Sterling Credit Short Duration strategy

Higher inflation for longer

- Sterling investment grade credit spreads were slightly tighter
- UK gilt yields sharply rose due to fears that inflationary pressures could persist for longer than first expected
- The risk profile was broadly stable

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What's happening?

- Sterling investment grade credit spreads were slightly tighter in September despite growing worries about a slowdown in global economic growth and persistent inflationary pressures, further supported by oil and wholesale gas prices surging. Problems at debt-laden Chinese property giant Evergrande further dampened sentiment.

- At its September meeting, the US Federal Reserve indicated that it might begin to taper its monthly bond purchases in November and, if the economic recovery continued, bring the programme to an end by the middle of next year. This would then likely pave the way for an interest rate hike before the end of 2022, it said. Meanwhile, the European Central Bank signalled that it would slow the pace of asset purchases over the rest of this year, citing the strength of the economic recovery.

- UK gilt yields sharply rose in September, underperforming US treasuries and German bunds, as the Bank of England moved closer to starting the process of tapering its bond purchases and indicated it could bring forward interest rate increases in response to inflationary pressures.

Strategy in focus – representative account (30/09/21)	
Assets under management	£500m
Yield (GBP hedged)[1]	0.9%
Duration[1]	1.5 yrs
Average rating[2]	A-
Number of issuers	107
Launch date	12/11/2010

Cumulative net performance – representative account (GBP)[3]	
One month	-0.16%
Year-to-date	+0.31%
One year	+1.67%
Three years	+5.71%
Five years	+6.95%
Ten years	+26.41%
Since launch	+27.80%

Annualised net performance – representative account (GBP)[3]	
One year	+1.67%
Three years	+1.86%
Five years	+1.35%
Ten years	+2.37%
Since launch	+2.28%

Source: AXA IM as at 30/09/2021. 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

- Sterling investment grade primary issuance posted a strong £8.3bn in September, the strongest month year-to-date. As such, we participated in the new issues from Australian bank NAB and Belgium bank KBC. We were also active in the secondary market, increasing our exposure to UK pubs. Our exposure to BBB and BB rated bonds remained stable at 48% and 3% respectively along with our exposure to sovereign debt at 7%.

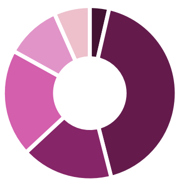
Outlook

- While we aim to remain overweight in BBB rated bonds to optimise the carry of the portfolio, we also plan to gradually reduce this overweight over the coming months as valuations remain very expensive and inflation fears increase, potentially leading to renewed market weakness.

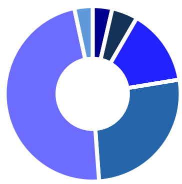
- We continue to expect higher yields by the end of the year as the pandemic recedes and inflationary pressures persist.

Portfolio breakdowns

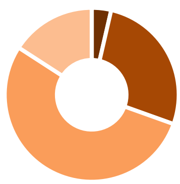
Breakdown by region	
Cash	*4%*
UK	*34%*
Europe Core – ex UK	*29%*
Europe Periphery	*7%*
North America	*11%*
Emerging Markets	*5%*
Developed Asia	*9%*



Breakdown by sector	
Cash	*4%*
Financial	*42%*
Defensive	*17%*
Cyclical	*20%*
Securitized	*10%*
Sovereign	*7%*



Breakdown by rating	
Cash	*4%*
AAA	*5%*
AA	*14%*
A	*26%*
BBB	*48%*
BB or below	*3%*



Breakdown by maturity	
Cash	*4%*
0-1 year	*27%*
1-3 years	*54%*
3-5 years	*16%*

(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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