Global Short Duration strategy

Sovereign yields rise as global growth concerns subside

- Credit spreads tightened as global growth concerns subsided, and the US Federal Reserve paused its rate hiking cycle.
- UK gilts significantly underperformed US treasuries and German bunds as UK inflation surprised again to the upside
- We were active in the sterling primary market to benefit from very attractive yields

Nicolas Trindade
Portfolio Manager, Global Short Duration strategy

What's happening?

- Despite the ongoing slowdown in the Chinese recovery, credit spreads tightened as the US Federal Reserve (Fed) paused its interest rate hiking cycle, the US avoided a debt default, and global growth concerns subsided.

- While the Fed left interest rates unchanged at 5% to 5.25%, chair Jerome Powell signalled that two further rate hikes were still on the table for this year as inflation makes its way towards the 2% target. The European Central Bank and Bank of England did not follow suit, with the former increasing interest rates by 0.25% to 3.50% while the latter lifted them by 0.50% to 5.0% as inflation failed to fall in May.

- Yields on US treasuries, German bunds, and UK gilts increased, with the latter significantly underperforming as UK inflation surprised again to the upside for May, remaining at 8.7%. As a result, UK gilt yields soared towards levels not seen since 2008. Meanwhile, US and eurozone inflation for May surprised to the downside at 4.0% and 6.1%, respectively.

Strategy in focus – representative account (30/06/23)	
Assets under management	£99m
Yield (GBP hedged)[1]	6.7%
Duration[1]	2.9 yrs
Average rating[2]	BBB
Number of issuers	141
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.66%
Year-to-date	+1.44%
One year	+2.82%
Three year (cumulative)	+1.93%
Five year (cumulative)	+5.70%
Since launch (cumulative)	+5.70%

Annualised net performance – representative account (GBP)[3]	
One year	+2.82%
Three year	+0.64%
Five year	+1.11%
Since launch	+0.91%

Source: AXA IM as at 30/06/2023. 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 was broadly stable at 13% as we remained invested in UK and German nominal bonds, UK inflation-linked bonds, and government guaranteed debt. We actively managed the duration throughout the month to benefit from the heightened level of volatility in sovereign yields.

- **Investment Grade:** Our exposure to investment grade markets increased by 2% to 60% as we were active in the sterling primary market, buying six new issues to benefit from very attractive yields. We were also active in the US dollar and sterling secondary markets.
- **High-Yield and Emerging Markets**: Our exposure to high-yield and emerging markets was broadly unchanged at 25% as we remained slightly underweight due to expensive valuations in light of a heightened risk of a global recession in the second half of this year.

Outlook

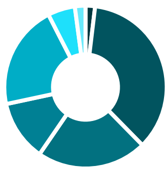
- The macroeconomic outlook remains very uncertain given high (but falling) inflation, rising (but peaking) interest rates, slowing (but resilient so far) growth, and tighter lending conditions caused by the recent banking turmoil. As such, we expect market conditions to remain very volatile with an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

- As a result, we plan to continue reducing the level of credit risk so that we could benefit from a potential widening in credit spreads in the second half of this year by re-risking the portfolio at much better levels.

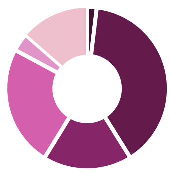
Asset class breakdown

Category	Asset Class	Total
Cash		2%
Sovereign[5]	Nominal	12%
	Inflation-Linked	1%
	Total	13%
Investment Grade Credit	EUR IG Credit	10%
	GBP IG Credit	38%
	USD IG Credit	12%
	Total	60%
High-Yield & Emerging Markets	EUR High-Yield	17%
	USD High-Yield	3%
	Emerging Markets	5%
	Total	25%
Total		100%

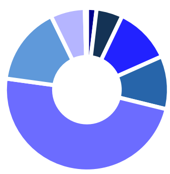
Portfolio breakdowns



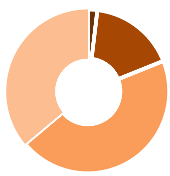
Breakdown by region	
Cash	2%
UK	36%
Core Europe – ex UK	22%
Periphery Europe	12%
North America	21%
Emerging Markets	5%
Developed Asia	2%



Breakdown by sector	
Cash	2%
Financial	39%
Defensive	18%
Cyclical	24%
Securitized	4%
Sovereign[4]	14%



Breakdown by rating[2]	
Cash	2%
AAA	5%
AA	11%
A	11%
BBB	48%
BB	16%
B	7%
CCC & below	0%



Breakdown by maturity	
Cash	2%
0-1 year	17%
1-3 years	45%
3-5 years	36%

(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.

im.com/en/registration-map, where a fund registration map is available. In particular units of the funds may not be offered, sold or delivered to U.S. Persons within the meaning of Regulation S of the U.S. Securities Act of 1933. The tax treatment relating to the holding, acquisition or disposal of shares or units in the fund depends on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors.

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