Sterling Credit Short Duration strategy

Double headwind of Omicron and a hawkish Fed

- Sterling investment grade credit spreads were wider due to the double headwind of Omicron and a hawkish Fed
- Gilt yields fell due to Omicron related uncertainties
- The risk profile was broadly unchanged

Nicolas Trindade
Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Despite positive corporate results and strong US economic data, credit spreads widened due to a hawkish US Federal Reserve (Fed), the reintroduction of COVID-19-related restrictions in some countries, and the new, highly-mutated Omicron variant that could be more transmissible and resistant to existing vaccines.

- The Fed confirmed plans to start scaling back its asset-purchase programme from November while Fed chairman Jerome Powell indicated that the speed of tapering could be accelerated because of persistently high inflation. Meanwhile, the Bank of England (BoE) signalled that an interest rate hike would be likely 'over the coming months' but surprised the market by leaving the Bank rate unchanged in November.

- UK gilt yields fell on the back of Omicron-related uncertainties and a more dovish than expected BoE.

Strategy in focus – representative account (30/11/21)	
Assets under management	£523m
Yield (GBP hedged)[1]	1.3%
Duration[1]	1.7 yrs
Average rating[2]	A-
Number of issuers	108
Launch date	12/11/2010

Cumulative net performance – representative account (GBP)[3]	
One month	+0.16%
Year-to-date	+0.08%
One year	+0.39%
Three years	+5.72%
Five years	+7.05%
Ten years	+25.74%
Since launch	+27.50%

Annualised net performance – representative account (GBP)[3]	
One year	+0.39%
Three years	+1.87%
Five years	+1.37%
Ten years	+2.31%
Since launch	+2.22%

Source: AXA IM as at 30/11/2021. 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 £3.8bn in November as we participated in the new issues from German and Norwegian banks Commerzbank and DNB. We were also active in the secondary market buying bonds, for example, from Spanish toll road operator Abertis and UK utility company Anglian Water. Our exposure to BBB-rated bonds remained broadly unchanged at 47% versus 46% last month, while our exposure to sovereign debt increased by 2% to 10%.

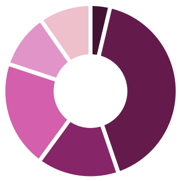
Outlook

- With the market having to grapple with expensive valuations, a more hawkish Fed due to persistently high inflation, and Omicron-related uncertainties, we plan to continue reducing our exposure to BBB rated bonds over the coming months.

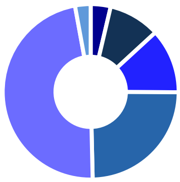
- We continue to expect higher yields by the end of the year as inflationary pressures continue and Omicron uncertainties recede.

Portfolio breakdowns

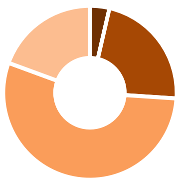
Breakdown by region	
Cash	*4%*
UK	*34%*
Europe Core – ex UK	*32%*
Europe Periphery	*7%*
North America	*10%*
Emerging Markets	*4%*
Developed Asia	*8%*



Breakdown by sector	
Cash	*4%*
Financial	*41%*
Defensive	*15%*
Cyclical	*20%*
Securitized	*10%*
Sovereign	*10%*



Breakdown by rating	
Cash	*4%*
AAA	*9%*
AA	*12%*
A	*25%*
BBB	*47%*
BB or below	*3%*



Breakdown by maturity	
Cash	*4%*
0-1 year	*22%*
1-3 years	*54%*
3-5 years	*19%*

(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.