Global Short Duration strategy
Higher inflation for longer

- Investment grade credit spreads were slightly tighter while high yield spreads were slightly wider
- Government bond yields sharply rose due to fears that inflationary pressures could persist for longer than first expected
- The risk profile was broadly stable

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What's happening?

- Credit spreads were mixed in September due to growing worries about a slowdown in global economic growth and persistent inflationary pressures, further supported by oil and wholesale gas prices surging. Problems at debt-laden Chinese property giant Evergrande further dampened sentiment.
- At its September meeting, the US Federal Reserve indicated that it might begin to taper its monthly bond purchases in November and, if the economic recovery continued, bring the programme to an end by the middle of next year. This would then likely pave the way for an interest rate hike before the end of 2022, it said. Meanwhile, the European Central Bank signalled that it would slow the pace of asset purchases over the rest of this year, citing the strength of the economic recovery; whereas the Bank of England acknowledged that a modest tightening of its policy could be expected relatively soon in response to inflationary pressures.

Strategy in focus – representative account (30/09/21)	
Assets under management	£187m
Yield (GBP hedged)[1]	1.3%
Duration[1]	1.1yrs
Average rating[2]	BBB+
Number of issuers	139
Launch date	17/05/2017

Cumulative net performance – representative account (GBP)[3]	
One month	-0.18%
Year-to-date	+0.75%
One year	+2.76%
Three year (cumulative)	+7.68%
Since launch (cumulative)	+8.00%

Annualised net performance – representative account (GBP)[3]	
One year	+2.76%
Three year	+2.49%
Since launch	+1.77%

Source: AXA IM as at 30/09/2021. 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.

- US treasury, German Bund and UK gilt yields sharply rose in September, due to fears that inflationary pressures could persist for longer than first expected and push central banks to tighten monetary policy at a faster pace.

Portfolio positioning and performance

- **Sovereign:** Our sovereign exposure increased by 2% to 30% as we added exposure to German and French inflation-linked bonds to benefit from supportive inflation indexation into year-end. We also further reduced the duration of the portfolio from 1.5 years to 1.1 years as we feared continued inflationary pressures would lead to sharply higher government bond yields.

- **Investment Grade:** Our exposure to investment grade markets decreased by 2% to 33% as we reallocated towards inflation-linked bonds. We were still active in both primary and secondary markets, participating in several attractive new issues from the banking sector.

- **High Yield and Emerging Markets**: Our exposure to high yield (HY) and emerging markets (EM) remained constant at 36% as we switched some of our exposure to Asia HY into European HY, focusing on UK pubs. We also participated in some attractive new issues from HY and EM issuers. Towards the end of the month, we bought some protection on the Markit iTraxx Xover as we feared continued inflationary pressures would lead to broader market weakness.

Outlook

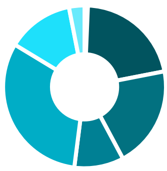
- With valuations remaining very expensive and inflation fears increasing, we plan to retain our barbell strategy by keeping a higher exposure to sovereign bonds and high yield / emerging markets, for defensiveness and carry purposes respectively, while keeping a lower exposure to investment grade markets.

- We continue to expect higher yields by the end of the year as the pandemic recedes and inflationary pressures persist.

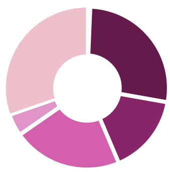
Asset class breakdown

Category	Asset Class	Total
Cash		1%
Sovereign[5]	Nominal	23%
	Inflation-Linked	7%
	Total	30%
Investment Grade Credit	EUR IG Credit	8%
	GBP IG Credit	13%
	USD IG Credit	12%
	Total	33%
High Yield & Emerging Markets	EUR High Yield	16%
	USD High Yield	7%
	Emerging Markets	13%
	Total	36%
Total		100%

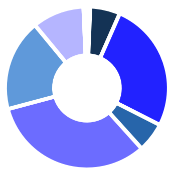
Portfolio breakdowns



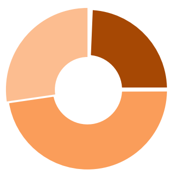
Breakdown by region	
Cash	1%
UK	21%
Core Europe – ex UK	20%
Periphery Europe	10%
North America	32%
Emerging Markets	13%
Developed Asia	3%



Breakdown by sector	
Cash	1%
Financial	27%
Defensive	16%
Cyclical	22%
Securitized	4%
Sovereign[4]	30%



Breakdown by rating[2]	
Cash	1%
AAA	6%
AA	26%
A	6%
BBB	32%
BB	18%
B	10%
CCC & below	1%



Breakdown by maturity	
Cash	1%
0-1 year	24%
1-3 years	48%
3-5 years	27%

(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.

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