Sterling Credit Short Duration strategy

Market sell-off deepens as growth outlook deteriorates

- Sterling credit spreads widened as still-rising inflation should lead to aggressive monetary policy tightening by central banks
- UK gilt yields surged, to levels not seen since 2015
- Our risk profile was stable

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What's happening?

- Sterling credit spreads widened as still-rising inflation should lead to aggressive monetary policy tightening by central banks, sparking investor concerns. A mixed bag of earnings reports and economic data, combined with continued disruption to supply chains and the ongoing conflict in Ukraine, all weighed further on sentiment. The French election result brought little relief to markets.

- The European Central Bank (ECB) surprised investors on the hawkish side. Despite making no changes to interest rates, policymakers indicated the first rate rise could be seen in July and as many as three hikes in total could happen this year. The ECB also confirmed its bond-buying programme will end in the third quarter.

- UK gilt yields surged to levels not seen since 2015 as investors focused on the impact of rising inflation and increasing interest rates. The UK's annual rate of inflation continued to surge in March, hitting a 30-year high of 7%, from 6.2% the previous month.

Strategy in focus – representative account (30/04/22)	
Assets under management	£498m
Yield (GBP hedged)[1]	3.1%
Duration[1]	1.9 yrs
Average rating[2]	A-
Number of issuers	111
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.64%
Year-to-date	-2.12%
One year	-2.35%
Three years	+1.88%
Five years	+3.49%
Ten years	+18.78%
Since launch	+24.60%

Annualised net performance – representative account (GBP)[3]	
One year	-2.35%
Three years	+0.62%
Five years	+0.69%
Ten years	+1.74%
Since launch	+1.94%

Source: AXA IM as at 30/04/2022. 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

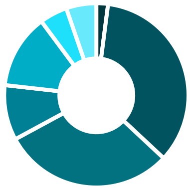
- Despite a very challenging market backdrop, sterling investment grade primary issuance was resilient at £5.6bn. As such, we bought the new issue for German carmaker VW, and we were also active in the secondary market buying the UK student accommodation securitisation from Student Finance. As activity was overall limited this month, our exposure to BBB-rated names was broadly stable at 54% (versus 53% last month) while our exposure to sovereign debt was unchanged at 4%.

Outlook

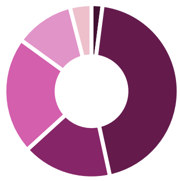
- We expect market conditions to remain very volatile over the medium-term due to the combination of continued inflationary pressures, hawkish central banks, protracted conflict in Ukraine and increased likelihood of a recession next year.

- As such, we have paused for now the re-risking of the portfolio waiting for better entry points.

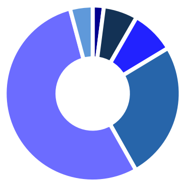
Portfolio breakdowns



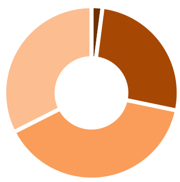
Breakdown by region	
Cash	*2%*
UK	*35%*
Europe Core – ex UK	*30%*
Europe Periphery	*10%*
North America	*13%*
Emerging Markets	*5%*
Developed Asia	*5%*



Breakdown by sector	
Cash	*2%*
Financial	*45%*
Defensive	*17%*
Cyclical	*22%*
Securitized	*11%*
Sovereign	*4%*



Breakdown by rating	
Cash	*2%*
AAA	*6%*
AA	*8%*
A	*25%*
BBB	*54%*
BB or below	*4%*



Breakdown by maturity	
Cash	*2%*
0-1 year	*26%*
1-3 years	*39%*
3-5 years	*32%*

(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.