ROYAL LONDON

ASSET MANAGEMENT

ROYAL LONDON GLOBAL HIGH YIELD BOND FUND

Quarterly Report 31 March 2019

For professional clients only, not suitable for retail investors

CONTENTS

ROYAL LONDON GLOBAL HIGH YIELD BOND FUND

Executive summary

- The fund returned 5.42% during the first quarter, compared with the 6.33% return from the BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained index, 100% hedged to sterling. Fund performance figures are gross of tax and management charges.
- The global high yield market had a strong start to the year, rebounding from weakness in the fourth quarter in 2018, with positive returns that were broad based and witnessed across regions, ratings and sectors. This was despite economic data in the US, China and the eurozone disappointing relative to expectations. The market was supported by the combination of a subdued level of new corporate bond issuance and a continuation of investor inflows. Overall, yields in the market were lower, due to tighter credit spreads and lower underlying government yields.
- In terms of sector exposures, Media was the largest source of relative performance, while Energy was the greatest detractor. By region, contributions to relative performance against the benchmark were outperformance in Europe and underperformance in the US, the 'Rest of World' and the UK.
- The fund yield stood at 4.9% (yield to worst) at the end of March (versus 5.5% for the index), and its duration was shorter than that of the index.

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q1 2019	**5.42**	**6.33**	**-0.91**
Year-to-date	5.42	6.33	-0.91
Rolling 12 months	4.28	3.95	0.33
3 years p.a.	5.51	6.61	-1.10
5 years p.a.	4.32	4.26	0.06
Since inception p.a. 15.02.2013	5.12	4.76	0.36

Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

All performance figures stated gross of fees and tax unless otherwise stated.

Source: RLAM. Based on the Z share class. Performance for the fund is calculated on a mid basis with income re-invested. The fund returns in the table above are gross of standard management fees.

[1]Benchmark: ICE BofAML BB-B Global Non-Financial High Yield Constrained,100% hedged to GBP.

Fund price and yields

	Distribution yield[1]
Fund	4.98%

Source: RLAM and State Street. Based on the Z share class.

[1]Net of standard management charges.

[2] Benchmark: ICE BofAML BB-B Global Non-Financial High Yield Constrained,100% hedged to GBP.

Fund data

	Fund	Benchmark[2]
Duration	3.1 years	3.7 years
No. of stocks	133	2,410
Fund size	£792.0m	-
Launch date	15.02.2013	-

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Fund strategy

- The fund's objective is to achieve a combination of capital growth and income. The fund seeks to achieve its investment objective by outperforming its benchmark, the BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained index, 100% hedged to sterling, by 1% per annum over rolling three year periods.
- The fund mitigates stock specific risk by holding a diversified portfolio of investments, so that no individual investment can, in isolation, have an excessive adverse impact on overall fund performance. Currency risk associated with holdings of bonds is hedged through the use of forward currency transactions.
- We expect bouts of market volatility due to changing market expectations surrounding monetary policy worldwide. As such, we believe bonds with near-term catalysts, which mitigate market risk, are an important attribute underpinning investment performance over the medium term.

Fund commentary

- Yields on benchmark 10-year government bonds fell in most developed markets during the quarter, as weakened economic data led central banks to undertake more dovish policy stances. The Federal Reserve reduced its expected 2019 interest rate hikes from two to zero, while the European Central Bank announced a rollover of its bank lending programme and changed its interest rate hike guidance from "through the summer" to "through the end of 2019". In the high yield market, BB rated bonds underperformed B rated debt, with respective returns of 6.10% and 6.67%. Outside the reference index, the High Yield CCC & Lower index returned 7.04%. Longer maturity issues outperformed shorter dated counterparts.
- By sector, media remained the fund's principal exposure and its biggest overweight against the benchmark index, while energy and basic industry were the leading underweights. Media made the quarter's greatest contribution to performance against the benchmark; energy and real estate were the leading detractors.
- The US is the fund's main regional holding, with a significant allocation to Europe and smaller positions in 'Rest of World' and the UK. Exposure to Europe was reduced substantially during the quarter, though the fund remains overweight relative to the benchmark index. The fund's underweights in the US and 'Rest of World' were maintained, while the fund's exposure to the UK is broadly in line with the benchmark index.
- By credit rating, the fund has a preference for B and BB rated issues, with holdings that are overweight and underweight, respectively, relative to the benchmark.
- The fund held no defaulting companies during the first quarter.
- The largest contributor to fund performance during the quarter was European media company **Altice**, which added about 21 basis points (bps). The main detractor was the Caribbean telecommunications business **Digicel**, which detracted approximately 10 bps.
- New issuance activity was markedly subdued in the quarter compared with a year earlier. The fund remained selective in its approach to investment, differentiating between high and low quality debt. Purchases included senior notes of Luxembourg-based telecommunications business **Millicom International Cellular**; a stable business with a reasonable credit profile. The fund bought an attractive senior secured issue of the Caribbean telecommunications business **Digicel International Finance** and also senior unsecured notes of African oil and gas company **Kosmos Energy**.
- Away from new issues, the fund instigated an attractive new short-dated position in Israeli multinational **Teva Pharmaceutical Industries** due to its improving credit story. It bought senior secured bonds of debt issuing vehicle **Intelsat Jackson Holdings**, attracted by its good asset coverage, adding risk to its first lien tranche to reflect the manager's credit view. The fund bought bonds of midstream energy corporation **Targa Resources** in order to reduce its underweight in energy relative to the benchmark. The fund added exposure to its existing holdings in broadband cable providers **Unitymedia GmbH** and **UPC Broadband**; both of which are owned by multinational telecommunications company **Liberty Global**. The fund sold its holding of cinema operator **Vue International**, taking advantage of strong liquidity, and took profits on its position in communications provider **GCI Liberty**. The fund reduced its exposure to consumer discretionary firm **Eagle Intermediate Global Holding** due to the manager's view on market liquidity.

Outlook

- We continue to believe that global high yield bonds are attractive on a spread basis and that they overcompensate for default risk, while their level of income generation is also appealing on a relative basis.
- The current growth and rate environment provides a moderate default climate with ongoing refinancing opportunities.

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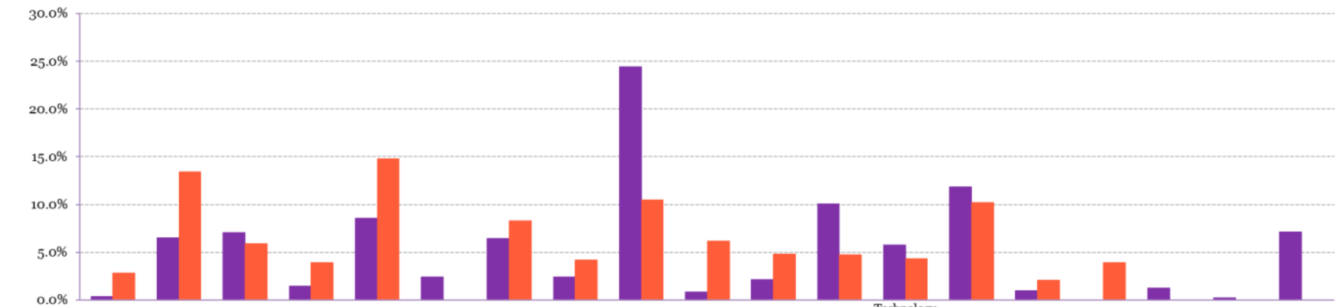
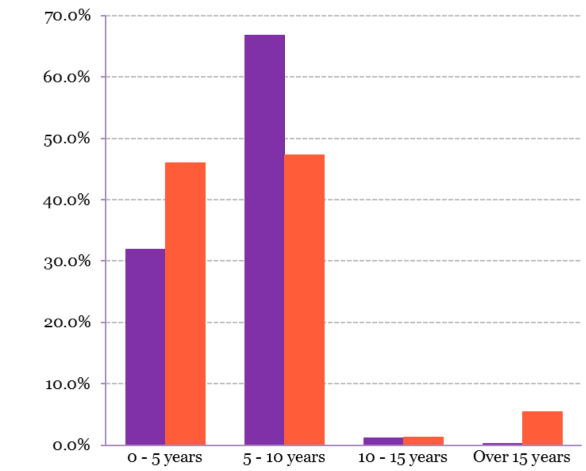
Sector breakdown



	Automotive	Basic Industry	Capital Goods	Consumer Goods	Energy	Financial Services	Healthcare	Leisure	Media	Real Estate	Retail	Services	Technology & Electronics	Telecoms	Transport	Utility	Gilts	ABS	Cash
GHYOO	0.3%	6.5%	7.0%	1.5%	8.5%	2.4%	6.5%	2.4%	24.4%	0.9%	2.1%	10.1%	5.8%	11.9%	1.0%	0.0%	1.3%	0.2%	7.2%
Benchmark	2.8%	13.4%	5.9%	3.9%	14.8%	0.0%	8.3%	4.2%	10.5%	6.2%	4.8%	4.8%	4.3%	10.2%	2.1%	3.9%	0.0%	0.0%	0.0%

Source: RLAM.

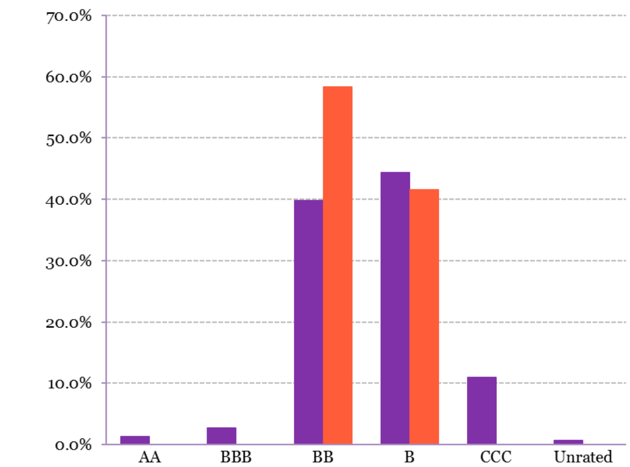
Maturity profile



	0 - 5 years	5 - 10 years	10 - 15 years	Over 15 years
GHYOO	31.9%	66.8%	1.1%	0.2%
Benchmark	46.0%	47.4%	1.3%	5.4%

Source: RLAM. Maturity breakdown is the final maturity. Figures exclude the impact of cash held.

Credit breakdown



	AA	BBB	BB	B	CCC	Unrated
GHYOO	1.4%	2.7%	39.8%	44.4%	11.0%	0.7%
Benchmark	0.0%	0.0%	58.4%	41.6%	0.0%	0.0%

Source: RLAM. Figures exclude the impact of cash held.

Ten largest bond holdings

	Weighting (%)
CSC Holdings Corporation 7.5% 2028	1.8
IHS Netherlands Holdco 9.5% 2021	1.6
VTR Finance 6.875% 2024	1.6
UPC Holding 5.5% 2028	1.6
Softbank Group Corporation 5% 2028	1.6
Nielsen Finance 5% 2022	1.5
SIRI 5% 2027	1.5
Davita Healthcare Partners Inc 5% 2025	1.5
BWAY Holding 5.5% 2024	1.5
CBS Radio Inc 7.25% 2024	1.5
Total	**15.9**

Source: RLAM. Percent of fund is based on security's fund base value over total fund base value less cash and FX hedging.

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