Short-dated sterling credit market

Highest yield on offer since 2009

- This year, the sterling credit market has experienced its largest ever drawdown following a large rise in gilt yields and much wider credit spreads
- The AXA Sterling Credit Short Duration Bond Fund substantially outperformed both the sterling credit universe and peers over this period thanks to its structural defensive positioning and active management
- We believe short-dated sterling corporate bonds are now attractive, with the highest yield on offer since 2009 and a powerful 'pull-to-par' effect likely to add to performance as bonds mature

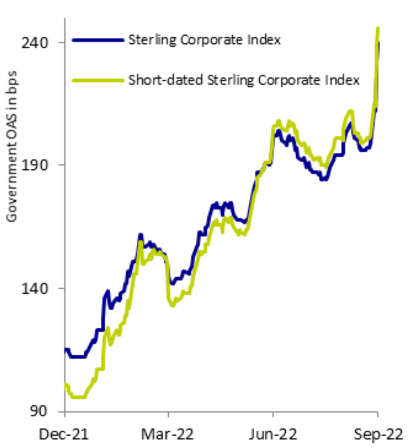
Nicolas Trindade
Fund Manager, AXA Sterling Credit Short Duration Bond Fund

September was a particularly brutal month for sterling bond markets. UK gilt yields rocketed up by 100bps in just two days after UK chancellor Kwasi Kwarteng unveiled a mini-budget that included a substantial package of unfunded fiscal easing. This unprecedented move in gilt yields caused a massive repricing in the sterling market.

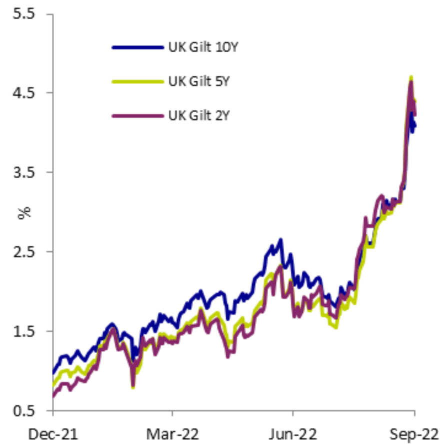
Over the month as a whole, the Short-Dated Sterling Corporate Index[1] fell -5.0%[2], while the all-maturity Sterling Corporate Index[3] was down a staggering -9.5%[2]. Year-to-date, this leaves the Short-Dated Sterling Corporate Index down by -12.4%[2] and the all-maturity Sterling Corporate Index down by -24.9%[2].

While these moves were a gruesome experience for investors, the structural defensive positioning of the AXA Sterling Credit Short Duration Bond Fund, combined with some timely active management decisions, helped us to limit the impact of the drawdown. As a result, the fund was down -3.0%[2] in September and is down -7.5%[2] year-to-date (Z GBP shareclass, net of fees), substantially outperforming not only the short-dated sterling credit universe but also its peers.

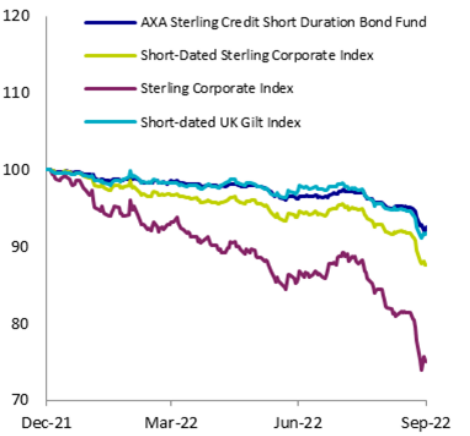
Credit spreads



Gilt yield



Selected sterling index performance



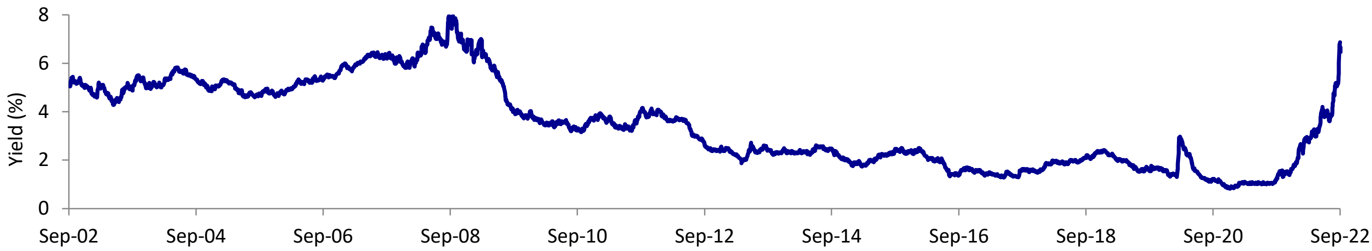
Source: AXA IM, Bloomberg as at 30/09/2022. Short-dated Sterling Corporate Index: ICE BofA 1-5 year Sterling Corporate Index. Sterling Corporate Index: ICE BofA. Sterling Corporate & Collateralized Index. Short-dated Gilt Index: ICE BofA 1-5 Year UK Gilt Index. AXA Sterling Credit Short Duration Bond Fund performance presented net of charges (41 basis points) and gross of tax, calculated using mid prices for the Z (G) Acc share class (income reinvested) since

[1]Short-dated Sterling Corporate Index represented by ICE BofA 1-5 year Sterling Corporate Index. [2]Source: Bloomberg. [3]Sterling Corporate Index represented by ICE BofA. Sterling Corporate & Collateralized Index.

launch in November 2010. Past performance is not an indication of future returns. Investments can go down as well as up and you may not get back the original amount invested.

The case for short-dated bonds is the strongest it has been for many years

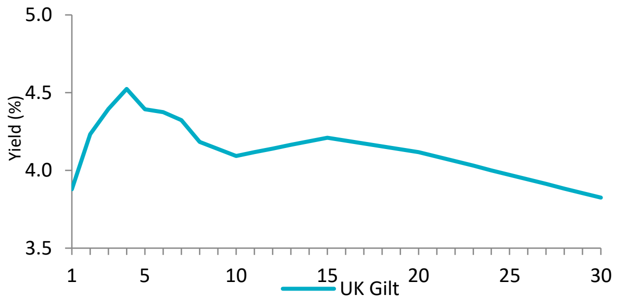
Short-dated Sterling Corporate Index yield



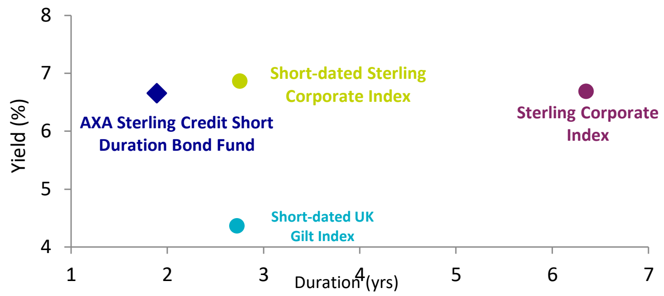
Source AXA IM, Bloomberg as at 30/09/2022. Short-dated Sterling Corporate Index represented by ICE BofA 1-5 year Sterling Corporate Index.

The substantial repricing experienced since the beginning of the year has created a great opportunity in short-duration bonds. Yields are high, even on lower-risk rated assets: AXA Sterling Credit Short Duration Bond Fund now has a yield close to 7% – the highest it has been since its inception – for an average rating of A-, while duration is less than 2 years. This is a similar yield to the all-maturity Sterling Corporate universe for only 25% of its duration. Indeed, with an inverted yield curve in the UK, adding duration would only add risk for no additional yield.

UK gilt yield curve



Yield/duration of selected sterling indices

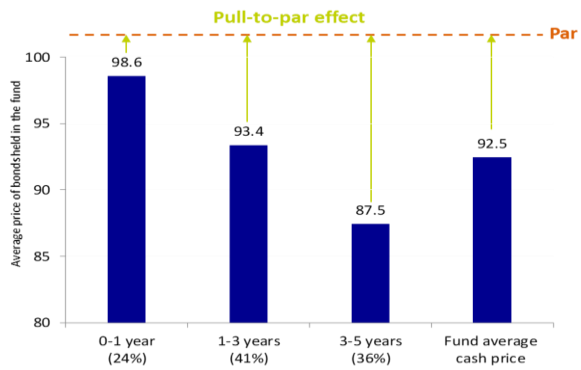


Source: AXA IM, Bloomberg, UBS Delta as at 30/09/2022. Short-dated Sterling Corporate Index: ICE BofA 1-5 year Sterling Corporate Index. Sterling Corporate Index: ICE BofA Sterling Corporate & Collateralized Index. Short-dated Gilt Index: ICE BofA 1-5 Year UK Gilt Index.

Moreover, the fall in bond prices has created a powerful 'pull-to-par' effect for bond investors. The average cash price of the bonds held in the short-dated Sterling Corporate Index is 90[4] , a level not seen since the sub-prime crisis in 2008. As bonds mature at par (100), we believe that 'pull-to-par' effect should be a powerful contributor to performance. As the average maturity of the bonds held in the fund is around two years, this will be felt particularly over the next one to two years.

Short-dated Sterling Corporate Index price

Portfolio average price by maturity



Source AXA IM, Bloomberg, UBS Delta as at 30/09/2022.

We expect market conditions to remain very volatile over the short-term due to continued inflationary pressures, hawkish central banks, and a high risk of a global recession. Nevertheless, we remain optimistic over the medium-term

[4] Bloomberg.

and believe that the strong 'pull-to-par' effect and 7% yield mean that performance outlook for the fund is the most positive it has been for many years.

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Additional risks associated with this fund include:

Counterparty Risk: failure by any counterparty to a transaction (e.g. derivatives) with the Fund to meet its obligations may adversely affect the value of the Fund. The Fund may receive assets from the counterparty to protect against any such adverse effect but there is a risk that the value of such assets at the time of the failure would be insufficient to cover the loss to the Fund.

Derivatives: derivatives can be more volatile than the underlying asset and may result in greater fluctuations to the Fund's value. In the case of derivatives not traded on an exchange they may be subject to additional counterparty and liquidity risk.

Interest Rate Risk: fluctuations in interest rates will change the value of bonds, impacting the value of the Fund. Generally, when interest rates rise, the value of the bonds fall and vice versa. The valuation of bonds will also change according to market perceptions of future movements in interest rates.

Liquidity Risk: some investments may trade infrequently and in small volumes. As a result the Fund manager may not be able to sell at a preferred time or volume or at a price close to the last quoted valuation. The Fund manager may be forced to sell a number of such investments as a result of a large redemption of shares in the Fund. Depending on market conditions, this could lead to a significant drop in the Fund's value and in extreme circumstances lead the Fund to be unable to meet its redemptions.

Credit Risk: the risk that an issuer of bonds will default on its obligations to pay income or repay capital, resulting in a decrease in Fund value. The value of a bond (and, subsequently, the Fund) is also affected by changes in market perceptions of the risk of future default. Investment grade issuers are regarded as less likely to default than issuers of high yield bonds.

Further explanation of the risks associated with an investment in this Fund can be found in the prospectus.

Calendar performance

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Fund	-0.08%	+2.33%	+3.23%	-0.33%	+1.17%	+3.82%	+0.52%	+2.87%	+1.92%	+6.70%	+2.54%
Cash	-0.01%	+0.26%	+0.71%	+0.56%	+0.23%	+0.40%	+0.45%	+0.42%	+0.39%	+0.77%	+0.72%
Difference	-0.07%	+2.06%	+2.52%	-0.89%	+0.94%	+3.42%	+0.07%	+2.45%	+1.53%	+5.93%	+1.82%

Source AXA IM as at 30/09/2022. Performance is presented net of ongoing charges (41 basis points) and gross of tax, and is calculated using mid prices for the Z (G) Acc share class (income reinvested) since its launch in November 2010. Past performance is not a guide to future performance and please note this is not an absolute return or cash plus strategy. *Cash is proxied by a composite of SONIA Compounded Index (SONCINDX) since 29/07/2021 and the ICE BofAML British Pound 3-Month Deposit Bid Rate Average Index (L5BP) from November 2010 to 29/07/2021. Return may increase or decrease as a result of currency fluctuations.
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