



ASSET MANAGEMENT

ROYAL LONDON INTERNATIONAL GOVERNMENT BOND FUND

Quarterly Report 31 December 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	5.1	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	92.8	100.0
Foreign index linked sovereign	2.1	0.0
Derivatives	0.0	0.0
Other	0.0	0.0

Fund data

	Fund	Benchmark ¹
Duration	7.3 years	7.7 years
Gross redemption yield ³	1.49%	1.51%
No. of stocks	80	828
Fund size	£341.0m	-

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

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

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

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

Performance

	Fund (%)	Benchmark ¹ (%)	Relative (%)
Q4 2018	1.86	2.05	-0.19
Year-to-date	0.85	0.86	-0.01
Rolling 12 months	0.85	0.86	-0.01
3 years p.a.	1.83	1.64	0.19
5 years p.a.	2.80	2.98	-0.19
Since inception p.a. 01.11.2011	2.79	2.91	-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, subject to rounding.

Source: RLAM, based on the M share class.

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

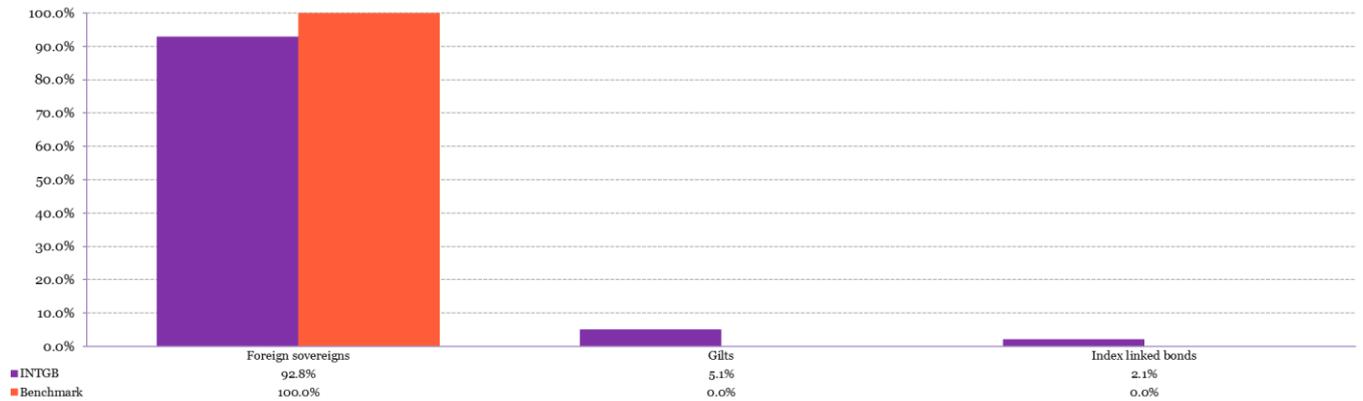
On 26th November 2012 the RL International Government Bond Fund (Class B) was renamed the RL International Government Bond Fund (Class M). In the above table, the fund returns in the first column are gross of fees and net of taxes. The fund returns in the second column are gross of fees and gross of 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.

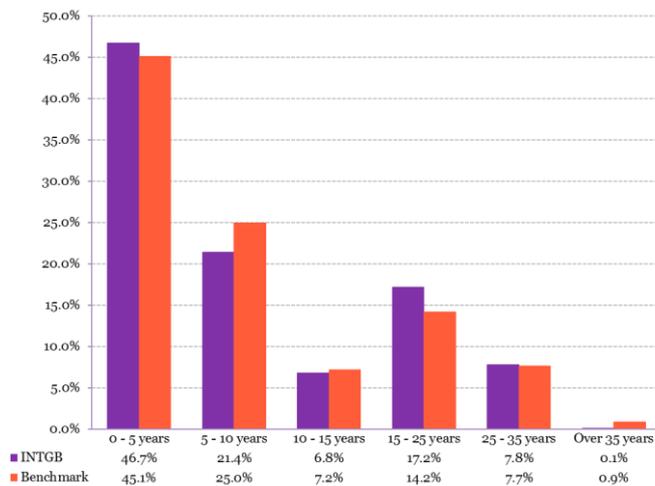
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Sector breakdown

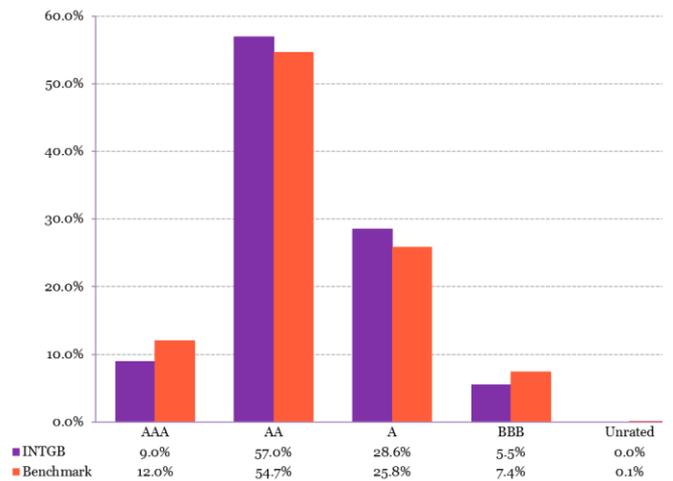


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
US Treasury 2.625% 2020	5.2
UK Treasury 1.75% 2019	5.1
US Treasury 1.25% 2019	4.3
Japan (govt) 0.1% 2019	4.1
US Treasury 2% 2021	4.0
US Treasury 2% 2022	4.0
US Treasury 4.375% 2041	3.8
Japan (govt) 1.2% 2035	3.4
US Treasury 2.25% 2024	3.3
US Treasury 2.5% 2023	3.3
Total	40.5

Source: RLAM. Figures in the table above exclude derivatives where held, subject to rounding.

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Portfolio review

	What we thought	What we did	What happened	Effect on portfolio
Duration	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 -0.4 years short versus the index.	Benchmark 10-year government bond yields were lower over the quarter across the US, core, semi-core and peripheral Europe.	The short duration position had a negative impact on performance.
Yield curves	At the start of the quarter, in the US, the shorter end of the curve fully reflected the expected path of the US Federal Reserve (Fed) rate hikes, whilst longer maturities did not.	We started the quarter with a bias towards steeper curves in the US between five and 30-year maturities.	The US yield curve steepened as long-dated treasury yields fell by a lesser amount than shorter dated yields, as the Fed gave dovish signals to the market over the pace of future rate hikes.	Yield curve positioning was positive for performance as the US curve steepened.
Asset allocation	We thought that the Italian Budget submission to the European Commission (EC) could result in heightened volatility in Italian government bonds.	We maintained a neutral exposure to Italy ahead of the budget submission.	An initial higher than expected budget deficit submission to the EC caused Italian bonds to sell off. A subsequent climb down resulted in a rally back to levels last seen in the third quarter.	Our neutral position in Italy over the budget stand-off with the EC meant that performance was not impacted.
Asset allocation	The Italian bond rally following the revised budget submission was overdone and we felt that the market was not adequately pricing Italian risk.	Towards the end of the quarter, we initiated an underweight position in 10 year maturity Italian bonds, versus German bunds .	The BTP / bund spread stabilised at around 250bps, having been as high as 327bps during the budget stand-off.	Our underweight in Italy towards the end of the quarter marginally cost the fund performance.

Fund activity

- Activity in the fund continued to be biased towards relative-value tactical positioning, focusing on cross-market, yield curve and duration positioning. We continued to take both tactical and strategic positions in the portfolio, where appropriate to the fund's risk and return objectives.
- The fund's duration position was actively managed, starting and ending the quarter at roughly -0.4 years shorter than the benchmark. We consider the majority of developed market government bonds to be expensive and therefore have a strategic bias towards short positioning. Over the course of the quarter we reduced the scale of our underweights in the US and Germany.
- Activity focused on relative value trades in key markets such as the US, France and Spain. In the US we started the quarter with a five year- 30 year curve steepening position, and took profits in October and November to move back to a ten year-30 year flattening yield curve position.
- Italy remained a focus as the budget deficit issue continued to dominate sentiment. Having spent the majority of the quarter neutral to Italy, given the heightened volatility around the budgetary standoff, we initiated a small underweight versus bunds towards the end of the quarter, as we felt that a combination of over optimistic growth forecasts in the revised budget submission and heavy supply early in 2019 will put pressure on Italian bonds.
- Our Japanese positioning, based on a view that Japanese inflation would move higher, was a small negative for performance after breakeven (implied) inflation rates fell sharply on the collapse in the oil price. We subsequently added to the position as we still believe this represents an attractive opportunity.



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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; within this, the fund is underweight in core Europe (Germany and Netherlands), underweight in semi-core Europe (France and Belgium) with a modest overweight in peripheral Europe (underweight Italy but overweight Spain). The fund has an underweight position in US and a small overweight position in Japan.
- The fund is positioned for higher yields at the shorter end of the curve in the majority of markets, with a preference to be underweight five-year to ten-year maturity bonds, and tilted towards neutral or overweight exposures to longer dated bonds, particularly those with greater than 20 years to maturity.

IMPORTANT INFORMATION

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All information is correct at end December 2018 unless otherwise stated.

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