

# Fixed income in multi asset portfolios

## Contents

- Why include fixed income in multi asset portfolios?
- Fixed income and the Governed Range
- Fixed income at Royal London Asset Management
- The importance of duration
- Why active for fixed income in the Governed Range?
- Active management – in action

## Why include fixed income in multi asset portfolios?

Fixed income investments are a key component of multi asset portfolios due to their historically low correlation to equities. So they're a good way to provide diversification and help protect the value of portfolios when equity markets fall.

It isn't only about diversification and risk reduction though - fixed income investments are also included for their returns potential.

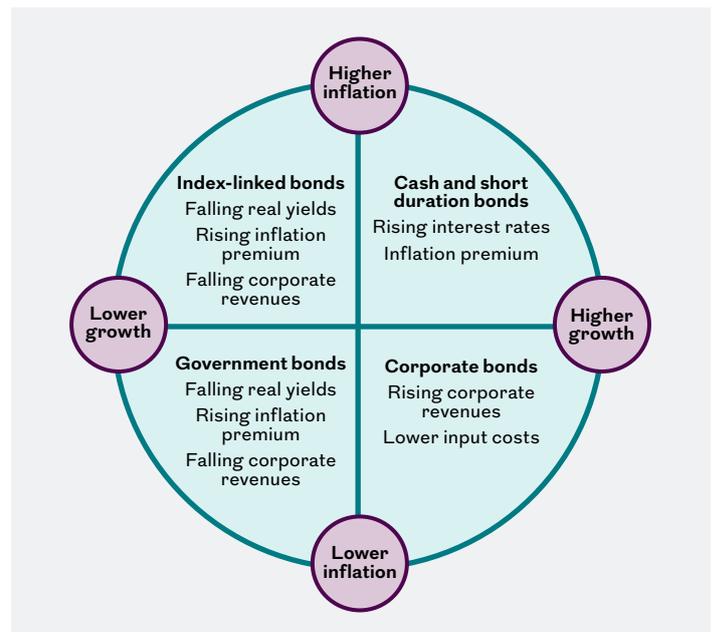
## Fixed income and the Governed Range

Within our Governed Range portfolios, we're diversified across:

- government bonds and index-linked government bonds
- corporate bonds
- high yield bonds
- absolute return strategies, including cash, and
- asset-backed securities.

All of this fixed income exposure in the portfolios is managed by Royal London Asset Management, one of the UK's leading managers of government and corporate bonds, currently managing around £85 billion of liquidity and fixed income assets (as at end September 2025).

As the chart opposite illustrates, different types of fixed income investments perform differently depending on both the level of inflation and the level of economic growth.



Different types of bonds also have different risk/return profiles. For example, corporate bonds are generally riskier than government bonds as companies are more likely to default on their debt than central governments. And high yield bonds are riskier still as they're issued by companies with a lower credit rating than investment-grade companies.

The higher the risk, generally the higher yield investors can expect to receive. That said, high yield bonds can offer the opportunity for equity-like returns but with lower volatility, making them attractive on a risk/return basis.

## Fixed income at Royal London Asset Management

Royal London Asset Management has developed its fixed income process with a view to navigating a wide range of different economic scenarios.

Its long-established Fixed Income team has managed assets through a succession of economic cycles and has deep insight into investing across all stages of these cycles.

### Royal London Asset Management's track record

The table below shows how Royal London Asset Management's fixed income funds have performed against their benchmarks. As you can see, all government bond and cash-type funds have outperformed their benchmarks over one year, three year and five years.

	% of funds outperforming benchmark		
	Over one year	Over three years	Over five years
Government bond funds	100%	100%	100%
Corporate bond funds	91.3%	91.3%	90.9%
Cash-type funds, including money market	100%	100%	100%

Source: Royal London Asset Management, as at 31 December 2025. Equal weighted. Past performance is not a guide to future performance.

### The importance of duration

Duration is a way of measuring how much bond prices are likely to change, if and when interest rates move up or down. Generally, the higher a bond's duration, the more its value will fall as interest rates and yields increase. This is because when interest rates go up, bond values typically fall, and vice versa.

Duration is an important tool in how bond exposure is managed within the Governed Range portfolios as it can be adjusted to help control overall risk within a portfolio. Shorter-duration bonds are less exposed to economic cycles so can be invaluable in helping manage rising interest rates, whereas longer-duration bonds are more attractive during periods of falling interest rates.

Royal London Asset Management actively manages all its duration bond funds, meaning it can go long or short on duration depending on its current market views. For corporate and high yield bonds, it carries out a detailed analysis of the company issuing each bond to make sure its appropriate to include and whether the yield being offered is appropriate for the level of risk involved. These are both key advantages compared to bond funds which are passively managed.

### Why active for fixed income in the Governed Range?

Overall, the Governed Range portfolios have a blend of active and passive funds and strategies as we believe this can help deliver the best outcomes for your clients. However, while we'll use passive funds to gain exposure to equity markets, particularly for large caps, we're advocates of being active in the fixed income space.

Why? We believe that active fixed income managers have greater potential to outperform their benchmarks than active equity managers:

- 1. Allocation based on market capitalisation** – passive funds allocate capital based on market capitalisation, meaning that passive fixed income funds are likely to include a larger proportion of bonds issued by the most indebted businesses and governments.
- 2. Frequent changes to bond index composition** – when bonds and fixed income securities join or leave an index, their prices will tend to rise or fall as passive investors look to buy or sell. Active investors can anticipate and profit from these changes.

**3. Large turnover in the bond market** – as bonds mature after a number of years, new fixed income securities enter the market more frequently than new equity securities. Although these new fixed income securities will often be offered at concessional pricing to drive demand, these discounts generally aren't available to passive investors.

**4. Potential to tilt to add value** – active bond managers can specifically target bonds which offer the potential for greater total returns. For example, passively managed bond funds are either managed to a strict duration or match the market, which reduces the opportunity to add value.

## Active management – in action

Tactical asset allocation means that the Multi Asset team can make active decisions around fixed income allocations within the Governed Range portfolios. Here are some examples of how that has helped to add value during the inflationary period we've experienced over the last few years.

- **Q1 2022** - being underweight in bonds was beneficial as yields rose on the back of expectations about tighter central bank policy to try to curb inflation.
- **Q2 2022** - being underweight in global high yield bonds added value as spreads widened in an environment where there was a move towards less risky assets. In addition, a preference for defensive sectors rather than interest rate-sensitive growth sectors added value as bond yields rose.
- **Q3 2022** - being underweight in high yield bonds added value as central banks remained hawkish as inflation data surprised on the upside.
- **Q1 2024** - being underweight in government bonds added value as they suffered losses amid steep repricing around interest rate expectations.
- **Q4 2024** - being underweight in bonds added value as bond yields rose.

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