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Royal London Sustainable Short Duration Corporate 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 Sustainable Short Duration Corporate 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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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 predominantly investing in sterling-denominated corporate bonds, which will primarily be short-duration (5 years or less). Investments in the Fund will adhere to the Investment Manager's ethical and sustainable investment policy. The Fund's performance target is to outperform the ICE Bank of America Merrill Lynch Sterling Non-Gilt (1-5 Years) Total Return (GBP Unhedged) Index (the "Index"), after the deduction of charges, over rolling 5-year periods. The IA Sterling Corporate Bond sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
31 March 2025	149.13

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	100.00	99.16
Conventional foreign sovereigns	-	0.84

Fund analytics

	Fund	Benchmark
Fund launch date	23 November 2022	
Fund base currency	GBP	
Benchmark	ICE Bank of America Merrill Lynch Sterling Non-Gilt (1-5 Years) Total Return (GBP Unhedged) Index	
Duration (years)	3.26	2.64
Gross redemption yield (%)	6.14	
Number of holdings	225	614
Number of issuers	142	298

Past performance is not a guide to future performance. Please refer to the glossary for a description of the yield used.

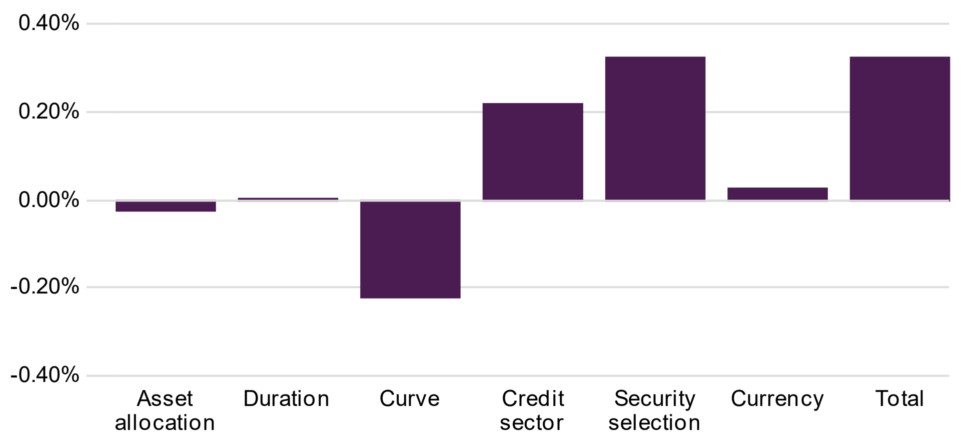
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.83	1.39	0.44
1 Year	6.17	4.92	1.24
Since inception (p.a.)	6.84	5.07	1.77

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 23 November 2022.

Attribution over the quarter



Performance commentary

All issuers within our sustainable holdings offer a net benefit to society through either their products/services or their operations. As well as reducing risk, we seek out opportunities that are under-researched e.g., bonds that do not fall into mainstream indices or benchmarks and/or are unrated by ratings agencies. Importantly, the sustainable credit proposition provides access to critical sectors that most investors can't access via equity markets. Key themes in the funds include social housing, social & environmental infrastructure, community funding (regulated banks and building societies focused on SME and retail lending), financial inclusion & resilience (such as insurers offering products which protect individuals and businesses from unexpected events) and the energy transition. On sustainability grounds, we have no exposure to bonds of oil & gas companies or extractive industries. We are also underweight in the general industrial and consumer goods sectors, and to a lesser extent in consumer services.

The first quarter was a strong one for our sustainable sterling credit strategy. 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.

Increased geopolitical tensions and heightened macroeconomic uncertainty will always lead to reassessed investment assumptions and market volatility. Looking at the current situation, the consensus expectation is that tariffs will likely hurt the consumer through price inflation and hamper GDP growth. Government bond yields and credit spreads have consequently moved to reflect this changing outlook. Amidst this volatility, sterling credit markets have, so far, been able to avoid this, 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.

The fund saw a positive return during the quarter, despite a small move higher in gilt yields and the widening in credit spreads, outperforming the benchmark. Credit sector positioning and stock selection were the main drivers of performance. For structured bonds, exposure to the sector was helpful in a quarter where these generally outperformed the market. In this sector, the fund benefitted from exposures to critical infrastructure such as bonds issued by Telereal, a transaction secured on a pool of telephone exchanges operated by BT Group that are a critical component of the UK fixed-line telecommunications network serving communities across the UK. Exposure to the banking and insurance sectors was also helpful, with subordinated bonds from HSBC performing well, as did bulk annuities players Legal & General and Rothesay Life, which carry out pension risk-transfers by taking on the liabilities of pension schemes and committing to secure the retirement benefits of scheme members.

Performance and activity

Top 10 holdings

	Weighting (%)
LEGAL & GENERAL GROUP PLC 5.375 27 Oct 2045	2.18
INTERNATIONAL FINANCE FACILITY FOR 2.75 07 Jun 2025	1.91
SGSHR_21-1X 4.4558 17 Nov 2051	1.65
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.52
BAZALGETTE FINANCE PLC 2.375 29 Nov 2027	1.47
UNITE (USAF) II PLC 3.921 30 Jun 2025	1.46
LEGAL & GENERAL GROUP PLC 5.5 27 Jun 2064	1.40
NATWEST GROUP PLC 2.105 28 Nov 2031	1.31
YORKSHIRE WATER FINANCE 6.454 28 May 2027	1.18
NATIONWIDE BUILDING SOCIETY 5.769 31 Dec 2079	1.18
Total	**15.25**

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 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 different yields. During a period of tight credit spreads and higher volatility, this gave us opportunities to sell a corporate bond referenced to a low coupon gilt, and buy a high coupon gilt. 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 bank bonds which had performed strongly, including Banco Santander, BNP Paribas and National Australia Bank, but outside of financials, we made similar moves in bonds that had also performed strongly, including social housing bonds from London & Quadrant.

Financials are a major part of credit indices. Earlier in the quarter we added new issues of senior bonds from Credit Agricole, Leeds Building Society and Nationwide Building Society. We also bought new tier 2 bonds from Legal & General at a very attractive spread level and new AT1 issues from Lloyds Bank and NatWest Bank 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 HSBC tier 2 bonds into HSBC senior bonds with similar tenor and only a small decrease in spread.

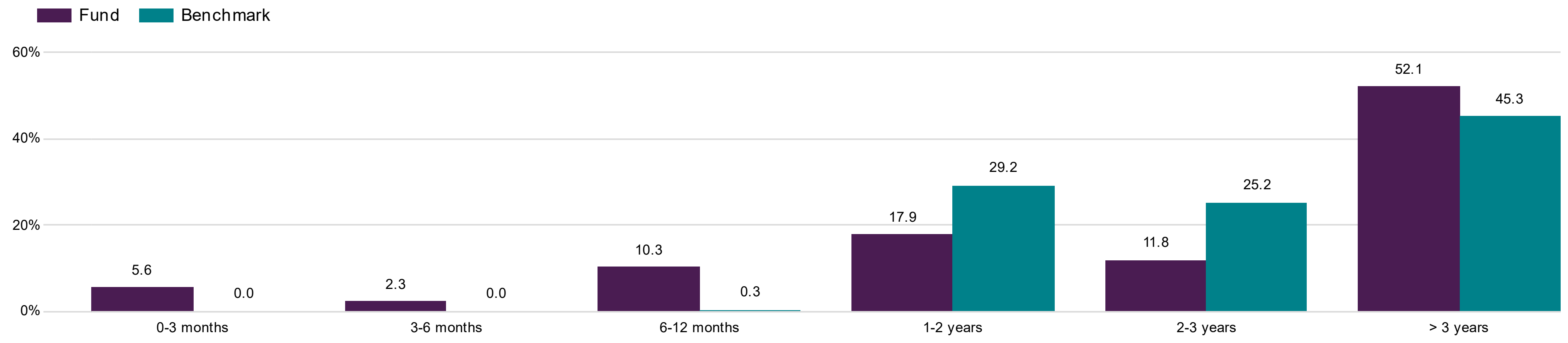
Structured bonds remain a key exposure for the portfolio. With some other areas looking more expensive, we were happy to take advantage of both new issue and secondary market opportunities to add secured bonds that often offered more attractive spreads than similar unsecured bonds. One example during the quarter was the AAA tranche of an RMBS from specialist finance provider Together, a pool of second-charge mortgages enabling people to access equity in their homes for a number of reasons, including debt consolidation at a lower interest cost and financing home renovations.

The fund also added a new issue from frequent sterling issuer Motability Operations Group plc. As the organisation in charge of delivering the Motability Scheme, Motability Operations enables disabled people who receive a qualifying mobility allowance to lease a vehicle at favourable terms. Its service provides considerable value to people with a qualifying disability or illness, improving mobility for over 800k people at a cost that is reported to be 45% lower compared to alternatives.

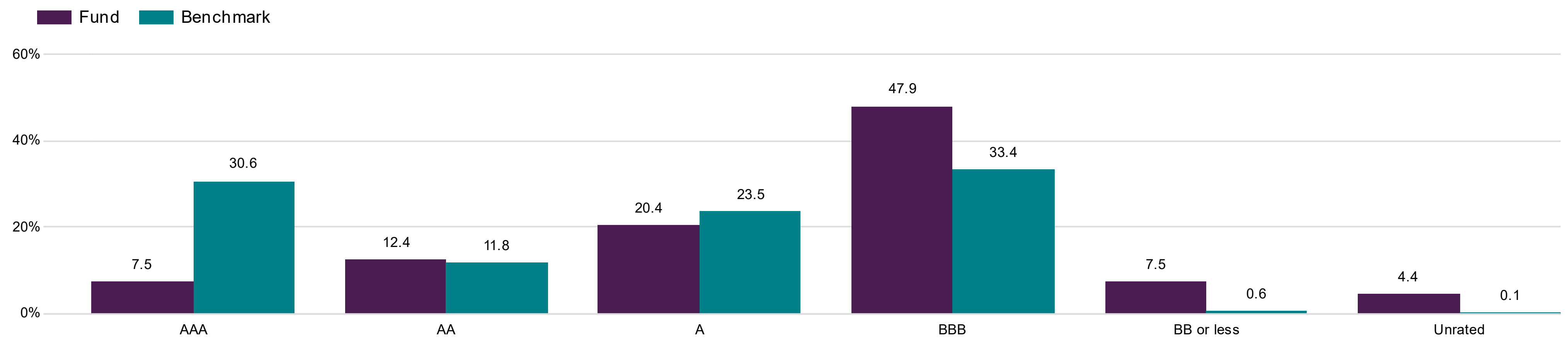
While the portfolio has a bias to bonds in areas such as secured corporate, securitised assets, financials and social housing, we continue to look for ways to add to overall diversification. During the quarter we added global distribution and services group Bunzl.

Fund breakdown

Maturity profile

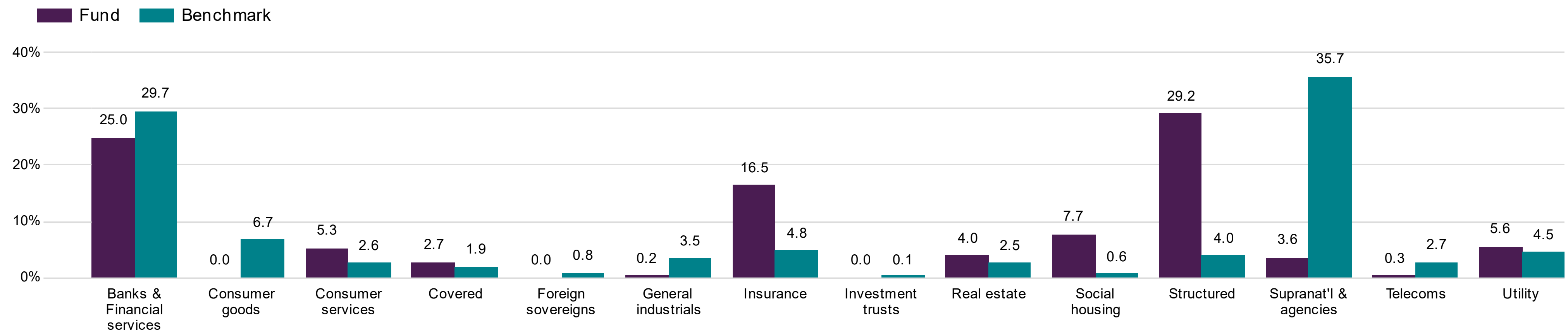


Credit ratings



Fund breakdown

Sector breakdown



Characteristics and climate

ESG characteristics rationale

The Fund focuses on the sustainability of the products and services of the companies it invests in, as well as their standards of environmental, social, governance ("ESG") management, alongside financial analysis. The investment approach is fundamentally based on positive screening; identifying companies that are making a positive contribution towards a cleaner, healthier, safer and more inclusive society, through assessing both what a company does and how it does it, and through active engagement to encourage continual improvement. The fund will not invest in companies that undertake business activities deemed to be detrimental to society. Further details of the Funds Sustainable Investment process can be found in the ethical and sustainable investment policy at www.rlam.com/uk/individual-investors/policies-and-regulatory/

ESG characteristics

Royal London Asset Management has a controversial weapons exclusion across all investments. Our full policy can be found on our website:

www.rlam.com/globalassets/media/literature/policies/controversial-weapons-policy.pdf

	Yes	No
ESG integration	✓	
Promotes environmental or social characteristics	✓	
Sustainable fund objective	✓	
Additional exclusions	✓	

Additional exclusions

Exclusion criteria that make sure a fund does not invest into a specific service or product. Royal London Asset Management has a controversial weapons exclusion across all investments.

Adult entertainment	✓
Alcohol	✓
Animal welfare	✓
Armaments	✓
Fossil fuels	✓
Gambling	✓
High environmental impact	✓
Human rights issues	✓
Nuclear power	✓
Nuclear weapons	✓
Tobacco	✓

Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO2e)	1,588	n/a	n/a
Financed emissions coverage	53.73%	n/a	n/a
Carbon footprint (tCO2e/$M invested)	8.34	11.89	(29.81)
Carbon footprint coverage	53.73%	81.81%	(34.32)
Weighted average carbon intensity (tCO2e/$M sales)	24.96	38.92	(35.87)
Weighted average carbon intensity coverage	93.02%	94.88%	(1.97)

All climate metrics presented above are for Scope 1-2 emissions. Unless specified in the objective, the data is for information only and should not be taken to mean they are being managed to/controlled.

Implied temperature rise

	Fund (%)	Benchmark (%)	Difference (%)
Implied temperature rise (ITR) coverage	50.24	60.83	(17.42)
% of portfolio below 2°C ITR	36.93	33.42	10.51
% of portfolio below 1.5°C ITR	16.71	14.07	18.78

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	5.19	5.97	(13.01)
SBTi Near-Term committed	5.23	4.56	14.69

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	6	24
Number of engagements	7	58

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.

Total engagements by theme and topic

Biodiversity	2
Climate	3
Climate - Physical Risk	2
Climate - Transition Risk	1
Governance	3
Remuneration	2
Corporate Governance	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.

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.

Fund Engagement

Engagement outcomes

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.

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.

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.

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 underweight banks with targeted exposure to subordinated bonds. We will continue to take a pragmatic view – trimming exposure if spreads reach levels where we feel they offer no reasonable risk-adjusted return, whilst also switching gilts back into selective opportunities when they present themselves.

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, 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
- Responsible investment
- 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

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

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The Fund is a sub-fund of Royal London Bond Funds II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128.

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.

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.

Responsible investment risk

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

Performance to 31 March 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	1.83	2.63	6.17	-	16.85
Fund (net)	1.75	2.47	5.84	-	16.00

Annualised (%)

	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	-	6.84
Fund (net)	-	6.51

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)	6.17	8.21	-	-	-
Fund (net)	5.84	7.87	-	-	-

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 Sustainable Short Duration Corporate Bond Fund Z Acc GBP share class. Since inception date 23 November 2022.

Glossary

Asset allocation

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

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.

Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.