Sterling Credit Short Duration strategy

Hawkish central banks push yields higher and spreads wider

- Sterling investment grade credit spreads widened due to the increased hawkishness from central banks and escalating tensions between Russia and Ukraine
- UK gilt yields rose sharply again due to persistently high inflation
- We increased our exposure to BBB-rated bonds through new issues

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What's happening?

- Despite receding Omicron worries, sterling investment grade credit spreads widened due to the increased hawkishness from central banks to counter persistently high inflation, mixed corporate results, and escalating tensions between Russia and Ukraine, helping oil prices to soar to multi-year highs.

- The US Federal Reserve (Fed) left monetary policy unchanged but shrank its asset purchases by a further $30bn, to be concluded in early March. Fed chair Jerome Powell stated that the committee was 'minded' to hike interest rates in March and hinted that a balance sheet announcement could be made in June. Meanwhile, inflation rates in December hit a four-decade high in the US at 7.0% and its highest level since 1992 in the UK at 5.4%.

- UK gilt yields rose sharply again, reaching multi-year highs, as central banks turned increasingly more hawkish to ensure inflation expectations remained anchored.

Strategy in focus – representative account (31/01/22)	
Assets under management	£518m
Yield (GBP hedged)[1]	1.9%
Duration[1]	1.8 yrs
Average rating[2]	A-
Number of issuers	110
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.63%
Year-to-date	-0.63%
One year	-0.71%
Three years	+4.55%
Five years	+5.95%
Ten years	+22.34%
Since launch	+26.50%

Annualised net performance – representative account (GBP)[3]	
One year	-0.71%
Three years	+1.49%
Five years	+1.16%
Ten years	+2.04%
Since launch	+2.12%

Source: AXA IM as at 31/01/2022. 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. **Return may increase or decrease as a result of currency fluctuations.** Performance calculations are net of fees, based on reinvestment of dividends.

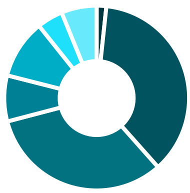
Portfolio positioning and performance

- Sterling investment grade primary issuance reached £6.8bn in January, a busy start to the year. As such, we participated in several attractive new issues, including those from Canadian Imperial Bank of Commerce and US real estate investment trust Realty Income. We were also active in the euro primary market buying bonds, for example, from French carmaker Renault and Italian utility company Enel. We were also active in the sterling secondary market. As a result, our exposure to BBB-rated bonds increased by 3% to 48% while our exposure to sovereign debt increased by 2% to 12%.

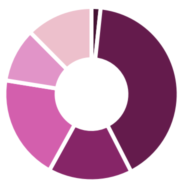
Outlook

- With the market having to grapple with expensive valuations and increased hawkishness from central banks, we plan to retain our higher exposure to sovereign debt, waiting for better entry points to significantly re-risk.

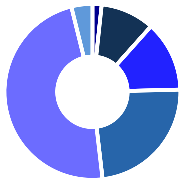
- We also plan to keep the duration towards the bottom of our range of one-to-three-years as we continue to expect higher yields in 2022 due to continued inflationary pressures and receding Omicron uncertainties.



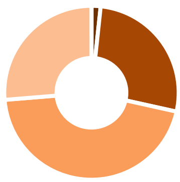
Breakdown by region	
Cash	*2%*
UK	*37%*
Europe Core – ex UK	*32%*
Europe Periphery	*8%*
North America	*10%*
Emerging Markets	*5%*
Developed Asia	*6%*



Breakdown by sector	
Cash	*2%*
Financial	*41%*
Defensive	*16%*
Cyclical	*19%*
Securitized	*10%*
Sovereign	*12%*



Breakdown by rating	
Cash	*2%*
AAA	*10%*
AA	*13%*
A	*24%*
BBB	*48%*
BB or below	*4%*



Breakdown by maturity	
Cash	*2%*
0-1 year	*27%*
1-3 years	*45%*
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. 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.