ROYAL LONDON

ASSET MANAGEMENT

RLPPC UK GILT FUND

Quarterly Report 30 September 2019

For professional clients only, not suitable for retail investors

CONTENTS

RLPPC UK GILT FUND

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	6.9	0.0
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	93.1	100.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.0	0.0
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]	12.3 years	12.7 years
Gross redemption yield[4]	0.75%	0.64%
No. of stocks	26	45
Fund size	£6.3m	-

Source: RLAM, Launch date: 28.02.2003.

[1]Benchmark: FTSE® Actuaries All Stock Gilts 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	**6.11**	**6.20**	**-0.09**
Year-to-date	11.27	11.23	0.04
Rolling 12 months	13.30	13.36	-0.06
3 years p.a.	3.46	3.23	0.23
5 years p.a.	5.97	6.04	-0.07
10 years p.a.	5.75	5.57	0.18
Since inception p.a. 28.02.2003	5.92	5.40	0.52

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.

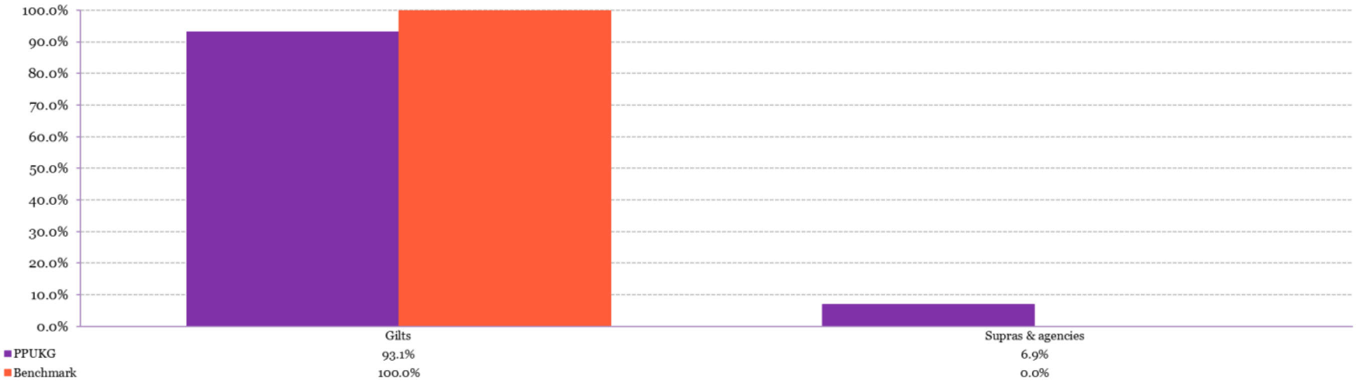
All performance figures stated gross of fees and tax unless otherwise stated, subject to rounding.

Source: RLAM, [1] FTSE® Actuaries All Stock Gilts Index.

The fund objective is to outperform the benchmark by 0.75% per annum gross of the standard management fees.

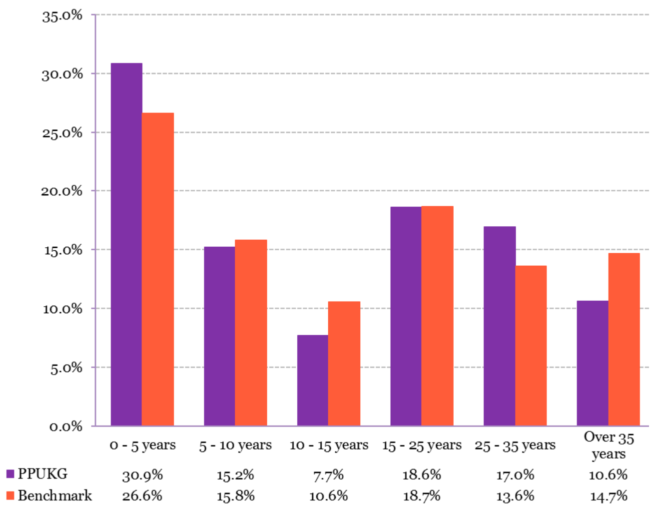
RLPPC UK GILT FUND

Sector breakdown

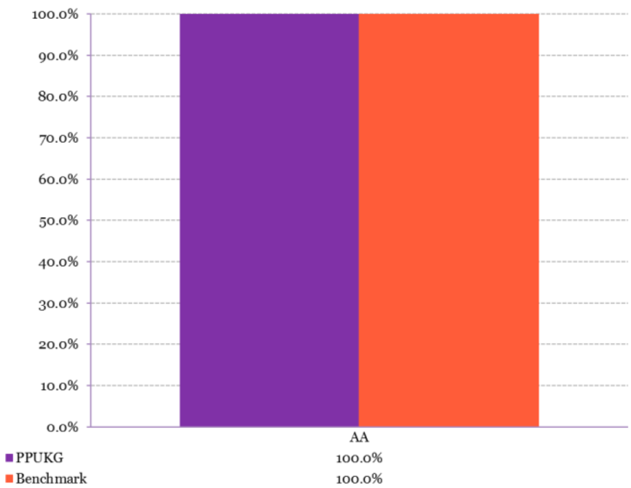


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
UK Treasury 0% 2020	10.0
UK Treasury 1.5% 2047	8.3
UK Treasury 1.625% 2028	8.1
UK Treasury 1.75% 2037	7.7
UK Treasury 0.625% 2025	7.1
UK Treasury 4.75% 2020	6.8
UK Treasury 2.25% 2023	5.6
UK Treasury 4.5% 2042	5.4
UK Treasury 4.5% 2034	5.0
UK Treasury 2% 2020	4.8
Total	**68.9**

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

RLPPC UK GILT FUND

Portfolio review

	What we thought	What we did	What happened	Effect on portfolio
Asset allocation	Highly-rated sterling credit bonds offered attractive yields relative to conventional gilts.	The fund retained its exposure to highly-rated sterling credit over the quarter, with an emphasis on AA rated supranationals.	Investment grade sterling credit bonds underperformed UK government bonds over the quarter as credit spreads widened.	Off-benchmark exposure to sterling credit bonds modestly detracted from performance, though this was partially offset by the positive effects of higher 'carry'.
Duration	We expected UK government bond yields to rally and be choppy in the summer months.	We bought index-linked gilts to move to a more neutral duration position in July and August.	10-year gilt yields, having been only 0.83% at the end of June, ended the quarter at a record low of 0.49%.	The decision to reduce the short duration position was positive, as performance was compromised to the extent that we were short.
Yield curve	We believed that the short end of the curve looked expensive relative to Bank of England (BoE) base rates, and that maturities beyond 30-years were expensive due to yield curve inversion.	We were underweight up to five-year gilts, and maintained a steepening bias between 30-year gilts and ultra-long dated issues.	Gilt yields fell relatively more strongly at the longer end of the curve than at shorter maturities.	Curve positioning had mixed effects on performance. While the underweight in the shortest-dated gilts was beneficial, the underweight in the longest maturities was negative.

Fund activity

- The fund actively traded its duration positioning over the quarter, ending around -0.4 year short (including the impact of cash holdings on duration). Expecting government bond markets to rally and be choppy over the summer months, we reduced our long-held strategic short position by purchasing index-linked bonds during July's syndication. This decision was beneficial, since government bonds rallied strongly over July and August. With our long-term outlook that UK government bond yields will gradually trend higher, we went shorter duration again in September.
- Gilts yields dropped across the curve over the quarter, slightly more aggressively for longer maturities. With regard to curve positioning, the fund was most underweight at the shorter end of the curve and most overweight at the longer end. The fund's flattening bias consequently added value over the quarter. We maintained our overweight position in 30-year gilts relative to 40 and 50-year maturities. This detracted from performance given that the longest-dated maturities performed the strongest over the quarter.
- The decision to purchase index linked government bonds in July was beneficial from a duration perspective. However, on a relative basis, index linked bonds underperformed conventional bonds in August and September, which was detrimental. Overall, the extent of the market rally meant that the positive impact in terms of duration outweighed the negative impact in terms of relative performance. We trimmed the fund's breakeven exposure towards the end of the quarter.
- With yields on very short dated bonds falling over the summer months, we looked to switch the fund's exposure from UK gilts to UK treasury bills. We purchased six-month UK treasury bills over the quarter, for a relative pick-up in yield over gilts. The fund held no overseas exposure over the quarter.
- The fund's modest exposure to highly rated sterling corporate bonds had a modestly negative effect on returns over the quarter, reflecting a widening of credit spreads; particularly at longer maturities. There were no additions to or sales from the portfolio during the quarter.

RLPPC UK GILT FUND

Key views within the portfolio

- The portfolio's duration is -0.4 years shorter than the benchmark. We expect UK government bond yields to gradually trend higher.
- The fund is positioned for higher yields, particularly at the shorter end of the curve. In longer-maturity bonds the fund has a preference to be overweight 30-year maturity bonds versus 40 and 50-year maturities, where the yield curve is inverted.
- The fund currently has no overseas exposure, though we continue to look for opportunities to take such positions on a relative basis. With the Royal London view that a 'no deal' Brexit will be avoided, we would expect UK yields to underperform their global peers as the BoE moves rates away from emergency levels, helped by continued improvement in economic fundamentals, and Brexit pessimism recedes.
- The portfolio has allocations to longer dated, high quality corporate bonds, which we expect to outperform gilts in a low-yielding environment.
- The portfolio has a small exposure to index linked gilts, and continues to tactically trade them to take advantage of mispricing opportunities.

IMPORTANT INFORMATION

For professional clients only, not suitable for retail investors. The views expressed are the author's own and do not constitute investment advice.

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. For more information on the fund or the risks of investing, please refer to the fund factsheet, Prospectus or Key Investor Information Document (KIID), available via the Fund Information page on www.rlam.co.uk.

Past performance is not a reliable indicator of future results. 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.

Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only, methodology available on request. Information derived from sources other than Royal London Asset Management is believed to be reliable; however, we do not independently verify or guarantee its accuracy or validity.

All rights in the FTSE All Stocks Gilt Index, FTSE Over 15 Year Gilts Index, FTSE A Index Linked Over 5 Years Gilt Index and FTSE A Maturities Gilt Index (the "Index") vest in FTSE International Limited ("FTSE"). All rights in the FTSE 350, FTSE All Share, FTSE 100, FTSE 250, FTSE 350 Higher Yield and FTSE Small Cap (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 Funds (the "funds") have 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 Funds or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

All confidential information relating to any Royal London Group company must be treated by you in the strictest confidence. It may only be used for the purposes of assessing the proposal to engage Royal London Asset Management Limited (RLAM). Confidential information should not be disclosed to any third party and should only be disclosed to those of your employees and professional advisers who are required to see such information for the purpose set out above. You should ensure that these persons are made aware of the confidential nature of such information and treat it accordingly. You agree to return and/ or destroy all confidential information on receipt of our written request to do so.

Issued by Royal London Asset Management Limited, Firm Registration Number: 141665, registered in England and Wales number 2244297; Royal London Unit Trust Managers Limited, Firm Registration Number: 144037, registered in England and Wales number 2372439; RLUM Limited, Firm Registration Number: 144032, registered in England and Wales number 2369965. All of these companies are authorised and regulated by the Financial Conduct Authority. 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. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, Ireland.

All of these companies are subsidiaries of The Royal London Mutual Insurance Society Limited, registered in England and Wales number 99064. Registered Office: 55 Gracechurch Street, London, EC3V 0RL. The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Royal London Mutual Insurance Society Limited is on the Financial Services Register, registration number 117672. Registered in England and Wales number 99064. FQR RLAM EM 0689.