Sterling Credit Short Duration strategy

Volatile month as inflation reaches new highs

- Sterling credit spreads widened further due to continued concerns around central bank tightening
- UK gilt yields rose as the rate of inflation in the UK jumped further
- We resumed the re-risking by mostly increasing our allocation to financial subordinated debt

Nicolas Trindade
Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Sterling credit spreads widened in the first half of the month driven by concerns over central bank tightening, rampant inflation, and China's zero-tolerance policy towards COVID-19. However, as the market dialed back expectations for interest rate rises in the US due to recession fears and China relaxed some of its COVID-19 restrictions, sterling credit spreads tightened but still finished the month wider.

- The US Federal Reserve (Fed) raised interest rates for a second consecutive time by 0.5% to the range of 0.75% to 1% in a bid to slow down inflation. Meanwhile the Bank of England (BoE) raised interest rates for a fourth consecutive time from 0.75% to 1%, the highest in 13 years, as the rate of inflation in the UK jumped further in April to a 40-year high at 9%.

- UK gilt yields rose as the market focused on the impact of rising inflation on the future path of interest rates.

Strategy in focus – representative account (31/05/22)	
Assets under management	£510m
Yield (GBP hedged)[1]	3.3%
Duration[1]	1.9 yrs
Average rating[2]	A-
Number of issuers	112
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	+0.08%
Year-to-date	-2.04%
One year	-2.35%
Three years	+1.63%
Five years	+3.31%
Ten years	+18.65%
Since launch	+24.70%

Annualised net performance – representative account (GBP)[3]	
One year	-2.35%
Three years	+0.54%
Five years	+0.65%
Ten years	+1.72%
Since launch	+1.93%

Source: AXA IM as at 31/05/2022. 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

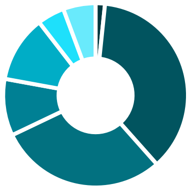
- Sterling investment grade primary issuance fell to just £1.4bn in May, the slowest month of supply year-to-date. As such, we only participated in one new issue from German bank Deutsche Bank. We were still active in the sterling secondary market, mostly adding to attractive opportunities in financial subordinated debt and increasing our exposure to it by 4% to 14%. This led to an increase in our exposure to BBB-rated names of 3% to 57%.

Outlook

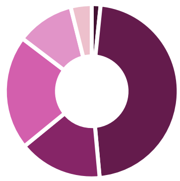
- We expect market conditions to remain very volatile over the medium-term due to the combination of continued inflationary pressures, hawkish central banks and a protracted conflict in Ukraine. In such an environment, it is paramount to retain flexibility and manage actively the credit exposure.

- As inflation should start gradually falling over the coming quarters, we expect gilt yields to stabilise at these higher levels since they already reflect a very aggressive pace of tightening by the BoE, helping sterling credit spreads to tighten.

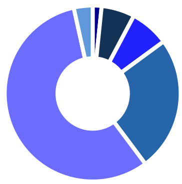
Portfolio breakdowns



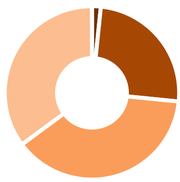
Breakdown by region	
Cash	*2%*
UK	*37%*
Europe Core – ex UK	*29%*
Europe Periphery	*10%*
North America	*12%*
Emerging Markets	*5%*
Developed Asia	*6%*



Breakdown by sector	
Cash	*2%*
Financial	*47%*
Defensive	*16%*
Cyclical	*21%*
Securitized	*11%*
Sovereign	*4%*



Breakdown by rating	
Cash	*2%*
AAA	*6%*
AA	*7%*
A	*25%*
BBB	*57%*
BB or below	*3%*



Breakdown by maturity	
Cash	*2%*
0-1 year	*25%*
1-3 years	*38%*
3-5 years	*35%*

(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.