Sterling Credit Short Duration strategy

Tapering talks intensify

- Sterling credit spreads were slightly tighter
- UK gilt yields rose as tapering talks intensified in the US and Europe
- The risk profile was broadly stable

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What's happening?

- Sterling credit spreads were slightly tighter in August thanks to positive corporate results and the US Senate's approval of a $1trn infrastructure bill. However, concerns about the spread of the Delta variant of COVID-19 and signs of slowing economic growth in China continued to unsettle markets, while worries earlier in the month that the US Federal Reserve (Fed) was likely to begin tapering its monthly asset purchases before the end of the year added further pressure.

- At the Fed's annual Jackson Hole symposium, Chairman Jerome Powell sought to reassure investors by explaining that interest rate hikes were not imminent, even if tapering was, as there was still 'much ground to cover' before the economy hit full employment. Meanwhile, the Bank of England (BoE) maintained its accommodative stance, although it indicated that it could start raising interest rates sooner than previously expected.

- UK gilt yields rose in August as tapering talks intensified in the US and Europe. The BoE clarified that it intends to scale back its stock of gilts once the bank rate has reached 0.5% by starting to end re-investments, and then potentially actively sell gilts when the rate has risen to at least 1%.

Strategy in focus – representative account (31/08/21)	
Assets under management	£504m
Yield (GBP hedged)[1]	0.8%
Duration[1]	1.5 yrs
Average rating[2]	A-
Number of issuers	105
Launch date	12/11/2010

Cumulative net performance – representative account (GBP)[3]	
One month	+0.00%
Year-to-date	+0.47%
One year	+1.99%
Three years	+5.79%
Five years	+7.29%
Ten years	+25.61%
Since launch	+28.00%

Annualised net performance – representative account (GBP)[3]	
One year	+1.99%
Three years	+1.89%
Five years	+1.42%
Ten years	+2.30%
Since launch	+2.31%

Source: AXA IM as at 31/08/2021. 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

- Despite sterling investment grade primary issuance posting a solid £1.1bn for August we did not participate in any new issues as most of the supply came in the form of longer-dated bonds. We were still active in the euro secondary market, adding to UK engineering services company Babcock. We slightly reduced our exposure to BBB and BB rated bonds to 48% and 3%, respectively, while keeping our exposure to sovereign debt stable at 7%.

Outlook

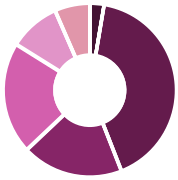
- As we expect continued monetary and fiscal support over the medium term to ensure a full economic recovery, we believe the last quarter of 2021 will remain all about carry.

- 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 remain very expensive.

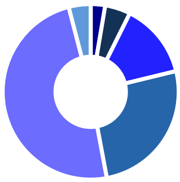
- We continue to expect higher yields by the end of the year as successful vaccination programmes in most developed countries should lead to a sustainable reopening of their economies.

Portfolio breakdowns

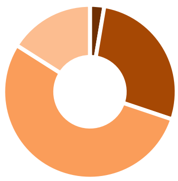
Breakdown by region	
Cash	*4%*
UK	*36%*
Europe Core – ex UK	*27%*
Europe Periphery	*9%*
North America	*11%*
Emerging Markets	*5%*
Developed Asia	*8%*



Breakdown by sector	
Cash	*4%*
Financial	*41%*
Defensive	*18%*
Cyclical	*21%*
Securitized	*10%*
Sovereign	*7%*



Breakdown by rating	
Cash	*4%*
AAA	*5%*
AA	*14%*
A	*26%*
BBB	*48%*
BB or below	*3%*



Breakdown by maturity	
Cash	*4%*
0-1 year	*28%*
1-3 years	*53%*
3-5 years	*15%*

(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.