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Global Short Duration strategy

Volatile month as inflation reaches new highs

- Credit spreads continued to widen as inflation reached new highs in the eurozone and UK
- Government bond yields were mixed, with US treasuries outperforming
- We increased opportunistically our exposure to US high-yield

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Portfolio Manager, Global Short Duration strategy

What's happening?

- Credit spreads widened in the first half of the month driven by concerns over central bank tightening, rampant inflation, and China's zero-tolerance policy towards COVID-19. However, as the market dialed back expectations for interest rate rises in the US due to recession fears and China relaxed some of its COVID-19 restrictions, credit spreads tightened but still finished the month wider.
- The US Federal Reserve (Fed) raised interest rates for a second consecutive time by 0.5% to the range of 0.75% to 1% in a bid to slow down inflation. Meanwhile the Bank of England raised interest rates for a fourth consecutive time from 0.75% to 1%, the highest in 13 years. Inflation rates in April reached a record high in the eurozone at 8.1% and a 40-year high in the UK at 9%.
- German bund and UK gilt yields rose as the market focused on the impact of rising inflation on the future path of interest rates. Meanwhile, US treasury yields fell due to the prospect of potentially less aggressive hikes from the Fed as inflation slightly cooled to 8.3% in April from 8.5% in March and as recession fears increased.

Portfolio positioning and performance

- **Sovereign:** Our exposure to sovereign bonds decreased by 2% to 12% as we sold some US treasuries to increase opportunistically our allocation to US high-yield towards the end of the month. We also switched out of nominal government debt into short-dated UK inflation-linked bonds at the beginning of the month as we remained invested in US and German inflation-linked bonds to profit from attractive inflation indexation over the next couple of months. We increased the duration of the portfolio to 2.7 years from 2.3 years to benefit from a higher level of carry.

Strategy in focus – representative account (31/05/22)

Assets under management	£178m
Yield (GBP hedged) ¹	4.1%
Duration ¹	2.7 yrs
Average rating ²	BBB
Number of issuers	162
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)³

One month	+0.00%
Year-to-date	-2.04%
One year	-1.86%
Three year (cumulative)	+3.43%
Five year (cumulative)	+5.60%
Since launch (cumulative)	+5.60%

Annualised net performance – representative account (GBP)³

One year	-1.86%
Three year	+1.13%
Five year	+1.10%
Since launch	+1.09%

Source: AXA IM as at 31/05/2022. 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.

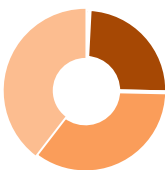
- **Investment Grade:** Our exposure to investment grade markets was broadly stable at 48% (versus 49% last month) as we were active in both primary and secondary markets across US dollar and sterling, with a bias towards the financial sector.
- **High Yield and Emerging Markets:** Our exposure to high-yield and emerging markets increased by 4% to 39% as we added opportunistically to US high-yield towards the end of month following its sharp underperformance. We were also active in the euro high-yield primary market.

Outlook

- We expect market conditions to remain very volatile over the medium-term due to the combination of continued inflationary pressures, hawkish central banks and a protracted conflict in Ukraine. In such an environment, it is paramount to retain flexibility and manage actively the duration and credit exposure.
- As inflation should start gradually falling over the coming quarters, we expect yields to stabilise at these higher levels since they already reflect a very aggressive pace of tightening by central banks, helping credit spreads to tighten.

Asset class breakdown

Category	Asset Class	Total
Cash		1%
Sovereign ⁵	Nominal	0%
	Inflation-Linked	12%
	Total	12%
Investment Grade Credit	EUR IG Credit	12%
	GBP IG Credit	22%
	USD IG Credit	14%
	Total	48%
High Yield & Emerging Markets	EUR High Yield	19%
	USD High Yield	6%
	Emerging Markets	14%
	Total	39%
Total		100%



Portfolio breakdowns

Breakdown by region

Cash	1%
UK	28%
Core Europe – ex UK	19%
Periphery Europe	13%
North America	25%
Emerging Markets	14%
Developed Asia	1%

Breakdown by sector

Cash	1%
Financial	37%
Defensive	21%
Cyclical	23%
Securitized	5%
Sovereign ⁴	13%

Breakdown by rating²

Cash	1%
AAA	5%
AA	10%
A	8%
BBB	45%
BB	20%
B	10%
CCC & below	1%

Breakdown by maturity

Cash	1%
0-1 year	25%
1-3 years	35%
3-5 years	40%

(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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