Sterling Credit Short Duration strategy

UK gilt yields fall as UK inflation surprises to the downside

- Sterling investment grade credit spreads tightened on the back of receding fears of recession in the US and Europe
- UK gilt yields fell, with the front-end significantly outperforming, as UK inflation surprised to the downside
- We continued to reduce our exposure to BBB-rated debt

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What's happening?

- Sterling investment grade credit spreads tightened on the back of positive economic data, including receding fears of recession in the US and Europe, further stimulus measures in China, a positive earnings season, and falling inflation.

- The US Federal Reserve resumed interest rate hikes in July after pausing in June, increasing by 0.25% to a range of 5.25% to 5.50%. Meanwhile, the European Central Bank delivered another 0.25% rate rise to 3.75%. There was no Bank of England monetary decision in July but markets had priced in a 0.25% rise in August, potentially taking the cost of borrowing to 5.25%.

- Yields on UK gilts fell, with the front-end significantly outperforming, as UK inflation for June surprised to the downside at 7.9%, below consensus estimates of an easing to 8.2%. As a result, UK gilts substantially outperformed US treasuries and German bunds.

Strategy in focus – representative account (31/07/23)	
Assets under management	£717m
Yield (GBP hedged)[1]	6.2%
Duration[1]	2.4 yrs
Average rating[2]	A-
Number of issuers	129
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	+1.89%
Year-to-date	+1.80%
One year	+0.40%
Three years	-0.80%
Five years	+2.73%
Ten years	+11.99%
Since launch	+24.20%

Annualised net performance – representative account (GBP)[3]	
One year	+0.40%
Three years	-0.27%
Five years	+0.54%
Ten years	+1.14%
Since launch	+1.72%

Source: AXA IM as at 31/07/2023. 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 was extremely low in July, falling to just £0.7bn. As such, we did not participate in any new issues. We added to UK gilts to benefit from the fall in yields at the front-end following the downside surprise to UK inflation. As a result, our exposure to sovereign bonds increased by 2% to 12% while our exposure to BBB-rated bonds decreased by 2% to 46%.

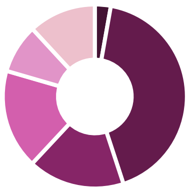
Outlook

- The macroeconomic outlook remains very uncertain given high (but falling) inflation, rising (but peaking) interest rates, slowing (but resilient so far) growth and tighter lending conditions. As such, we expect market conditions to remain very volatile with an increased likelihood of a global recession late this year or early next year as central banks' ability to cut interest rates to support growth is curtailed by still elevated inflation.

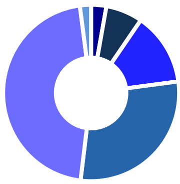
- With valuations looking fair to expensive, we plan to continue reducing the level of credit risk gradually so that we could benefit from a potential widening in credit spreads late this year or early next year by re-risking the portfolio at much better levels.

Portfolio breakdowns

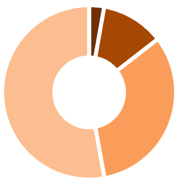
Breakdown by region	
Cash	*3%*
UK	*41%*
Europe Core – ex UK	*27%*
Europe Periphery	*9%*
North America	*11%*
Emerging Markets	*3%*
Developed Asia	*6%*



Breakdown by sector	
Cash	*3%*
Financial	*42%*
Defensive	*17%*
Cyclical	*18%*
Securitized	*9%*
Sovereign	*12%*



Breakdown by rating	
Cash	*3%*
AAA	*7%*
AA	*13%*
A	*29%*
BBB	*46%*
BB or below	*2%*



Breakdown by maturity	
Cash	*3%*
0-1 year	*12%*
1-3 years	*33%*
3-5 years	*53%*

(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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