



ASSET MANAGEMENT

**ROYAL LONDON ENHANCED CASH PLUS FUND**

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**Quarterly Report 30 June 2019**

For professional clients only, not suitable for retail investors



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## ROYAL LONDON ENHANCED CASH PLUS FUND

### Asset split

	Fund (%)
Corporate Bonds	34.5
Cash Instruments	24.7
Covered Bonds	24.7
Mortgage backed Securities	15.8
Cash	0.7

### Fund data

	Fund
Gross redemption yield <sup>1</sup>	1.38%
No. of stocks	214
Fund size	£1,915.0m

Source: RLAM, based on the Z Acc share class. Launch date: 18.05.2015.

<sup>1</sup>The gross redemption yield is calculated on a weighted average basis.

<sup>2</sup>The underlying yield aligns closely with the gross redemption yield of the fund taking in account expenses. Please see glossary for more detail

### Performance

	Fund (%)	Benchmark <sup>1</sup> (%)	Relative(%)
<b>Q2 2019</b>	<b>0.60</b>	<b>0.15</b>	<b>0.45</b>
Year-to-date	1.46	0.29	1.18
Rolling 12 months	1.70	0.56	1.14
3 years p.a	1.31	0.32	0.99
Since inception p.a. 15.05.2015	1.23	0.33	0.90

**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.

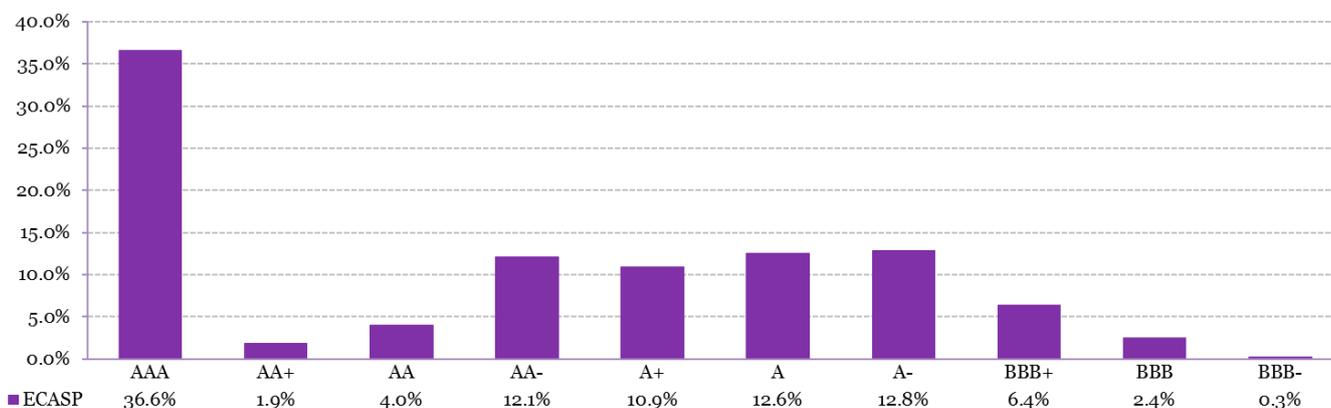
Source: RLAM, based on the Z Acc share class, gross of the standard management fees.

<sup>1</sup>Benchmark: SONIA.

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

## ROYAL LONDON ENHANCED CASH PLUS FUND

### 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 that weaker economic growth and lower inflation would lead to lower rate rise expectations for 2019.	New money inflows were invested across the maturity scale – particularly instruments with more than six months' maturity.	Cash rates decreased across the quarter, the market continued to price in more dovish Bank of England's expectations.	The impact of CD holdings upon performance was positive, due to higher yields locked in earlier in the quarter.
High-rated covered bonds offered an attractive yield pick-up, given the security they provide.	The fund's allocation to covered bonds was broadly unchanged at 24%.	Covered bond spreads for new issues tightened over the quarter, albeit less than other credit instruments, as risk assets had another positive quarter.	The allocation to covered bonds, which provided additional yield, contributed positively to performance.
Short-dated fixed coupon corporate bonds and FRNs (Floating Rate Notes) appeared attractive, relative to what is priced in in terms of interest rate movements.	The fund's allocation to senior unsecured fixed and floating rate bonds, decreased to 34%.	Corporate FRN spreads on new issues tightened, reflecting movements in the broader credit market.	The allocation to corporate bonds, which provided additional yield, contributed positively to performance.
High-rated securitisations offer an attractive yield, with credit risk mitigated by significant collateralisation and strong covenants.	We marginally increased the fund's allocation to the sector over the quarter.	Credit spreads in this sector were tighter over the quarter, marginally outperforming broader credit markets.	Our exposure was positive, due to the additional yield on these bonds, as well as tighter credit spreads.



## ROYAL LONDON ENHANCED CASH PLUS FUND

### Ten largest holdings

	Weighting (%)
ICSL 2058	3.3
TSB Bank Plc 2024	2.2
HSBC Bank 2020	1.4
Friends Life Holdings PL 2021	1.4
HSBC Holdings Plc 2022	1.3
Canadian Imperial Bank 2022	1.2
Barclays Bank Plc 2021	1.2
South East Water Ltd 2019	1.1
Nordea Eiendomskreditt 2023	1.1
Westfield Stratford City 2019	1.1
<b>Total</b>	<b>15.2</b>

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

### Fund activity

- The Bank of England (BoE) left its key interest rate unchanged at 0.75%, but the generally soft economic data and uncertainty over trade wars and Brexit meant that the market moved to price in a more dovish stance. While the SONIA rate was unchanged at 0.71%, later maturities saw yields fall, with three-month LIBOR falling from 0.85% to 0.77%, six-month Libor falling by 10bps to 0.85% and 12-month LIBOR decreasing 11bps to 0.95%.
- Activity was focused on investing inflows into diversified assets over the quarter, investing across different asset classes, as well as a broad range of issuers, sectors and geographies. The duration of the portfolio was little changed over the period.
- The fund continued to invest in a range of CDs to diversify exposure and take advantage of pricing opportunities as yields rose. Notable inclusions in the one year area included, **SEB**, **Natexis** and **China Construction Bank**, while also switching from short-dated CDs from **LHT** into one-year instruments from the same issuer to enhance yield.
- We took advantage of changing conditions in covered bonds to add to exposure. We bought new issues from **Leeds Building Society**, **Barclays** and **Lloyds**, while adding to our existing position in **Skipton Building Society**.
- Although we continue to like covered bonds, diversified unsecured credit to the portfolio plays a key role in enhancing returns. There were limited opportunities to add to this area during the quarter, although we took advantage of liquidity in **Vodafone** to add to exposure, while also adding **Eversholt** as a new name for the portfolio.
- We increased exposure to structured bonds and mortgage-backed securities. We added a new issue from **SMI**, the funding vehicle for Nationwide Residential Mortgage Backed Securities, and **Lanark Master Issuer**, the funding vehicle for Clydesdale Bank, these high quality bonds both coming at an attractive spread premium over SONIA. We also added a new issue in the CMBS area, buying **Cold Finance**, secured on 14 temperature controlled storage properties across the UK.

### Key views within the portfolio

- The portfolio comprises diversified holdings in short-dated corporate bonds from a variety of sectors, AAA rated securitisations, covered bonds and FRNs.
- Exposure to CDs will be focused in medium and longer dated areas as and when longer dates offer value i.e. if rates look attractive in the context of our expected interest rate path. With the changes in money market rates in recent months and the lengthened fund duration, we would not expect to make material further changes in the coming months.
- A significant proportion of the fund is invested in instruments that are secured against specific assets and are strongly covenanted.



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