ROYAL LONDON

ASSET MANAGEMENT

RLPPC UK CORPORATE BOND FUND

Quarterly Report 30 September 2019

For professional clients only, not suitable for retail investors

CONTENTS

RLPPC UK CORPORATE BOND FUND

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	99.8	99.2
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	0.0	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.2	0.8
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0
Other	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration[3]	8.2 years	8.0 years
Gross redemption yield[4]	2.52%	1.71%
No. of stocks	396	1,133
Fund size	£1,686.1m	-

Source: RLAM, Launch date: 31.05.2000.

[1]Benchmark: iBoxx Sterling Non-Gilt All Maturities Index.

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

[3]Excluding cash

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

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q3 2019	**3.49**	**3.68**	**-0.19**
Year-to-date	10.35	10.02	0.33
Rolling 12 months	10.34	10.17	0.17
3 years p.a.	4.73	3.27	1.46
5 years p.a.	6.54	5.57	0.96
10 years p.a.	8.27	6.47	1.79
Since inception p.a. 31.05.2000	7.32	6.11	1.21

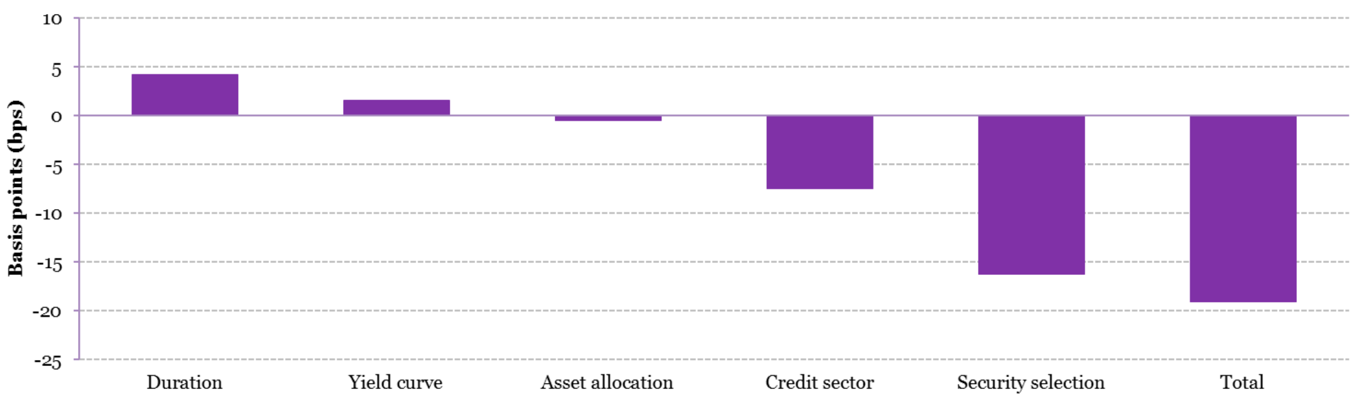
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

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

Source: RLAM, gross of standard management fees.

[1]Benchmark: iBoxx Sterling Non-Gilt All Maturities Index.

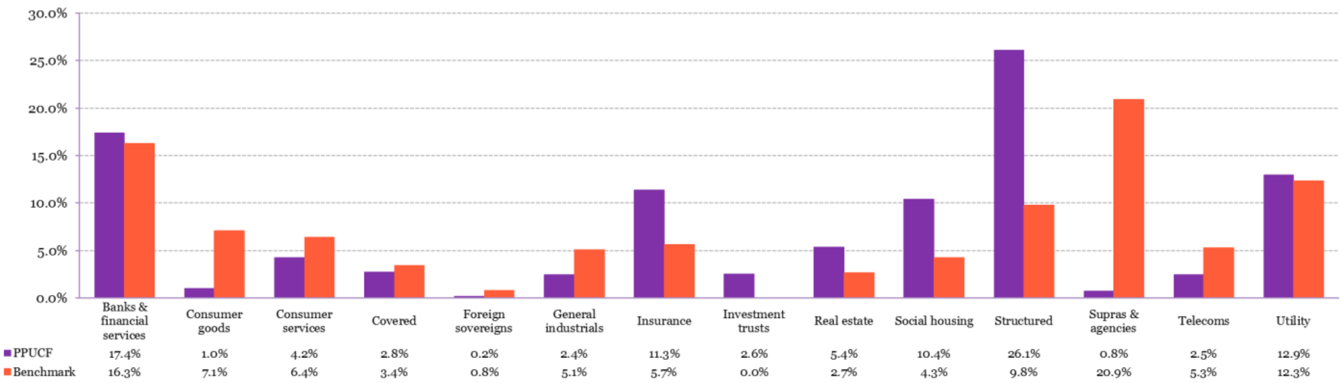
Performance attribution for quarter 3 2019



Source: RLAM and UBS Delta. The above performance attribution is an estimate. Please note that the attribution chart does not include residual effect returns.

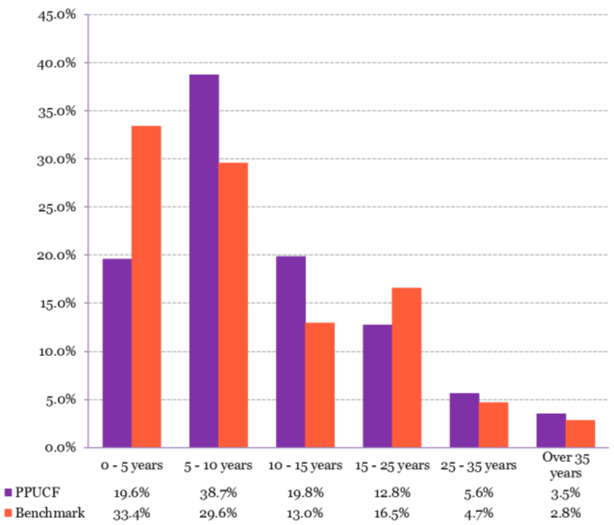
RLPPC UK CORPORATE BOND FUND

Sector breakdown

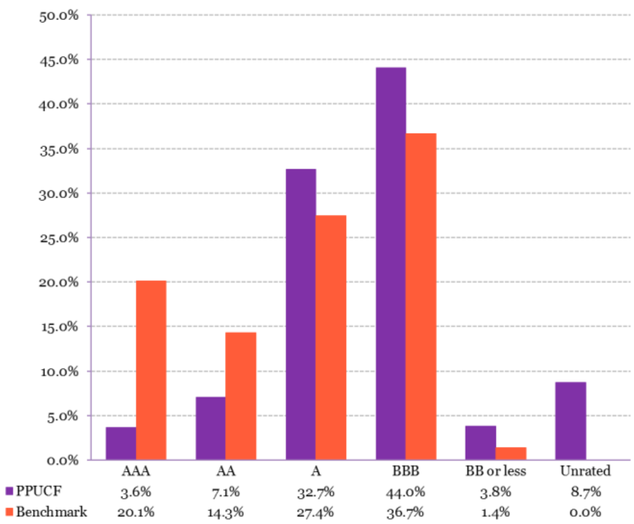


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
Électricité De France 6% 2114	1.0
RMPA Services 5.337% 2038	0.9
Aviva 6.875% 2058	0.8
Électricité De France 6.125% 2034	0.8
Prudential Plc 5.7% 2063	0.7
Derby Healthcare 5.564% 2041	0.7
HSBC Bank 5.375% 2030	0.7
Barclays Plc 2.375% 2023	0.7
Co-operative Bank 4.75% 2021	0.6
Income Contingent Student Loans 2058	0.6
Total	**7.4**

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

RLPPC UK CORPORATE BOND FUND

Portfolio review

	What we thought	What we did	What happened	Effect on portfolio
Sector	We expected corporate bonds to outperform supranational debt.	We kept the significant underweight position in supranationals versus corporate issues.	Supranational debt held up well as credit spreads widened, but its low duration constrained absolute returns.	The fund's substantial underweight position in supranationals had a limited impact on performance this quarter.
Sector	We continued to see value in financials (banks and insurers), and to favour subordinated debt over senior bonds.	The overweight exposure to subordinated financial debt and the below benchmark holding of senior issues were broadly maintained.	Banks and insurers both marginally outperformed the broader market. Senior insurance bonds underperformed subordinated issues, whereas senior bank issues outperformed their junior peers.	The above benchmark position in financials was broadly correct. However, the impact on performance over the quarter was neutral because of the mixed performance of the sub-sectors.
Sector	We continued to believe that secured bonds were undervalued relative to unsecured debt.	We kept the significant overweight positions in sectors that benefit from enhanced security, e.g. asset-backed securities (ABS), social housing and investment trusts.	Within secured and structured sectors, which typically comprise longer-dated bonds and span a wide range of industries, ABS underperformed: however, real estate strongly outperformed.	Above benchmark exposure to structured debt was broadly positive for performance. However, stock selection was negative.
Ratings	We believed lower-rated credit bonds offered better value than AAA and AA rated securities.	The bias towards lower-rated debt was maintained over the quarter.	Despite the overall widening of credit spreads in corporate bonds, the different rating bands delivered mixed performance.	The preference for lower - rated debt had a limited impact on performance this quarter.
Ratings	Credit ratings, while useful, are not a complete assessment of value and creditworthiness.	We maintained exposure to bonds rated below investment grade where we believed they were consistent with the overall objective of the fund. Exposure to unrated issues, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged.	High yield debt outperformed investment grade credit over the quarter. Unrated bonds in the fund, which consist mainly of secured and structured issues, were relatively slow to respond to the improving sentiment in markets.	The allocation to sub-investment grade debt was positive for returns. Exposure to unrated bonds had a mixed impact on performance.
Duration	We think the level of gilt yields is challenging over the longer term. However, our level of conviction is low regarding their short-term direction.	The fund took a slight long duration stance versus the benchmark over the quarter.	The yield on the 10-year gilt fell by 35 basis points to 0.49%, extending this year's decrease.	The duration position had a positive impact on performance.

RLPPC UK CORPORATE BOND FUND

Fund activity

- Sterling investment grade credit issuance for the third quarter of 2019 was very similar to the second quarter, but higher than in the third quarter of 2018. The fund participated in various new issues this quarter, including in AAA rated bonds of **Westfield Stratford**, a structured deal secured against retail property; commercial mortgage-backed bonds secured against Derby Shopping Centre; and longer-dated social housing asset-backed securities issued by **Catalyst** (two separate deals), **Accent** and **Walsall Housing**. We also purchased senior debt of **Lloyds Bank**, **RSA Insurance** (formerly known as Royal and Sun Alliance), **Société Générale**, **Wells Fargo Bank** and **CYBG** (the Clydesdale Bank/Yorkshire Bank holding company); as well as new issues from **MetLife** and **New York Life** that have the same degree of seniority as policyholders; issues by **Rothesay Life** (Tier 3), **Prudential** and **Reassure Group** (both Tier 2); Tier 1 debt of reinsurer **Swiss Re**; and **Barclays** and **Nationwide** (both AT1). We also bought new utilities issues from SSE subsidiary **Scottish Hydro**, **National Grid**, **Western Power Distribution** and **Wessex Water**. Otherwise, we participated in sterling-denominated issues from US mobile telecoms operator **Verizon**, German auto manufacturer **Daimler** and **Total**, the French oil major.
- **Intu Properties**, the UK's largest shopping centre landlord, continues to be negatively impacted by well-publicised challenges in the UK retail sector. The company's half-year results, which were released during the quarter, pointed to further downward pressure on rental income and property values, reflecting the struggles of some of their underlying retail tenants. Although the secured and covenanted nature of Intu's bonds will help to dampen their fundamental exposure, the market move in the price of these bonds was significant, with spreads widening by around 300 basis points (bps) over the period. We will continue to invest on a very selective basis in the UK retail sector with a particular emphasis on secured and credit-enhanced opportunities.
- Financials remained an important component of sterling credit portfolios. Subordinated bank and insurance bonds were volatile over the quarter, reflecting changes in risk appetite and new issuance activity. However, our sterling credit portfolios have benefitted from exposure to these areas over the year, with good relative contributions being made from exposure to both **Prudential** and **Barclays Bank**.
- One of the most noticeable changes in sterling credit indices in recent years has been the increased weighting of the **social housing** sector. Having previously been a small part of the market, with typically unrated issues, the sector has become far more significant. Issues are now usually rated and are benchmark constituents. This reflects both the appetite by investors for longer-dated, highly-rated bonds, but also the greater reluctance of banks to offer long-term finance following the global financial crisis. During the quarter, we maintained our overweight position – which was beneficial as the sector outperformed – and participated in new issues (see above). We believe that regulatory oversight, high asset backing and the sector's vital role in the provision of housing are all supportive factors.
- Over the quarter, the inversion of the yield curve attracted a great deal of comment as this has traditionally been seen as an augury of recession. However, we think there is a danger of over-interpreting these financial market dynamics and under-appreciating real-world economic developments. We believe curves are inverted because investors believe that central banks will do whatever it takes to avoid recession and think this won't ignite inflation. It is difficult to position against this – "Don't fight the Fed!" – so yields may stay lower for longer. While we feel these levels are challenging, with central banks pursuing ultra-loose interest rate policies and/or quantitative easing, our level of conviction is low regarding their short-term direction. For this reason, we have positioned duration moderately longer than the benchmark. The key is not to allow these conditions to undermine our investment philosophy chasing higher yields to deliver returns, thereby losing focus on quality.
- Brexit continues to dominate UK politics and is increasingly dampening economic activity. Our sterling credit portfolios have a low relative exposure to those sectors most exposed to trading interaction between the UK and the EU (e.g. general industrials and consumer goods). However, disruption arising from an adoption of World Trading Organisation (WTO) rules would have economic consequences that would impact a broad range of UK companies. Such uncertainty reinforces our favoured approach of ensuring significant diversification of issuers and biasing our portfolio towards bonds with strong asset backing and/or covenant protections to mitigate such risks.

Key views within the portfolio

- A significant underweight in supranational bonds, as we expect corporate debt to outperform over the medium term.
- Duration moderately longer than the benchmark, as central banks adopt more dovish policy stances.
- A bias towards asset-backed securities, an area that we believe still offers very strong risk/return characteristics.
- An overweight position in subordinated financial debt, where we believe yields are attractive.

IMPORTANT INFORMATION