



ASSET MANAGEMENT

# GENERATING INCOME



**RL Corporate  
Bond Fund**

**RL Global  
High Yield  
Bond Fund**

**RL Sterling  
Extra Yield  
Bond Fund**

**RL UK Equity  
Income Fund**

For professional investors only, not suitable for retail investors

The **ever-present demand for income** continues to attract attention as uncertain economic growth and low interest rates have highlighted **income generating assets** as an **attractive proposition**. These trends aside, a diverse range of demographic, economic and regulatory drivers are also impacting the demand for **income solutions**.

## DEMOGRAPHICS

In recent years population ageing has become more marked, particularly in Europe, where the population of over 65 year olds is significantly above the world average for this demographic. This ageing population trend is forecast to continue in advanced economies, and could potentially put considerable strain on public pension systems.

## PUBLIC FINANCES

An ageing population combined with the substantial post-crisis public debt levels means that public resources will inevitably be further stretched. While the deficit has fallen since its peak in 2009/10, public net sector debt has remained relatively high in recent years. Protracted below-target inflation levels and the longer-term issue of a potential eventual interest rate rise could potentially exacerbate these debt overhang issues.

Increasing emphasis is therefore being placed on securing an income sufficient for a long retirement.

## ECONOMIC CONDITIONS

In addition to the impact on public finances recent economic conditions have also presented investors with some challenges. Deposits are plagued by capital erosion in an, albeit low, but still inflationary environment and are further threatened by any increase in inflation. Protracted low interest rates have produced correspondingly low government bond yields, a traditional source of income for many investors. For income investors with an appetite for more risk, corporate bonds could be a good option in an uncertain environment.

For those seeking an income to fund their retirement, changes to the pensions landscape have also altered their investment options. The increased flexibility around pensions may mean a growing demand for income generating investments.

## GENERATING INCOME

At Royal London Asset Management (RLAM) our range of income Funds spans the risk return scale and includes property, cash, government bond, corporate bond, high yield bond and equity income Funds. We have highlighted a selection of these products to illustrate our approach to income investing:

Our highly experienced fixed income and equity Fund Managers have delivered strong performance through changing economic conditions and business cycles. These managers use their in-depth market knowledge to exploit investment opportunities to help them meet their aims. Across the asset classes and products outlined, we aim to add value by using our experience to explore parts of the market that others often overlook.

While our managers are not constrained by a single house view, RLAM's Economist and Chief Investment Officer help inform the broad macro outlook of many managers. RLAM's Head of Portfolio Risk undertakes regular reporting on both bond and equity portfolios, ensuring that robust risk management measures are in place across the Funds.

**FIXED INCOME** – Our highly experienced Fixed Income Team manage an extensive range of assets across the fixed income spectrum. Our credit Fund Managers adopt a team-orientated process, sharing their views on the economic outlook and various holdings as well as RLAM's credit research resources. Central to our corporate and high yield bond funds is the premise that there are greater inefficiencies within credit markets relative to the government bond market and that these can be exploited to generate potential returns.

By considering a wider investment universe than many of our peers, we can uncover value in many areas that are often overlooked, including unrated and asset backed bonds and loans. We avoid over-reliance on credit ratings as the main determinant of relative value, instead adopting a more forward looking approach to credit analysis.

Our Analysts use their extensive corporate knowledge to produce medium-term forecasts of how they expect the credit fundamentals of an issuer to change as well as considering the likely recovery rate in the event of a default. Our internal rating methodology is designed not just to determine the probability of default, but also to identify the protection offered to our investors through covenants and security.

Unlike the income from a single fixed income security, the level of income (yield) from a fund is not fixed and may go up and down. Sub-investment grade bonds have characteristics which may result in a higher probability of default than investment grade bonds and therefore a higher risk.

## RL CORPORATE BOND FUND

### OVERVIEW

The RL Corporate Bond Fund invests in a broad range of sterling fixed income assets, predominantly sterling denominated investment grade bonds. The Managers can also invest in other securities, including government bonds, index linked securities, non-sterling credit bonds and floating rate notes in line with sector restrictions when thought appropriate.



Jonathan Platt  
Head of Fixed  
Income



Shalin Shah  
Fund Manager

### INVESTMENT PHILOSOPHY

The Fund aims to achieve outperformance from multiple sources (e.g. asset allocation, stock selection, duration and yield curve management as well as off-benchmark investing). Asset allocation and duration/yield curve positions are derived from our quarterly economic review in which we assess key economic factors such as growth, inflation and interest rates. Stock selection reflects the views of RLAM's experienced credit team; the process is underpinned by a core investment philosophy of favouring 'covenants, structure and security'. This means that we do not rely just on credit ratings; a key question for us is: 'are we getting sufficient reward for the risk we are taking?'. In practice this means that we hold credit bonds that are excluded from the credit benchmarks (e.g. unrated bonds, smaller issue size bonds, sub-investment grade bonds and non-sterling bonds) where we believe that valuations are attractive. Our approach allows us to focus on investing for the longer term.

The Fund will differ from benchmark weightings when we have strong investment views. Asset allocation, interest rate views and stock/sector selection will be the key risks within the Fund. We firmly believe in credit diversification as a way of reducing single name credit risk.

### KEY POINTS:

- Emphasis on investment grade credit with a broad remit – not benchmark constrained
- Focus on four potential sources of bond market inefficiency and performance potential: benchmarks, ratings, security and liquidity
- Very diversified portfolio with typically around 300 holdings aimed at identifying multiple sources of alpha
- Experienced Managers with over 45 years' combined experience

## RL GLOBAL HIGH YIELD BOND FUND

### OVERVIEW

The RL Global High Yield Bond Fund invests in predominantly sub-investment grade debt issued by companies domiciled in the UK, Europe, Asia and the United States and invests across the high yield credit spectrum. The Fund may also invest a small portion in investment grade securities. Co-managers Azhar Hussain and Stephen Tapley have 31 years' combined experience.



Azhar Hussain  
**Head of Global  
High Yield**



Stephen Tapley  
**Fund Manager**

### INVESTMENT PHILOSOPHY

The Fund is managed using RLAM's disciplined credit investment process focusing on security selection combined with top-down macroeconomic analysis. Our value-oriented approach seeks to exploit the inefficiencies that can be found within high yield credit markets across the globe. At the macro level, our analysis starts with a quarterly economic review which covers all major economic regions and focuses upon key variables such as growth rates and inflation. This meeting is also used to formulate our outlook scenarios, including long-term default, yield and interest rate forecasts which help to shape our investment strategy.

Moving to the micro level, we undertake research on companies, which is supplemented by research from rating agencies and brokers. Our focus is on catalysts that will lead to a change in the risk profile of companies. As part of this process we look at the covenants and security of the debt issues and the motivations of management and the owners. As part of this process, where appropriate, we undertake company visits and meet with management. We believe that risk management is an integral part of our investment process and have set ranges around country, sector and security exposures. Additionally, we use risk systems to monitor value at risk, tracking error and other portfolio risk analytics and have a weekly meeting where the portfolio is reviewed against its asset allocation limits. Overall, we aim to construct diversified portfolios that will deliver consistent alpha from multiple sources.

#### KEY POINTS:

- **Global Fund with broad market exposure to a universe of over 3,000 issues**
- **Value driven approach with research key to capturing opportunities – managers believe ratings are lagging indicators**
- **Based on the idea that high yield issuers are in a period of transition, the managers focus on total return**
- **Aim to capture diversity of market with a portfolio of typically around 100 holdings**
- **Over 30 years' combined manager experience**

## RL STERLING EXTRA YIELD BOND FUND

### OVERVIEW

The RL Sterling Extra Yield Bond Fund invests in a broad range of fixed income securities, including investment grade, sub-investment grade and unrated bonds. Fund Manager, Eric Holt has overall responsibility for RLAM's credit research process in addition to the management of his portfolios.



Eric Holt  
Head of Credit

### INVESTMENT PHILOSOPHY

The Fund is a well-diversified, value-oriented bond fund that aims to exploit credit market inefficiencies by investing in a combination of investment grade, sub-investment grade and unrated bonds. The manager uses his considerable experience of researching and investing in a broader credit universe than many other bond managers, enabling him to source bonds with strong covenants and that are usually secured i.e. backed by a charge on specific assets. We believe this approach provides higher yield without taking the degree of risk generally associated with high yield funds.

#### KEY POINTS:

- Unconstrained 'go anywhere' Fund with the ability to invest across the credit ratings spectrum
- Flexible remit allows manager to adapt portfolio according to outlook
- Aims for higher yield but not solely through sub-investment grade bonds
- Diversified Fund with typically around 200 holdings
- Award-winning Fund Manager with over 35 years' experience

The Fund is not tied to replicating a benchmark and holdings can vary from its comparison index. The comparison index should be used for reference only.

**EQUITY INCOME** – With our significant portfolio of UK equity assets under management we aim to exploit opportunities from across the full market cap spectrum, with our scale giving us full access to companies' senior management teams. Within agreed risk parameters, our fund managers are able to back their investment decisions with a high conviction approach. We are focused on employing experienced, proven fund managers and giving them the freedom to manage assets in a way that suits their natural investment styles.

We are strong believers in the long-term value of active fund management and believe in incentivising our fund managers to do what they do best: using their own, proven, active management styles to add value to our clients' assets. Ideas are shared through a series of formal and informal meetings, but each fund manager has ultimate responsibility for how their fund is structured, according to their own investment style. Funds are not managed using model portfolios, nor are our fund managers required to hold any stock which they do not personally believe in. We believe this provides a stimulating environment for our managers but also has direct benefits for our investors.

Funds which invest in a smaller number of stocks can carry more risk than funds spread across a large number of companies.

## RL UK EQUITY INCOME FUND

### OVERVIEW

This pure equity income Fund invests solely in high yielding UK stocks, with a particular emphasis on companies generating significant free cashflow to fund sustainable dividend payments.

Fund Manager Martin Cholwill has over 30 years' experience. His approach to managing this core equity income Fund is to identify good companies with strong business models and sound finances that are able to deliver sustainable dividend growth. Martin has a preference for companies with robust balance sheets yet whose shares are sufficiently out of favour so that they can be purchased on a dividend yield premium.



Martin Cholwill  
Fund Manager

### INVESTMENT PHILOSOPHY

This high conviction Fund invests across a broad spectrum of industries in which Martin is able to identify value, in particular focusing on companies with attractive cashflow characteristics.

This is important when identifying those companies that can consistently support a growing and sustainable dividend as it is cashflow, not 'cashless' profits, that pays the dividend and funds investment for future growth.

Stock selection, based on thorough company research, including meeting management teams, is the main driver of performance for the Fund. Macro-economic factors are taken into account when considering company prospects. Martin would normally expect to hold between 40-60 stocks within the Fund, favouring a high conviction approach.

### KEY POINTS:

- Seeks companies with strong business models and sound finances
- Manager emphasises cashflow as critical to avoiding the casualties of 'creative accounting' and identifying companies generating sustainable dividends
- Manager favours a non-consensual approach – aiming to identify out-of-favour companies to exploit valuation opportunities
- Adopts a multi-cap approach, looking outside of the 'usual names' with an allocation outside of the FTSE 100 index
- Award-winning Fund Manager with over 30 years' experience



**Phil Reid**  
**Head of Wholesale Sales**  
phil.reid@rlam.co.uk  
020 3272 5107



**David Billyard**  
**Business Development  
Manager**  
david.billyard@rlam.co.uk  
020 3272 5403



**Ian Furtado**  
**Business Development  
Manager**  
ian.furtado@rlam.co.uk  
020 3272 5404



**Matt Jones**  
**Business Development  
Manager**  
matt.jones@rlam.co.uk  
020 3272 5402



**Russell Evans**  
**Business Development  
Manager**  
russell.evans@rlam.co.uk  
01663 741 340



**Paul Keogh**  
**Business Development  
Manager**  
paul.keogh@rlam.co.uk  
07919 170 621



**Filippo Madonia**  
**Business Development  
Manager**  
filippo.madonia@rlam.co.uk  
07919 170 266

#### **Contact us**

For more information about this Fund or RLAM's range of products and services,  
please contact us.

Royal London Asset Management  
55 Gracechurch Street  
London EC3V 0RL  
Tel: 020 7506 6500  
Fax: 020 7506 6796  
Email: [bdsupport@rlam.co.uk](mailto:bdsupport@rlam.co.uk)  
Website: [www.rlam.co.uk](http://www.rlam.co.uk)



Financial promotion issued by Royal London Asset Management September 2017. Information correct at that date unless otherwise stated. For professional investors and advisors only. This document may not be distributed to any unauthorised persons and is not suitable for retail clients. This document is a financial promotion. It does not provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Past performance is not a guide to future performance. Sub-investment grade bonds have characteristics which may result in a higher probability of default than investment grade bonds and therefore a higher risk. For funds that use derivatives, their use may be beneficial, however, they also involve specific risks. Derivatives may alter the economic exposure of a fund over time, causing it to deviate from the performance of the broader market. All rights in the FTSE 100 Index (the "Index") vest in FTSE International Limited ("FTSE"). "FTSE" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. The Royal London UK Equity Income Fund (the "Fund") has been developed solely by Royal London Asset Management. The Index is calculated by FTSE or its agent. FTSE and its licensors are not connected to and do not sponsor, advise, recommend, endorse or promote the Fund and do not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the Fund. FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management. 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. For more information concerning the risks of investing, please refer to the Prospectus and Key Investor Information Document (KIID). Royal London Asset Management Limited, registered in England and Wales number 2244297; Royal London Unit Trust Managers Limited, registered in England and Wales number 2372439. These companies are authorised and regulated by the Financial Conduct Authority. Registered Office: 55 Gracechurch Street, London, EC3V 0RL. Royal London Asset Management Bond Funds Plc, an umbrella company with segregated liability between sub-funds, authorised and regulated by the Central Bank of Ireland, registered in Ireland number 364259, and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, Ireland. Our Ref: BR RLAM P1 0009.