ROYAL LONDON

ASSET MANAGEMENT

ROYAL LONDON INTERNATIONAL GOVERNMENT BOND FUND

Quarterly Report 30 June 2018

For professional clients only, not suitable for retail investors

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Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	0.0	0.0
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	3.7	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	92.3	100.0
Foreign index linked sovereign	4.0	0.0
Derivatives	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration	7.3 years	7.7 years
Gross redemption yield[3]	1.62%	1.53%
Distribution yield	1.61%	-
Underlying yield[4]	1.12%	-
No. of stocks	85	830
Fund size	£356.5m	-
Gross half yearly income[5]	0.66p	-
Unit price[6]	108.10p	-

Source: RLAM, based on the M share class. Launch date: 01.11.2011.

[1]Benchmark: JPMorgan Traded World ex-UK Government Bond Index (£ Hedged).

[2]Conventional credit bond allocation includes exposure to non-sterling credit bonds and CDs, where applicable.

[3]The gross redemption yield is calculated on a weighted average basis.

[4]The underlying yield aligns closely with the gross redemption yield of the fund taking in account expenses. Please see glossary for more detail.

[5]Related to the period November – April (inclusive) and paid at the end of June.

[6]As at 30 June 2018.

Figures in relation to the asset spilt table exclude the impact of cash where held.

Performance

	Fund (%) (gross of fees and net of tax)	Fund (%) (gross of fees and gross of tax)	Benchmark[1] (%)	Relative (%) (as compared to gross of tax)
Q2 2018	**-0.01**	**-0.01**	**-0.26**	**0.25**
Year-to-date	-0.18	-0.18	-0.21	0.03
Rolling 12 months	0.35	0.35	0.47	-0.12
3 years p.a.	2.06	2.20	1.98	0.22
5 years p.a.	2.68	2.86	2.95	-0.09
Since inception 30.06.2005	2.65	2.84	2.96	-0.12

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 M share class.

[1]Benchmark: JPMorgan Traded World ex-UK Government Bond Index (£ Hedged).

On 26th November 2012 the RL International Government Bond Fund (Class B) was renamed the RL International Government Bond Fund (Class M).In the above table, the fund returns in the first column are gross of fees and net of taxes. The fund returns in the second column are gross of fees and gross of taxes. Both include the impact of cash holdings over the period. The benchmark returns are gross of tax. Your tax situation may differ and as such your actual return may be less than the gross of tax fund return shown in this table.

Performance for the Royal London International Government Bond fund is based on pricing at noon, while index performance is based on pricing at close of business, preventing direct performance comparison. The significance of this timing discrepancy is likely to be smaller for longer measurement periods.

As of 6 April 2017, the UK Government announced that funds paying interest distributions will be required to pay those distributions gross of tax.

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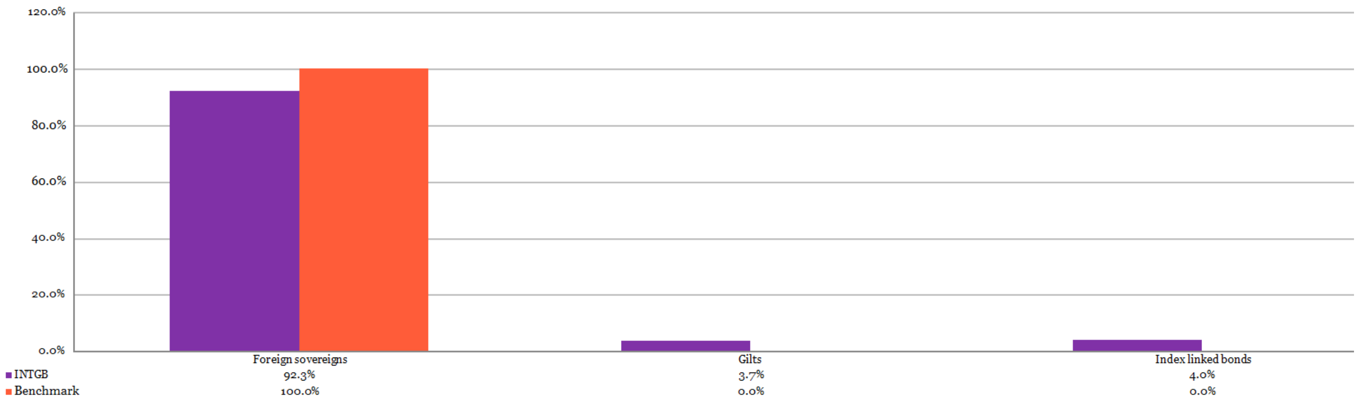
Asset allocation



Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.

What we thought	What we did	What happened	Effect on portfolio
Central bank purchases and political risks in Europe should offer cross-market trading opportunities.	Positions in core, semi-core and peripheral Europe were actively managed. We switched from 15 and 20-year Belgian maturities into French equivalents as the relative yield pick-up reached all-time highs. We switched 15-year bunds into Spanish equivalents following outperformance. We maintained our underweight exposure to Italy.	There was divergence in yield movements across European government bond markets over the second quarter, which saw core and semi-core markets rally, and peripheral yields, especially in Italy, rise sharply.	The short position in Italy was positive for performance, although this was partially offset by the fund's underweight exposure to non-peripheral European markets.
Canadian bonds were trading cheap relative to their US equivalents at the start of the quarter.	We built an overweight position in five-year Canada, against an underweight in five-year US.	Canadian bonds outperformed the US, and we switched half the position back into the US midway through the quarter. Towards the end of the quarter, as Canadian bonds continued to rally, we exited the rest of the position.	The bias to Canada over the US was positive.

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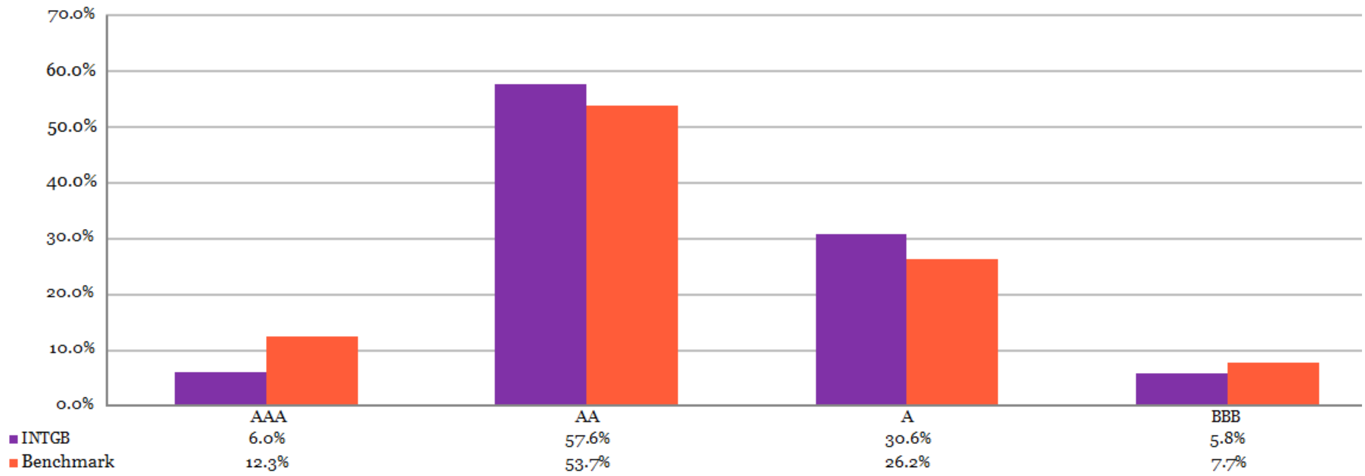
Rating breakdown



Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.

What we thought	What we did	What happened	Effect on portfolio
We thought it possible that Spanish government debt would be upgraded.	The fund moved from underweight to overweight in Spain ahead of possible rating upgrades.	Spanish government debt was upgraded by Moody's on strong economic and fiscal indicators.	This aspect of positioning had a positive impact on relative performance.

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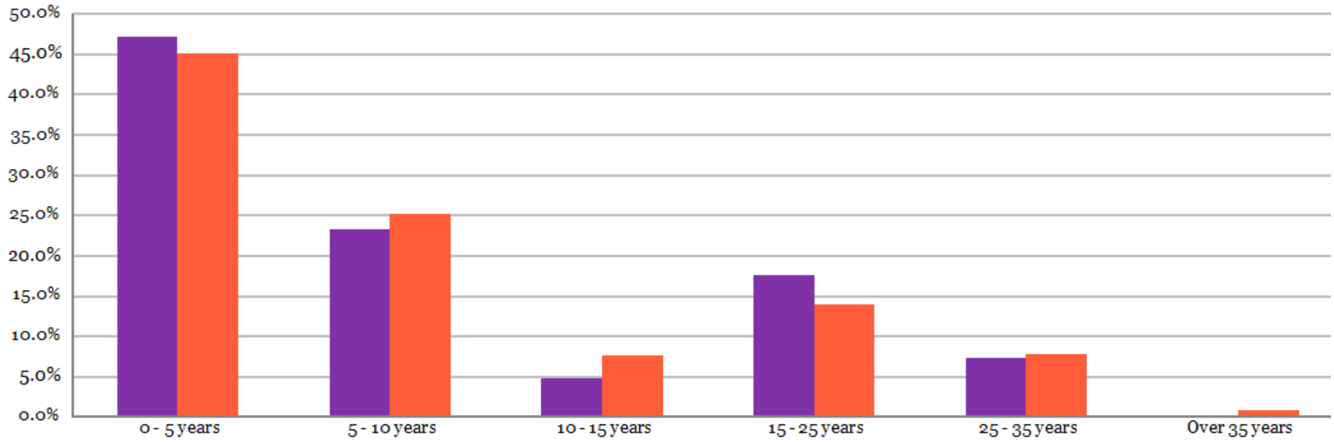
Maturity profile



	0 - 5 years	5 - 10 years	10 - 15 years	15 - 25 years	25 - 35 years	Over 35 years
INTGB	47.2%	23.3%	4.8%	17.5%	7.2%	0.1%
Benchmark	45.0%	25.1%	7.6%	13.9%	7.7%	0.8%

Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.

What we thought	What we did	What happened	Effect on portfolio
Government bond yields were too low across many markets, not reflecting the true state of these countries' economies.	The fund's duration, which is less than that of the market, was actively managed over the quarter, ending the period roughly -0.4 years short versus the index.	Benchmark 10-year government bond yields were mixed over the quarter, falling in core and semi-core Europe and US but rising in peripheral Europe, in particular, Italy.	The short duration position had a negative impact on performance.
In core Europe, shorter dated maturities continue to be distorted by the actions of the central bank buying programme. In the US, the shorter end of the curve fully reflected the expected path of Fed rate hikes, whilst the 10-year area did not. Mispricing of bonds of similar maturities would continue to offer opportunities.	We maintained a bias towards flatter curves in Europe and steeper curves in the US. The fund actively traded 'micro curve' positions to capture mispricing between bonds of similar maturities.	The US yield curve continued to flatten as rate hikes affected shorter dated maturities. Core European yield curves also steepened over the quarter as, whilst the ECB confirmed that its QE programme would stop in December, rate hike expectations were pushed back following comments from the ECB. In the last two weeks of the quarter, European yield curves flattened to pre-June ECB levels.	Yield curve positioning had a negative effect on performance over the quarter, though this was mitigated by actively trading curve exposure during the period.

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Ten largest holdings

	Weighting (%)
US Treasury 2% 15 2021	8.6
Japan (govt) 1% 2020	5.0
US Treasury 2.625% 2020	4.7
US Treasury 4.375% 2041	4.6
US Treasury 2.5% 2024	3.7
Japan (govt) 0.1% 2019	3.3
Japan (govt) 1.2% 2035	3.2
UK Treasury 1.25% 2018	3.0
US Treasury 1% 2019	3.0
US Treasury 3.125% 2019	2.7
Total	**41.8**

Source: RLAM. Figures in the table above exclude derivatives where held.

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Fund activity

- Activity in the fund continued to be biased towards relative-value tactical positioning, focusing on cross-market, yield curve and duration positioning.
- The fund's duration position was actively managed, ending the quarter at roughly -0.4 years shorter than the benchmark. We increased the scale of our Italy underweight early in the quarter with political uncertainty remaining high. With 2-year Italian yields reaching 2.7% in late May, we later we took profits on a widening Italy/Spain spread driven by political news. In June, we reapplied some of the risk we removed, moving back towards the stance we had before the crisis broke. The fund added to its Spanish exposure to go overweight following underperformance vs Italian equivalents, later selling Spanish seven-year bonds into ECB strength after disappointing inflation data. We also added ten-year Norway bonds to the fund that performed well and we sold half our holding in May, retaining half as spreads were attractive vs equivalent bunds. We took profits on the remainder of the holding in June ahead of conjecture of a summer rate hike by Norges Bank.
- In terms of curve positioning, we established a curve steepening position in the US, expecting two-year US treasuries to outperform 10-year equivalents with several US rate hikes fully priced into the market, buying US treasury 20s, switching from 28s. Early in the quarter, we also established a steepening trade in US five-year vs 30-year treasuries, buying the former and selling the latter. Following significant flattening around Italian politics, we switched out of BTP40s into 24s to leave the fund flat across the Italian curve, having put on a curve flattening trade prior to the crisis. Elsewhere in Europe, we put on curve flattening trades in Germany following the significant steepening post the June ECB monetary policy meeting.
- Cross-market, we added to 15 and 20-year Belgian maturities from French equivalents during the quarter as the relative yield pick-up for Belgium versus France reached all-time highs. We also switched 15-year bunds into Spanish equivalents following outperformance and sold five-year Canadian bonds into US equivalents as Canada outperformed.

Key views within the portfolio

- The fund has a short duration position, as we believe global government bond yields remain expensive. This position continues to be actively managed and will evolve as market volatility permits.
- The majority of the fund's overall short duration position is in European government bonds, and within this, the underweights are concentrated in semi-core Europe (France) and Italy, offset by an overweight position in Spain.
- The fund has a small positive exposure to the US with an overweight in the two-year sector relative to 10-year and longer dated bonds.
- The fund is positioned for higher yields across the curve, with a preference to be underweight 5 to 15 and 25-year maturity bonds.

IMPORTANT INFORMATION

Financial promotion issued by Royal London Asset Management July 2018. Information correct at that date unless otherwise stated.

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