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Sterling Credit Short Duration strategy

Upside surprises on inflation trigger recession fears

- Sterling investment grade credit spreads widened significantly due to rampant inflation and recession fears
- UK gilt yields were higher despite the large sell-off in risk assets
- The risk profile was broadly unchanged

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Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Despite the easing of COVID-19 quarantine restrictions in China, sterling investment grade credit spreads widened significantly due to rampant inflation and increased recession fears as central banks pressed ahead with interest rate hikes.

- The US Federal Reserve raised interest rates for a third consecutive time by 0.75% to the range of 1.5% to 1.75%, its biggest hike since 1994, as inflation surprised to the upside in May at 8.6%, a 40-year high. Meanwhile the Bank of England raised interest rates for a fifth consecutive time by 0.25% to 1.25% as inflation reached 9.1% in May, also a 40-year high. Finally, the European Central Bank struck a hawkish tone at its policy meeting and is expected to announce an interest rate rise in July as inflation reached a new record high of 8.6% in June.

- Despite the large sell-off in risk assets, UK gilt yields rose as the market focused on the impact of still rising inflation on the future path of interest rates.

Strategy in focus – representative account (30/06/22)	
Assets under management	£493m
Yield (GBP hedged)[1]	4.1%
Duration[1]	1.9 yrs
Average rating[2]	A-
Number of issuers	110
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-1.84%
Year-to-date	-3.85%
One year	-4.30%
Three years	-0.57%
Five years	+1.75%
Ten years	+15.80%
Since launch	+22.40%

Annualised net performance – representative account (GBP)[3]	
One year	-4.30%
Three years	-0.19%
Five years	+0.35%
Ten years	+1.48%
Since launch	+1.75%

Source: AXA IM as at 30/06/2022. 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 to £4bn in June. As such, we participated in two new issues from Finnish bank OP bank and Japanese carmaker Toyota. Our exposure to financials was reduced by 4% and cash increased by 2% following the redemptions of many bonds during the month. Apart from this, we kept the positioning broadly stable, waiting for better entry points before adding risk again, with our exposure to BBB-rated bonds therefore unchanged at 57%.

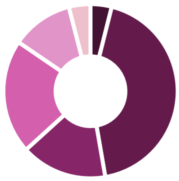
Outlook

- We expect market conditions to remain very volatile over the short-term due to continued inflationary pressures, hawkish central banks, a protracted conflict in Ukraine and increased risk of a recession next year.

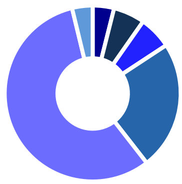
- As inflation should start gradually falling over the coming quarters, we expect yields to consolidate at these higher levels since they already reflect a very aggressive pace of tightening by central banks, helping credit spreads to also stabilise.

Portfolio breakdowns

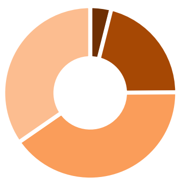
Breakdown by region	
Cash	*4%*
UK	*36%*
Europe Core – ex UK	*29%*
Europe Periphery	*10%*
North America	*10%*
Emerging Markets	*5%*
Developed Asia	*6%*



Breakdown by sector	
Cash	*4%*
Financial	*43%*
Defensive	*16%*
Cyclical	*21%*
Securitized	*11%*
Sovereign	*4%*



Breakdown by rating	
Cash	*4%*
AAA	*6%*
AA	*6%*
A	*24%*
BBB	*57%*
BB or below	*4%*



Breakdown by maturity	
Cash	*4%*
0-1 year	*21%*
1-3 years	*40%*
3-5 years	*35%*

(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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