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# Sterling Credit Short Duration strategy

## Yields sharply rise on hopes of progress in peace talks

- Despite continued hawkishness from central banks and the ongoing Russian invasion of Ukraine, sterling credit spreads tightened supported by hopes of progress in peace talks
- UK gilt yields were again volatile, ending the month significantly higher
- We continued to re-risk the portfolio by mostly increasing our exposure to BBB-rated bonds

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### What's happening?

- Despite continued hawkishness from central banks and the ongoing Russian invasion of Ukraine, sterling credit spreads tightened supported by better-than-expected economic releases and hopes of progress in peace talks.
- The US Federal Reserve (Fed) raised interest rates by 0.25% to 0.25%-0.50% in a widely anticipated move as Fed chairman Jerome Powell pledged to 'restore price stability' while the European Central Bank surprised market participants on the hawkish side with the announcement of an acceleration of its tapering program. The Bank of England increased interest rates for the third consecutive time by 0.25% to 0.75%, with one member voting to leave rates unchanged, a significant swing from last month when four members voted for a 0.5% hike.
- UK gilt yields sharply rose to levels not seen since before the pandemic as the market focused on the inflationary impact of the war and as peace talks progressed.

### Strategy in focus – representative account (31/03/22)

Assets under management	£502m
Yield (GBP hedged) <sup>1</sup>	2.6%
Duration <sup>1</sup>	1.9 yrs
Average rating <sup>2</sup>	A-
Number of issuers	109
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

### Cumulative net performance – representative account (GBP)<sup>3</sup>

One month	-0.32%
Year-to-date	-1.49%
One year	-1.57%
Three years	+2.79%
Five years	+4.41%
Ten years	+19.43%
Since launch	+25.40%

### Annualised net performance – representative account (GBP)<sup>3</sup>

One year	-1.57%
Three years	+0.92%
Five years	+0.87%
Ten years	+1.79%
Since launch	+2.01%

Source: AXA IM as at 31/03/2022. 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. **Return may increase or decrease as a result of currency fluctuations.** Performance calculations are net of fees, based on reinvestment of dividends.

## Portfolio positioning and performance

- Sterling investment grade primary issuance recovered in March at £6.6bn, with a clear bias towards financials as several non-domestic banks tapped the market. As such, we were very active in the sterling new issue market buying names such as US truck manufacturer Paccar, Norwegian bank DNB, and Canadian bank TD. We also participated in two new issues in euro and were very active in the sterling secondary market, mostly adding to attractive BBB-rated names in non-financial sectors. As a result, our exposure to BBB-rated names increased by 4% to 53% while our exposure to sovereign debt fell by 7% to 4%.

## Outlook

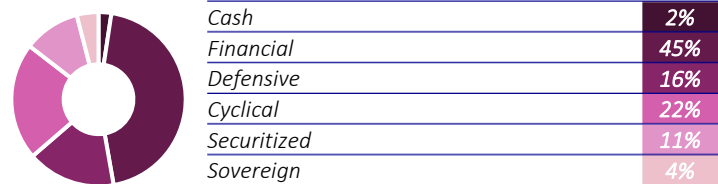
- We continued to re-risk the portfolio in March to benefit from the strong market sell-off in the first half of the month. With spreads having tightened back again, we have paused for now the re-risking waiting for better entry points.
- Despite Russia's invasion of Ukraine, we still expect to see higher yields in 2022 due to continued inflationary pressures and hawkishness from central banks.

## Portfolio breakdowns

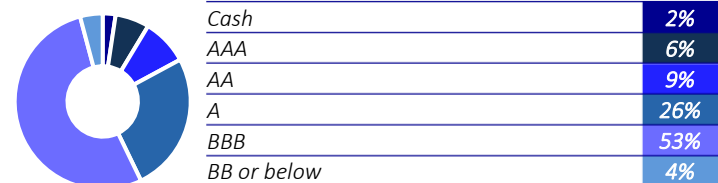
### Breakdown by region



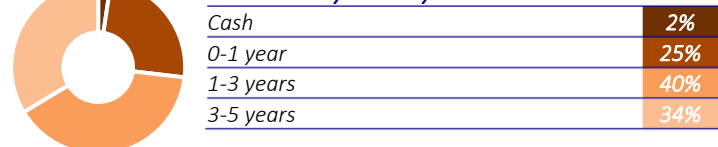
### Breakdown by sector



### Breakdown by rating



### Breakdown by maturity



(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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