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Royal London UK Government Bond 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 UK 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 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 UK government bonds, also known as gilts. The Fund's performance target is to outperform, after the deduction of charges, the FTSE UK Gilts Government (All Stocks) Total Return GBP Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the performance of every UK government bond quoted on the London Stock Exchange. 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 UK Gilts sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
31 March 2025	1,176.75

Asset allocation

	Fund (%)	Benchmark (%)
Conventional gilts	97.28	100.00
Index linked gilts	1.30	-
Conventional foreign sovereigns	1.02	-
Conventional credit bonds	0.40	-

Fund analytics

	Fund	Benchmark
Fund launch date	8 February 1990	
Fund base currency	GBP	
Benchmark	FTSE UK Gilts Government (All Stocks) Total Return GBP	
Duration (years)	8.70	7.79
Gross redemption yield (%)	4.56	4.54
Number of holdings	23	66

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.86	0.55	0.32
1 Year	(0.18)	(1.19)	1.01
3 Years (p.a.)	(4.69)	(6.13)	1.44
5 Years (p.a.)	(4.68)	(5.80)	1.13
10 Years (p.a.)	(0.07)	(0.67)	0.60
Since inception (p.a.)	2.02	1.81	0.21

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 30 April 2010.

Performance commentary

The first quarter was a turbulent period for government bond markets with a series of macro and political factors keeping investors occupied. The gilt market found itself caught between the US Treasury market and bund market, whose performance were dominated by US trade policy and announcements around Germany's fiscal policy.

Starting back in January, and more specifically to the UK, the rise in yields brought about a renewed focus on debt sustainability, which has been an ongoing concern for the market ever since the Labour budget late last year. The gilt curve steepened, as the long end of the curve came under pressure. The re-opening of bond markets in the new year brought a resumption of government bond supply, particularly in Europe and the UK, which also weighed heavily on bond markets.

The rest of the quarter was then clouded by Trump's tariff threats, which spilled over into Europe with a seismic shift in German fiscal policy. The new government in Germany – in anticipation of US tariffs and a heightened awareness of defence spending - proposed a historic new spending package, signalling an expansion for Europe's largest economy. The move sent bund yields sharpy higher.

Domestic factors also weighed on the gilt market with a particular focus on the BOE's reaction function to inflation and growth, as well as the markets perceptions around debt sustainability and the upcoming revisions to borrowing at the Spring statement. The market had already expected the Office for Budget Responsibility (OBR) to downgrade its growth estimates, so the reduction to 1%, from 2%, came as little surprise. Despite the announcements around reductions to the welfare budget, borrowing was revised higher.

For the next year, the remit landed at £299bn, below upside estimates of up to £320bn. Not only was the remit smaller than expected but borrowing was shifted shorter in maturity than in previous years, with less longs (over 15-year maturity bonds) and linkers. This resulted in a sharp rally that saw gilt yields decline across the curve. The offset however was that borrowing was revised higher for each year of the parliament.

Our strategic duration position was negative for performance. The fund ended the quarter just shy of a year long, which is the longest the fund has been versus its benchmark in some time. We tactically traded our duration position during the quarter, which helped offset the negative performance from the strategic position.

Performance and activity

Fund activity

Gilt yields rose at the long end over the quarter, with the short end falling, resulting in a steepening of the curve. The main driver of outperformance over the quarter was the fund's curve positioning, where the fund held a steepening bias. Our large underweight in the belly of the curve was trimmed slightly during the quarter, although the fund 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.

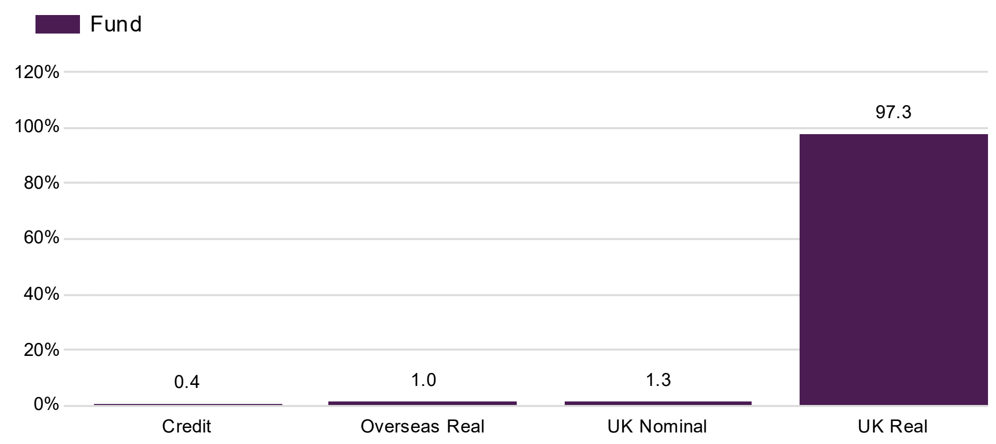
The fund added some UK inflation exposure during the quarter, buying 2049 index-linked gilts at the syndication. We felt the yield on offer for the bond was at attractive levels, sitting at just over 2%.

On a cross-market basis, the fund did not hold much international exposure throughout the quarter. In January, we sold out of our 30-year US TIPS position, moving into nominal US Treasury bonds, but then later sold out of this position, trading back into gilts. The fund did take part in a syndication of 10-year Australian government bonds but then sold out of the position within the same month. We felt gilts were attractively priced both in their own right, and versus other markets, throughout the first quarter.

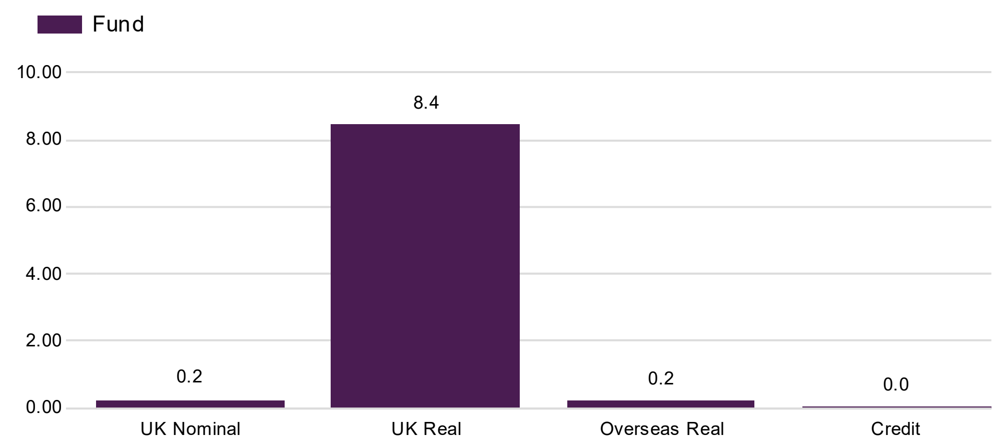
We did, however, buy 30-year Australian government bonds and 30-year Japan government bonds towards the end of the period amid the market volatility. We felt the long-end of the curve in Japan looked particularly attractive with additional currency-hedging benefits. The trade highlights the desk's attitude towards active management, allowing us to trade around moments of heightened market volatility to find value.

Fund breakdown

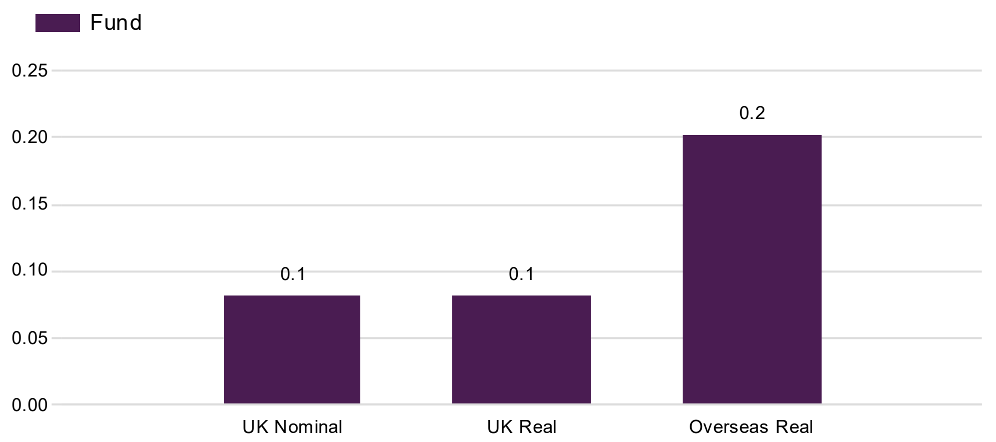
Asset split by percentage



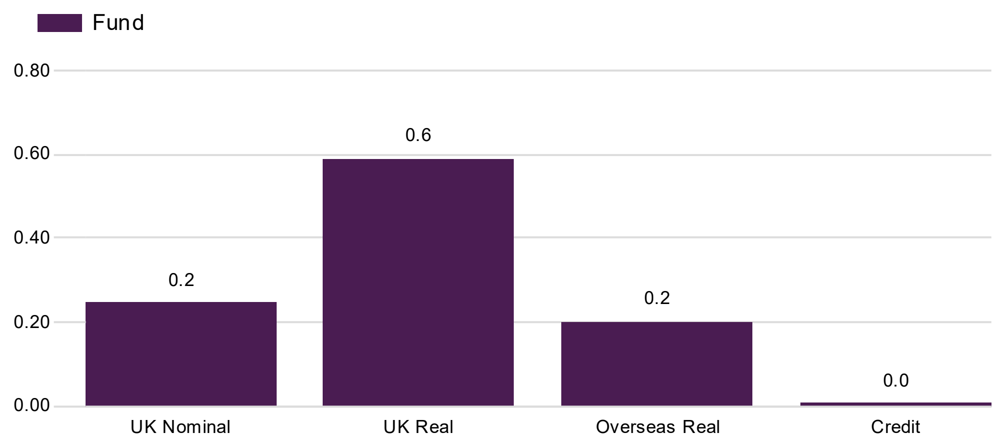
Asset split by duration



Asset split by duration change on quarter

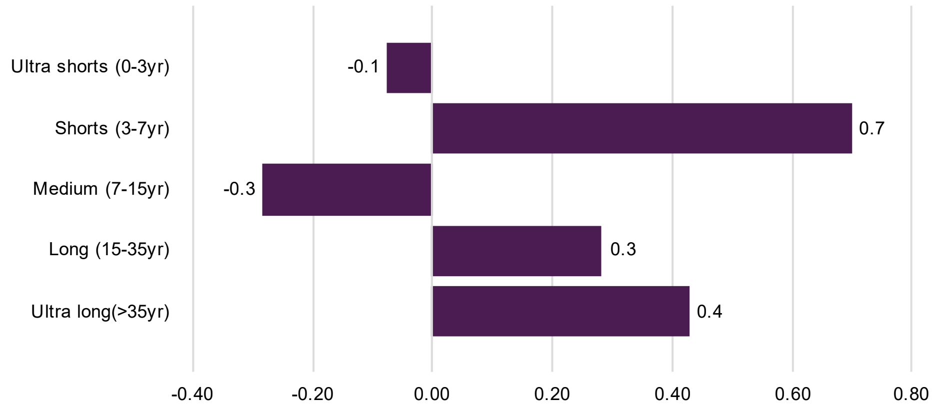


Asset allocation relative to benchmark (duration)

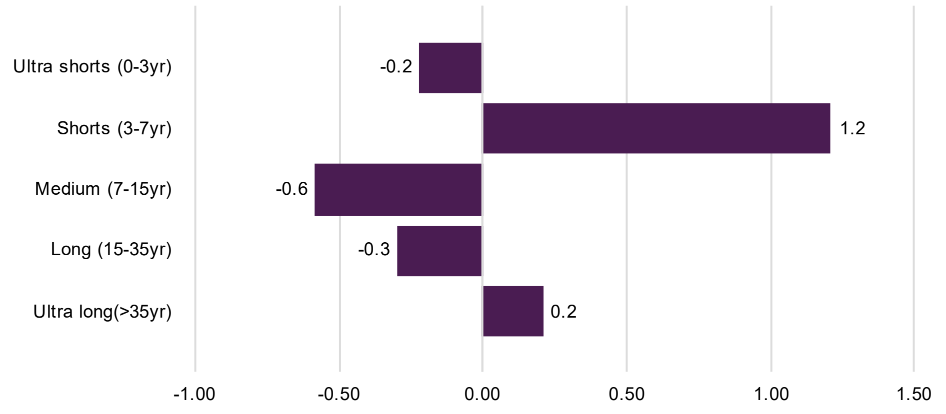


Fund breakdown

Maturity profile relative to benchmark



Maturity profile change on quarter



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 the quarter progressed, however, volatility has once again picked up, driven primarily by elevated policy uncertainty in the US. Furthermore, Germany's decision to ramp up spending after decades of tight fiscal policy will ultimately have ramifications for European bond markets

A very 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. A few more rate cuts seem likely in major economies (except in Japan), albeit more gradual, careful ones, but the US inflation outlook is uncertain enough that US rate hikes can't be ruled out either.

Most major central banks are running with interest rates above neutral, but increasingly not by much. If growth remains positive but unimpressive and if inflation reassures somewhat then central banks can continue to cut towards neutral. But stickier than expected inflation, substantial policy uncertainty, and rates being closer to neutral suggests that at least some slowing of the pace makes sense beyond just the US.

Government bond markets suffered 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 driven more by the greater exposure to long-dated bonds than issues with the sectors themselves.

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 noted that, domestically at least, little had changed since the prior meeting. On inflation, although inflation has been a touch stronger than expected, the BoE still expects both domestically generated inflation and wage pressures to moderate from current elevated levels. But – as with other central banks – they are dealing with significant external sources of uncertainty. The minutes from March's meeting flagged increased risks for monetary policy emanating from heightened global trade uncertainty, announcements around Germany's fiscal policy proposals, and a rise in global financial market volatility.

In the UK, Chancellor Rachel Reeves delivered her Spring Statement towards the end of the quarter. Ever since the Autumn Budget, the market has harboured concerns around the ongoing performance of the UK economy and the sheer amount of borrowing required to fund the ongoing deficit. With the BOE having already downgraded its GDP growth forecasts to 0.75%, the Office for Budget Responsibility duly followed suit, and revised down their own growth forecasts for this year by 1.0% (to 1.0%). The downgrade placed further pressure on the government's finances, prompting the chancellor to announce cuts to welfare spending. Off the back of the Spring statement, the Debt Management Office announced that this coming fiscal year will see a net financing requirement of £304bn of which £299bn will be funded via sales of UK government bonds. Given the state of the economy, and the level of bond yields, it would not be a surprise to see more fiscal tightening action from Reeves at the Budget in the Autumn. Economic data wise, February CPI came in lower than expected at 2.8% year-on-year after 3.0% for January, with consensus for 3.0%, as did core at 3.5% year-on-year after 3.7% and consensus 3.6%. January GDP was weaker than expected, but that follows the stronger than expected December print. GDP fell 0.1% month-on-month after rising 0.4% in December. Consensus expectations had been for a 0.1% month-on-month rise in January. Taking the last couple of months together, the hard data fits the picture of a stagnant UK economy – as has been painted by recent PMI business surveys.

In the US, at its final meeting of the quarter, the Federal Reserve, 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.

US activity growth indicators have been mixed of late, but sentiment and survey indicators typically soft with worries about tariffs featuring in much of the commentary. The February US Employment Report didn't surprise by much but was a bit softer than expected overall. Non-farm payrolls rose 151K, so not far from consensus at 160K or the average increase of the past 12 months (168K). February's US CPI came in lower than expected at 0.2% month-on-month from 0.5%. Core was also 0.2% month-on-month after 0.4%. Both figures were a tenth less than expected and a bit more inflation target friendly. The data was likely somewhat reassuring, but with tariffs being implemented and likely to impact with a bit of a lag – alongside plenty of other

Market commentary

US policy uncertainty – the most recent inflation data is unlikely to alter the Fed's thinking at this stage.

There are risks on all sides to the US outlook with President Trump bringing policy upheaval on multiple dimensions. To the extent that the surprisingly robust growth picture of the last couple of years was fiscal spending and immigration assisted, there are additional reasons to worry with the early targets for Trump's team including cutting Federal spending and immigration, alongside raising/threatening tariffs.

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. Uncertainty was a recurring theme for the March press conference. ECB staff revised down their forecasts for euro area growth, but President Christine Lagarde admitted that staff had not had chance to incorporate any effects of increased fiscal stimulus. She was clear that, should the additional defence spending/infrastructure spending in Germany, following reform of the debt brake, and being discussed at a broader European level, come through, that would be a positive for aggregate demand. In comments in late March, however, President Lagarde flagged ECB analysis suggesting that a 25% US tariff on EU imports would lower Euro area GDP growth by about 0.3pp with more if retaliatory measures follow.

Euro area growth petered out at the end of last year, with the focus now on three drivers of growth: the consumer - where (ongoing) rate cuts and positive real income growth are supportive; fiscal policy, where again things are looking positive; and, Trump and the external environment - where slower global trade, higher tariffs and greater trade policy uncertainty all have the potential to weigh on activity. CPI inflation surprised a little on the upside, but services inflation finally fell more significantly from the 3.9%-4.0Y range it has been stuck in for a while. Alongside slower forward looking pay indicators, that may be somewhat reassuring from an ECB perspective.

Outlook

Global volatility was on the rise as the quarter came to a close driven by rising concerns around Donald Trump's rhetoric in the US. The impact this is having on markets is likely to remain for some time.

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 forecasts two more cuts from the BoE this year to leave rates at 3.75% at year-end, with markets starting the year with just one and a half cuts priced in, we think there are opportunities for longer term investors, particularly in shorter maturity bonds.

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 Labours 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 after the UK Debt Management office changed market dynamics by reducing longer issuance as a portion of the overall gilt remit even further.

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.

Disclaimers

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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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FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

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.

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.

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.

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)	0.86	(2.14)	(0.18)	(13.44)	(21.31)
Fund (net)	0.80	(2.26)	(0.43)	(14.09)	(22.44)

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	(4.69)	(4.68)
Fund (net)	(4.93)	(4.95)

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)	(0.18)	1.00	(14.15)	(4.87)	(4.44)
Fund (net)	(0.43)	0.75	(14.36)	(5.20)	(4.77)

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 UK Government Bond 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.

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.

Performance

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