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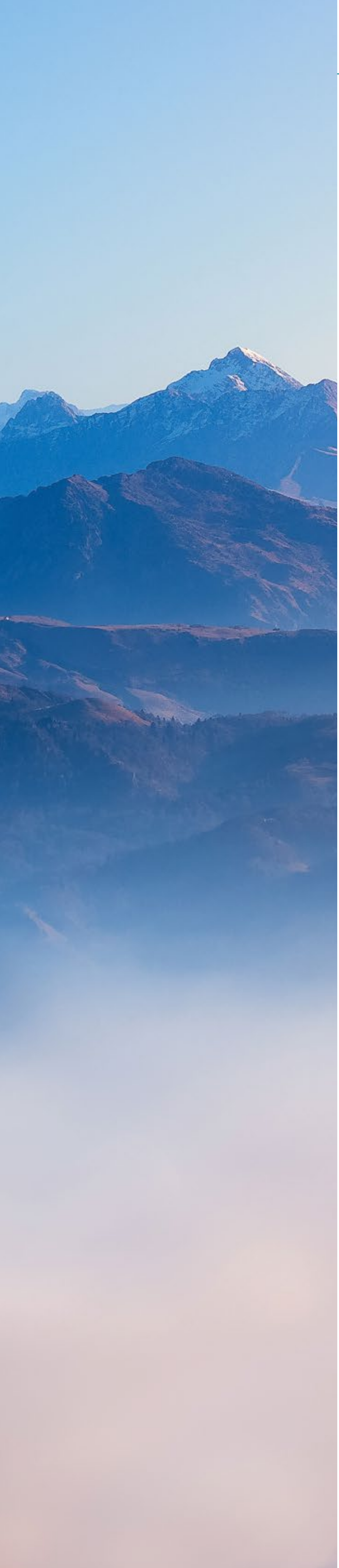
Short duration bonds

RL Short Duration Gilt Fund
RL Short Duration Global Index Linked Bond Fund
RL Short Duration Credit Fund
RL Diversified Asset-Backed Securities Fund
RL Short Duration Global High Yield Bond Fund
RL Investment Grade Short Dated Credit Fund
RL Sustainable Short Duration Corporate Bond Fund

ROYAL LONDON
ASSET MANAGEMENT

Introduction

The past two decades have seen huge moves in bond prices driven by factors such as the global financial crisis, the Covid-19 pandemic, and more recently, an apparent resurgence in inflation. In addition, the geopolitical backdrop continues to surprise, raising questions over portfolio positioning.



Short duration bonds

Uncertain economic outlook

Quantitative easing (QE) in the wake of the global financial crisis and again during the Covid-19 crisis pushed bond yields lower and lower, accelerated by investors chasing yield. As an example, the yield on a 10-year gilt fell from around 5.5% at the start of 2008 to a low of around 0.25% in early 2020.

From the end of 2021, we've seen a change in emphasis, with concerns over inflation and a focus on rising interest rates pushing bond yields higher across a range of bond markets including government bonds, investment grade credit and high yield. By the end of October 2023, that same 10-year gilt yield had risen back to 4.5%.

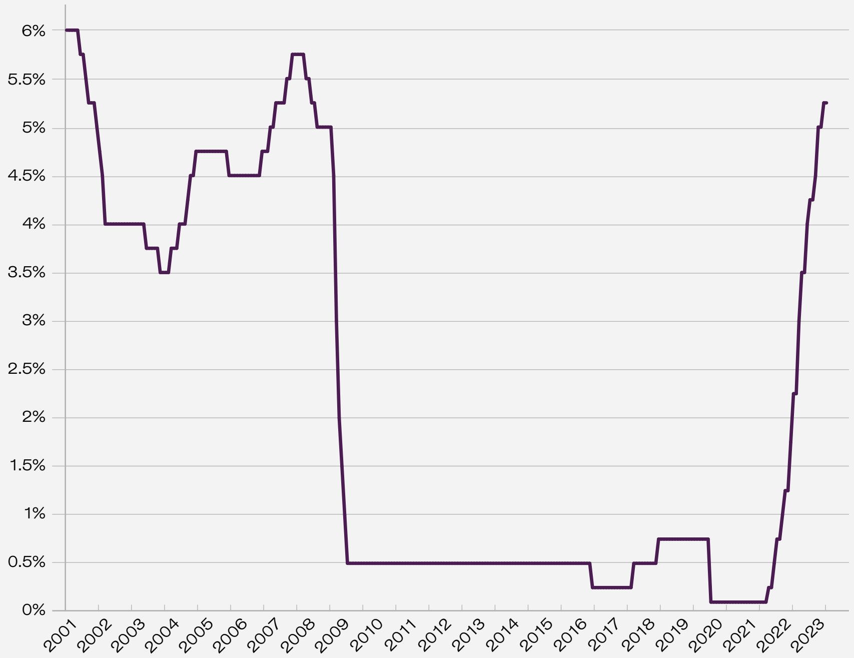
Rising bond yields have naturally had a greater impact on longer maturity bonds. Including some exposure to shorter duration bonds could help reduce interest rate sensitivity and balance this risk, while also offering attractive yields.

Investing for this environment

Regardless of the extent and pace of interest rate and yield rises, the returns from bonds are likely to remain uncertain given ongoing market volatility.

Short duration strategies are typically used by investors who are wary of near-term interest rate movements and rising or volatile yields.

Bank of England (BoE) Base Rate



Source: Bank of England as at 30 September 2023

Why short duration?

Duration is an important tool for bond fund managers. Allowing managers to compare potential price sensitivity across bonds with varying yields, prices and maturities, duration can be adjusted to control portfolio risk. Less exposed to economic cycles, shorter duration bonds can be invaluable in helping manage interest rate risk in particular. The closer the bond maturity, the quicker the principal can be reinvested at a new interest rate, which can be beneficial when interest rates rise, offering potential for a higher yield.

It's this protection against interest rate rises that makes short duration bonds so well-suited to uncertain market conditions. Short duration bonds offer protection not just from any hike in interest rates but also from an ensuing increase in market volatility and liquidity challenges that resultant outflows could create. Longer duration bonds – which have a higher sensitivity to rate rises – carry a greater risk of capital loss than short dated bonds.

In addition to the aim of reducing interest rate sensitivity, short duration bonds can also offer a number of other advantages:

Income – as with all fixed income assets, coupons from short dated bonds address the need for income, an important requirement as the demand for yield remains strong.

Liquidity – short duration bond funds are inherently liquid (relative to longer dated bond funds) given that the bonds within the portfolio are regularly maturing.

Diversification – short duration bonds can produce returns that are less correlated with traditional bond markets, can benefit from inflation and hedge downside risk.

Reduced costs – shorter dated bonds tend to be held until maturity, potentially reducing turnover and associated dealing costs.

Reduced volatility – short duration bonds offer greater price stability and lower volatility than longer dated issues.

While we believe short duration bonds are well positioned to gain a performance advantage in the longer term, their other characteristics mean that they can play an important role within a well-diversified fixed income portfolio.

Our process

Royal London Asset Management's short duration bond funds are managed using a combination of top-down analysis, based on our macroeconomic views overlaid with bottom-up security selection. At the macro level, the process starts with a quarterly economic review assessing all major economic regions, focusing upon key variables such as growth rates and inflation. This meeting is also used to formulate our outlook scenarios, including short-term, medium-term and long-term yield as well as interest rate forecasts, all of which underpin our investment strategy.

Moving to the micro level, our selection of the individual bonds within the portfolios is driven by our assessment of value. To achieve this we use our proprietary relative value model. The output from this model is reviewed daily and used alongside other regression based models to assist with the selection of individual bonds. In addition we also look at stock specific factors that are vitally important. Overall, we aim to construct diversified portfolios with the potential to deliver consistent alpha from multiple sources.

Flexibility

At Royal London Asset Management, our value-oriented fixed income philosophy is based on the premise that credit and sovereign bond markets, to greater and lesser degrees respectively, present valuation anomalies that can be exploited. We emphasise our own research and use this to examine a wider investment universe than many of our peers. We believe this presents us with the opportunity to uncover returns that are overlooked by our competitors.

Our approach is, therefore, very much an active one. As such, our funds will have the appropriate flexibility to invest tactically in other markets, as appropriate, should any of them present a more attractive investment case than the core asset class. Additionally, having the scope to actively manage the duration of the funds allows our managers to exploit movements in short dated yields.

RL Short Duration Gilts Fund

The duration of the Royal London Short Duration Gilt Fund is actively managed to exploit movements in short dated gilts. It invests in UK gilts while maintaining an overall short duration within the fund. Additionally, the fund has appropriate flexibility to invest tactically in other markets, such as index linked government bonds, corporate bonds, or non- UK government bonds, supranational bonds and agency bonds, should any of them present a more attractive investment case than the core asset class.

Fund facts

Target benchmark	FTSE Actuaries UK Conventional Gilts up to 5 Years Total Return GBP Index
Comparator benchmark	IA UK Gilts
Typical duration	2.6 years
Fund managers	Craig Inches and Ben Nicholl
Inception date	08.11.2013
Asset allocation – core	Short-dated UK government bonds
Asset allocation – tactical	Cash instruments, short and medium-dated overseas government bonds, sterling corporate bonds, UK and overseas index linked government bonds

Craig Inches
Head of
Rates and Cash

Ben Nicholl
Fund Manager

RL Short Duration Global Index Linked Bond Fund

The Royal London Short Duration Global Index Linked Bond Fund targets the shorter end of the maturity spectrum, aiming to deliver inflation-linked returns with limited interest rate risk. It is an actively managed, globally diversified portfolio with the ability to invest in UK and global index linked government and corporate bonds. The debt securities in which the fund invests may be investment grade or non-investment grade.

Fund facts

Target benchmark	30% Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Total Return GBP Index, 70% Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 Year Total Return GBP Index
Comparator benchmark	IA Global Inflation Linked Bond
Typical duration	5.2 years
Fund manager	Paul Rayner and Gareth Hill
Inception date	23.02.2016
Asset allocation – core	Short-dated UK and overseas index linked government bonds
Asset allocation – tactical	Cash instruments, short and medium-dated UK and overseas government bonds, index linked credit

Paul Rayner
Head of
Alpha Strategies

Gareth Hill
Senior
Fund Manager

RL Short Duration Credit Fund

The Royal London Short Duration Credit Fund targets shorter-dated bonds (up to 5 years maturity) in the sterling investment grade credit market that we believe currently offer value. Fund duration is actively managed. The fund may have tactical allocation to other asset classes, such as gilts and index linked bonds.

Fund facts

Target benchmark	ICE Bank of America Merrill Lynch 1–5 Year Sterling Non-Gilt Index Total Return (GBP Unhedged)
Comparator benchmark	IA Sterling Strategic Bond
Typical duration	2.7 years
Fund manager	Paola Binns
Inception date	08.11.2013
Asset allocation – core	Short-dated sterling credit
Asset allocation – tactical	Cash instruments, short-dated UK government bonds and non-sterling credit, medium-dated sterling credit

Paola Binns
Head of
Sterling Credit

RL Diversified Asset-Backed Securities

The Royal London Diversified Asset-Backed Securities Fund's investment objective is to achieve a positive absolute return in all market conditions over rolling 3-year periods, by predominantly investing in asset-backed securities and other sterling-denominated corporate bonds.

Fund facts

Target benchmark	Bank of England Sterling Overnight Interbank Average (SONIA) plus 2% per annum over rolling 3 year periods.
Comparator benchmark	IA Targeted Absolute Return
Typical duration	0.6 years
Fund manager	Shalin Shah
Inception date	24.09.2012
Asset allocation – core	Sterling credit, UK government bonds (held as collateral against interest rate swaps)
Asset allocation – tactical	Cash instruments, non-sterling and index-linked credit, overseas government bonds

Shalin Shah
Senior
Fund Manager

RL Short Duration Global High Yield Bond Fund

The Royal London Short Duration Global High Yield Bond Fund invests a large portion of its assets in short maturity sub-investment grade bonds issued by companies domiciled in the UK, Europe, Africa, Asia and the Americas. The fund may invest in short maturity investment grade securities. It may also invest in short maturity bonds issued by European governments and government related agencies.

Fund facts

Target benchmark	Bank of England Sterling Overnight Index Average
Comparator benchmark	IA Sterling High Yield
Typical duration	Less than 2 years
Fund managers	Azhar Hussain and Stephen Tapley
Inception date	09.04.2013
Asset allocation – core	Short-dated high yield bonds
Asset allocation – tactical	Cash instruments, short-dated government bonds

Azhar Hussain
Head of Global Credit

Stephen Tapley
Senior Fund Manager

RL Investment Grade Short Dated Credit Fund

The Royal London Investment Grade Short Dated Credit Fund aims to provide a total return from a combination of income and capital growth. The fund invests in a broad portfolio of investment grade short-dated bonds alongside a robust ethical overlay that takes into account specific predefined criteria. The fund strategy focuses on delivering longer-term returns in a low risk manner.

Fund facts

Target benchmark	ICE Bank of America Merrill Lynch 1-5 Year Sterling Non-Gilt Index GBP + 0.25%
Comparator benchmark	IA Sterling Corporate Bond
Typical duration	2.8 years
Fund managers	Paola Binns
Inception date	07.12.2015
Asset allocation – core	Short-dated investment grade sterling credit with specific ethical exclusion criteria
Asset allocation – tactical	Cash instruments, short-dated investment grade non-sterling credit, short and medium-dated UK and overseas government bonds

Paola Binns
Head of Sterling Credit

RL Sustainable Short Duration Corporate Bond Fund

The Royal London Sustainable Short Duration Corporate Bond Fund aims to achieve a total return over the medium term (3-5 years). The fund predominately invests in sterling-denominated corporate bonds and seeks to access a diverse set of borrowers with attractive sustainable characteristics across a variety of economic sectors.

Fund facts

Target benchmark	ICE Bank of America Merrill Lynch Sterling Non-Gilt (1-5 Years) Total Return GBP Unhedged Index
Comparator benchmark	IA Sterling Corporate Bond
Typical duration	Less than 3 years
Fund manager	Matthew Franklin and Shalin Shah
Inception date	23.11.2022
Asset allocation – core	Short-dated sterling credit with specific positive sustainable screen
Asset allocation – tactical	Cash instruments, short-dated UK government bonds and non-sterling credit, medium-dated sterling credit

Shalin Shah
Senior Fund Manager

Matthew Franklin
Fund Manager

Fund risks

Investment risk: 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.

Charges from capital risk: Charges are taken from the capital of the fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Leverage risk: The fund employs leverage with the aim of increasing the fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the fund's losses can be magnified significantly.

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.

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.

Emerging markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Liquidity risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

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.

Exchange rate risk: Changes in currency exchange rates may affect the value of your investment.

Efficient Portfolio Management (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.

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.

Concentration risk: The price of funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

Responsible Investment Style Risk: The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds. investment opportunities, potentially underperforming non-sustainable funds.

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The RL Short Duration Gilt Fund, RL Short Duration Global Index Linked Fund, the RL Diversified Asset Backed Securities fund and the RL Investment Grade Short Dated Credit Fund are sub-fund 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 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.

The RL Short Duration Credit Fund is a sub-fund of Royal London Bond Funds II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128. 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.

The Fund is a sub-fund of Royal London Asset Management 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 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 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. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

The RL Short Duration Global High Yield Bond Fund is a sub-fund of Royal London Asset Management 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. It is a recognised scheme under section 264 of the Financial Services and Markets Act 2000. 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. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

The RL Sustainable Short Duration Corporate Bond Fund is a sub-fund of Royal London Bond Funds II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128. 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.

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