

Not for Retail distribution: this document is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly

Global Strategic Bonds strategy

Government bond volatility falls, credit spreads reverse

- Government bond yields trading in very tight range as we look for cheaper entry points
- Tough month for risk assets as we increase the CDS hedge on our high yield exposure
- Upcoming US election and worsening virus data could increase volatility and therefore create opportunities to add risk

Nick Hayes

Portfolio Manager, Global Strategic Bonds strategy

What's happening?

- Government bonds continue to trade in a very tight range, with yields very low as central banks appear to have suppressed volatility in high quality bonds.
- Risk assets had a tougher month as spreads took their lead from a small equity-led technology sell-off.
- Whilst economic data points towards a global economic recovery after the severe drawback in Q1 and Q2, the virus data shows growing concerns around a pick-up in cases in Europe and subsequent government restrictions.

Portfolio positioning and performance

- **Defensive (42%):** we continue to run a duration exposure below 3 years as we look for cheaper entry points. Exposure to high quality bonds is focused in short and medium-dated assets, with a bias towards US assets, despite their underperformance versus their European equivalents during the month. Our position in long-dated France had a very strong return during the month.
- **Intermediate (24%):** a flat month for better quality credit as gains from duration exposure were offset by wider credit spreads. We prefer European credit, specifically exposure to UK-related financial services names. Our overall credit exposure has a strong bias towards BBB assets.

Strategy in focus – representative account (30/09/20)

Assets under management	\$920.5m
Duration	2.84 yrs
Yield ¹	1.87%
Running yield ¹	3.40%
Spread to government ²	178
Number of holdings	280
Launch date	11/05/2012

Net performance – representative account (USD)³

One month	-0.05%
One year	+5.20%
Three years (cumulative)	+16.03%
Five years (cumulative)	+28.95%

Source: AXA IM as at 30/09/2020. The data is based on a representative account that follows the Global Strategic Bonds strategy and is not intended to represent actual past or simulated past performance of the strategy. **Past performance is not a reliable indicator of future results.** Performance calculations are net of fees, based on the reinvestment of dividends.

- **Aggressive (35%):** asset allocation activity was limited during the month as we continue to prefer US high yield exposure (17%), including 7% in lowest rated, highest yielding CCC bonds. US high yield exposure was somewhat justified with another outperformance versus emerging market exposure (12%) during the month. We added to our CDS index hedge in high yield during the month.

Outlook

- Year-to-date returns have consolidated in the last few months as government bond volatility dropped significantly and credit spreads reversed during September, following a couple of strong months.
- The upcoming US presidential election, along with increasingly worrying virus data, presents a possible pick-up in volatility and thereby opportunities to add more risk.
- For the foreseeable future we continue to prefer short duration and mildly long risk assets with some “insurance policy” portfolio hedges in place, looking to benefit from cheaper entry points.

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	6.0%
	AAA	22.7%
	AA	12.9%
	Total	41.6%
Intermediate	AA	0.6%
	A	5.5%
	BBB	17.6%
	Total	23.7%
Aggressive	AA	0.6%
	A	0.2%
	BBB	4.3%
	BB	9.6%
	B	11.2%
	CCC & Below	7.6%
	Not rated	1.1%
	Total	34.7%
Total		100.0%



Portfolio breakdowns

Strategy breakdown

Defensive	41.6%
Intermediate	23.7%
Aggressive	34.8%
Total	100.0%



Defensive breakdown

Total	41.6%
US Government Bonds	22.3%
Core Europe Government Bonds	8.6%
Rest of World Governments	0.0%
Inflation-Linked Bonds	4.7%
Cash	6.0%



Intermediate breakdown

Total	23.7%
US IG Credit	7.8%
Euro & Sterling IG Credit	15.8%
Periphery Governments	0.0%



Aggressive breakdown

Total	34.8%
High Yield (US 17.3%/Europe 5.6%)	22.9%
Emerging Markets (HC 12%/LC 0%/FX 0%)	11.9%



Derivatives breakdown

Total	-40.1%
Bond Futures	-24.6%
Credit Default Swaps	-15.5%

(1) Yield figures quoted will vary in the future and are not guaranteed.

(2) Average credit spread relative to government bonds.

(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 Global Strategic Bonds strategy will be successful. Investors can lose some or all of their capital invested. The Global Strategic Bonds strategy is subject to risks including credit risk, operational risk and counterparty risk. The strategy is also subject to derivatives and leverage, emerging markets, global investment grade and high yield securities, securitised assets and collateralised debt risks.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee that forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales, No: 01431068. Registered Office: 155 Bishopsgate, London, EC2M 3YD (until 31st December 2020); 22 Bishopsgate, London, EC2N 4BQ (from 1st January 2021). In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Singapore, this document is issued by AXA Investment Managers Asia (Singapore) Ltd. (Registration No. 199001714W) and is intended for the use of Institutional Investors only as defined in Section 4A of the Securities and Futures Act (Cap. 289) and must not be relied upon by retail investors. Circulation must be restricted accordingly.

For Japanese clients: AXA Investment Managers Japan Ltd., whose registered office and principal place of business is at NBF Platinum Tower 14F 1-17-3 Shirokane, Minato-ku, Tokyo 108-0072, Japan, which is registered with the Financial Services Agency of Japan under the number KANTOZAIMUKYOKUCHO (KINSHO) 16, and is a member of Japan Securities Dealers Association, Type II Financial Instrument Firms Association, Investment Trust Association of Japan and Japan Investment Advisors Association to carry out the regulated activity of Financial Instrument Business under the Financial Instrument Exchange Law of Japan. In Japan, none of the funds mentioned in this document are registered under the Financial Instrument Exchange Law of Japan or Act on Investment Trusts and Investment Corporations. This document is purely for the information purpose for use by Qualified Institutional Investors defined by the Financial Instrument Exchange Law of Japan.

In Korea, AXA Investment Managers Asia (Singapore) Ltd is a registered Cross Border Investment Advisor/Discretionary Investment Management Company under the Financial Investment Services and Capital Markets Act (the "Act"). The activities referenced under the Act are 5-2-2 Investment Advisory Business and 6-2-2 Discretionary Investment Management Business, respectively. Its financial services are available in Korea only to Professional Investors within the meaning of Article 10 of Enforcement Decree of the Financial Investment Services and Capital Markets Act.

To the extent that any fund is mentioned in this document, neither the fund nor AXA IM Asia is making any representation with respect to the eligibility of any recipients of this document to acquire the units/shares in the fund under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The units/shares have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the units/shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited. The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other

entities and individuals meeting specific criteria (“Other Qualified Investors”) pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand (“SEC”). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

For Investors in People’s Republic of China (PRC): This document does not constitute a public offer of the product., whether by sale or subscription in the PRC. The product is not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the product or any beneficial interest herein without obtaining all prior PRC’s governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.