

For professional clients only, not suitable for retail clients.

# Liquidity solutions





# Introducing our liquidity solution capabilities

Treasury investors face a mixed environment. The rising rate environment provides the opportunity for greater returns, but ongoing uncertainty around the health of the global economy and geopolitical concerns means that investors face an array of different risks.

In response to this, Royal London Asset Management has developed an extensive suite of liquidity and short term fixed income solutions that allows investors to tailor their liquidity needs based on their risk budget, return appetite and investment horizon.

Pooling investments in this way allows for greater diversification, increased liquidity and the benefits of scale. It also provides access to in-depth credit research, risk management and active portfolio construction, embedding security and integrating environmental, social and governance (ESG) factors.

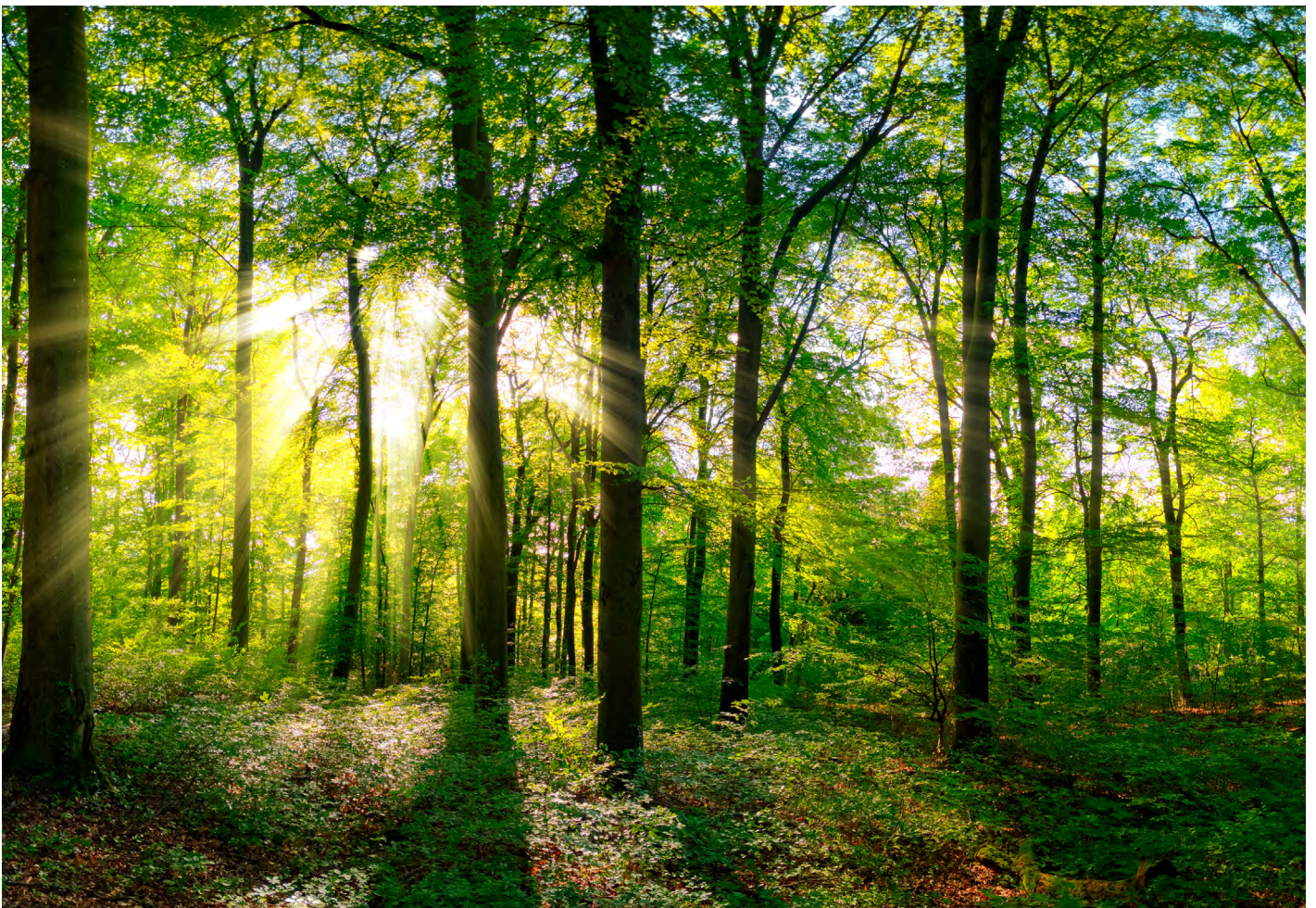
Many investors use a 'cash laddering' approach. This approach can be tailored to short term cash needs and target a return ahead of a cash benchmark such as SONIA\*.

## History

Royal London Asset Management has been providing specialist cash management services since 1987 and manages liquidity and short term fixed income assets of over £17 billion<sup>†</sup> on behalf of a diverse range of clients including corporations, universities, insurance companies, local authorities, charities and pension funds. We regard liquidity as a distinct asset class and our extensive experience has helped us to deliver a range of solutions that truly meet our clients' needs.

\* Sterling Overnight Index Average

<sup>†</sup> as at 31 December 2022



## Our solutions

Our range of liquidity and short term fixed income solutions are designed to allow investors to tailor their portfolio based on liquidity needs, risk appetite and investment time horizons. We construct our portfolios based on the following criteria:

- 1** Capital preservation – focusing on high quality instruments to build in security
- 2** Liquidity – building a natural cash waterfall to meet clients' near-term and ongoing cash requirements
- 3** Diversification – investing across a broad range of instruments and asset types to reduce counterparty risk
- 4** Security/bail-in protection – embedding secured and bail-in exempt bonds (ie covered bonds) to provide additional protection
- 5** ESG integration – screening, scoring and engaging on ESG factors to reduce risk enhance returns and improve industry standards

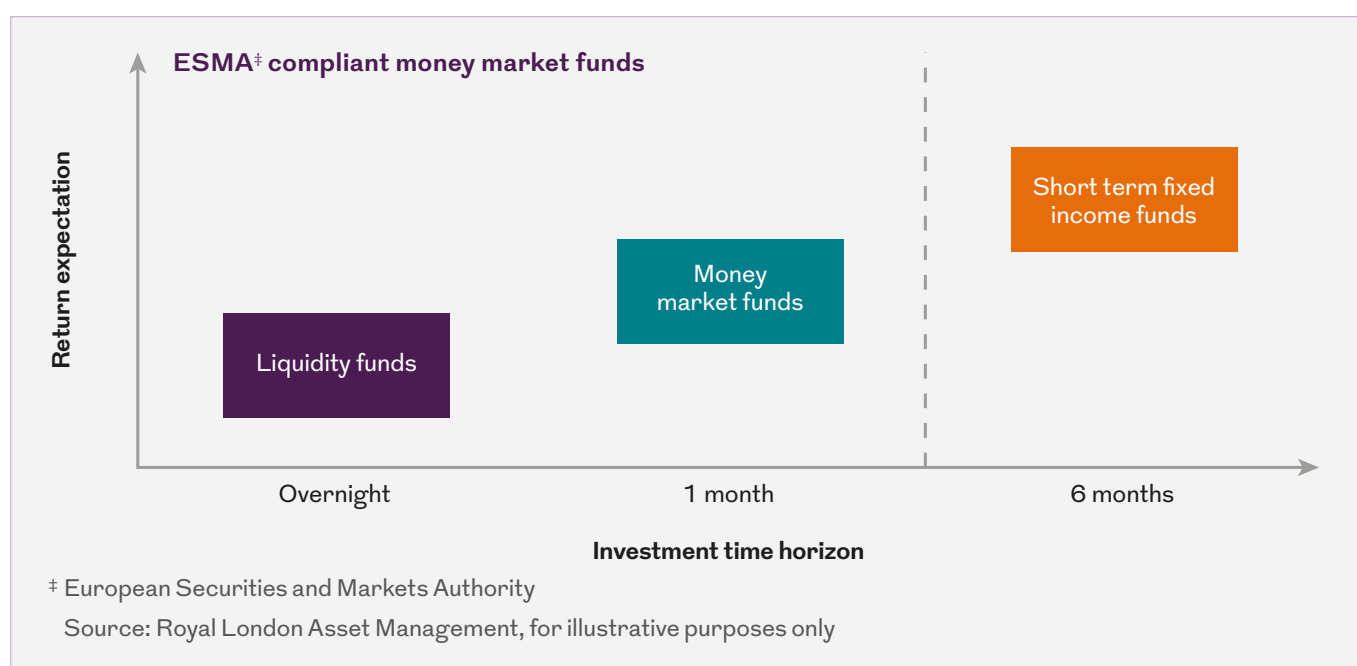
Our clients discuss their investment strategy and liquidity requirements with us and then utilise our range of pooled funds to create a tailored and flexible solution, which meets their future cash flow needs.

Our money market funds	
<b>Sterling Liquidity Money Market Fund</b>	AAA/mmfrated* LVNAV offshore, T+0 settlement
<b>Short Term Money Market Fund</b>	AAA/mmfrated* VNAV onshore, T+2 settlement

Our short term fixed income funds	
<b>Short Term Fixed Income Fund</b>	AAA/S1 rated, T+2 settlement
<b>Short Term Fixed Income Enhanced Fund</b>	AA/S2 rated, T+2 settlement

\* Rated by Fitch. The Fund is rated by an external rating agency. Such rating is solicited and financed by Royal London Asset Management.

## A range of strategies across the liquidity and currency spectrum





## Investment approach

We firmly believe that a combination of in-depth credit research focusing on security and investing in firms with a strong ESG ethos is fundamental to delivering strong returns for our clients. The investment process across our range of liquidity and short term fixed income solutions leverages our strength in credit research overlaid with a macro bias and ESG integration. In addition to negatively screening out companies that generate over 10% of revenues from tobacco, armaments and fossil fuel extractors, we also apply ESG scores to all our investments and, on an ongoing basis, we engage with organisations as we seek to enhance corporate performance to the benefit of investors.

The investment process across our range of liquidity and short term fixed income solutions mirrors the approach we take within our credit and rates portfolios. Although some of our funds have a much greater focus on short-dated instruments this is not a reason to ignore the structure, covenants, ESG principles and longer-term financials of the institutions in which we invest. This structured analysis creates a well-diversified portfolio that should benefit from a lower probability of default and downgrade. The combination of assets backed by security and the role that ESG plays in strong financials helps to ensure less portfolio price volatility and greater liquidity in times of market stress.

### Investment approach in detail

Independent oversight	Credit and ESG analysis	Engagement and monitoring	Governance
Determines suitability of asset	Determines maximum exposure of asset	Re-evaluates portfolio risk profile	Independent challenge
<div>Independent quantitative credit quality assessment</div> <div>Negative screen ESG assessment</div>	<div>Internal credit research with a focus on security</div> <div>Overlay of ESG scores (external providers and in-house research)</div> <div>In-depth analysis of financials (internal and external)</div> <div>Macro geographic overlay (inc ESG impact)</div>	<div>Regular engagement with issuers</div> <div>Internal and external default/downgrade model</div> <div>Internal and external liquidity models</div> <div>Credit rating agency reporting and research</div>	<div>Monthly Investment committee (counterparty, liquidity and stress tests)</div> <div>Quarterly independent ESG quality assessment</div> <div>Quarterly independent credit quality assessment</div> <div>At least monthly external fund credit rating reviews</div>

Source: Royal London Asset Management as at 31 December 2022.

## ESG integration

ESG integration into liquidity and short term fixed income portfolios is still not widely understood. We do this through a four-pillar approach that combines relatively simple actions with more complex, bespoke analysis as we look to maximise our ability to understand and mitigate the ESG risks in the portfolios.

### 1 Exclusions policy

- Specific screening against certain issuers and themes:
  - Fossil fuels
  - Armaments
  - Tobacco

### 2 Quantitative framework

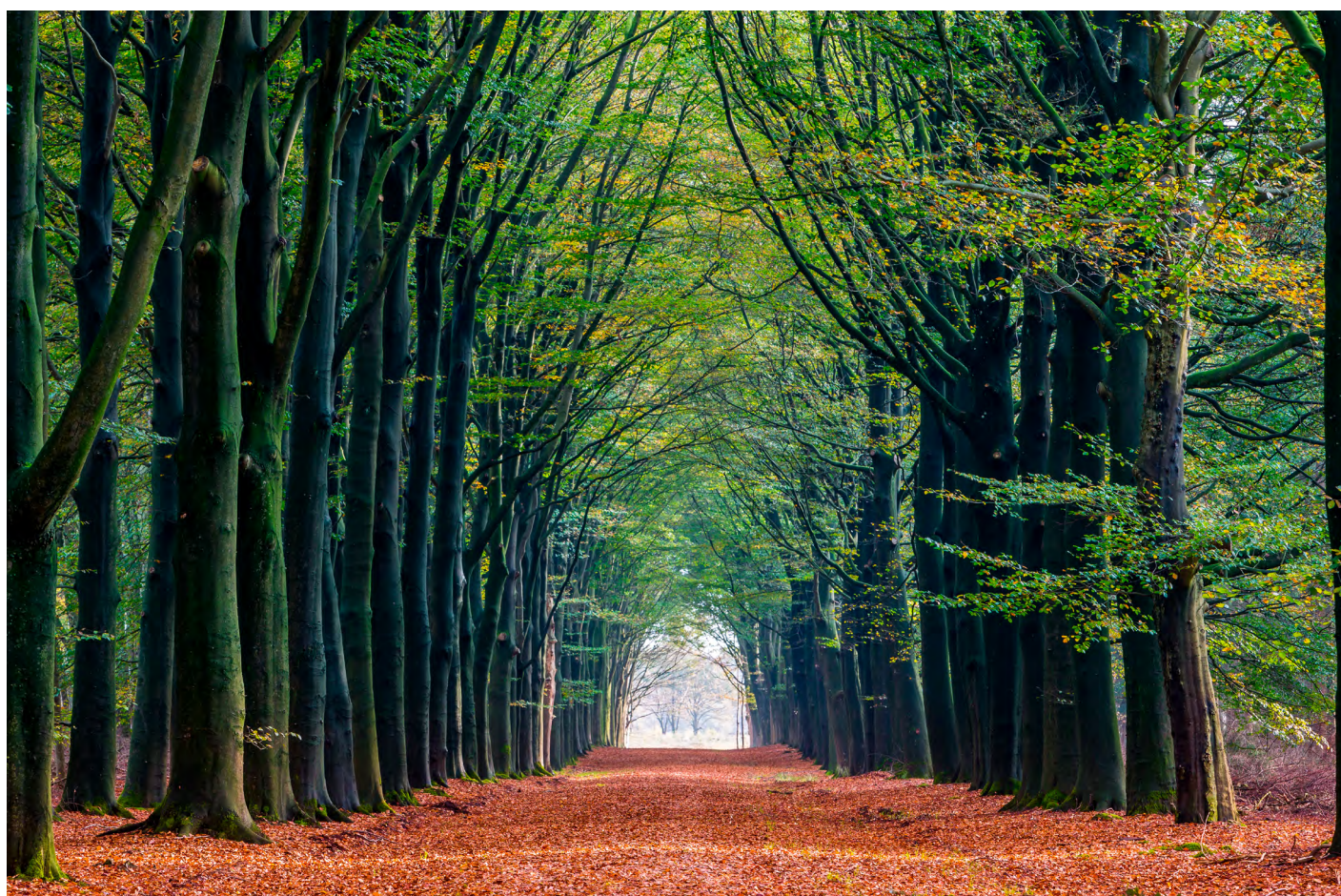
- Start with MSCI ESG score
- Add Royal London Asset Management ESG analysis overlay
- Adjust for duration
- Aggregate ESG risks to arrive at portfolio-wide score

### 3 Qualitative assessment

- Collaboration between Royal London Asset Management Liquidity and Responsible Investment teams
- Consider key ESG themes impacting sectors or issuers within the fund

### 4 Ongoing engagement

- Improve market practices
- Address ESG risks identified
- Apply pressure for change



## 'Cash laddering' example

Most treasury investors aim to strike the right balance between liquidity and security, with investment return (or yield) an important, but secondary consideration. However, many clients can achieve a more attractive yield, without compromising security or liquidity, by segmenting their portfolios based on their specific cash flow requirements and investment time horizons.

We call this process 'laddering' – funds with incrementally more interest rate and credit risk can be seen as the rungs of a liquidity ladder. A key feature of laddering is the ability to create a bespoke portfolio using our well-established and diversified pooled funds.

Many of our clients partition their treasury assets into three key areas of investment:

- Working capital – short-term time horizon (daily)
- Reserve capital – medium-term time horizon (6 months plus)
- Strategic capital – long-term time horizon (12 months plus)

## Managing your cash portfolio

Our Sterling Liquidity and Short Term Money Market Funds are designed for working capital and are structured to facilitate daily/weekly movements of cash. The liquidity fund with its Low Volatility Net Asset Value (LVNAV) structure and same day settlement is best suited to daily flows and the short term fund with its Variable Net Asset Value (VNAV) structure may be more suitable for weekly flows.

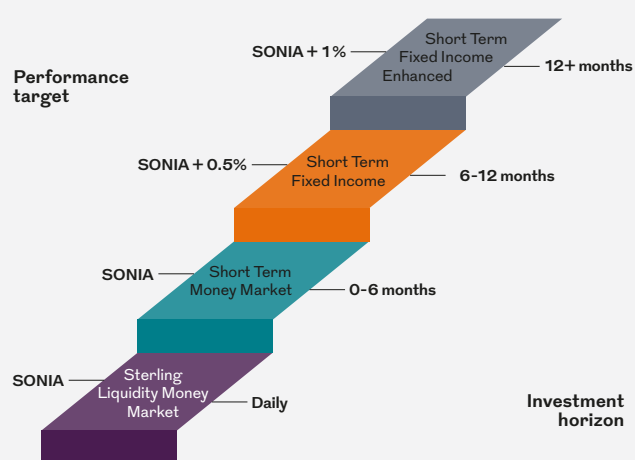
Our Short Term Fixed Income Fund is designed for reserve cash and focuses on a mix of liquidity and security. The fund's low interest rate exposure and credit enhancement suits a more medium-term time horizon, whilst still allowing the investor to rebalance periodically or withdraw cash as required.

Our Short Term Fixed Income Enhanced Fund is designed for strategic cash and, although structured to provide a higher level of return, it does not compromise on security. The fund's higher interest rate exposure and investment grade credit exposure will generate a higher level of price volatility, which suits a longer-term time horizon.

## Segregated solution

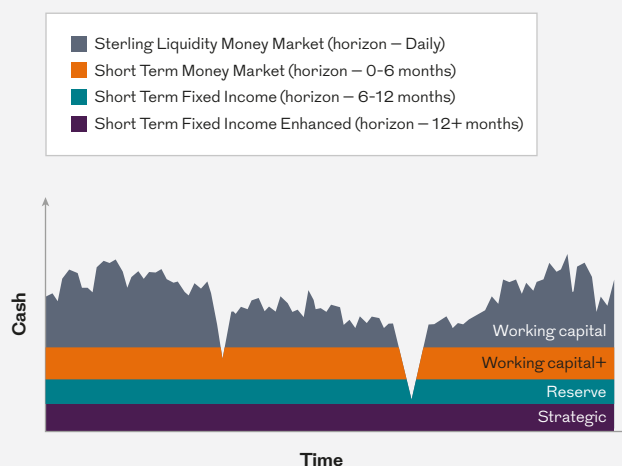
For investors looking for a bespoke offering that is not covered by the investment parameters of the liquidity and short term fixed income range, we are able to offer a segregated solution. This is provided they have their own custodian and settlement account. Our segregated accounts are designed to give investors the utmost flexibility, but to meet diversification requirements and liquidity thresholds we would envisage a minimum investment of £500 million is required.

### Cash laddering – performance vs time horizon



Source: Royal London Asset Management, for illustrative purposes only. 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.

### Structuring your cash allocation with the aim of enhancing return potential



Source: Royal London Asset Management, for illustrative purposes only.



## Investment team

The success of Royal London Asset Management's liquidity and short term fixed income solutions is built on the experience and expertise of our team. The team benefits from working closely with our award-winning Fixed Income team and our Responsible Investment team. They draw on the expertise of our Government Bond team in particular, while our economist assists with macro views within the funds. The collegiate nature of the team enables new ideas and opportunities to be discussed freely and implemented nimbly.



**Craig Inches**  
Head of Rates and Cash

Royal London Asset  
Management: 13 years  
Years in the industry:  
25



**Ben Nicholl**  
Fund Manager

Royal London Asset  
Management: 15 years  
Years in the industry:  
15



**Melanie Baker**  
Senior Economist

Royal London Asset  
Management: 4 years  
Years in the industry:  
22



**David Sweet**  
Product Specialist

Royal London Asset  
Management: 21 years  
Years in the industry:  
39



**Tony Cole**  
Senior Fund Manager

Royal London Asset  
Management: 21 years  
Years in the industry:  
22

## Our range of liquidity and short term fixed income funds

	<b>Royal London Sterling Liquidity Money Market Fund</b>	<b>Royal London Short Term Money Market Fund</b>	<b>Royal London Short Term Fixed Income Fund</b>	<b>Royal London Short Term Fixed Income Enhanced Fund</b>
Objective	To provide a return in line with money market rates or preserve the value of the investment	To preserve capital and provide an income by outperforming SONIA over rolling 12-month periods	To achieve a total return by outperforming SONIA over rolling 12-month periods	To achieve a total return by outperforming SONIA over rolling 12-month periods
Key instruments	High quality sterling denominated securities and money market instruments	Money market instruments <sup>#</sup> and short-dated covered bonds and government bonds	Money market instruments <sup>#</sup> , covered bonds, corporate and government bonds, supranational and agency bonds and/or transferable securities	Money market instruments <sup>†</sup> , government bonds, corporate bonds, supranational & agency bonds and/or transferable securities
Benchmark	SONIA	SONIA	SONIA	SONIA
Performance target	SONIA	SONIA	SONIA +0.5%	SONIA +1.0%
Minimum investment restrictions	In accordance with the concentration limits and other restrictions imposed under the MMF and the UCITS Regulations	A-1, P-1 or F1 or long term equivalent	A-1, P-1 or F1. Bonds must have a minimum rating of AA-, Aa3 or AA-.	A-1, P-1 or F1. Bonds must have a minimum rating of BBB-, Baa3 or BBB-
Fitch rating	AAA/mmf *	AAA/mmf *	AAA/S1	AA/S2
Investment horizon	Daily	0-6 months	6-12 months	12 months plus
Minimum initial investment	£5million	£1million	£1million	£1million
Maximum WAM	60 days	60 days	n/a	n/a
Settlement	T+0	T+2	T+2	T+2
Dealing cut off	1.00pm Irish time	12 noon UK time	12 noon UK time	12 noon UK time
Share classes available	Income	Income/ Accumulation	Income/ Accumulation	Income/ Accumulation
Fund structure	Low volatility net asset value UCITS money market fund	Variable net asset value UCITS money market fund	UCITS open ended investment company (NB not money market fund)	UCITS open ended investment company (NB not money market fund)
Domicile	Ireland	United Kingdom	United Kingdom	United Kingdom
SFDR classification	Article 8 fund	N/A	N/A	N/A

<sup>#</sup> Cash, time deposits, certificates of deposit, commercial paper and floating rate notes.

<sup>†</sup> Cash, time deposits, certificates of deposit, commercial paper, floating rate notes, short term corporate bonds, covered bonds and asset backed securities.

\* Rated by Fitch. The Fund is rated by an external rating agency. Such rating is solicited and financed by Royal London Asset Management.



## Investment risks

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

**Credit Risk:** Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

**Interest Rate Risk:** Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

**EPM Techniques:** The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

**Counterparty Risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

**Stable NAV Risk:** The fund is not the same as a bank deposit account. It is designed such that it will seek, for the Distribution Classes, to maintain the Net Asset Value per Share at a fixed value by distributing income from the fund as it arises. However, whilst the fund's investments are reasonably believed by the Investment Manager to be of high quality, there is always a risk that an underlying issuer could default or otherwise fall in value, resulting in the fund being unable to maintain the Net Asset Value per Share at a fixed value and therefore a loss of capital will occur. The risk of loss is to be borne by the investor. There is no representation or

warranty that the fund will be able to maintain a stable Net Asset Value per Share.

**Inflation risk:** Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

**Money Market Fund Risks:** A Money Market Fund is not a guaranteed investment, and is different from an investment in deposits. The principal invested in the fund is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The fund does not rely on external support for guaranteeing the liquidity of the fund or stabilising the NAV per share.

Royal London Sterling Liquidity Money Market Fund has been authorised as a Low Volatility Net Asset Value (LVNAF) MMF and is a short-term money market fund in accordance with MMF Regulation which seeks to maintain a stable NAV under the condition that the stable NAV does not deviate from the Net Asset Value per share by more than 20 basis points. In case of a deviation of more than 20 basis points between the stable NAV and the Net Asset Value per share, the following redemption or issue of Shares will be undertaken at a price that is equal to the Net Asset Value per Share.

Royal London Short Term Money Market Fund has been authorised as a Variable Net Asset Value (VNAV) MMF and is a short-term money market fund in accordance with MMF Regulation. The NAV is calculated using mark to market prices where possible otherwise mark to model prices are used.

The redemption or issue of Shares will be undertaken at a price that is equal to the Net Asset Value per Share.

Following the implementation of the Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on Money Market Funds ("MMFs"), the fund is subject to the following risks:

**No guarantee:** The funds are not a guaranteed investment.

**Principal fluctuation:** An investment in the funds are different from an investment in deposits. The principal invested in the fund is capable of fluctuation in value.

**No external support:** The funds do not rely on external support for guaranteeing the liquidity of the fund or stabilising the NAV per unit or share. Risk of loss Any risk of loss of the principal is to be borne by the investor.

**Government and Public Securities Risk:** The fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

**For Professional Clients only, not suitable for Retail Clients.**

This is a financial promotion and is not investment advice. Telephone calls may be recorded. For further information please see our Privacy policy at [www.rlam.com](http://www.rlam.com)

The RL Short Term Money Market Fund, the RL Short Term Fixed Income Fund and the RL Short Term Fixed Income Enhanced Fund are sub-funds of Royal London Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797. The Company is a UCITS umbrella fund. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037. For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on [www.rlam.com](http://www.rlam.com)

The RL Sterling Liquidity Money Market Fund is a sub-fund of Royal London Asset Management Bond Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds. Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under section 264 of the Financial Services and Markets Act 2000. The Management Company is FundRock Management Company SA, Registered office: 33 rue de Gasperich, L – 5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited. For more information on the trust or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on [www.rlam.com](http://www.rlam.com). Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

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## Contact us

For more information about our range of products and services, please contact us.

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We are happy to provide this document in Braille, large print and audio.

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