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Sterling Credit Short Duration strategy

The yield curve flattens as the front-end underperforms

- Sterling investment grade credit spreads were mixed
- UK gilt yields rose, with the front-end underperforming
- The risk profile was slightly reduced

Nicolas Trindade

Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Despite positive corporate results, sterling investment grade credit spreads were mixed in October due to continued worries about inflation, with oil prices soaring to multi-year highs, and the prospect of imminent monetary policy tightening.
- The US Federal Reserve signalled that it could start 'tapering' its asset purchases in November, with a view to ending the programme by mid-2022, while the European Central Bank maintained its accommodative policy stance, emphasising the fragility of the economic recovery and temporary factors driving up inflation.
- UK gilt yields rose in October, with the front-end underperforming, as Bank of England officials continued to hint about the possibility of an imminent interest rate hike.

Strategy in focus – representative account (31/10/21)

Assets under management	£508m
Yield (GBP hedged) ¹	1.3%
Duration ¹	1.6 yrs
Average rating ²	A-
Number of issuers	108
Launch date	12/11/2010

Cumulative net performance – representative account (GBP)³

One month	-0.39%
Year-to-date	-0.08%
One year	+1.03%
Three years	+5.12%
Five years	+7.06%
Ten years	+24.68%
Since launch	+27.30%

Annualised net performance – representative account (GBP)³

One year	+1.03%
Three years	+1.68%
Five years	+1.38%
Ten years	+2.23%
Since launch	+2.22%

Source: AXA IM as at 31/10/2021. 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 posted a solid £6.3bn in October as we participated in the 'green' new issue from Chinese government owned bank ICBC. We were also active in the secondary market, buying for example UK bank Barclays and UK transport group Stagecoach while lengthening the duration of our government guaranteed debt exposure to lock-in attractive yields at the front-end. Our exposure to BBB rated bonds decreased by 2% to 46% while our exposure to sovereign debt increased by 1% to 8%.

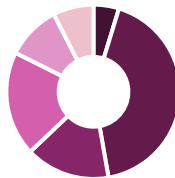
Outlook

- While we aim to remain overweight in BBB rated bonds to optimise the carry of the portfolio, we also plan to gradually reduce this overweight over the coming months as valuations remain very expensive and inflationary pressures persist.
- We continue to expect higher yields by the end of the year as the impact of the pandemic on the global economy keeps on receding and inflationary pressures continue.



Breakdown by region

Cash	5%
UK	34%
Europe Core – ex UK	29%
Europe Periphery	7%
North America	12%
Emerging Markets	5%
Developed Asia	8%



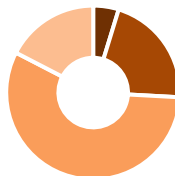
Breakdown by sector

Cash	5%
Financial	43%
Defensive	16%
Cyclical	19%
Securitized	10%
Sovereign	8%



Breakdown by rating

Cash	5%
AAA	5%
AA	14%
A	27%
BBB	46%
BB or below	3%



Breakdown by maturity

Cash	5%
0-1 year	21%
1-3 years	57%
3-5 years	17%

(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.

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