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Sterling Credit Short Duration strategy

The rally stalls

- Credit spreads widened for the first time since March
- A sharp increase in coronavirus infections led to the re-imposition of local lockdown restrictions
- We kept the risk profile broadly stable

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What's happening?

- For the first time since March, credit spreads widened in September, due to several factors: a sharp increase in coronavirus infections, particularly in Europe, and the subsequent re-imposition of local lockdown restrictions; a lack of agreement on further fiscal spending in the US; and heightened risk of a 'no-deal' Brexit as tensions between the UK and the European Union increased.
- At its September policy meeting, the US Federal Reserve projected that its ultra-low interest rate policy would likely remain in place until the end of 2023. Meanwhile, the European Central Bank assured markets that its current accommodative monetary strategy would remain in place; and the Bank of England said that, although it was exploring negative interest rates, it would not impose them in the near future.
- UK gilt yields fell in September as coronavirus case numbers continued to rise, threatening the global economic recovery.

Strategy in focus – representative account (30/09/20)

Assets under management	£630m
Yield (GBP hedged) ¹	1.3%
Duration ¹	1.7 yrs
Average rating ²	A-
Number of issuers	119
Launch date	12/11/2010

Net performance – representative account (GBP)³

One month	+0.16%
Year-to-date	+0.96%
One year	+1.37%
Three years (cumulative)	+4.40%
Five years (cumulative)	+9.69%

Source: AXA IM as at 30/09/2020. 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 very active in September in the secondary market, buying bonds from French commercial real estate company Unibail and US media company Discovery, both being new additions to the Fund. Sterling investment grade primary issuance was light in September at only £6bn. We still participated in one new issue from Irish consumer credit reporting company Experian, also a new addition to the Fund. Since the end of February, we have gradually re-risked the portfolio, adding 5% of BBB rated bonds from 45% to 50%.

Outlook

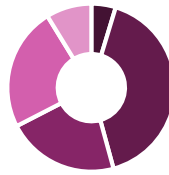
- With the world's economy not experiencing a 'V-shaped' recovery in our opinion but rather a 'swoosh' one, policy and fiscal support remain paramount.
- As such, with valuations back to early March levels, we pause for now the re-risking of the Fund as the outlook remains uncertain with a potentially contested US election, renewed widespread local lockdowns to contain the second wave of coronavirus, and heightened 'no-deal' Brexit risk.



Portfolio breakdowns

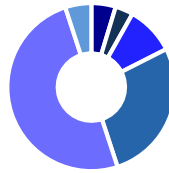
Breakdown by region

Cash	5%
UK	31%
Europe Core – ex UK	27%
Europe Periphery	9%
North America	14%
Emerging Markets	4%
Developed Asia	10%



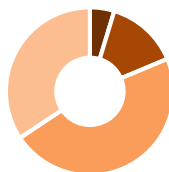
Breakdown by sector

Cash	5%
Financial	41%
Defensive	22%
Cyclical	24%
Securitized	9%
Sovereign	0%



Breakdown by rating

Cash	5%
AAA	3%
AA	9%
A	27%
BBB	50%
BB or below	5%



Breakdown by maturity

Cash	5%
0-1 year	14%
1-3 years	47%
3-5 years	34%

(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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