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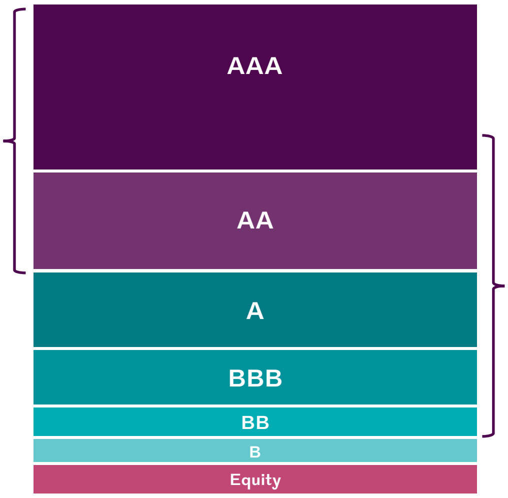
Public Asset Backed Securities

Two new Public Asset Backed Securities (ABS) Strategies

RL Global Senior ABS Fund

- Guidance SONIA +125bps
- Mixture of AAA/AA
- Global strategy focused on UK, Europe and Australia
- Reduced fees - 10bps*
- Daily dealing
- ICAV / QAIF Fund
- Internal Investment from Royal London
- Launch date: 18.03.2025

Public ABS Transactions



RL Global Mezzanine ABS Fund

- Guidance SONIA +225bps
- Full range from AAA-BB
- Global strategy focused on UK, Europe and Australia
- Reduced fees - 15bps*
- Daily dealing
- ICAV / QAIF Fund
- Internal Investment from Royal London
- Launch date: 18.03.2025

Source: RLAM as at March 2025. *Plus expenses

One of Royal London Asset Management's strategic priorities is to develop a Private Asset capability to provide clients with access to diversified asset classes, both in terms of risk and return profiles. Asset backed securities (ABS) is a well-established asset class, and the team have a proven track record in delivering performance.

Royal London Asset Management is pleased to announce the launch of two new funds in its pooled fund range, specifically to invest in asset backed securities. Investors making a commitment to the RL Global Senior ABS Fund and the RL Global Mezzanine ABS Fund before 31 December 2025 will benefit from a reduced fee of 0.10% pa and 0.15% pa (both plus expenses), respectively. This fee rate will apply to that client's investments in the funds in perpetuity, as well as any subsequent top-ups. (From 1 January 2026, for new investors these fees will revert to the standard rates of 0.20% pa plus expenses for the RL Global Senior ABS Fund, and to 0.30% pa plus expenses for the RL Global Mezzanine Fund.)

High-quality alternative investments like ABS are rising in popularity as they have proven to be an incredibly resilient asset class over the years and through several different crises.

The asset class can offer benefits such as:

- Portfolio diversification
- Floating rate
- High level of liquidity
- Lower volatility
- Access to short to mid-term consumer assets (which would generally otherwise not be available to investors)

Additionally, when compared to similarly rated corporate debt, Public ABS assets have lower risk and duration and benefit from a complexity premium pick-up.

Why invest in ABS with Royal London Asset Management?

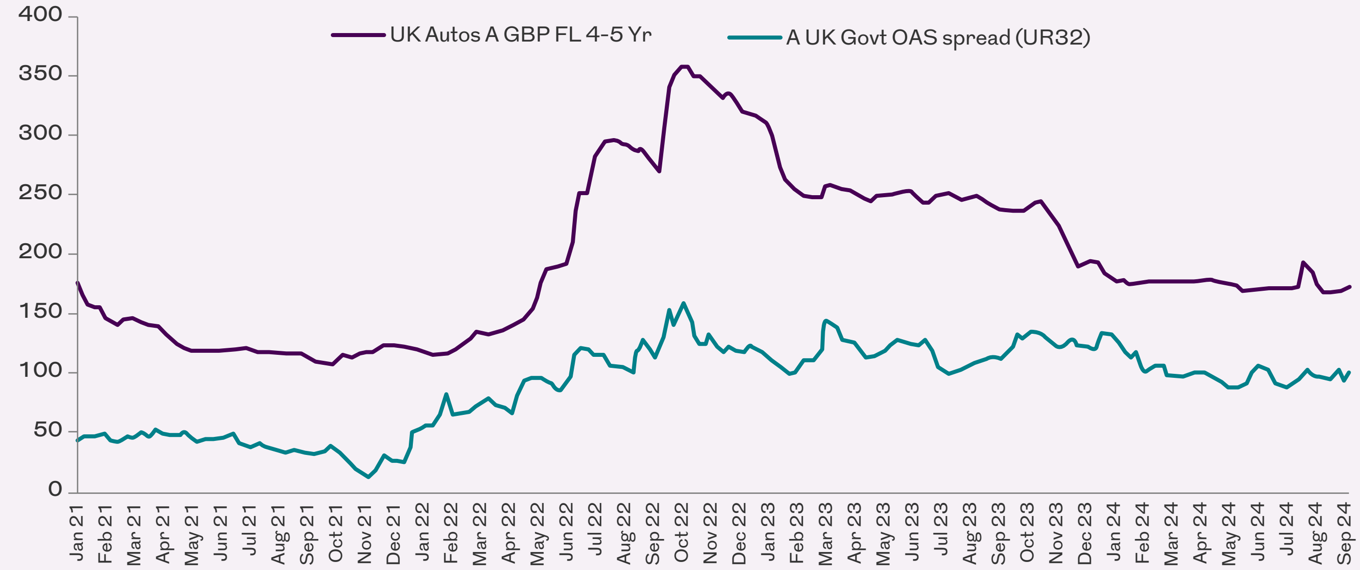
Royal London Group will be alongside our clients as the first investor into these new funds. We are not investing as transient, seed investors. We are making a long-term capital allocation to this asset class because of its high risk-adjusted returns, its structural protections and its ability to create bespoke investment solutions.

To ensure we fully understand the risks and rewards that exist in this specialist market, we have a highly experienced staff of seven people now working in securitised assets, with a further two more dedicated staff scheduled to join in the first half of 2025. They in turn can draw on the resources of our well established and experienced Fixed Income, Property and Responsible Investment teams. The ABS team have successfully demonstrated their expertise in analysing and managing asset backed securities, based on their understanding of the legal structures of those assets, the origination processes of the underlying lenders and the value of any collateral, such as real estate. The team are resourced with all relevant modelling tools, such as Intex, that enable the efficient analysis of this specialist asset class.

We believe that fundamental mispricing in ABS markets is driven by market frictions (the confluence of structural complexity, regulatory constraints and nuanced credit risk dynamics) that create risk and return opportunities, independent of market cycles or technical factors, which can be captured through a disciplined application of investment capabilities (investment skill, proven market experience and differentiated access to investment opportunities).

Due to the combination of complexity, regulatory and credit risk premia, returns in the ABS market exhibit strong risk-adjusted returns versus standard corporate credit and financials debt (see figure 1). This is entirely consistent with Royal London Asset Management's longstanding process of using our resources to find unrecognised value in credit markets.

Figure 1. The appeal of ABS: Example showing securitised spreads versus corporate spreads



Source: RLAM, for illustrative purposes only.

Why consider Asset Backed Securities?

ABS offer a higher yield for the equivalent risk compared to corporate or government bonds (as seen above in figure 1). One factor in this higher yield is the 'complexity premium' that ABS offers, due to the specialisms required to understand both the underlying assets and how they operate within each securitisation. It is also worth noting that historical performance has shown that ABS have a very low default rate, through several economic cycles.

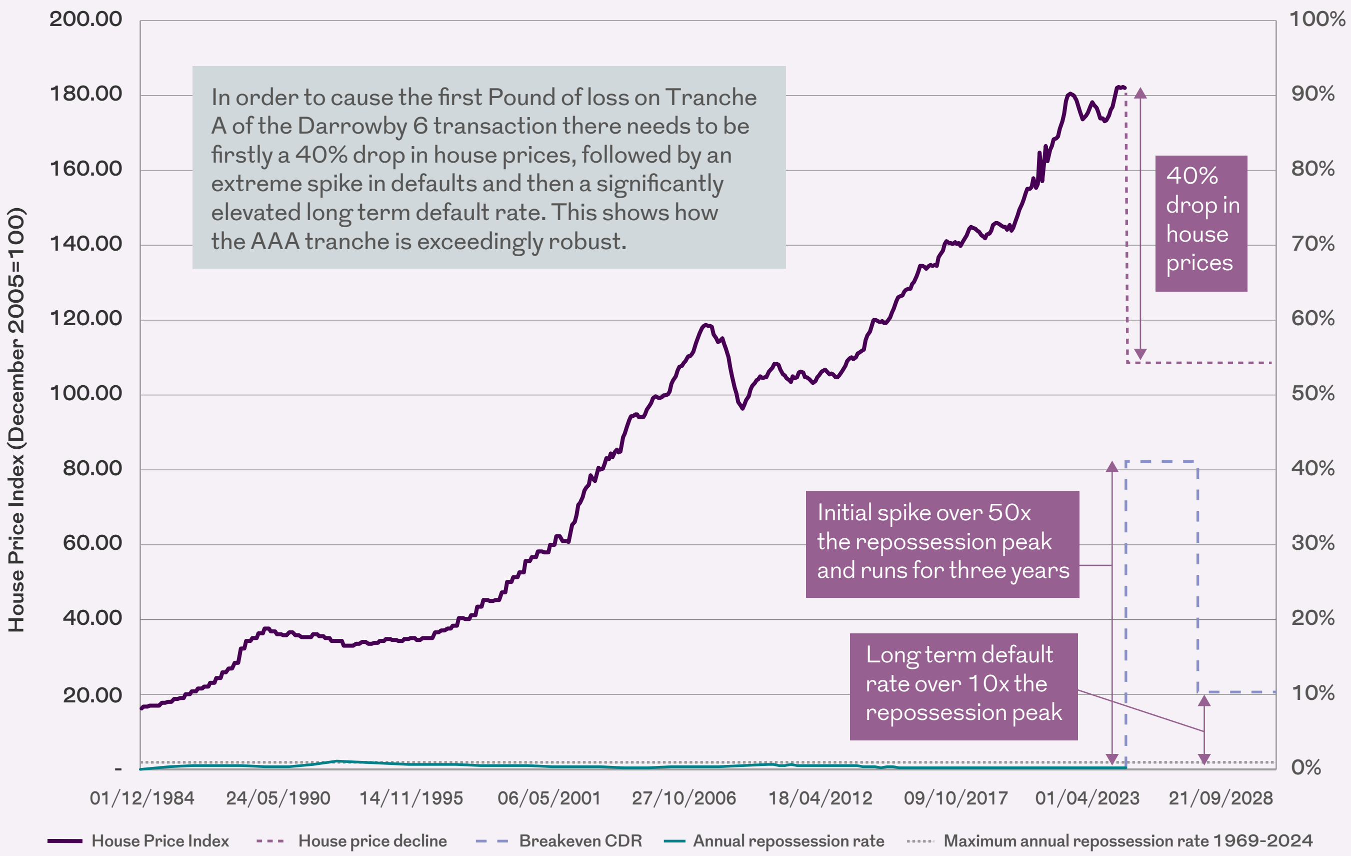
Almost all UK and European ABS are floating rate, which means they have near zero interest rate risk, thus making them less volatile in an uncertain interest rate environment than traditional fixed income.

Through ABS, investors can diversify their portfolios away from traditional corporate risk and benefit from enhanced risk-adjusted returns. Investors would not normally be able to access exposure to the underlying consumer or private lending assets if they were not securitised as an ABS bond.

Due to the granularity of ABS and their capital structures, investors can choose an investment risk and return profile which suits their appetite. Assets range from AAA to B, and even unrated. Investors can also tailor which asset class they want, such as mortgages, auto loans and credit cards, and in which geographical jurisdiction they wish to invest.

For investors seeking to invest in the most senior tranches of the securitised market, the protections are significant. In figure 2 we examine the AAA tranche of a UK residential mortgage-backed security (RMBS). The chart shows that house prices could fall immediately by 40%, and never recover, at the same time as defaults going to many multiples of their worst ever experience before investors suffered any loss.

Figure 2. Strong investor protections
Example showing the robustness of AAA UK RMBS: Darrowby No 6 PLC Tranche A



Source: RLAM, Land Registry UK, UK Government and UK Finance. For illustrative purposes only. As at December 2024. Past performance is not a guide to future performance.

A key to the asset class is also protection. As the underlying assets of ABS transactions sit within a separate legal entity, they are protected from a lender's failure. Investors do not need to consider or assess a bank's often opaque balance sheet but can rather concentrate on understanding their lending criteria and underwriting process. Historically, ABS have a very low default rate, through several economic cycles. (Source S&P, weighted average of European RMBS one-year default rates, 1988-2023, AAA – 0.06%, AA – 0.01%, A – 0.01%, BBB – 0.06%)

Frequent reporting of the underlying assets is provided by the issuers, which allows investors to view the performance of the collateral pool and manage their portfolios accordingly. Robust analysis of the underlying loans allows experienced and well-resourced investors to exit potentially deteriorating securities.

The team

An established, specialist ABS team, who have worked together for over 10 years, have joined our proven, credit management team which has a history of producing outstanding risk-adjusted returns for our clients. We use our resources to follow a research driven process to fully understand all of the complexities of the assets and maintain portfolios of high quality securities at the right price. As at 31st December 2024, 92% of our fixed income funds were outperforming their benchmarks over a three year period, on an equal weighted basis.

The team has extensive experience of not only investing in the securitised structures, but also of underwriting the sorts of assets that form the underlying loans in these pools. Our team has seen the full spectrum of behaviours on display during the market cycles in consumer, financial and corporate credit. This means that they understand the nature of the end borrowers in these vehicles, and therefore not just the asset's price, but its true worth.

Jeremy Deacon

Head of Asset Backed Securities

Prior to joining Royal London Asset Management Jeremy spent 14 years at Insight Investment, most recently as Head of Liquid European Secured Finance, where he managed a team and was responsible for a range of Asset Backed portfolios of both Public and Private assets. Prior to Insight, Jeremy worked at CQS, Rabobank, Fitch and GE in a range of Asset Backed roles. Jeremy began his career at Santander as a Specialist Underwriter.

Seema Sopal

Fund Manager (Public ABS)

Prior to joining Royal London Asset Management, Seema worked at Insight Investment where she was responsible for the Liquid ABS Fund, as well as analysing and monitoring European RMBS and ABS. Seema previously worked on the sell side at Bank of America Merrill Lynch on the Structured Credit Sales desk. She qualified with a BA (Hon) in Sociology and holds a Post Graduate Diploma in Law and has passed the Legal Practice Course, both at BPP Law School.

Investment risks

Past performance is not a guide to future performance. 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.

The funds invest in Asset Backed Securities (ABS) which may be subject to greater credit, counterparty, liquidity, and interest rate risks compared to other investments such as government or corporate bonds. This may have a negative impact on the value of investment over the long and short-term.

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.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

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.

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.

Contact us

For more information about our range of products and services, please contact us.

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The funds are sub-funds of Royal London Asset Management Investment Funds ICAV, an Irish collective asset-management vehicle authorised by the Central Bank of Ireland pursuant to the Irish Collective Asset-management Vehicles Act 2015 and the AIFM Regulations, and has been established as an umbrella fund with segregated liability between funds. It is not a recognised scheme under the Financial Services and Markets Act 2000. The Investment Manager is Royal London Asset Management Limited. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

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Issued in March 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.

Ref: PDF RLAM PD 0245

140626 03 2025