ROYAL LONDON FIXED INCOME

Fund Manager Commentary – November 2020

For professional clients only, not suitable for retail investors

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ECONOMIC DEVELOPMENTS

Economic developments

- Covid-19 cases are decreasing across Europe following renewed lockdowns, but still rising in the US. Positive data from several vaccine trials is encouraging and increases the likelihood of a successful vaccine rollout and 'return to normal' next year.
- UK third-quarter GDP bounced 15.5%, although still left year-on-year growth at -9.6%. The recovery slowed each month in the quarter, even before the second lockdown. The Chancellor's Spending Review detailed the impact on the economy and the scale of borrowing required as he hinted at austerity ahead. He also announced the long-awaited reform of RPI, which will take effect in 2030. Talks between the UK and EU failed to reach an agreement on a trade deal, increasing the risk of a 'no-deal' Brexit.
- In the US, Joe Biden was eventually declared the winner of the Presidential election and the absence of significant unrest in the aftermath was a relief for investors. There remains uncertainty about the election for the Senate with Republican control still the most likely outcome; this may curtail the new President's legislative agenda. The present Congress again failed to agree an extended support package to replace the CARES Act.
- In Europe, the November composite PMI dropped to 45.1 from 50, consistent with a modest contraction in fourth-quarter activity as various countries went back into lockdown. However, the high-frequency data releases are starting to pick up again. The €750bn EU Recovery Fund hit a significant roadblock as Poland and Hungary rejected the combination of Covid-19 support with Rule of Law provisions.

RLAM CREDIT FUND PERFORMANCE

Fund performance

	1 month (%)	Rolling 12 months (%)
RL Corporate Bond Fund Z Inc	**2.47**	**6.47**
IA Sterling Corporate Bond Sector	1.90	6.21
iBoxx Sterling Non-Gilts All Maturities Index	1.47	6.08
RL Ethical Bond Fund Z Inc	**1.91**	**6.31**
IA Sterling Strategic Bond Sector	2.45	5.41
iBoxx Sterling Non-Gilts All Maturities Index	1.47	6.08
RL Global Bond Opportunities Fund Z Inc	**2.69**	**2.60**
RL Investment Grade Short Dated Credit Fund Z Inc	**1.03**	**3.34**
IA Sterling Corporate Bond Sector	1.90	6.21
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.51	2.91
RL Short Duration Credit Fund Z Inc	**1.18**	**3.54**
IA Sterling Strategic Bond Sector	2.45	5.41
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.51	2.91
RL Sterling Credit Fund Z Inc	**2.28**	**6.05**
IA Sterling Corporate Bond Sector	1.90	6.21
iBoxx Sterling Non-Gilts All Maturities Index	1.47	6.08
RL Sterling Extra Yield Bond Fund A Inc	**3.69**	**0.06**
RL Sterling Extra Yield Bond Fund B Inc	**3.65**	**-0.45**
RL Sterling Extra Yield Bond Fund Y Inc	**3.74**	**0.50**
RL Sterling Extra Yield Bond Fund Z Inc	**3.72**	**0.31**
IA Sterling Corporate Bond Sector	1.90	6.21
IA Sterling High Yield Sector	4.09	3.51
IA Sterling Strategic Bond Sector	2.45	5.41

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.

Source: RLAM and FE, correct as of 30 November 2020. Returns quoted are net of fees.

[1]Please note that the benchmark pricing is end-of-day, and entails no currency conversion.

CREDIT MARKET REVIEW

Market highlights

Sterling Investment Grade Credit

- The benchmark 10-year gilt yield increased from 0.26% to 0.31% in November. Sterling investment grade corporate debt returned 1.48%, outperforming UK government bonds (-0.45%). The average sterling investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) narrowed from 1.23% to 1.02%.
- Total returns were positive in all sterling credit sectors. Bonds in the banking and insurance sectors outperformed the broad market, driven by subordinated issues. Secured and structured bonds were generally strong, with real estate and asset-backed securities outperforming, though covered bonds lagged. Lower-rated bonds performed best, with highly-rated supranationals the worst sterling credit sector over the month. Longer-dated bonds outperformed amid the tightening of credit spreads.
- Credit issuance remained at a similar level to October in the sterling and euro markets, but was below levels a year ago. There was a fairly even spread between financial and industrial issuers in the sterling market, while issuance came predominantly from the financial sectors in the euro market.

ROYAL LONDON CORPORATE BOND FUND

Portfolio commentary

- Net of fees, the fund delivered a return of 2.47% in November (Z class, Income), outperforming the iBoxx Sterling Non-Gilts All Maturities Index, which returned 1.47%, and the 1.90% average return for its peer group (IA Sterling Corporate Bond).
- Total returns were positive across all sterling credit sectors. Within this, subordinated banks and insurance outperformed the wider market, as did asset-backed securities and real estate. The overweight positions in these sectors benefitted performance. Supranational bonds and consumer goods, in which sectors the fund is significantly underweight, both underperformed – indeed, supranationals was the worst-performing sector. Lower-rated bonds (BBB and below) strongly outperformed higher-rated issues, which was particularly positive for performance given our overweight positions in BBB rated, sub-investment grade and unrated bonds.
- Overweight exposure to insurance, a substantial underweight in supranational bonds, and a bias towards secured issues (such as social housing) are the most noticeable features of sector positioning.
- We participated in six new issues, including a senior 'opco bond' from **Close Brothers Group**, the UK merchant bank, and a Restricted Tier 1 US dollar issue from **Allianz**, the German insurance company; and a structured bond issued by **Thames Water**. We also participated in a green bond issue by **Big Box**, the logistics and distribution real estate trust, and a longer-dated issue from housing association **Orbit Capital**. Otherwise, we bought a perpetual hybrid new issue from **National Express**, the transport operator.
- Secondary market activity mainly focused on managing liquidity and we took profits in a number of bonds that have performed well. Notable sales included: Upper Tier 2 bonds of **Zurich Finance** as we are overweight in insurance; **British American Tobacco**; various utility issues, including **Western Power Distribution**, **APT Pipelines** and **Enel**, the Italian natural gas and electricity distributor; and bonds of **Marks & Spencer**, given the challenges facing the retail sector. We also bought various issues, including Tier 3 insurance bonds of **Rothesay Life**, real estate bonds of **Peel Land** and attractively-priced bonds of French electric utility **EdF**.
- Bonds of **The Housing Finance Corporation**, an affordable housing aggregator, were called away from the portfolio.

Investment outlook

- The recent lockdown measures in the UK may have jeopardised the economic recovery, which was already slowing, and rising unemployment seems likely. While the positive developments regarding a vaccine rollout may allow society to return to more normal conditions next year, the economy is likely to be compromised over the medium term given the surge in government debt. Interest rates look set to remain at very low levels over the next two or three years, with yield curves heavily managed by central banks.
- We continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- While the economic impact of the virus will have a detrimental impact on corporate profitability, we consider that the current credit spread offers sufficient compensation for default and other risks (e.g. liquidity and rating migration). We expect investment grade credit bonds will outperform UK government securities over the next three years.

Key views within the fund

- The fund is diversified, with over 300 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall fund performance of any deterioration in the creditworthiness of an individual holding.

ROYAL LONDON CORPORATE BOND FUND

- A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Duration marginally below benchmark.
- An overweight position in subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

Shalin Shah
Senior Fund Manager

Jonathan Platt
Head of Fixed Income

ROYAL LONDON ETHICAL BOND FUND

Portfolio commentary

- The fund's Z class delivered a return, net of fee, of 1.91% in November. This compares to the 1.47% return of the iBoxx Sterling Non-Gilts All Maturities Index and the average returns recorded for the Investment Association (IA) Sterling Strategic Bond sector and the IA Sterling Corporate Bond sector of 2.45% and 1.90% respectively. The fund is a constituent of the former sector because its weighting in investment grade sterling corporate bonds has frequently been less than 80%, predominantly as a result of the holdings of unrated secured debt; however, in the context of its investment grade benchmark, the fund's performance relative to the more homogenous Sterling Corporate Bond sector is also relevant.
- Total returns were positive across all sterling credit sectors. Within this, subordinated banks and insurance outperformed the wider market, as did asset-backed securities and real estate. The overweight positions in these sectors benefitted performance. Supranational bonds and consumer goods, in which sectors the fund is significantly underweight, both underperformed – indeed, supranationals was the worst-performing sector. Lower-rated bonds (BBB and below) strongly outperformed higher-rated issues, which was particularly positive for performance given our overweight positions in BBB rated, sub-investment grade and unrated bonds.
- Overweight exposure to subordinated financial debt, a substantial underweight in supranational bonds and a bias towards secured and structured issues remained the most noticeable features of sector positioning.
- Purchases of new issues during the month included a senior 'opco bond' from **Close Brothers Group**, the UK merchant bank, a structured bond issued by **Thames Water**, a longer-dated issue from housing association **Orbit Capital**, and a perpetual hybrid new issue from **National Express**, the transport operator.
- Secondary market activity was focused on the insurance, social housing and structured sectors. Purchases included subordinated insurance bonds from **Direct Line**, **Legal & General**, **M&G** and **Rothesay Life**; social housing bonds of **Hastoe Capital**, **Retail Charity Bonds** and **Swan Housing**; and structured debt of **Freshwater Finance**, **Telereal** and **Tesco Property**. Notable sales included bonds of utilities **Enel** and **Electricity North West**, distribution company **Bunzl** and subordinated debt of **Pension Insurance**.

Investment outlook

- The recent lockdown measures in the UK may have jeopardised the economic recovery, which was already slowing, and rising unemployment seems likely. While the positive developments regarding a vaccine rollout may allow society to return to more normal conditions next year, the economy is likely to be compromised over the medium term given the surge in government debt. Interest rates look set to remain at very low levels over the next two or three years, with yield curves heavily managed by central banks.
- We continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- While the economic impact of the virus will have a detrimental impact on corporate profitability, we consider that the current credit spread offers sufficient compensation for default and other risks (e.g. liquidity and rating migration). We expect investment grade credit bonds will outperform UK government securities over the next three years.

Key views within the fund

- The fund is diversified in order to improve portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.
- The fund has a significant underweight position in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Duration moderately below the benchmark. We believe the level of gilt yields is challenging over the longer term.
- The fund has an overweight position in subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

FE ALPHA MANAGER 2019 ERIC HOLT

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Eric Holt
Head of Credit

ROYAL LONDON GLOBAL BOND OPPORTUNITIES FUND

Executive summary

- The fund's Z class recorded a return, net of fee, of 2.69% in November. It was an exceptionally strong month for corporate bond markets as investors were encouraged by a flurry of positive trial results in the development of Covid-19 vaccines, increasing the likelihood of a successful vaccine rollout and 'return to normal' next year. Additionally, Covid-19 case numbers trended downwards in Europe following renewed lockdowns, though they continued to rise in the US. These developments supported risk-on sentiment in the market, causing high yield markets to strongly outperform. The fund produced a strong absolute return over the month, albeit lagging high yield indices, which moved its performance for the year as a whole into positive territory (+2.05% net of fee), having completely recovered from the market setback in March.
- Distributions payable at the end of November were 1.31p.

Market highlights

Index	Total return (%)	Spread movement (basis points)
Euro investment grade corporate bonds **ICE BofA ML euro corporate and Pfandbriefe index**	4.80	-75
AT1 **ICE BofA ML contingent capital index**	4.20	-102
HY global non-financial corps **ICE BofA ML global non-financial high yield index**	4.15	-60
HY non-financial emerging markets **ICE BofA ML emerging markets high yield ex. subordinated financial index**	3.90	-96
Sterling investment grade corporate bonds **ICE BofA ML sterling corporate and collateralised index**	2.90	-40
HY global non-financial hybrid corps **ICE BofA ML global hybrid non-financial high yield index**	2.60	-22
IG global non-financial hybrid corps **ICE BofA ML global hybrid non-financial corporate index**	1.96	-26
Dollar investment grade corporate bonds **ICE BofA ML US corporate index**	0.96	-21

Source: Bloomberg

- The news of Covid-19 vaccines and their potential to address the current economic constraints was the dominant influence on financial markets in November. The developments overshadowed the contentious US election, the pandemic resurgence and corresponding lockdowns across Europe, and the approaching Brexit deadline. The S&P 500 equity index increased over 10% to a new all-time high, while the FTSE 100 gained over 12%. The price of oil rose 25% from $37 to $47, its highest level since March. There remained considerable dispersion in the performance of government bond markets in November. While yields generally rose in core and semi-core European markets, as well as the UK, they declined slightly in the US and significantly in periphery markets.
- Sub-investment grade markets performed extremely strongly in light of the improving economic outlook and low interest rate environment. Returns were positive across all sectors and regions in the global high yield market. The energy sector was the strongest performer, while the financial services sector was the worst. The UK was the best performing region, whereas the US was the weakest. The relative weakness in the US reflected investors pricing out the substantial US fiscal stimulus that might have occurred under a 'blue wave' scenario in which Biden won the Presidency and Democrats took control of the Senate. Additionally, sentiment was hurt further by rising case numbers in the country and growth concerns as the US Treasury forced the closure of several of the Federal Reserve's lending facilities.
- Issuance in the high yield market, having been at historically elevated levels since April, dropped slightly below the monthly level a year ago. The majority of issuance continued to be BB or B rated, with an even split between the two. Issuance came overwhelmingly from the US market, as European high yield issuance markedly declined.

ROYAL LONDON GLOBAL BOND OPPORTUNITIES FUND

Portfolio commentary

- In a month with such strong fund performance, there were some exceptional individual stock performances. Within financials, subordinated bonds of **Standard Chartered** and **Virgin Money** were up 10%, while subordinated **Rabobank** debt surged 14%. Within the pubs sector, **Stonegate**'s £1bn B rated bond, issued earlier to refinance the acquisition of Enterprise Inns, was up 10% in response to news of the Covid-19 vaccine. The increase in the oil price and shipping rates was naturally supportive for bonds in the oil and shipping sectors, with bonds of **Songa Container** up 10%, while **Energy Transfer** and **Sand Hill Petroleum** were up 13%. By contrast, bonds of offshore drilling contractor **Vantage Drilling** and liquefied natural gas shipping company **Golar LNG** declined by 5%. The month's standout performer was the French multinational mining and metallurgy company **Eramet**, from which we benefitted from a 19% increase in the price of the fund's holding.
- Activity in the month included participating in a subordinated new issue of **Standard Chartered**, 'hybrid' bonds of transport group **National Express** and US dollar-denominated bonds of insurance group **Allianz**. Other new issues came from **Thames Water** and offshore services group **Beerenberg**, which were aligned to repurchase offers for shorter-dated bonds of these two companies held within the fund. Market purchases included adding to existing debt of luxury car manufacturer **Aston Martin**, bank **Société Générale** and utility **SSE**. Sales included crystallising capital profits on issues by the banks **Goldman Sachs**, **Standard Chartered** and **Unicredit**, as well as energy group **BP**. Secured and structured bonds of **Tesco Property** were also sold, reflecting the company's progressive recovery, relatively low yields and sensitivity to the supressed level of yields on longer-dated gilts. Finally, activity in US treasuries reflected efficient liquidity management in the fund during the month.

Investment outlook

- Global economies may be jeopardised by recent lockdown measures and rising unemployment seems likely. While the positive developments regarding a vaccine rollout may allow societies to return to more normal conditions next year, economies are likely to be compromised over the medium term given the surge in government debt. Interest rates look set to remain at very low levels over the next two or three years, with yield curves heavily managed by central banks.
- We continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- While the economic impact of the virus will have a detrimental impact on corporate profitability, we consider that the current credit spread offers sufficient compensation for default and other risks (e.g. liquidity and rating migration).

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MONEY OBSERVER RATED FUND 2019

ROYAL LONDON INVESTMENT GRADE SHORT DATED CREDIT FUND

Portfolio commentary

- The fund recorded a net return of 1.03% (Z class, Income) in November, against the 0.51% gross return of the ICE BofA Merrill Lynch 1-5 Year Sterling Non-Gilt Index and the 1.90% average return of the wider all-maturities sector (IA Sterling Corporate Bond).
- Total returns were positive across all sterling credit sectors. Within this, subordinated banks and insurance outperformed the wider market, as did asset-backed securities and real estate. The overweight positions in these sectors benefitted performance. Supranational bonds and consumer goods, in which sectors the fund is significantly underweight, both underperformed – indeed, supranationals was the worst-performing sector. Covered bonds also underperformed, which detracted from performance as the fund is overweight in this sector. Lower-rated bonds (BBB and below) strongly outperformed higher-rated issues, which was particularly positive for performance given our overweight positions in BBB rated bonds.
- The minimal weighting in supranational bonds, overweight holding of financial debt and bias towards secured and structured issues remained the fund's most notable sector characteristics.
- Unusually, we didn't participate in any new issues this month.
- Secondary market activity focused on managing liquidity. We sold a number of covered bonds, including **Toronto Dominion Bank**, **Deutsche Pfandbriefbank**, **Nordea**, **Bank of Scotland** and **Leeds Building Society**; and a number of senior banks issues, including **BPCE**, **Bank of America**, **Crédit Mutuel** and **Euroclear**. We also sold utility bonds of **United Utilities**, **Severn Trent** and **ENW Finance** (a subsidiary of North West Electricity Networks); and sold supranational bonds of **Cppib Capital**, the Canadian pension board. Otherwise, we took profits in bonds of **Fidelity National Information Services** and **Fiserv**, following very strong performance. We switched between different senior issues of **Credit Suisse** on enhanced terms. Purchases included attractively priced senior bonds of **Coventry Building Society**, and subordinated issues of **Citigroup** and **TSB Banking Group** as well as **Bupa**, the health insurance provider. We also added to the holding of structured bonds of **NATS (en Route)**, the UK air traffic control operator.
- No bonds were tendered or called away from the portfolio in the month.

Investment outlook

- The recent lockdown measures in the UK may have jeopardised the economic recovery, which was already slowing, and rising unemployment seems likely. While the positive developments regarding a vaccine rollout may allow society to return to more normal conditions next year, the economy is likely to be compromised over the medium term given the surge in government debt. Interest rates look set to remain at very low levels over the next two or three years, with yield curves heavily managed by central banks.
- We continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- While the economic impact of the virus will have a detrimental impact on corporate profitability, we consider that the current credit spread offers sufficient compensation for default and other risks (e.g. liquidity and rating migration). We expect investment grade credit bonds will outperform UK government securities over the next three years.

Key views within the fund

- The fund is diversified, with almost 300 holdings, in order to improve general portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.
- It has a minimal weighting in supranational bonds, as we expect corporate debt to outperform over the medium term.

ROYAL LONDON INVESTMENT GRADE SHORT DATED CREDIT FUND

- Duration is in line with that of the benchmark.
- It has an overweight position in subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards structured debt, which benefits from a claim on assets and cashflows; secured issues in the asset-rich property and social housing sectors; and covered bonds (i.e. senior bank debt benefiting from a first claim on a specified over-collateralised pool of assets).

Richard Nelson
Senior Fund Manager

Paola Binns
Senior Fund Manager

ROYAL LONDON SHORT DURATION CREDIT FUND

Portfolio commentary

- The fund's Z class delivered a return, net of fee, of 1.18% in November, against the 0.51% return of the ICE BofA Merrill Lynch 1-5 Year Sterling Non-Gilt All Stocks Index and the 2.45% return of the IA Sterling Strategic Bond sector.
- Total returns were positive across all sterling credit sectors. Within this, subordinated banks and insurance outperformed the wider market, as did asset-backed securities and real estate. The overweight positions in these sectors benefitted performance. Supranational bonds and consumer goods, in which sectors the fund is significantly underweight, both underperformed – indeed, supranationals was the worst-performing sector. Lower-rated bonds (BBB and below) strongly outperformed higher-rated issues, which was particularly positive for performance given our overweight positions in BBB rated, sub-investment grade and unrated bonds.
- Overweight exposure to subordinated financial debt, a substantial underweight in supranational bonds and a bias towards secured and structured issues remained the most noticeable features of sector positioning.
- We participated in four new issues during the month. We bought a structured bond issued by **Thames Water**, perpetual hybrid new issues from transport operator **National Express** and Spanish road management company **Abertis**, and a bond of the UK's largest builders' merchant **Travis Perkins**.
- In the secondary market we added to our structured debt of London's largest pedestrianised neighbourhood **Broadgate** and of the shopping centre **Westfield Stratford City**. Both cases offered highly attractive spreads considering their AAA ratings. We also added structured debt of **Electricity North West** given that it offered an attractive spread and fit with our decarbonisation theme. Elsewhere, we added an attractive subordinated 'opco' bond of the insurance company **Just Group**, as well as bonds of **Great Rolling Stock**, **Retail Charity Bonds** and the utility **Enel**.

Investment outlook

- The recent lockdown measures in the UK may have jeopardised the economic recovery, which was already slowing, and rising unemployment seems likely. While the positive developments regarding a vaccine rollout may allow society to return to more normal conditions next year, the economy is likely to be compromised over the medium term given the surge in government debt. Interest rates look set to remain at very low levels over the next two or three years, with yield curves heavily managed by central banks.
- We continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- While the economic impact of the virus will have a detrimental impact on corporate profitability, we consider that the current credit spread offers sufficient compensation for default and other risks (e.g. liquidity and rating migration). We expect investment grade credit bonds will outperform UK government securities over the next three years.

Key views within the fund

- The fund is diversified, with more than 300 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual exposure.
- The fund has a significant underweight in supranational bonds, as we expect corporate debt to outperform over the medium term.
- Fund duration longer than the benchmark, as central banks adopt more dovish policy stances.
- The fund has an overweight position in subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and towards structured issues, which benefit from a claim on assets and cashflows.

Paola Binns
Senior Fund Manager

ROYAL LONDON STERLING CREDIT FUND

Portfolio commentary

- The fund's Z class recorded a return, net of fee, of 2.28% in November. This compares with 1.47% for the iBoxx Sterling Non-Gilts All Maturities Index and 1.90% for the fund's sector (IA Sterling Corporate Bond).
- Total returns were positive across all sterling credit sectors. Within this, subordinated banks and insurance outperformed the wider market, as did asset-backed securities and real estate. The overweight positions in these sectors benefitted performance. Supranational bonds and consumer goods, in which sectors the fund is significantly underweight, both underperformed – indeed, supranationals was the worst-performing sector. Lower-rated bonds (BBB and below) strongly outperformed higher-rated issues, which was particularly positive for performance given our overweight positions in BBB rated, sub-investment grade and unrated bonds.
- Overweight exposure to subordinated financial debt, a substantial underweight in supranational bonds and a bias towards secured and structured issues remained the most noticeable features of sector positioning.
- We participated in a number of new issues during the month, including a senior 'opco bond' from **Close Brothers Group**, the UK merchant bank; a Restricted Tier 1 US dollar issue from **Allianz**, the German insurance company; and a structured bond issued by **Thames Water**. We also participated in a longer-dated issue from housing association **Orbit Capital**. Otherwise, we bought a perpetual hybrid new issue from **National Express**, the transport operator.
- In the secondary market we bought various issues, such as subordinated insurance bonds of **Rothesay Life** and **Scottish Widows**, real estate bonds of **Peel Land**, and structured debt of property developer **Telereal** and pub company **Spirit**. We sold subordinated bonds of the insurance companies **SRLEV**, **Pension Insurance** and **Legal & General**. Elsewhere, we sold bonds of utility companies **Electricity North West** and **APT Pipelines**, the distribution company **Bunzl**.
- Bonds of **The Housing Finance Corporation**, an affordable housing aggregator, were called away from the portfolio.

Investment outlook

- The recent lockdown measures in the UK may have jeopardised the economic recovery, which was already slowing, and rising unemployment seems likely. While the positive developments regarding a vaccine rollout may allow society to return to more normal conditions next year, the economy is likely to be compromised over the medium term given the surge in government debt. Interest rates look set to remain at very low levels over the next two or three years, with yield curves heavily managed by central banks.
- We continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- While the economic impact of the virus will have a detrimental impact on corporate profitability, we consider that the current credit spread offers sufficient compensation for default and other risks (e.g. liquidity and rating migration). We expect investment grade credit bonds will outperform UK government securities over the next three years.

Key views within the fund

- The fund is diversified, with around 400 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.
- A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Duration moderately below the benchmark. We believe the level of gilt yields is challenging over the longer term.
- An overweight position in subordinated financial debt, where we believe yields are attractive.
- The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and structured bonds, which benefit from a claim on assets and cashflows.

Paola Binns
Senior Fund Manager

ROYAL LONDON STERLING EXTRA YIELD BOND FUND

Portfolio commentary

- In a generally exceptionally strong month in financial markets the value of the A, B, Y and Z class shares rose by 3.69%, 3.65%, 3.74% and 3.72% respectively in November, making a significant step in the progressive recovery from the depths of the market in March 2020 year to date returns are -0.69%, -1.16%, -0.29% and -0.45% respectively.
- The news of Covid-19 vaccines and their potential to address the current economic constraints was the dominant influence on financial markets in November, overshadowing the contentious US election, the pandemic resurgence and corresponding lockdowns across Europe, and the approaching Brexit deadline. In the US, the S&P500 equity index was up over 10% in the month to a new all-time high, while the FTSE 100 index was up over 12% and the price of oil increased 25% from $37 to $47, to new highs since March. In contrast, gilts were down on the month, posting an index return of -0.47% in November, with the yield of the bellwether 10-year gilt rising from 0.27% to 0.31%, while the 30-year gilt yield rose from 0.84% to 0.86%. In contrast, sterling investment grade corporate bonds posted an index return of 1.54%, with the average yield differential over gilts falling from 1.19% to 0.98%; a level lower than the 1.10% at the start of 2020. In November the subordinated financial sectors were notably strong, while longer-dated and lower-rated bonds generally performed better than shorter-dated and higher-rated bonds. The capital goods sector was strongest, reflecting US conglomerate General Electric's dominance in the sector and its strong rebound during the month, while the more diverse ABS sector, encompassing Gatwick and Heathrow bonds, PFI and structured utility bonds and secured property bonds, also performed well. Sub-investment grade markets benefitted from the improving economic outlook and low interest rate environment, with European and global sub-investment grade indices posting 4.33% and 4.13% returns. Yields on the indices correspondingly moved down to 3.04% and 4.71%, respectively. Year-to-date index returns for gilts, sterling investment grade corporate bonds and European and global sub-investment grade bonds were 7.03%, 6.35%, 1.92% and 4.33%, respectively.
- In a month with such a level of overall fund performance, there were obviously some very strong individual stock performances. Within financials, bonds of **HSBC** and **Nationwide Building Society** were up 5%, while **Lloyds** offered a new BBB rated bond with 10 years to call, priced at 2.4% over the 10-year reference gilt, in exchange for some 'old-style', sub-investment grade bonds. This exchange was very beneficial, providing a near 8% return on the three holdings of Lloyds' bonds subject to the tender. The level of the tender was at a moderate premium to the market prices of the three bonds and the new bond, with an issue size of £1.3 billion, traded at a margin under 2% over gilts, triggering a 3% premium to issue price. The new holding is one of the 10 largest holdings in the fund, and has the potential to provide liquidity for more attractive, higher yielding, investment opportunities as they arise. In contrast to these strong individual performances within banks, the **Santander** 10⅜% preference shares and the 10 1/16% perpetual loan, both in the 10 largest holdings in the fund, were each up around 1% in price. Within the insurance sector, bonds of **M&G**, **Pension Insurance**, **Phoenix** and **Scottish Widows** were each up 5% or more in price.
- A similar diversity of performance was evident in other sectors. Within the pubs sector, **Stonegate**'s £1 billion B rated bond, issued earlier to refinance the acquisition of Enterprise Inns, was up 10% in response to news of the Covid-19 vaccine, while bonds of **Mitchells & Butler**, **Punch Taverns** and **Spirit** were broadly unchanged. Bonds of **Heathrow** and 'hybrid' bonds of utility **EDF** were up 6%, the latter buoyed by progress on the company's environmental credentials. PFI bonds of **Connect M77/GSO**, **Road Management** and **Progress Healthcare**, and structured bonds of **Premiertel** and **Telereal** (each backed by BT operational assets and lease obligations), were broadly unchanged in price. The increase in the oil price and shipping rates was supportive for bonds in the sectors, with bonds of **Tullow Oil** and **OKEA** up 8% and **Songa Container** up 10%, albeit these bonds still have yields near or above 10% and are still well below their prices at the start of the year.
- Activity in the month included participating in new issues of **Natwest Group**, 'hybrid' bonds of transport group **National Express** and US dollar-denominated bonds of insurance group **Allianz**. Other new issues came from **Thames Water** and offshore services group **Beerenberg**, which were aligned to repurchase offers for shorter-dated bonds of these two companies held within the fund. Market purchases included bonds of financial group **Investec** and property group **Peel Holdings** (which subsequently, and recently, announced the repurchase and cancellation of nearly £50 million of this £250 million 2040 bond, improving the company's balance sheet and financial flexibility). Sales during the month included crystallising capital profits on recent issues by energy group **BP** and leisure business **Intercontinental Hotels**, and further reducing holdings in secured and structured bonds of **Tesco Property**, reflecting its progressive recovery, relatively low yields and sensitivity to the supressed level of yields on longer-dated gilts. Finally, activity in short-dated gilts reflected efficient liquidity management in the fund during the month.

Investment outlook

- The recent lockdown measures in the UK may have jeopardised the economic recovery, which was already slowing, and rising unemployment seems likely. While the positive developments regarding a vaccine rollout may allow society to return to more normal conditions next year, the economy is likely to be compromised over the medium term given the surge in

ROYAL LONDON STERLING EXTRA YIELD BOND FUND

government debt. Interest rates look set to remain at very low levels over the next two or three years, with yield curves heavily managed by central banks.

- We continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- While the economic impact of the virus will have a detrimental impact on corporate profitability, we consider that the current credit spread offers sufficient compensation for default and other risks (e.g. liquidity and rating migration). We expect investment grade credit bonds will outperform UK government securities over the next three years.

Key views within the fund

- The fund's objective is to achieve a high level of income by seeking attractive investments across a broad spectrum of fixed income opportunities, encompassing investment grade, sub-investment grade and unrated bonds.
- The fund mitigates stock-specific risk by holding a diversified portfolio of investments, so that no individual investment can in isolation have an undue impact on overall performance. In addition, where possible within the yield objective of the fund, investments are focused on bonds where risk is mitigated by structure or a claim on assets or cashflows.

FE ALPHA MANAGER 2019 ERIC HOLT
CITYWIRE +

Eric Holt
Head of Credit

FE ALPHA MANAGER 2019 RACHID SEMAOUNE
CITYWIRE +

Rachid Semaoune
Senior Fund Manager

MONEY OBSERVER RATED FUND 2019

RLAM GOVERNMENT BOND FUND PERFORMANCE

Fund performance

	1 month (%)	Rolling 12 months (%)
RL Global Index Linked Bond Fund Z Inc	**0.34**	**7.50**
IA Global Bonds Sector	0.78	5.22
Barclays World Government Inflation-Linked Bond Index (hedged)	0.86	7.63
RL Index Linked Bond Fund M Inc	**-0.91**	**8.94**
IA UK Index Linked Gilts Sector	-0.75	9.56
FTSE Actuaries UK Index-Linked All Stocks Index	0.08	8.62
RL Short Duration Gilt Fund Z Inc	**-0.14**	**1.06**
IA UK Gilts Sector	-0.71	5.33
FTSE Actuaries UK Conventional Gilts up to 5 Years Index	-0.13	1.24
RL Short Duration Global Index Linked Bond Fund Z Inc	**0.29**	**4.19**
IA Global Bonds Sector	0.78	5.22
RL Short Duration Global Index Linked Composite Benchmark[1 2]	0.44	3.79
RL UK Government Bond Fund Z Inc	**-0.60**	**5.80**
IA UK Gilts Sector	-0.71	5.33
FTSE Actuaries UK Conventional Gilts All Stocks Index	-0.45	5.12

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.

Source: RLAM and FE, correct as of 30 November 2020. Returns quoted are net of fees.

[1]Please note that the benchmark is priced end-of-day.

[2]The composite benchmark consists of: 30% Barclays UK Government Inflation Linked Bond 1-10 year index, 70% Barclays World Government Inflation Linked Bond (ex UK) 1-10 year index (GBP hedged).

GOVERNMENT BOND MARKET REVIEW

Market highlights

- There remained considerable dispersion in the performance of government bond markets in November. While yields generally rose in core and semi-core European markets, as well as the UK, they declined slightly in the US and significantly in periphery markets. The distribution broadly reflected the risk-on sentiment in the market, with credit spreads also declining, as investors were encouraged by a flurry of positive trial results for the development of vaccines for Covid-19, increasing the likelihood of a successful vaccine rollout and 'return to normal' next year. Additionally, investors in Europe were encouraged by falling Covid-19 case numbers following renewed lockdowns. By contrast, US treasury yields were dragged lower by rising case numbers and growth concerns.

Gilts

- The yield on 10-year UK government bonds increased by 5 basis points (bps) to 0.31%. Longer-dated gilts (>15 years) underperformed shorter-dated issues (<5 years). Overall, gilts returned -0.45%, behind sterling investment grade corporate debt (which returned 1.48%). The average sterling investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) narrowed by 21bps to 1.02%.
- The gilt market continued to be one of the weakest in Europe during the month, despite the Bank of England (BoE) announcing more stimulus than expected. The vaccine news was seen as a positive ahead of next year, with the market adjusting the probability that the BoE would resort to negative interest rates accordingly
- The shape of the yield curve ended the month little changed from the month before, though this disguises significant intra-month volatility. It remains extremely flat at the front end and slightly inverted at the ultra-long end.

Index-linked gilts

- Index-linked UK government bonds returned 0.08%, outperforming conventional gilts (-0.45%). Returns were strongest for long-dated issues and weakest at shorter maturities. The yield on 5-year and 10-year index-linked gilts increased 2bps and 7bps, respectively, to -2.89% for both, while the yield for 30-year yields dropped 3bps to -2.28%.
- The 10-year breakeven (implied) inflation rate declined by 1bp to 3.11%, as the tightening of lockdown conditions in the UK constrained economic activity. Nevertheless, data releases revealed upside inflationary surprises, with headline CPI rising from 0.5% to 0.7%, while Brent crude oil increased in price by 24.7% to around $48 a barrel.

Overseas

- European periphery markets strongly outperformed in November, reflecting the positive developments in combatting the spread of Covid-19, with sovereign 10-year yields in Italy and Portugal declining 13bps and 7bps, respectively, in contrast to rising yields in core and semi-core markets. The spread between Italian BTPs and German bunds reached its narrowest post-Covid and post-Salvini levels. Periphery markets remain supported by the European Central Bank's bond buying programme and commitments.
- US treasury yields declined and the curve flattened. Investors began pricing out the substantial US fiscal stimulus that might have occurred under a 'blue wave' scenario in which Biden won the Presidency and Democrats took control of the Senate. Sentiment was hurt further by the US Treasury forcing the closure of several of the Federal Reserve's lending facilities.
- US real yields decreased during the month as inflation (as measured by breakevens) continued to recover. 10-year US real yields declined 13bps to -0.96% and the 10-year breakeven rate rose 8bps to 1.79%. Similarly, real yields fell to new lows in Germany, with the 10-year real yield ending the month 12bps lower at -1.48%, as the 10-year breakeven rate surged 18bps to 0.88%.

ROYAL LONDON GLOBAL INDEX LINKED BOND FUND

Portfolio commentary

- Net of fees, the fund delivered a return of 0.34% in November (M Class, Income), apparently underperforming its benchmark (Barclays World Govt Inflation Linked Bonds - £ Hedged), which returned 0.86%. However, the performance of the fund and the index are calculated at different times of day, which affects the comparison. On a like-for-like basis, the fund returned 0.93%, outperforming the benchmark by seven basis points as we were underweight the UK. For the year to date, the fund has returned 8.73% on the same like-for-like basis, outperforming the index by 49 basis points.
- Cross-market positions contributed positively to performance. Positive news from various Covid-19 vaccine trials prompted a strong risk rally leading global index linked bonds to perform strongly. This supported the fund's positive absolute returns in November. The UK market lagged (returning only 0.08%) as the announcement that a decision on RPI reform would be disclosed at the Chancellor's Spending Review later in November raised the possibility of a change in RPI as early as 2025.
- The yield curve detracted from performance as ultra-long bonds outperformed, particularly after the announcement of UK RPI reform just as LDI hedging resumed.
- Duration was tactically traded in the UK as the market remained volatile around the announcement of RPI reform and the negotiations over a UK-EU trade deal. We ended the month 0.28 years short.
- Towards the end of the month, as breakeven rates rose despite the decision on RPI reform, 50-year index linked gilts were switched into 30-year gilts with breakeven rates close to the year's high.

Investment outlook

- With intraday volatility remaining high around supply and buyback events and non-market risk events, we will continue to position the fund with a more tactical bias. We are short duration as we expect yields to rise in 2021 as the deployment of Covid-19 vaccines allows a move back towards normality with an economic recovery.
- We remain bearish of the UK relative to the global market and have increased global positions marginally, but with the negotiations on a post-Brexit trade deal still proving difficult, we are waiting for clarity before adding any further risk. Also, the DMO's announcement on next year's supply at the beginning of December will be crucial. The UK market has been starved of supply with only 6% of issuance being in index linked gilts since the pandemic, but with the RPI decision finally out of the way, we would expect an increase in supply with a possible syndication in the first quarter.
- We still believe UK bonds are relatively expensive but, as we approach the endgame for the trade talks between the UK and Europe, there is potential for the UK to outperform as investors hedge the risk of 'no deal'. We would anticipate increasing global exposure into any significant widening of spreads.
- Otherwise, we are mindful of the strategy review that is currently being undertaken by the ECB. Following the increased flexibility around inflation adopted by the Fed in its revised monetary strategy, we expect the ECB to take a similar approach. We anticipate further currency volatility over the coming months, even before the wildcard of the negotiations regarding a post-Brexit trade deal.

Key views within the fund

- Activity remained tactical, given the volatility around Covid-19, the expected extension of the Bank of England's quantitative easing programme, potential RPI reform, ongoing Brexit talks and the imminent US elections.
- Duration was gradually reduced to 0.28 years short, particularly after the rally in long-dated index linked bonds following the RPI reform announcement. Longer dated bonds were switched shorter as the curve flattened.
- Holdings of global bonds, particularly the US and long-dated French bonds, were sold at the beginning of the month as spreads reached post-pandemic lows. As spreads widened as hedging demand kicked in after the RPI reform announcement, we used the strength of UK index linked gilts to enter into short-dated positions in France and Germany; and to sell long-dated breakevens, which rose despite the change in the future RPI index to CPIH in 2030.

Paul Rayner
Head of Alpha Strategies

Gareth Hill
Fund Manager

ROYAL LONDON INDEX LINKED BOND FUND

Portfolio commentary

- Net of fees, the fund delivered a return of -0.91% in November (M Class, Inc), apparently underperforming the FTSE Actuaries UK Index Linked All index, which returned 0.08%. However, the performance of the fund and the index are calculated at different times of day, which affects the comparison. On a like-for-like basis, the fund also returned 0.08%, in line with the benchmark. For the year to date, on the same like-for-like basis the fund has returned 10.96%, outperforming the index by 46 basis points.
- Cross-market positions contributed positively to performance. Positive news from various Covid-19 vaccine trials prompted a strong risk rally leading global index linked bonds to perform strongly (returning 0.86%). The UK market lagged as the announcement that a decision on RPI reform would be disclosed at the Chancellor's Spending Review later in November raised the possibility of a change in RPI as early as 2025.
- The yield curve detracted from performance as ultra-long bonds outperformed, particularly after the announcement of RPI reform just as LDI hedging resumed.
- Duration was tactically traded in the UK as the market remained volatile around the announcement of RPI reform and the negotiations over a UK-EU trade deal. We ended the month 0.23 years short.
- Towards the end of the month, as breakeven rates rose despite the decision on RPI reform, 50-year index linked gilts were switched into 30-year gilts with breakeven rates close to the year's high.

Investment outlook

- Activity remained tactical, given the volatility around Covid-19, the expected extension of the Bank of England's quantitative easing programme, potential RPI reform, ongoing Brexit talks and the imminent US elections.
- Duration was gradually reduced to 0.23 years short, particularly after the rally in long-dated index linked bonds following the RPI reform announcement. Longer dated bonds were switched shorter as the curve flattened.
- Holdings of global bonds, particularly the US and long-dated French bonds, were sold at the beginning of the month as spreads reached post-pandemic lows. As spreads widened as hedging demand kicked in after the RPI reform announcement, we used the strength of UK index linked gilts to enter into short-dated positions in France and Germany; and to sell long-dated breakevens, which rose despite the change in the future RPI index to CPIH in 2030.

Key views within the fund

- With intraday volatility remaining high around supply and buyback events and non-market risk events, we will continue to position the fund with a more tactical bias. We are short duration as we expect yields to rise in 2021 as the deployment of Covid-19 vaccines allows a move back towards normality with an economic recovery.
- We remain bearish of the UK relative to the global market and have increased global positions marginally, but with the negotiations on a post-Brexit trade deal still proving difficult, we are waiting for clarity before adding any further risk. Also, the DMO's announcement on next year's supply at the beginning of December will be crucial. The UK market has been starved of supply with only 6% of issuance being in index linked gilts since the pandemic, but with the RPI decision finally out of the way, we would expect an increase in supply with a possible syndication in the first quarter.
- We still believe UK bonds are relatively expensive but, as we approach the endgame for the trade talks between the UK and Europe, there is potential for the UK to outperform as investors hedge the risk of 'no deal'. We would anticipate increasing global exposure into any significant widening of spreads.
- Otherwise, we are mindful of the strategy review that is currently being undertaken by the ECB. Following the increased flexibility around inflation adopted by the Fed in its revised monetary strategy, we expect the ECB to take a similar approach. We anticipate further currency volatility over the coming months, even before the wildcard of the negotiations regarding a post-Brexit trade deal.

Paul Rayner
Head of Alpha Strategies

Craig Inches
Head of Rates and Cash

ROYAL LONDON SHORT DURATION GLOBAL INDEX LINKED BOND FUND

Portfolio commentary

- Net of fees, the fund delivered a reported return of 0.29% in November (M Class, Income), apparently underperforming its composite benchmark, which returned 0.44%. However, the performance of the fund and the index are calculated at different times of day, which affects the comparison. On a like-for-like basis, the fund returned 0.53%, outperforming the benchmark by 10 basis points as we were underweight the UK. For the year to date, the fund has returned 4.54% on the same like-for-like basis, outperforming the index by 76 basis points.
- Cross-market positions contributed positively to performance. Positive news from various Covid-19 vaccine trials prompted a strong risk rally leading global index linked bonds to perform strongly. While greater at the long end, this supported the fund's positive absolute returns in November. The UK market lagged (returning only 0.08%) as the announcement that a decision on RPI reform would be disclosed at the Chancellor's Spending Review later in November raised the possibility of a change in RPI as early as 2025.
- An overweight in shorter-dated US TIPS relative to the 10-year sector added value as the yield curve steepened.
- Duration was tactically traded in the UK as the market remained volatile around the announcement of RPI reform and the negotiations over a UK-EU trade deal. We ended the month 0.19 years short.

Investment outlook

- With intraday volatility remaining high around supply and buyback events and non-market risk events, we will continue to position the fund with a more tactical bias. We are short duration as we expect yields to rise in 2021 as the deployment of Covid-19 vaccines allows a move back towards normality with an economic recovery.
- We remain bearish of the UK relative to the global market and have increased global positions marginally, but with the negotiations on a post-Brexit trade deal still proving difficult, we are waiting for clarity before adding any further risk. Also, the DMO's announcement on next year's supply at the beginning of December will be crucial. The UK market has been starved of supply with only 6% of issuance being in index linked gilts since the pandemic, but with the RPI decision finally out of the way, we would expect an increase in supply with a possible syndication in the first quarter.
- We still believe UK bonds are relatively expensive but, as we approach the endgame for the trade talks between the UK and Europe, there is potential for the UK to outperform as investors hedge the risk of 'no deal'. We would anticipate increasing global exposure into any significant widening of spreads.
- Otherwise, we are mindful of the strategy review that is currently being undertaken by the ECB. Following the increased flexibility around inflation adopted by the Fed in its revised monetary strategy, we expect the ECB to take a similar approach. We anticipate further currency volatility over the coming months, even before the wildcard of the negotiations regarding a post-Brexit trade deal.

Key views within the fund

- Activity remained tactical, given the volatility around Covid-19, the expected extension of the Bank of England's quantitative easing programme, potential RPI reform, ongoing Brexit talks and the imminent US elections.
- Duration was gradually reduced back to 0.1 short by the month selling UK bonds after the rally post the announcement of RPI reform
- Holdings of global bonds, particularly Italy and France, were sold early in the month as spreads traded to post-pandemic lows. After a strong performance towards the end of the month, UK linkers were switched back into short-dated French index linked bonds with the spread back to close to 160 basis points.

Paul Rayner
Head of Alpha Strategies

Gareth Hill
Fund Manager

ROYAL LONDON SHORT DURATION GILT FUND

Portfolio commentary

- The key factor in the fund's performance over the month was its short duration position relative to the FTSE Actuaries UK Conventional Gilts up to five years index, starting and ending the month 0.1 years short. Gilt yields rose slightly over the month as part of a global selloff in government bond markets following a succession of encouraging Covid-19 vaccine trial results. The vaccines demonstrated better efficacy than had been expected, raising the prospect that they could be successfully rolled out and societies could return to normal at some point next year. The news was supportive for risk assets and so yields subsequently rose, for which the fund was well positioned.
- Another factor in the fund's performance was our decision to buy Australian sovereign bonds in October, ahead of a meeting for the Reserve Bank of Australia. After the Bank announced that it was going to cut interest rates and expand its quantitative easing programme further along the curve, the bonds outperformed. We sold the 10-year bonds for a profit in early November, switching into 4-year gilts. This added to performance tactically because the 10-year part of curves steepened globally.
- The fund's modest highly-rated sterling credit exposure, which we hold primarily a means of enhancing yield in the fund, added to returns as credit spreads (the average extra yield available from corporate bonds compared with government debt of equal maturity) contracted amid the risk-on market sentiment.

Investment outlook

- We expect global government bond yields to rise gradually from current levels. In the short term we think that economic growth will be kept in check by uncertainty around the coronavirus, but already-announced fiscal and monetary policy globally should see economic activity recover over the medium term.
- We continue to look for opportunities to take both tactical and strategic positions in overseas government bonds, where appropriate to the fund's risk and return objectives.
- We continue to believe that both gilt and index-linked real yields do not reflect longer-term fundamentals, and as such, we will maintain a strategic short duration position relative to the benchmark.

Key views within the fund

- The portfolio currently has a short duration position relative to its benchmark. We expect a gradual rise in UK government bond yields as the year progresses.
- The fund is positioned for higher yields and slight curve flattening due to some relative value trades.
- The fund had no overseas exposure at month end, but we continue to look for opportunities to take such positions on a relative basis.
- The portfolio has an allocation to high-quality corporate bonds, which we expect to outperform gilts in a low-yielding environment.
- The portfolio may look to tactically trade index-linked gilts to take advantage of mispricing opportunities. The fund held no exposure to UK inflation over the month.

Craig Inches
Head of Rates and Cash

Ben Nicholl
Fund Manager

ROYAL LONDON UK GOVERNMENT BOND FUND

Portfolio commentary

- Heading into the month, the fund's duration was 0.25 years longer than the FTSE Actuaries UK Conventional Gilts All Stocks Index. This strategic long positioning stemmed from the fund's exposure to overseas markets, as we kept UK duration broadly in line with the benchmark. We held overweight positions in Australia, Italy and Japan. After the Reserve Bank of Australia announced that it was going to cut interest rates and expand its quantitative easing programme further along the curve, we decided to take profits on the Australian position. We did the same with the fund's Italian holding, selling the positions outright, and subsequently trading the UK market tactically.
- A key factor in the performance of the fund over the month was our decision to move to a neutral, to slightly short, duration position at the time that the positive Covid-19 vaccine trial results were announced. The vaccines demonstrated better efficacy than had been expected, raising the prospect that they could be successfully rolled out and societies could return to normal at some point next year. The news was supportive for risk assets and so a selloff in global government bond markets subsequently ensued, with the fund was well positioned for the rise in yields at that time.
- With regard to yield curve positioning, we continued to hold a marginal flattening bias throughout the fund. Although the slight flattening of the curve between 5-year and 30-year gilts was helpful, the overall impact of the curve positioning was limited because the curve remained broadly unchanged over the month as a whole. This, however, disguises significant intra-month volatility, giving us opportunities to trade the market tactically by taking advantage of market extremes.
- The fund's modest highly-rated sterling credit exposure, which we hold primarily a means of enhancing yield in the fund, added to returns as credit spreads (the average extra yield available from corporate bonds compared with government debt of equal maturity) contracted amid the risk-on market sentiment.

Investment outlook

- We expect global government bond yields to rise gradually from current levels. In the short term we think that economic growth will be kept in check by uncertainty around the coronavirus, but already-announced fiscal and monetary policy globally should see economic activity recover over the medium term.
- We continue to look for opportunities to take both tactical and strategic positions in overseas government bonds, where appropriate to the fund's risk and return objectives.
- We continue to believe that both gilt and index-linked real yields do not reflect longer-term fundamentals. However, uncertainty remains high and markets are volatile. As such we look to keep overall duration relatively neutral, but add value through trading markets tactically in the short term.

Key views within the fund

- The portfolio's duration is currently broadly in line with the benchmark, including the impact of cash holdings on duration, given the high level of market uncertainty.
- The fund holds a marginal flattening bias.
- The fund has a small overseas exposure, and we continue to look for opportunities to take such positions on a relative basis.
- The portfolio has allocations to high-quality corporate bonds, which we expect to outperform gilts in a low-yielding environment.
- The portfolio may look to tactically trade index-linked gilts to take advantage of mispricing opportunities, but had no exposure to UK inflation at the end of the month.

Craig Inches
Head of Rates and Cash

Paul Rayner
Head of Alpha Strategies

RLAM GLOBAL HIGH YIELD FUND PERFORMANCE

Fund performance

	1 month (%)	Rolling 12 months (%)
RL Global High Yield Bond Fund M Inc	**5.14**	**5.04**
RL Global High Yield Bond Fund Z Inc	**5.17**	**5.29**
IA Sterling High Yield Sector	4.09	3.51
ICE BofA ML BB-B Global Non-Financial High Yield Constrained Index	3.62	4.78
RL Short Duration Global High Yield Bond Fund A Inc	**1.10**	**-0.72**
RL Short Duration Global High Yield Bond Fund M Inc	**1.12**	**-0.32**
RL Short Duration Global High Yield Bond Fund Z Inc	**1.15**	**-0.21**
IA Sterling High Yield Sector	4.09	3.51
3 month LIBOR	0.00	0.36

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.

Source: RLAM and FE, correct as of 30 November 2020. Returns quoted are net of fees.

GLOBAL HIGH YIELD MARKET REVIEW

Market highlights

- The global high yield market returned 3.62% in November. BB rated bonds underperformed lower-rated issues, with their 3.55% average return comparing to respective returns of 3.75% and 7.69% for B rated debt and bonds rated CCC and lower. Returns were strongest for longer-dated bonds.
- The global high yield market produced a strong return in November as the high yield credit spread contracted. Risk appetite was supported by a multitude of encouraging announcements relating to the development of Covid-19 vaccines. There were indications that some of the vaccines could start being rolled out before the end of the year, raising the hopes that societies can return to normal next year. Additionally, daily Covid-19 case numbers began to trend downward in many European countries; though continued to rise in the US.
- Returns were positive across all sectors and regions. The energy sector was the best performer, and made the biggest contribution to market returns. The worst performing sector was financial services, which was also the main detractor from market returns. The UK was the best performing region, though it contributed the least due to its relatively low weighting, whereas the US was the worst performing region but contributed the most owing to its large weighting in the index. Economic data generally weakened as a result of recent lockdown measures.
- Issuance in the high yield market, having been at historically elevated levels since April, dropped slightly below the monthly level a year ago. The majority of issuance continued to be BB or B rated, with an even split between the two. Issuance came overwhelmingly from the US market, as European high yield issuance markedly declined.
- The US default rate, continuing a trend in recent months, remained broadly unchanged, with the energy and telecommunications sectors still the primary sources. The majority of the defaults were rated CCC and below.

ROYAL LONDON GLOBAL HIGH YIELD BOND FUND

Portfolio commentary

- The fund's Z class returned 5.17%, net of fee, in November, compared with 3.62% for the ICE BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained Index (100% GBP hedged).
- Index performance during the month was influenced by a positive income return of 0.44%, while the price and hedging returns were 3.28% and -0.10%, respectively.
- The yield-to-worst* on the benchmark ended November at 4.15%, compared with 5.07% at the beginning of the period. The fund yield stood at 4.84% at month end, excluding the impact of cash, and its duration was longer than that of the index.
- The global high yield market produced a strong return in November as the high yield credit spread contracted. Risk appetite was supported by a multitude of encouraging announcements relating to the development of Covid-19 vaccines. There were indications that some of the vaccines could start being rolled out before the end of the year, raising the hopes that societies can return to normal next year. Additionally, daily Covid-19 case numbers began to trend downward in many European countries; though continued to rise in the US.
- Returns were positive across all sectors and regions. The energy sector was the best performer, and made the biggest contribution to market returns. The worst performing sector was financial services, which was also the main detractor from market returns. The UK was the best performing region, though it contributed the least due to its relatively low weighting, whereas the US was the worst performing region but contributed the most owing to its large weighting in the index. Economic data generally weakened as a result of recent lockdown measures.
- Issuance in the high yield market, having been at historically elevated levels since April, dropped slightly below the monthly level a year ago. The majority of issuance continued to be BB or B rated, with an even split between the two. Issuance came overwhelmingly from the US market, as European high yield issuance markedly declined.
- The fund's allocation to **Media**, its leading overweight relative to the benchmark, was the primary driver of performance at the sector level. By contrast, the fund's main underweight was to **Real Estate**, which was also the biggest drag.
- The biggest contributor to the fund's performance was the telecommunications conglomerate **Sinclair Broadcast Group**, which added approximately 27 basis points. The largest detraction from relative performance came from the utility **Pacific Gas and Electric Company**, costing around 2 basis points.

**Yield-to-worst refers to the redemption date that produces the lowest return.*

Investment outlook

- There is a high level of uncertainty around the global economic growth outlook and the corresponding monetary and fiscal policy responses to be taken. As a result, we expect ongoing volatility in markets, with corporate default rates set to rise.
- However, we continue to believe that global high yield bonds are attractive on a spread basis and that they overcompensate for default risk, while their level of income generation is also appealing on a relative basis.

Key views within the fund

- The fund's objective is to achieve a combination of capital growth and income. The fund seeks to achieve its investment objective by outperforming its benchmark, the BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained index, 100% hedged to sterling, by 1% per annum over rolling three-year periods.

ROYAL LONDON GLOBAL HIGH YIELD BOND FUND

- The fund seeks to mitigate stock-specific risk by holding a diversified portfolio of investments, so that no individual investment can, in isolation, have an excessive adverse impact on overall fund performance. Currency risk associated with holdings of bonds is hedged through the use of forward currency transactions.
- We expect bouts of market volatility due to market expectations surrounding US Federal Reserve monetary policy. As such, we believe bonds with near-term catalysts, which mitigate market risk, are an important attribute underpinning investment performance over the medium term.

Azhar Hussain
Head of Global High Yield

Stephen Tapley
Global High Yield Senior Fund Manager

ROYAL LONDON SHORT DURATION GLOBAL HIGH YIELD BOND FUND

Portfolio commentary

- The fund's Z class returned 1.15%, net of fee, in November, compared with 0.00% for three-month sterling LIBOR.
- The global high yield market produced a strong return in November as the high yield credit spread contracted. Risk appetite was supported by a multitude of encouraging announcements relating to the development of Covid-19 vaccines. There were indications that some of the vaccines could start being rolled out before the end of the year, raising the hopes that societies can return to normal next year. Additionally, daily Covid-19 case numbers began to trend downward in many European countries; though continued to rise in the US.
- Returns were positive across all sectors and regions. The energy sector was the best performer, and made the biggest contribution to market returns. The worst performing sector was financial services, which was also the main detractor from market returns. The UK was the best performing region, though it contributed the least due to its relatively low weighting, whereas the US was the worst performing region but contributed the most owing to its large weighting in the index. Economic data generally weakened as a result of recent lockdown measures.
- Issuance in the high yield market, having been at historically elevated levels since April, dropped slightly below the monthly level a year ago. The majority of issuance continued to be BB or B rated, with an even split between the two. Issuance came overwhelmingly from the US market, as European high yield issuance markedly declined. In keeping with the strategy of the fund, we did not participate in any primary issuance.
- The biggest relative contributor to the fund's performance was the fast food chain **Burger King**, which added approximately 4 basis points, while the largest detractor was the US pet superstore chain **PetSmart**, which cost around 2 basis points.
- At month-end, the expected yield on the fund was 2.86% (2.89% on an FX-adjusted basis), with an expected maturity of 1.10 years.

Investment outlook

- There is currently a high level of uncertainty around the global economic growth outlook and the corresponding monetary and fiscal policy responses to be taken. As a result, we expect ongoing volatility in markets, with corporate default rates set to rise.
- We continue to believe that short duration global high yield bonds are attractive on a relative and absolute basis and overcompensate for the associated default, illiquidity and volatility risks.

Key views within the fund

- The fund's objective is to provide income. The manager seeks to achieve this by outperforming the benchmark, three-month sterling LIBOR, by 2% per annum over rolling three-year periods.
- The fund is diversified in order to improve overall portfolio liquidity and to reduce the effect on overall fund performance of any deterioration in the creditworthiness of an individual holding.
- We expect bouts of market volatility due to changing market expectations surrounding monetary policy worldwide. As such, we believe companies with strong liquidity characteristics are an important element in underpinning investment performance over the medium term.

Azhar Hussain
Head of Global Credit

Stephen Tapley
Global Credit Fund Manager

ROYAL LONDON
ASSET MANAGEMENT