Sterling Credit Short Duration strategy

Markets await the next catalyst

- Credit spreads were broadly unchanged in May as markets await the next catalyst
- The US Federal Reserve continues to see the sharp rise in inflation as 'transitory'
- The risk profile was further reduced

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What's happening?

- Credit spreads widened in the first part of the month due to concerns about rising inflation, with the annual rate in the US leaping to a more than 12-year high in April, and the possibility that central banks, particularly the US Federal Reserve (Fed), would start to tighten monetary policy sooner than expected.
- However, investors appeared to shrug off these concerns later in the month as Fed officials sought to assuage market fears about the timing of interest rate increases. Meanwhile, the European Central Bank kept interest rates on hold and insisted it was also too soon to talk about any changes to monetary policy, easing concerns about a potential tightening.
- UK gilt yields slightly fell in May, anchored by the ongoing support from the Bank of England, which kept interest rates on hold and left the volume of its asset purchases unchanged.

Strategy in focus – representative account (31/05/21)	
Assets under management	£557m
Yield (GBP hedged)[1]	0.9%
Duration[1]	1.7 yrs
Average rating[2]	A-
Number of issuers	112
Launch date	12/11/2010
Net performance – representative account (GBP)[3]	
One month	+0.08%
Year-to-date	+0.24%
One year	+3.57%
Three years (cumulative)	+5.54%
Five years (cumulative)	+9.05%
Ten years (cumulative)	+25.32%

Source: AXA IM as at 31/05/2021. 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 are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

- Sterling investment grade primary issuance was robust in May at £5.7bn, exactly in line with the year-to-date monthly average. We participated in the new issues from French bank BNP Paribas and Spanish bank CaixaBank. We were also active in the euro primary market, buying a new issue from UK bank Virgin Money. All names were new additions to the Fund. During the month, we increased our exposure to sovereign and government guaranteed debt by another 3% to 6%, in order to further de-risk the portfolio, while slightly increasing our exposure to BBB rated bonds by 1% to 49%.

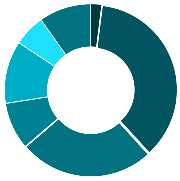
Outlook

- As we expect continued monetary and fiscal support over the medium term to ensure a full economic recovery, we believe 2021 will be all about carry.

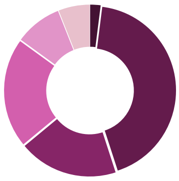
- While we aim to remain overweight in BBB rated bonds in order to optimise the carry of the portfolio, we also plan to gradually reduce this overweight over the coming months as valuations have become very expensive.

- We expect yields to further rise as successful vaccination programmes in most developed countries should lead to a faster and sustainable reopening of their economies.

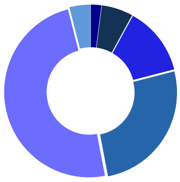
Portfolio breakdowns



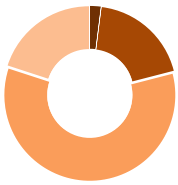
Breakdown by region	
Cash	2%
UK	37%
Europe Core – ex UK	26%
Europe Periphery	9%
North America	12%
Emerging Markets	6%
Developed Asia	10%



Breakdown by sector	
Cash	2%
Financial	43%
Defensive	19%
Cyclical	21%
Securitized	9%
Sovereign	6%



Breakdown by rating	
Cash	2%
AAA	6%
AA	13%
A	26%
BBB	49%
BB or below	4%



Breakdown by maturity	
Cash	2%
0-1 year	19%
1-3 years	59%
3-5 years	20%

(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.