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# Global Short Duration strategy

## The relentless government bond rally continues

- Investment grade credit spreads were unchanged while high yield spreads were wider
- Government bond yields continued to fall despite higher inflation data
- The risk profile was further reduced

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### What's happening?

- Despite positive corporate results, credit spreads were mixed in July as continued worries about inflation and the global spread of the Delta variant of COVID-19, combined with a slump in Chinese equities due to concerns about a regulatory clampdown, all weighed on sentiment.
- The US Federal Reserve adopted a relatively dovish tone at its policy meeting, keeping interest rates at record lows while indicating that the process to start winding down its massive bond-buying programme was drawing closer. Meanwhile, the European Central Bank insisted that it would maintain policy support as long as necessary, despite worries about growing inflation.
- Despite rising inflation, US treasury, German Bund and UK gilt yields fell in July, with the yield on the US 10-year treasury bond hitting a five-month low, as rising COVID-19 infections unnerved investors due to concerns that the economic recovery might be weakening.

#### Strategy in focus – representative account (31/07/21)

Assets under management	£184m
Yield (GBP hedged) <sup>1</sup>	1.4%
Duration <sup>1</sup>	1.8yrs
Average rating <sup>2</sup>	BBB+
Number of issuers	141
Launch date	17/05/2017

#### Cumulative net performance – representative account (GBP)<sup>3</sup>

One month	-0.19%
Year-to-date	+0.47%
One year	+2.87%
Three year (cumulative)	+7.38%
Since launch (cumulative)	+7.70%

#### Annualised net performance – representative account (GBP)<sup>3</sup>

One year	+2.87%
Three year	+2.40%
Since launch	+1.78%

Source: AXA IM as at 31/07/2021. 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

- **Sovereign:** In order to further de-risk the portfolio, we increased our sovereign exposure by another 10% in July to 28% by adding to short-dated US, UK and German nominal bonds. We also increased the duration of the portfolio to 1.8 years from 1.2 years to benefit from the fall in government bond yields.

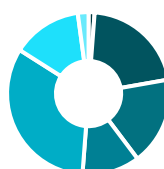
- **Investment Grade:** We decreased our exposure to investment grade markets by another 5% to 35% in order to reallocate towards sovereign debt. We were active in both primary and secondary markets, selling mostly expensive cyclical names in euro and sterling.
- **High Yield and Emerging Markets:** We slightly decreased our exposure to high yield and emerging markets by 2% to 36%, as we mostly reduced our exposure to some Chinese credit names facing increased regulatory headwinds. We also tactically bought protection on the Markit iTraxx Xover in order to hedge some of the credit risk in this portion of the portfolio.

## Outlook

- As we expect continued monetary and fiscal support over the medium term to ensure a full economic recovery, we believe the second half of 2021 will remain all about carry.
- However, with valuations remaining very expensive, we plan to retain our barbell strategy by keeping a higher exposure to sovereign bonds and high yield / emerging markets, for defensiveness and carry purposes respectively, while keeping a lower exposure to investment grade markets.
- We continue to expect higher yields by the end of the year as successful vaccination programmes in most developed countries should lead to a faster and sustainable reopening of their economies.

## Asset class breakdown

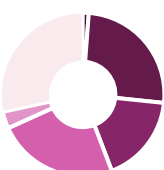
Category	Asset Class	Total
Cash		1%
Sovereign <sup>5</sup>	Nominal	23%
	Inflation-Linked	5%
	<b>Total</b>	<b>28%</b>
Investment Grade Credit	EUR IG Credit	7%
	GBP IG Credit	14%
	USD IG Credit	14%
	<b>Total</b>	<b>35%</b>
High Yield & Emerging Markets	EUR High Yield	16%
	USD High Yield	7%
	Emerging Markets	14%
	<b>Total</b>	<b>36%</b>
<b>Total</b>		<b>100%</b>



## Portfolio breakdowns

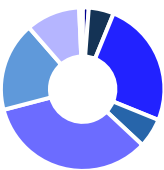
### Breakdown by region

Cash	1%
UK	21%
Core Europe – ex UK	18%
Periphery Europe	11%
North America	33%
Emerging Markets	14%
Developed Asia	2%



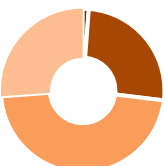
### Breakdown by sector

Cash	1%
Financial	25%
Defensive	18%
Cyclical	24%
Securitized	3%
Sovereign <sup>4</sup>	28%



### Breakdown by rating<sup>2</sup>

Cash	1%
AAA	5%
AA	25%
A	6%
BBB	34%
BB	18%
B	11%
CCC & below	1%



### Breakdown by maturity

Cash	1%
0-1 year	26%
1-3 years	47%
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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