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# Sterling Credit Short Duration strategy Summer rally continues

- Credit spreads further tightened thanks to a sustained level of monetary and fiscal support
- Europe is starting to see a second wave of coronavirus
- We kept the risk profile stable

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## What's happening?

- Despite persistent worries about spikes in infections across the world, credit spreads continued to tighten in August thanks to a sustained level of monetary and fiscal support from central banks and governments worldwide, China and the US re-committing to their 'Phase One' trade agreement, and encouraging news about a coronavirus treatment.
- In a significant change in monetary policy, the US Federal Reserve (Fed) announced plans to shift to 'average inflation targeting' in an attempt to increase inflation expectations. This also implied that interest rates would likely remain at a low level for longer.
- Despite the Bank of England keeping interest rates unchanged, UK gilt yields rose in August, mirroring a trend across developed markets, due to the continued risk-on environment and the Fed's new inflation policy.

## Strategy in focus – representative account (31/08/20)

Assets under management	£627m
Yield (GBP hedged) <sup>1</sup>	1.3%
Duration <sup>1</sup>	1.7 yrs
Average rating <sup>2</sup>	A-
Number of issuers	116
Launch date	12/11/2010

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

One month	+0.24%
Year-to-date	+0.80%
One year	+1.37%
Three years (cumulative)	+3.72%
Five years (cumulative)	+9.04%

Source: AXA IM as at 31/08/2020. 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

- We were active in the secondary market, buying bonds from the financial services arm of UK retailer Tesco and German bank Deutsche Bank. We did not buy any new sterling issues in August as the sterling primary market

remained shut with only £0.5bn of issuance. However, we were active in the euro primary market, buying US life insurer Athene, a new addition to the Fund.

## Outlook

- Despite all advanced economies forecast to be in recession this year, we have now experienced the shortest bear market ever in credit markets due to the unprecedented monetary, fiscal and regulatory support.
- With the outlook remaining very uncertain and valuations back to early March levels, we decided to pause the re-risking of the Fund for now.

## Portfolio breakdowns

### Breakdown by region

Cash	5%
UK	31%
Europe Core – ex UK	27%
Europe Periphery	9%
North America	14%
Emerging Markets	5%
Developed Asia	10%



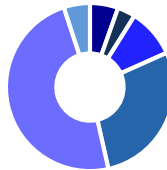
### Breakdown by sector

Cash	5%
Financial	41%
Defensive	21%
Cyclical	24%
Securitized	9%
Sovereign	0%



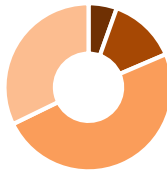
### Breakdown by rating

Cash	5%
AAA	3%
AA	9%
A	28%
BBB	48%
BB or below	5%



### Breakdown by maturity

Cash	5%
0-1 year	13%
1-3 years	49%
3-5 years	32%



(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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