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# Global Short Duration strategy

## UK gilt yields fall as UK inflation surprises to the downside

- Credit spreads tightened on the back of receding fears of recession in the US and Europe
- UK gilts significantly outperformed US treasuries and German bunds as UK inflation surprised to the downside
- We continued to reduce our exposure to high-yield due to expensive valuations

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### What's happening?

- 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 US treasuries and German bunds rose while UK gilt yields fell, with the front-end significantly outperforming, as UK inflation for June surprised to the downside at 7.9%. Meanwhile, US and eurozone inflation also fell to 3.0% and 5.5%, respectively.

#### Strategy in focus – representative account (31/07/23)

Assets under management	£100m
Yield (GBP hedged) <sup>1</sup>	6.3%
Duration <sup>1</sup>	2.9 yrs
Average rating <sup>2</sup>	BBB+
Number of issuers	139
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

#### Cumulative net performance – representative account (GBP)<sup>3</sup>

One month	+1.32%
Year-to-date	+2.78%
One year	+2.39%
Three year (cumulative)	+2.29%
Five year (cumulative)	+6.78%
Since launch (cumulative)	+7.10%

#### Annualised net performance – representative account (GBP)<sup>3</sup>

One year	+2.39%
Three year	+0.76%
Five year	+1.32%
Since launch	+1.11%

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

- **Sovereign:** Our exposure to sovereign bonds increased by 3% to 16% as we bought some US treasuries and added to UK gilts. We also remained invested in German bonds, UK inflation-linked bonds and government guaranteed debt. We kept the duration close to three years for most of the period, benefiting from the sharp fall in UK gilt yields at the front-end.
- **Investment Grade:** Our exposure to investment grade markets was stable at 60% as we kept our overweight in the sterling investment grade market due to attractive yield opportunities.
- **High-Yield and Emerging Markets:** Our exposure to high-yield and emerging markets decreased by 3% to 22% as we further reduced our exposure to European and US high-yield due to expensive valuations.

## 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.

## Asset class breakdown

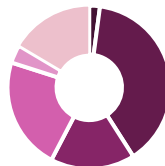
Category	Asset Class	Total
Cash		2%
Sovereign <sup>5</sup>	Nominal	15%
	Inflation-Linked	1%
	<b>Total</b>	<b>16%</b>
Investment Grade Credit	EUR IG Credit	10%
	GBP IG Credit	38%
	USD IG Credit	12%
	<b>Total</b>	<b>60%</b>
High-Yield & Emerging Markets	EUR High-Yield	15%
	USD High-Yield	2%
	Emerging Markets	5%
	<b>Total</b>	<b>22%</b>
<b>Total</b>		100%



## Portfolio breakdowns

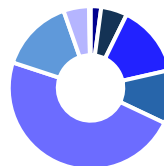
### Breakdown by region

Cash	2%
UK	36%
Core Europe – ex UK	21%
Periphery Europe	12%
North America	21%
Emerging Markets	5%
Developed Asia	2%



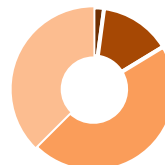
### Breakdown by sector

Cash	2%
Financial	39%
Defensive	17%
Cyclical	22%
Securitized	4%
Sovereign <sup>4</sup>	16%



### Breakdown by rating<sup>2</sup>

Cash	2%
AAA	5%
AA	14%
A	11%
BBB	48%
BB	15%
B	5%
CCC & below	0%



### Breakdown by maturity

Cash	2%
0-1 year	14%
1-3 years	46%
3-5 years	38%

(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. The yield is calculated gross of fees. Please note that the yield calculations are based on the portfolio of assets and may NOT be representative of what clients invested in the strategy 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.

(4) Any Emerging Market Sovereigns are classified under "Sovereign" for the purpose of this breakdown.

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**No assurance can be given that the Global Short Duration strategy will be successful. Investors can lose some or all of their capital invested. The Global Short Duration strategy is subject to risks including credit risk, liquidity risk and interest rate risk and counterparty risk. The strategy is also subject to derivatives and leverage, emerging markets and global investment risks.**

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