Sterling Credit Short Duration strategy

The rally continues

- Credit spreads continued to tighten
- Vaccine rollout started but coronavirus infections remained elevated
- The risk profile was broadly unchanged

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What's happening?

- Despite elevated levels of coronavirus infections globally and the discovery of a new, highly contagious variant in the UK, credit spreads still tightened in December, supported by the start of coronavirus vaccinations in a number of countries, the announcement of a new $900bn fiscal stimulus in the US, and news that the UK and EU had finally struck a trade agreement.
- The US Federal Reserve left interest rates and balance sheet policy unchanged, while the European Central Bank raised its emergency asset-purchasing programme by a further €500bn to €1.85trn and also extended the programme's closure date by nine months to the end of March 2022 at the earliest.
- UK gilt yields fell following the discovery of a new variant of coronavirus, leading to stricter lockdown measures, while the Bank of England's Monetary Policy Committee opted to hold rates at 0.1%.

Strategy in focus – representative account (31/12/20)	
Assets under management	£567m
Yield (GBP hedged)[1]	0.9%
Duration[1]	1.7 yrs
Average rating[2]	A-
Number of issuers	110
Launch date	12/11/2010
Net performance – representative account (GBP)[3]	
One month	+0.31%
Year-to-date	+2.33%
One year	+2.33%
Three years (cumulative)	+5.29%
Five years (cumulative)	+10.59%
Ten years (cumulative)	+27.57%

Source: AXA IM as at 31/12/2020. 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. **Past performance is not a reliable indicator of future results**. Performance calculations

Portfolio positioning and performance

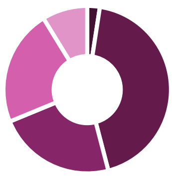
- Despite sterling investment grade primary issuance being very subdued in December at only £0.4bn, we were still active, buying a new issue from US carmaker Ford. Since the end of February, we have gradually re-risked the portfolio, adding 8% of BBB rated bonds and taking our allocation from 45% to 53%.

Outlook

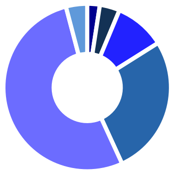
- Monetary and fiscal support remain paramount to help cushion the economic damage caused by the new round of lockdowns.
- Following the conclusive US elections and the start of the vaccine roll-out in an increasing number of countries, we are ready to look through some near-term risks and believe that 2021 will be all about carry. Therefore, we plan to remain overweight in BBB rated bonds in order to optimise the level of carry within the portfolio.

Portfolio breakdowns

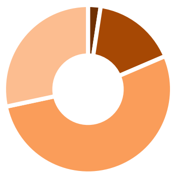
Breakdown by region	
Cash	2%
UK	33%
Europe Core – ex UK	26%
Europe Periphery	11%
North America	12%
Emerging Markets	5%
Developed Asia	11%



Breakdown by sector	
Cash	2%
Financial	43%
Defensive	23%
Cyclical	22%
Securitized	9%
Sovereign	0%



Breakdown by rating	
Cash	2%
AAA	4%
AA	10%
A	27%
BBB	53%
BB or below	4%



Breakdown by maturity	
Cash	2%
0-1 year	16%
1-3 years	53%
3-5 years	28%

(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.