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Royal London Global Bond Opportunities Fund

Quarterly Investment Report

31 March 2024

Quarterly Report

The fund as at 31 March 2024

The purpose of this report is to provide an update on the Royal London Global Bond Opportunities Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

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ROYAL LONDON ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The investment objective of the Fund is to achieve a high level of income with the opportunity for capital growth. The Fund is actively managed and is not managed in reference to any benchmark index.

Fund value

	Total £m
31 March 2024	237.50

Asset allocation

	Fund (%)
Conventional credit bonds	97.09%
Conventional foreign sovereign	1.75%
Other	1.16%

Fund analytics

	Fund
Fund launch date	8 December 2015
Base currency	GBP
Duration (years)	4.40
Gross redemption yield (%)	6.35
Number of holdings	248
Number of issuers	186

Performance and activity

Performance

	Fund (%)
Quarter	3.04
1 Year	12.26
3 Years (p.a.)	3.77
5 Years (p.a.)	4.51
Since inception (p.a.)	5.38

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on RL Global Bond Opportunities Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 8 December 2015.

Performance commentary

The fund saw a strong positive return over the quarter. We saw strong performance from across the portfolio – demonstrating the value of the high level of diversification built into the fund. We saw strong returns from investment grade, high yield and unrated areas of the market.

The fund has a high degree of diversification, with material exposure to a range of assets including US dollar, euro and sterling investment grade bonds, high yield and unrated bonds. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 bonds: these performed well during the period as demand continued to recover following the Credit Suisse rescue earlier in 2023. It is worth noting that despite the Credit Suisse episode, our exposure to this area has been a net positive for the year. Exposure to other subordinated bank and insurance bonds was also positive, as was our exposure to corporate hybrids.

Performance and activity

Top 10 holdings

	Weighting (%)
LA MONDIALE 6.750000000 2044-04-25	1.48
STICHTING AK RABOBANK 6.500000000	1.35
ELECTRICITE DE FRANCE SA 5.375000000	1.25
ARGENTUM (SWISS RE LTD) 5.524000000	1.20
ENERGY TRANSFER LP 6.750000000	1.20
QBE INSURANCE GROUP LTD 6.750000000 2044-12-02	1.20
AGGRE MICRO PWR INF 2 8.000000000 2036-10-17	1.19
M&G PLC 6.500000000 2048-10-20	1.13
LEGAL & GENERAL GROUP 5.250000000 2047-03-21	1.09
ENEL FINANCE INTL NV 7.500000000 2032-10-14	1.09
Total	**12.18**

Fund activity

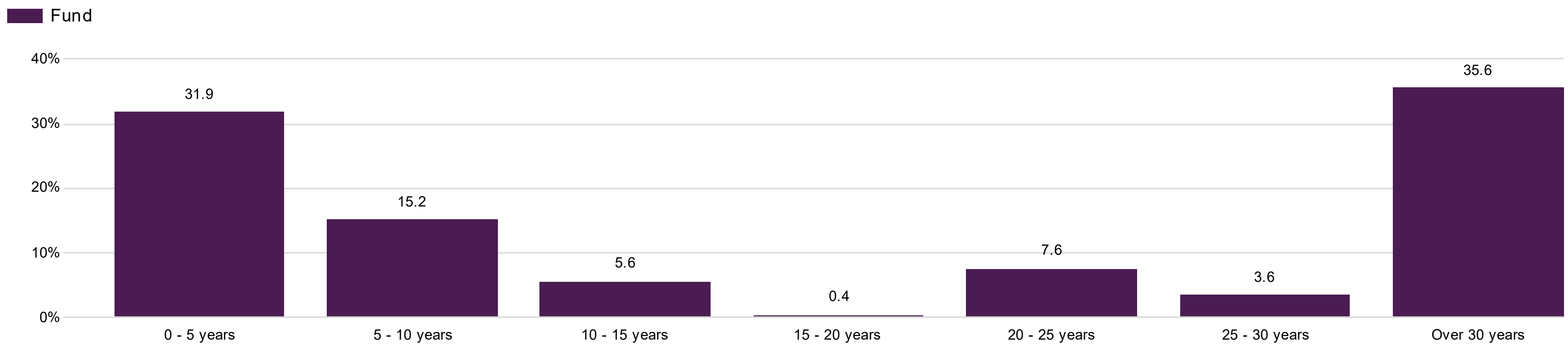
After a somewhat subdued end to 2023, the new issue market was very active in the first quarter, providing multiple opportunities to add high yielding bonds to the portfolio. Financials remained a major part of this activity and we added a new senior issue from UK mortgage specialist OSB, although we were more focused on relatively short-dated subordinated bonds given the more attractive risk / return profile we see in this part of the capital structure. Examples during the period including Spanish bank Banco Sabadell, NatWest and Dutch insurer NN Group – all of these coming to market at very attractive above-market yields. The AT1 market continues to recover from the Credit Suisse collapse with issuance picking up once more, and we added AT1 bonds from Dutch bank ABN Amro at a yield of around 7.5%, as well as ING and Standard Chartered at yields of over 8%. We also added equivalents from Dutch insurer ASR and French giant Axa.

Exposure to structured bonds remains a relatively modest part of the portfolio but a useful source of diversification. Issuance has been somewhat low in recent months, but there were opportunities in the sector during the quarter. Examples included a rare new issue from Telereal – secured on BT telephone exchanges – and Husky Technologies, yielding over 9%.

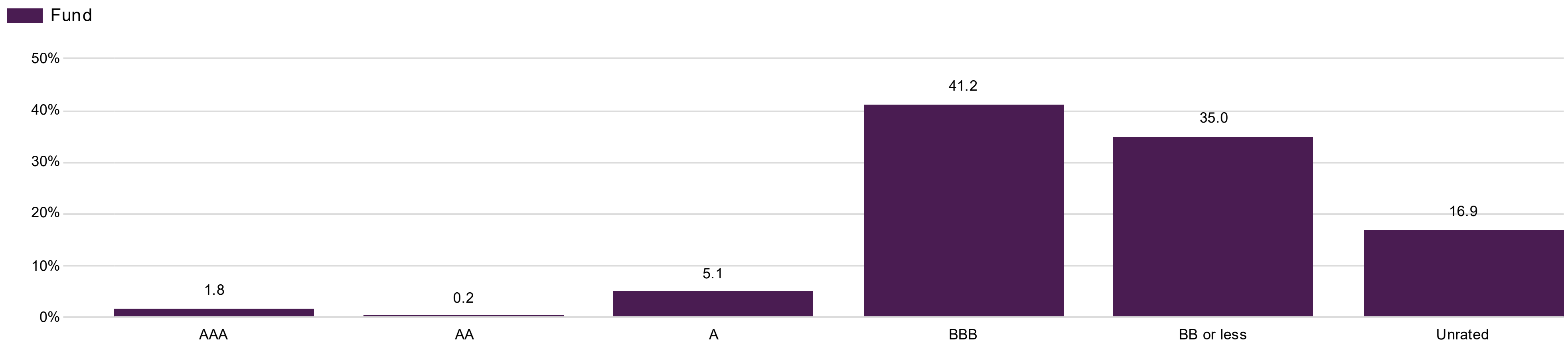
There was a wide variety of non-financial companies coming to the market, giving us opportunities to enhance diversification across both sector and geography. In telecoms, we added new issues from Spanish telecoms provider Telefonica, European logistics real estate company Logicor and oil & gas exploration and production operator Talos, the latter coming at a yield of over 10%, as well as a new issue from Norwegian renewable-focused utility Scatec and a new issue from offshore oil shuttle tanker provider Altera.

Fund breakdown

Maturity profile

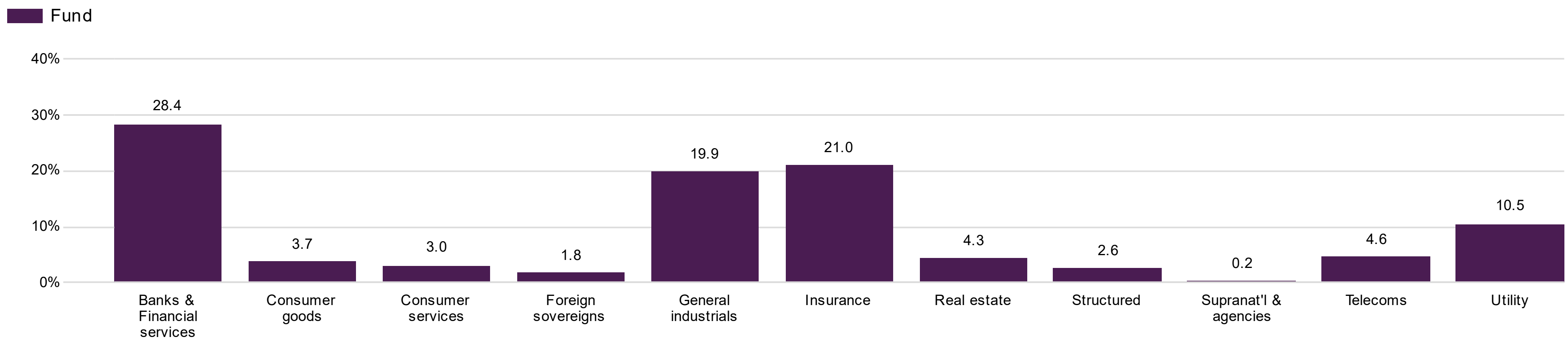


Credit ratings

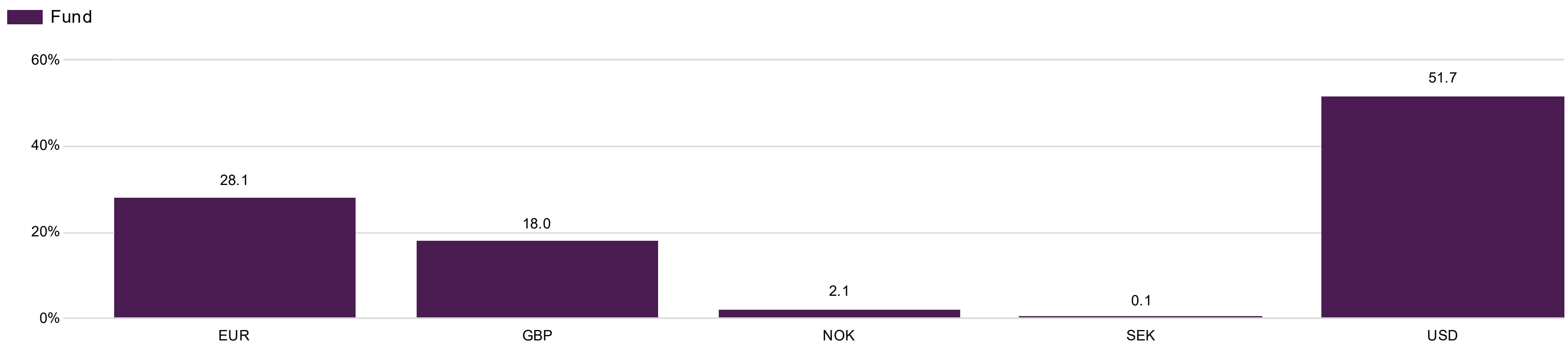


Fund breakdown

Sector breakdown



Currency breakdown



Fund Engagement

Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	9	26
Number of engagements	11	60

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Total engagements by theme and topic

Climate	**2**
Climate - Transition Risk	2
Governance	**6**
Remuneration	3
Strategy	2
Board	1
Social & Financial Inclusion	**4**
Just transition	3
Social & Financial inclusion	1

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Fund Engagement

Engagement outcomes

HSBC Bank Plc - Just Transition

Purpose:

To review and provide feedback on the company's draft Net Zero Transition Plan.

Outcome:

HSBC's Net Zero Transition Plan, informed by GFANZ and TPT, sets a strategic vision for sector specific transitions and an actionable plan. In a feedback session with the Chief Sustainability Officer, the company highlighted its commitment to the real economy decarbonisation, especially in developing markets. The plan details a sectoral approach based on global financing needs, and HSBC's strategies to support decarbonisation and leverage financing opportunities. It also emphasises a fair and inclusive transition, with ongoing efforts to integrate just transition principles. We will continue to engage with the company, placing particular emphasis on the operationalisation of their commitment to a just transition.

Vattenfall - Just Transition

Purpose:

To understand how the company is integrating just transition into its business decision making process. We aim to encourage the company to disclose plans to integrate social considerations into its decarbonisation strategy.

Outcome:

Vattenfall has identified key areas for a just transition, focusing on commitments to customers, employees, and communities. The company is open to using metrics and KPIs for employee reskilling but needs clearer communication on retraining and redeployment. Community engagement strategies differ by market, with early engagement in Sweden and proactive measures in the UK and Netherlands. Vattenfall shows commitment to just transition, but further clarity is needed on its systematic integration into business decisions. We will continue to monitor progress and engage with the company on this issue.

Market commentary

Market overview

Economic attention over the quarter has been on inflation. At the start of the quarter investors focussed on the persistence of large price increases and central bank messaging on rates being held higher for longer. Yet, as headline inflation fell, sentiment swung dramatically towards the end of the quarter, pushing markets to price in interest rate cuts in 2024. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all left rates unchanged over the quarter, maintaining official rates at multi-year highs. The Fed has now held rates unchanged at its last three meetings. There has however been a significant shift in messaging, with the US central bank now indicating that it expects to cut rates by 0.75% in 2024. The ECB has similarly kept rates steady at its two most recent meetings, but central bankers in the eurozone said that no rate cuts have yet been discussed.

In tune with the other major central banks, and potentially marking the high point in the UK interest rate cycle, the Bank of England left interest rates unchanged over the period. The Monetary Policy Committee continued to be split – at the December meeting three of the nine members were still voting for a rate hike. UK inflation has fallen significantly, with the annual inflation rate falling to 3.9% in November. This is the lowest rate of increase in over two years. However, this remains well above the BoE 2% target, with core and wage inflation significantly higher than the headline rate.

Government yields rose in all the major markets. In the US, 10-year treasury yields rose from 3.88% to 4.21%, while German 10-year bunds similarly saw yields rise from 2.01% to 2.30%. Mirroring this backdrop of rising yields, UK government bonds produced a return of -1.62% (FTSE Actuaries) over the first quarter, with the benchmark 10-year gilt yield rising from 3.54% to 3.94%. The bulk of this move occurred in the first two weeks of January, before largely trading in a range between 4% and 4.2% for the rest of the quarter. The rising yield environment helped short-dated bonds to outperform their longer-dated equivalents.

Global corporate bonds saw mixed effects during the quarter. In the US, euro zone and UK, the negative impact of rising underlying government bonds was offset by credit spread tightening and positive carry, to leave returns roughly flat (local terms). Lower down the rating scale, global high yield markets saw modest gains, while areas such as corporate hybrids and contingent capital bonds (cocos) all produced positive returns over the period.

Outlook

The rally in bond yields seen late last year, prompted by hopes that falling inflation would lead to relatively rapid and numerous interest rate cuts, was largely unwound in the first two weeks of 2024. This reflects the change in interest rate expectations and the sensitivity of markets to incoming economic data. We expect yields to remain sensitive to economic data, and unless there is a significant deterioration in underlying trends, we expect this to lead to range bound-yields.

Headline inflation is expected to keep falling in the US, euro zone and UK in the next few months. However, we are mindful that underlying pressures in the labour market and parts of the services sector mean that headline inflation figures may be somewhat misleading, while growth is also quietly positive. Overall, the global tone is that rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.

With bond yields generally higher than they were at the start of the year, and interest rate cuts now closer, we believe that overall government bond yields look attractive. Credit spreads have come in further – and are now looking somewhat tight in some areas – but we believe that these continue to compensate credit investors for the risk of default.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection, and our view remains that the medium term our focus on delivering attractive income will generate strong returns for investors.

ROYAL LONDON ASSET MANAGEMENT

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

Royal London Sterling credit ESG analysis

TCFD climate report

Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

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Issued in April 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

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 portfolio has no index as a comparison.

Risks and Warnings

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.

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.

Derivative risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

EPM techniques risk

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.

Exchange rate risk

Changes in currency exchange rates may affect the value of your investment.

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. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

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.

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.

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.

Sub-investment grade investment risk

Lower rated investment grade securities may have large uncertainties or major risk exposures to adverse conditions. The market value of securities in lower rated investment grade categories is more volatile than that of higher quality securities, and the markets in which these securities are traded are less liquid than those in which higher rated securities are traded.

Unrated bond risk

Non-rated bonds may have the characteristics of either investment or sub-investment grade bonds. Market activity in unrated securities and instruments may be low for a considerable period of time and this may impact on liquidity.

Performance to 31 March 2024

Cumulative (%) / Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	3.04	8.47	12.26	11.74	24.70	3.77	4.51
Fund (net)	2.91	8.20	11.68	10.01	21.64	3.23	3.99

Year on year performance (%)

	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022	31/03/2020 - 31/03/2021	31/03/2019 - 31/03/2020
Fund (gross)	12.26	(2.74)	2.34	23.31	(9.50)
Fund (net)	11.68	(3.24)	1.81	22.67	(9.86)

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 31 March 2024. All figures are mid-price to mid-price in GBP for the RL Global Bond Opportunities Fund (Z Inc).

Glossary

Asset allocation

Breakdown of the assets by asset classes. Based on RLAM asset classification scheme.

Credit ratings

Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

Duration

Measure of sensitivity of a Fixed Income instrument to changes in interest rates, indicating the potential impact of interest rate fluctuations on the value of the investment.

Fund analytics

All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.

This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Number of issuers

Number of unique issuers of all assets held by the Fund, excluding cash, currency and derivatives.

Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

Sector breakdown

Breakdown of the fixed income assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme. Figures are subject to rounding.