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Global Short Duration strategy

Markets await the next catalyst

- Credit spreads were broadly unchanged in May as markets await the next catalyst
- The US Federal Reserve continues to see the sharp rise in inflation as ‘transitory’
- The risk profile was further reduced

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What’s happening?

- Credit spreads widened in the first part of the month due to concerns about rising inflation, with the annual rate in the US leaping to a more than 12-year high in April, and the possibility that central banks, particularly the US Federal Reserve (Fed), would start to tighten monetary policy sooner than expected.
- However, investors appeared to shrug off these concerns later in the month as Fed officials sought to assuage market fears about the timing of interest rate increases. Meanwhile, the European Central Bank kept interest rates on hold and insisted it was also too soon to talk about any changes to monetary policy, easing concerns about a potential tightening.
- US treasury and UK gilt yields slightly fell in May, anchored by ongoing support from central banks, while German bund yields slightly rose as the pace of COVID-19 vaccinations continued to increase in Europe.

Portfolio positioning and performance

- **Sovereign:** In order to further de-risk the portfolio, we increased our sovereign exposure by another 5% to 15% by adding to short-dated US treasury inflation-linked bonds and US and UK nominal bonds. We also further reduced the duration of the Fund, as successful vaccination programmes in most developed countries should lead to higher yields due to a faster and sustainable reopening of their economies.

Strategy in focus – representative account (31/05/21)

Assets under management	£169m
Yield (GBP hedged) ¹	1.4%
Duration ¹	1.2yrs
Average rating ²	BBB
Number of issuers	144
Launch date	17/05/2017

Net performance – representative account (GBP)³

One month	+ 0.19%
Year-to-date	+0.37%
One year	+4.87%
Three year (cumulative)	+7.28%
Since launch (cumulative)	+7.60%

Source: AXA IM as at 31/05/2021. 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.

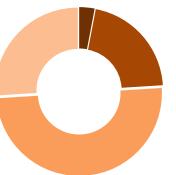
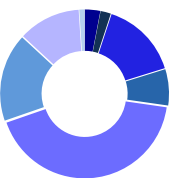
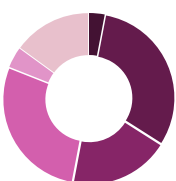
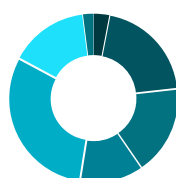
- **Investment Grade:** We slightly reduced our exposure to investment grade by 1% to 44% in order to reallocate towards sovereign debt. We were active in both primary and secondary markets, participating in several attractive new issues from financial companies.
- **High Yield and Emerging Markets:** We decreased our exposure to high yield and emerging markets by 3% to 38% by reducing our exposure to US high yield and by selling expensive investment grade rated emerging markets names. We were active in both primary and secondary markets, adding several very short-dated bonds from European high yield issuers.

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 high yield and emerging markets 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, starting with emerging markets.
- We expect yields to further rise as successful vaccination programmes in most developed countries should lead to a faster and sustainable reopening of their economies.

Asset class breakdown

Category	Asset Class	Total
Cash		3%
Sovereign ⁵		15%
Investment Grade Credit	EUR IG Credit	9%
	GBP IG Credit	19%
	USD IG Credit	16%
	Total	44%
High Yield & Emerging Markets	EUR High Yield	16%
	USD High Yield	7%
	Emerging Markets	15%
	Total	38%
Total		100%



Portfolio breakdowns

Breakdown by region

Cash	3%
UK	20%
Core Europe – ex UK	17%
Periphery Europe	12%
North America	30%
Emerging Markets	15%
Developed Asia	2%

Breakdown by sector

Cash	3%
Financial	31%
Defensive	19%
Cyclical	28%
Securitized	4%
Sovereign ⁴	15%

Breakdown by rating²

Cash	3%
AAA	2%
AA	15%
A	7%
BBB	42%
BB	17%
B	12%
CCC & below	1%

Breakdown by maturity

Cash	3%
0-1 year	21%
1-3 years	50%
3-5 years	26%

(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. The yield is calculated gross of fees. Please note that the yield calculations are based on the portfolio of assets and may NOT be representative of what clients invested in the strategy 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.

(4) Any Emerging Market Sovereigns are classified under “Sovereign” for the purpose of this breakdown.

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