

# ROYAL LONDON SHORT TERM FIXED INCOME ENHANCED - GBP

INVESTMENT RESEARCH NOTE  
MARCH 2024

Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

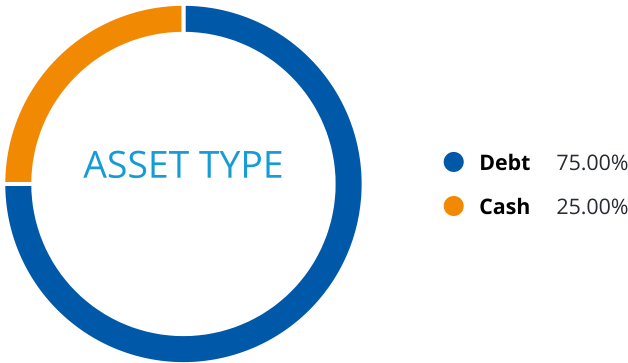
# DESCRIPTION

## SUMMARY

Royal London Asset Management was formed in 1988 managing well over £100bn of assets . Craig Inches and Richard Nelson have managed this particular strategy since its inception in 2015. There are 7 core members of the team, all managing or covering a range of cash and bond strategies. Supporting them is the wider platform of analysts who undertake extensive due diligence on securities.

The Fund invests in high quality money market instruments such as cash, time deposits, certificates of deposit, commercial paper (i.e. short-term unsecured promissory notes issued by companies), floating rate notes ("FRNs"), government securities and asset-backed securities ("ABS"). The 'cash plus' elements largely relates to FRNs as well as short duration fixed income securities. Within the FRN asset, they use their expertise in investing in 'secure' covered and short-dated corporate bond FRNs and fixed instruments. The 'enhanced' element refers to the investment in ABS (i.e. income payments from a collateralised pool of underlying assets, typically illiquid).

Target is to generate at least 100 basis points ahead of SONIA (Sterling Overnight Interbank Average Rate - the rate paid by banks for unsecured transactions) on a 12 month rolling period. *There is a high degree of risk with the underlying instruments, i.e. FRN, 'paper' and liquidity risk in a severe market crisis event or sensitivity to interest rates. This product should be considered for investment purposes and not as a cash reserve.*



## INVESTMENT PROCESS

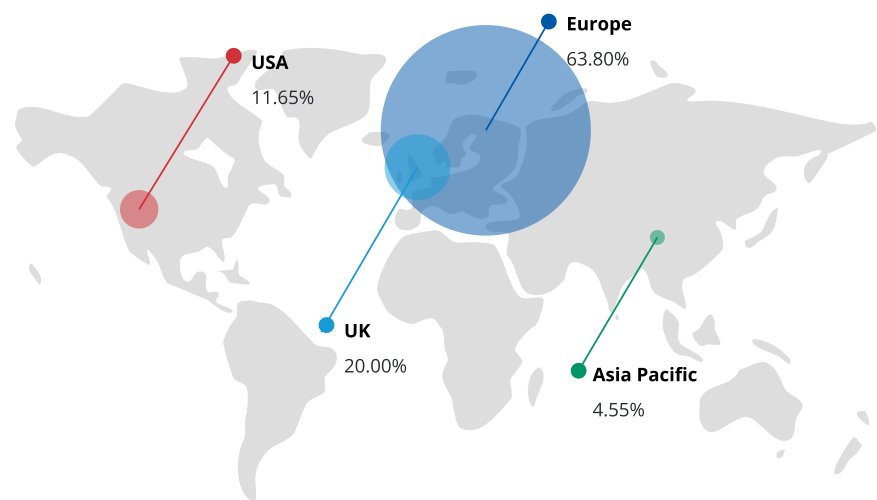
The strategy adopts a strategic and tactical approach to investing through issuer and fundamental research - strategic or longer-term investing in short-dated covered bonds, gilts, supranational bond, corporates and ABS; tactical refers to medium-term gilts (5-10 years). Fund duration has remained between 0.7-1.3 years since inception. The use of ABS is capped at 20% of the Fund total AUM with a minimum AA rating. The investment philosophy is determined by a focus on long-term performance drawing on the team's sizeable experience and implementation of taking appropriate positions across duration levels, the yield curve and at stock level. Regular input from the team's economist adds further value with views on duration within the funds. The Fund is rated AAF/S2 (low volatility) by Fitch. The team tend not to avidly follow the credit agency ratings given that they believe the agencies tend to focus too much on the probability of default rather than the likelihood of recovery which means that those in the latter bucket don't often find their way into the benchmark. They only buy assets for the Fund which have a Fitch rating and which meets the clients expectations for the strategy. They do not invest in unrated bonds for this strategy (unlike other Royal London bond funds). The credit analyst team assess credit ratings and maturity profiles of their universe and construct a ratings matrix to control issuer exposure.

The team monitor all of the major credit agency ratings, analysing all data and ranking them internally. They tend to measure data of the different agencies against each other to ensure any inefficiencies are exposed with a focus on forward-looking indicators, i.e. default or downgrade expectations. Diversification is constructed across geography, ratings, sectors and maturities, and the team understand where the parent issuer resides despite the underlying security being UK issued. All of the major banks are visited on a quarterly basis. They will also review new issues in those meetings.

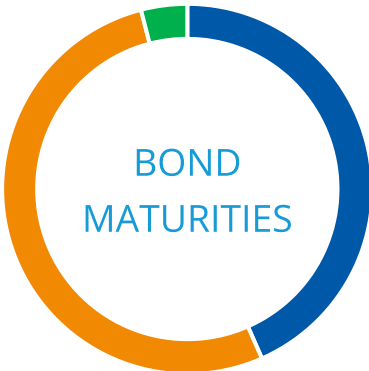
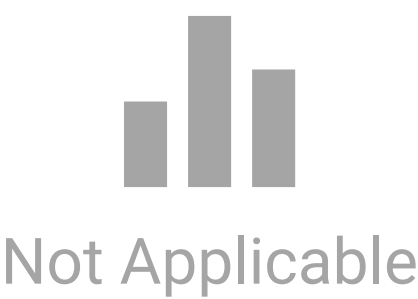
The team are conscious about risk and liquidity within the Fund, hence the additional due diligence in assessing ratings. They also focus on asset security, and have a preference for covered bonds which are exempt from bail-ins (i.e. rescuing a financial institution via unsecured creditors such as bondholders and creditors). Covered bonds carry advantages such as being dual-recourse (i.e. investors have unlimited recourse to the issuer bank and also the collateral assets for the bond in the event of an insolvency). Liabilities therefore remain on the originator banks' balance sheets. They are also regulated by the Bank of England, providing further reassurance. Risk limits are implemented across asset classes and adhered to - covered bonds have a range of 0-50% max; corporate bonds 0-50% and ABS 0-20%.

# AGGREGATED NET EXPOSURE

## REGIONAL EXPOSURE



## EQUITY MARKET CAP (%)



Short Term (1-3 yr)	43.40%
Intermediate Term (3-10 yr)	52.57%
Long Term (>10 yr)	4.03%



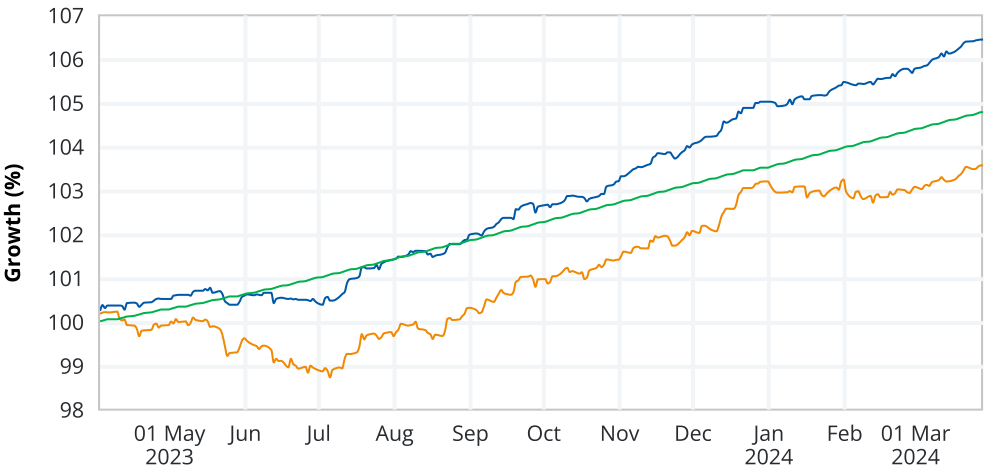
Investment Grade	100.00%
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# OVERALL PERFORMANCE

● Royal London Short Term Fixed Income Enhanced    ● 0-3 Year UK Gilt Index    ● Sonia 1 Month GBP

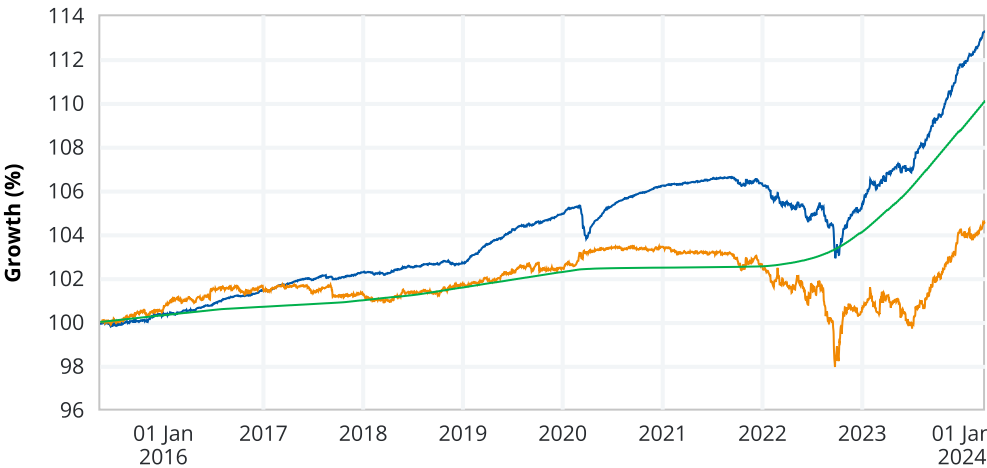
## GROWTH (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



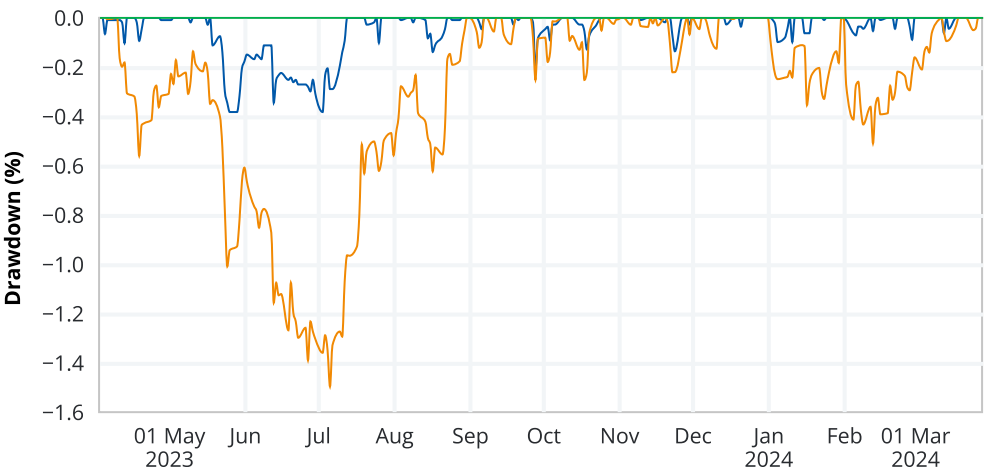
## GROWTH (%) - FROM INCEPTION

19 May 2015 - 29 Mar 2024



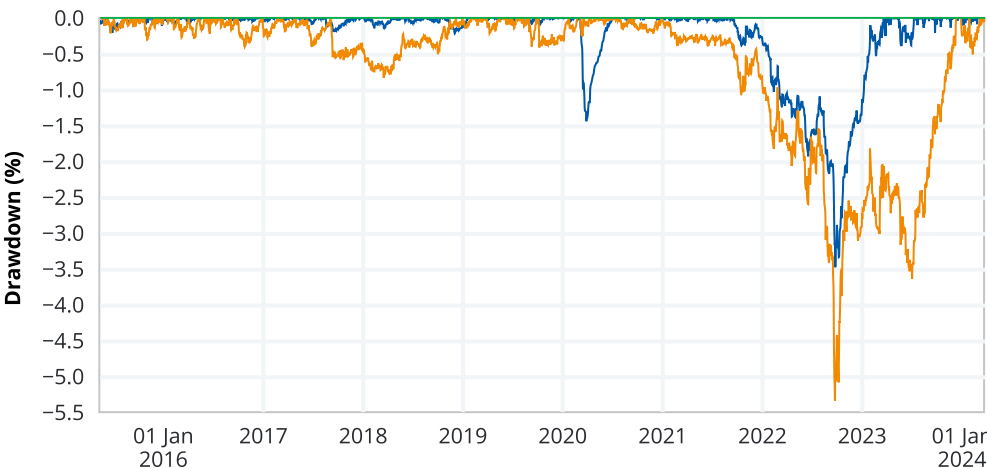
## DRAWDOWN (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



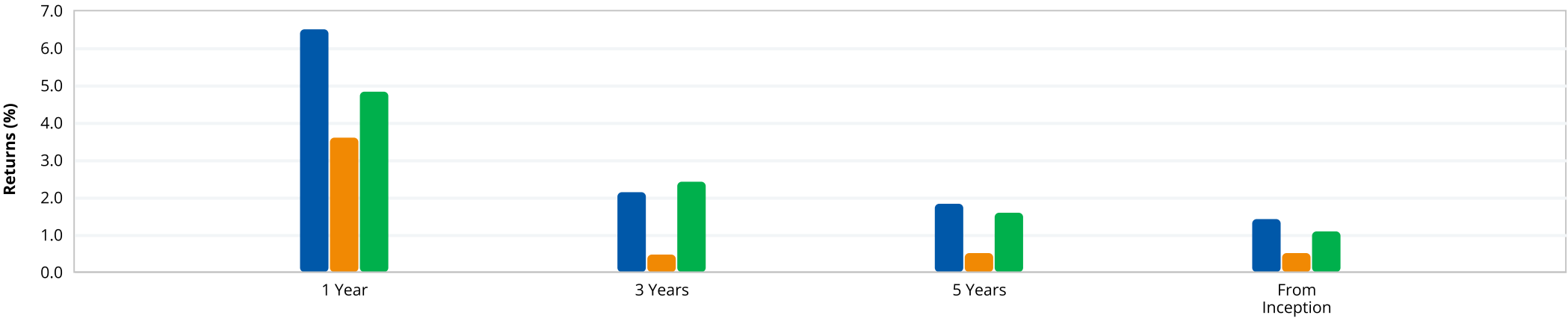
## DRAWDOWN (%) - FROM INCEPTION

19 May 2015 - 29 Mar 2024



# RETURNS

Royal London Short Term Fixed Income Enhanced    0-3 Year UK Gilt Index    Sonia 1 Month GBP



## MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	0.36	0.27	0.72										1.35
2023	0.90	0.03	0.24	0.53	0.05	-0.10	0.94	0.45	0.74	0.56	0.76	1.00	6.26
2022	-0.28	-0.29	-0.25	-0.22	0.13	-0.59	0.53	-0.81	-1.17	0.99	0.66	0.23	-1.08
2021	0.04	0.00	0.08	0.04	0.06	0.08	0.04	0.03	-0.10	-0.22	0.13	-0.07	0.10
2020	0.23	0.08	-1.37	0.76	0.35	0.30	0.25	0.11	0.17	0.08	0.15	0.14	1.24
2019	0.30	0.15	0.37	0.21	0.13	0.21	0.27	0.09	0.11	0.06	0.12	0.15	2.19

Capped to 6 years.

## ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
Royal London Short Term Fixed Income Enhanced	6.50	2.14	1.83	1.42
0-3 Year UK Gilt Index	3.60	0.47	0.51	0.51
Sonia 1 Month GBP	4.83	2.42	1.59	1.09

## CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
Royal London Short Term Fixed Income Enhanced	6.45	6.52	9.43	13.27
0-3 Year UK Gilt Index	3.57	1.41	2.54	4.59
Sonia 1 Month GBP	4.79	7.41	8.19	10.08

Royal London Short Term Fixed Income Enhanced    0-3 Year UK Gilt Index    Sonia 1 Month GBP

PERFORMANCE - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024

RETURNS (%)	6.50	3.60	4.83
VOLATILITY (%)	0.99	1.49	0.06
ALPHA	0.07 *		-0.01 *
BETA	0.58 *	1.00	0.00 *
CORRELATION	0.88 *	1.00	0.30 *
SHARPE RATIO	1.50	-0.93	N/A
SORTINO RATIO	2.32	-1.24	N/A
MAX DRAWDOWN (%)	-0.38	-1.50	0.00

\*Calculated over a 3 year period where history permits.

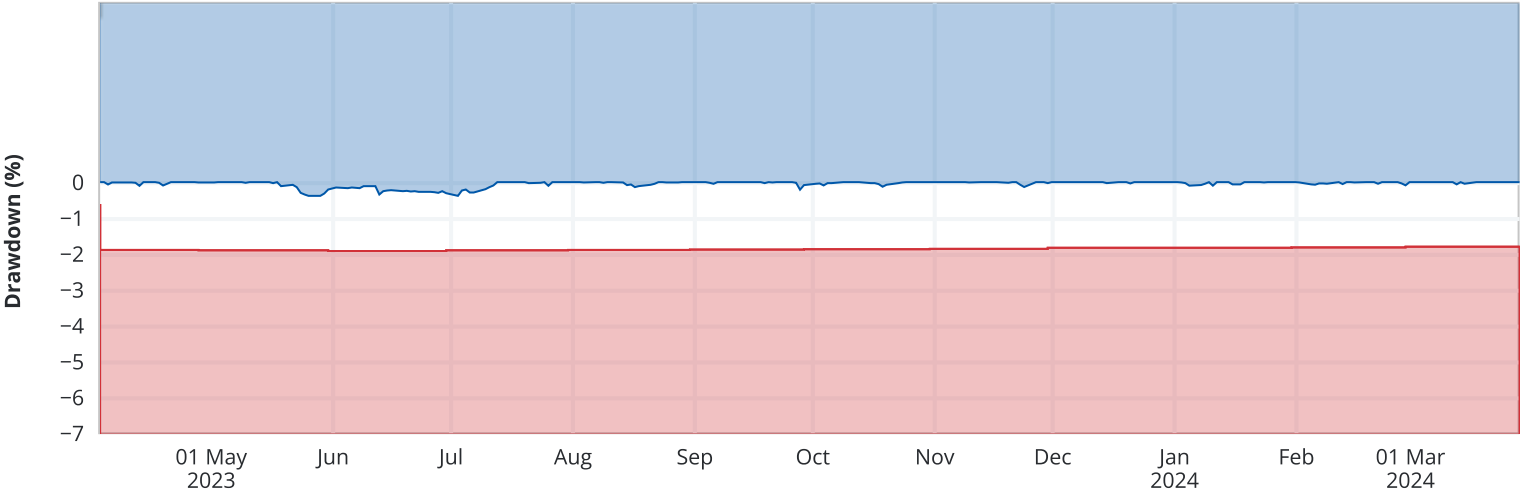
PERFORMANCE - FROM INCEPTION

19 May 2015 - 29 Mar 2024

RETURNS (%)	1.42	0.51	1.09
VOLATILITY (%)	0.70	1.19	0.09
ALPHA	0.07		-0.01
BETA	0.51	1.00	0.00
CORRELATION	0.71	1.00	0.23
SHARPE RATIO	0.31	-1.03	N/A
SORTINO RATIO	0.41	-1.39	N/A
MAX DRAWDOWN (%)	-3.48	-5.34	0.00

SIMPLE STRESS TEST DRAWDOWN (%)

3 Apr 2023 - 29 Mar 2024



Stress test notes

The chart shows the calculated drawdown over a trailing 12-month period. The Review Point is a potential intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown exceed the Review Point, then this indicates that market conditions may be abnormal. This is the point at which immediate action should be considered.

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