and macroeconomic uncertainties affecting global government bond markets, sterling credit still offers attractive sources of value for those prepared to look carefully. In a diversified portfolio, we believe that we can generate good levels of income by taking appropriate levels of risk but ensuring, where possible, mitigation of those risks.

At the margin, we have taken advantage of further spread tightening to reduce risk, primarily through selling financials into structured bonds. We remain overweight in the financials, particularly subordinated bonds, but with a smaller overweight than we had at the start of 2025. We will continue to take a pragmatic view – trimming exposure if spreads reach levels where we feel we can add yield or reduce risk by switching into other bonds – but avoiding a widespread move to reduce exposure to any given sector.

While near term absolute performance is likely to be largely influenced by movements in the yields of underlying government bond markets, we would expect relative performance to be influenced by relative exposure to supranational bonds and to more economically sensitive or cyclical industrial and consumer sectors. However, we believe that continued emphasis on diversification and towards secured and collateralised debt to help mitigate default risk, and on income, will support returns in the medium term and through the present environment of volatile yields and potentially wider spreads.

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.

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The Index provided by IHS Markit is subject to disclaimer currently available here (and as updated by IHS Markit from time to time): https://ihsmarkit.com/Legal/disclaimers.html and/or in the prospectus for the Fund.

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.

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.

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)	1.75	2.08	5.92	6.17	15.09
Fund (net)	1.66	1.90	5.55	5.07	13.10

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	2.01	2.85
Fund (net)	1.66	2.49

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)	5.92	11.18	(9.84)	(2.51)	11.19
Fund (net)	5.55	10.79	(10.15)	(2.85)	10.80

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 Sterling Credit Fund Z Inc GBP share class.

Glossary

Asset allocation

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

Attribution

Attribution is shown for the most recent quarter. Attribution figures are based on end of business returns for both the fund and the index whereas performance figures are based on midday returns for the fund and end of business for the index. Therefore the performance will not include market moves between midday when the fund is priced, and end of business when the index is calculated. This may result in a different figure being shown for the quarterly performance vs attribution data.

Credit ratings

Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

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.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

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.

Sector breakdown

Breakdown of the fixed income assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme. Figures are subject to rounding.