Sterling Credit Short Duration strategy

Credit spreads tightened as government bond yields stabilised

- Credit spreads were tighter, supported by the gradual reopening of economies and stable government bond yields
- The US Federal Reserve (Fed) continued to dismiss talk about early tapering of quantitative easing
- The risk profile was further reduced

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What's happening?

- Despite concerns about spikes in COVID-19 infections in a number of key countries, credit spreads still tightened, supported by the gradual reopening of economies, positive economic data, and strong earnings results.

- The US Federal Reserve (Fed) left policy unchanged, reiterating that it would be 'some time' before 'substantial further progress' was made and tapering of quantitative easing began. The Fed also dismissed the rising inflation expected over the coming months as 'transitory'. Meanwhile, the European Central Bank kept interest rates on hold and said it was too early to talk about tightening monetary policy.

- Gilt yields were broadly unchanged as supportive monetary and fiscal policies and the very successful UK's COVID-19 vaccination programme helped to anchor yields.

Strategy in focus – representative account (30/04/21)	
Assets under management	£559m
Yield (GBP hedged)[1]	0.9%
Duration[1]	1.7 yrs
Average rating[2]	A-
Number of issuers	108
Launch date	12/11/2010
Net performance – representative account (GBP)[3]	
One month	+0.16%
Year-to-date	+0.16%
One year	+4.25%
Three years (cumulative)	+5.63%
Five years (cumulative)	+9.15%
Ten years (cumulative)	+25.96%

Source: AXA IM as at 30/04/2021. The data is based on a representative account that follows the strategy and is not intended to represent actual past or simulated past performance of the strategy. **Past performance is not a reliable indicator of future results**. Performance calculations are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

- Despite sterling investment grade primary issuance being a robust £5.1bn in April, we did not participate in any new issues. We were still active in the secondary market, adding a new exposure to UK utility company Anglian Water. During the month, we reduced our exposure to BBB rated names by 3% to 48%, selling COVID-19-sensitive names that performed very strongly, and increased our exposure to sovereign and government-guaranteed debt by 2% to 3% in order to further de-risk the portfolio.

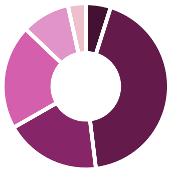
Outlook

- As we expect continued monetary and fiscal support over the medium term to ensure a full economic recovery, we believe 2021 will be all about carry.

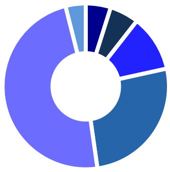
- While we aim to remain overweight in BBB rated bonds in order to optimise the carry of the portfolio, we also plan to gradually reduce this overweight over the coming months as valuations have become very expensive.

Portfolio breakdowns

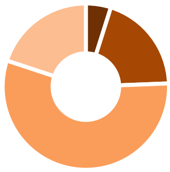
Breakdown by region	
Cash	5%
UK	35%
Europe Core – ex UK	26%
Europe Periphery	8%
North America	12%
Emerging Markets	5%
Developed Asia	9%



Breakdown by sector	
Cash	5%
Financial	43%
Defensive	19%
Cyclical	20%
Securitized	9%
Sovereign	3%



Breakdown by rating	
Cash	5%
AAA	6%
AA	11%
A	26%
BBB	48%
BB or below	4%



Breakdown by maturity	
Cash	5%
0-1 year	20%
1-3 years	56%
3-5 years	20%

(1) Yield and duration calculations include cash held within the portfolio, use the next-call method for all Financials in the portfolio and duration/yield-to-worst for all other holdings. Please note that the yield calculations are based on the portfolio of assets and may NOT be representative of what clients invested in the fund may receive as a distribution yield. Yields are not guaranteed and will change in future.

(2) Rating is the worst of S&P, Moody's and Fitch. In the rare case of an unrated issuer we will assign an internal credit rating.

(3) Representative Account has been selected based on objective, non-performance based criteria, including, but not limited to the size and the overall duration of the management of the account, the type of investment strategies and the asset selection procedures in place. Therefore, the results portrayed relate only to such accounts and are not indicative of the future performance of such accounts or other accounts, strategies and/or services described herein. In addition, these results may be similar to the applicable GIPS composite results, but they are not identical and are not being presented as such. Account performance will vary based upon the inception date of the account, restrictions on the account, along with other factors, and may not equal the performance of the representative accounts presented herein. The performance results for representative accounts are net of all fees and reflect the reinvestment of dividends or other earnings.

No assurance can be given that the Sterling Credit Short Duration strategy will be successful. Investors can lose some or all of their capital invested. The Sterling Credit Short Duration strategy is subject to risks including credit risk, interest rate risk and counterparty risk. The strategy is also subject to derivatives and liquidity risks.

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