Global Short Duration strategy

Markets rebound as US inflation moderates

- Credit spreads were tighter, supported by resilient economic data, and continued strong demand.
- Sovereign yields were mixed, with US treasuries outperforming as US inflation was in-line with expectations.
- We de-risked further the portfolio by rotating out of high-yield into sovereign debt

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What's happening?

- Credit spreads tightened in May, supported by resilient economic data, continued strong demand, and in-line US inflation. In the UK, prime minister Rishi Sunak announced a general election for 4 July.

- The US Federal Reserve (Fed) held interest rates steady at the range of 5.25% to 5.5% in May, stating that it did not expect 'it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably towards 2%'. The Bank of England (BoE) also held interest rates unchanged at 5.25%, but governor Andrew Bailey said that he was 'optimistic that things are moving in the right direction' and signaled that the first interest rate cut could be made this summer. The European Central Bank (ECB) did not meet but that did not stop president Christine Lagarde from saying that there was a 'strong likelihood' of a rate cut in June.

- Sovereign yields were mixed, with US treasury yields falling as US inflation was in-line with expectations at 3.4% in April, ending a four-month streak in which inflation outstripped expectations. UK inflation fell to 2.3% in April, its lowest level for almost three years, but the decline was smaller than expected, with UK gilt yields broadly unchanged as a result. German bund yields rose as eurozone inflation rose for the first time this year to 2.6% in May, beating expectations.

Strategy in focus – representative account (31/05/24)	
Assets under management	£323m
Yield (GBP hedged)[1]	5.1%
Duration[1]	2.4 yrs
Average rating[2]	A-
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	+0.45%
Year-to-date	+1.08%
One year	+5.92%
Three year (cumulative)	+4.74%
Five year (cumulative)	+10.38%
Since launch (cumulative)	+12.70%

Annualised net performance – representative account (GBP)[3]	
One year	+5.92%
Three year	+1.55%
Five year	+1.99%
Since launch	+1.71%

Source: AXA IM as at 31/05/2024. 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

- **Sovereign:** Our exposure to sovereign bonds increased by 2% to 27% as we added to nominal debt to de-risk further the portfolio. We remained invested in US treasury inflation-linked bonds, German bunds, UK gilts, and government-related debt. We reduced the duration early in the month, following the sharp fall in sovereign yields, enabling us to mitigate the negative impact of rising yields in the second half of the month.
- **Investment Grade:** Our exposure to investment grade markets was unchanged at 57% as we continued to be active in the US dollar, euro, and sterling secondary markets.
- **High-Yield and Emerging Markets**: Our exposure to high-yield and emerging markets decreased by 2% to 13% as we reduced our exposure to some higher-beta names and had several bonds being tendered. As such, we continued to maintain our underweight position due to expensive valuations.

Outlook

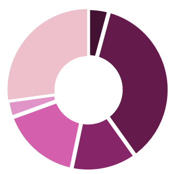
- A divergence in monetary policy between Europe and the US could appear this year as the latter is faced with stickier inflation on the back of stronger growth, potentially preventing the Fed from cutting rates not nearly as much as the ECB or BoE.
- We have reduced the overall level of credit risk as valuations look fair to expensive across most asset classes, particularly in a scenario where the Fed would not cut rates at all for an extended period of time.
- Still, we believe the yields available on short-dated bonds remain attractive due to inverted sovereign yield curves and flat credit curves.

Asset class breakdown

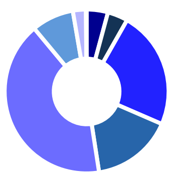
Category	Asset Class	Total
Cash		4%
Sovereign[5]	Nominal	20%
	Inflation-Linked	7%
	Total	27%
Investment Grade Credit	EUR IG Credit	15%
	GBP IG Credit	29%
	USD IG Credit	12%
	Total	57%
High-Yield & Emerging Markets	EUR High-Yield	8%
	USD High-Yield	1%
	Emerging Markets	3%
	Total	13%
Total		100%

Portfolio breakdowns

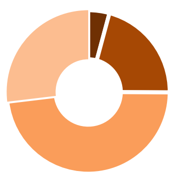
Breakdown by region	
Cash	4%
UK	30%
Core Europe – ex UK	23%
Periphery Europe	11%
North America	26%
Emerging Markets	3%
Developed Asia	2%



Breakdown by sector	
Cash	4%
Financial	36%
Defensive	13%
Cyclical	16%
Securitized	3%
Sovereign[4]	27%



Breakdown by rating[2]	
Cash	4%
AAA	4%
AA	23%
A	16%
BBB	41%
BB	8%
B	3%
CCC & below	0%



Breakdown by maturity	
Cash	4%
0-1 year	21%
1-3 years	48%
3-5 years	27%

(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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No assurance can be given that the Global Short Duration strategy will be successful. Investors can lose some or all of their capital invested. The Global Short Duration strategy is subject to risks including credit risk, liquidity risk and interest rate risk and counterparty risk. The strategy is also subject to derivatives and leverage, emerging markets and global investment risks.

im.com/en/registration-map, where a fund registration map is available. In particular units of the funds may not be offered, sold or delivered to U.S. Persons within the meaning of Regulation S of the U.S. Securities Act of 1933. The tax treatment relating to the holding, acquisition or disposal of shares or units in the fund depends on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors.

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