AXA Sterling Credit Short Duration Bond Z Gr Inc

November 2021
Investment Research

Opinion

Square Mile rating

A

Exclusion ☑
Sustainable ☐
Responsible Practices ☐
Impact ☐

FE fundinfo crown rating

FE fundinfo Crown Fund Rating

Performance

3 years annualised returns

1.67%

% of time met performance objective over 3 years

82.3%

Risks

Risk of asset class

1 2 **3** 4 5 6 7 8 9 10

Risk of fund within asset class

1 2 3 4 5

SRRI **2**

-3.74% 3 years max drawdown

Costs

Ongoing charges **0.42%**

Transaction costs **0.07%**

Total cost of investment **0.49%**

ESG

Company

0 1 **2+** 3

Fund

0 1 **2** 3

Overview

The focus of the fund is on preserving capital and generating income. The manager aims to generate consistent incremental returns over cash whilst reducing volatility and, in particular, interest rate sensitivity. The goal of preserving capital should be viewed on a 3-5 year time horizon and over shorter periods there may be some level of capital volatility in the fund. Income will be generated through investment into short-dated corporate bonds which pay a coupon. The level of income generated will depend on prevailing interest rates and is currently low, reflecting the low interest rate environment.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
	●	●	

Square Mile Expected Outcome

We believe this fund should be able to provide consistent and incremental returns of 100 to 150 bps above cash (SONIA), after fees, over rolling three year periods.

Active/Passive: Active	**Domicile:** United Kingdom
Asset Class: Fixed Income	**IA Sector:** IA Sterling Corporate Bond
Launch Date: 12/11/2010	**Fund Size (as at 12 Nov 2021):** £510.3m
Yield: 1.34%	**Distribution Pay Date:** Jan 01, Apr 01, Jul 01 (Final), Oct 01
Fund Manager: Nicolas Trindade, Philip Roantree	**Ongoing Charge Figure:** 0.42%
	Transaction Cost ex Ante: 0.07%

Fund Opinion

This is a relatively simple corporate bond fund that invests in short-dated bonds which produce an income, but which tend to have less volatility than the wider market. The income of the fund is likely to be lower than the corporate bond universe as a whole due to the lower maturities of the bonds in the fund and thus the lack of term premium (extra yield which investors demand for lending for longer time periods) available. About 20% of the portfolio matures each year, which gives some protection against any future rises in interest rates, as the manager should be able to re-invest maturing bonds at higher yields. The biggest drawdowns in the life of the fund occurred in 2011, 2013 and 2020, difficult periods for credit markets, and were limited in size, and subsequently recovered.

The fund may be attractive to investors who are sensitive to the capital volatility of their investments and wish to preserve capital over the longer term, but who still require some level of income. Investors should note that in the shorter term there may be some volatility and that capital preservation is not guaranteed over any time period. Generally speaking the fund is likely to behave in a defensive manner, performing well relative to the wider corporate bond market during periods of volatility and negative returns, but lagging, perhaps substantially, during periods of strong returns. The fund is perhaps most suitable as a cash substitute for investors who are willing to tolerate a higher level of volatility than cash, but be rewarded with a higher income over time.

We like the relatively simple nature of the fund and the consistent process which the manager employs. Whilst this fund is never likely to excite, it is also unlikely to produce any nasty surprises for investors.

Fund Description

The fund is managed by Nicolas Trindade. Mr Trindade joined AXA Investment Managers (AXA IM) in 2006 and is a Senior Sterling Credit Portfolio Manager at AXA IM, he is also a CFA Charterholder. Both Mr Trindade and the fund's deputy manager, Phil Roantree, sit within the London-based Active Fixed Income Team at AXA IM, and the pair have access to the extensive fixed income operation that AXA IM offers, including a dedicated fixed income dealing function. AXA IM is a large, global asset management company specialising in actively managed funds across a range of geographies and asset classes.

The philosophy behind the fund is very simple. The manager is looking to provide consistent incremental returns and to reduce the volatility of these returns, in particular the interest rate sensitivity of the portfolio. In order to achieve this the fund will invest predominantly in sterling denominated corporate bonds with a final maturity date of less than 5 years.

Given the aims of the fund, the manager does not slavishly follow an index when constructing the portfolio, and this results in two significant differences from the market. Firstly the fund is likely to have a lower weighting to bonds issued by financial institutions than the index (which has around 50% in such bonds), as these securities tend to be somewhat more volatile than the universe as a whole and thus do not help the managers to meet the objective of reducing volatility. Secondly, the maturity profile of the fund will be substantially different to the index. Given the relatively high costs associated with trading corporate bonds, the managers generally try to minimise trading on the fund where possible. They thus construct the portfolio in such a way as to have a fairly even spread of maturities (up to the 5 year maximum) across the fund. In this way around 20% of the fund is likely to mature each year, providing both liquidity and a hedge against rising bond yields. The latter is due to the fact that as yields rise the managers have a constant stream of cash to reinvest at the higher yields available in the market.

Up to 20% of the fund may be invested in bonds denominated in currencies other than sterling, both for the diversification benefits this brings, and to take advantage of any discrepancies in pricing across markets. Any currency exposure will be fully hedged back to sterling, however, as leaving currencies unhedged could cause unnecessary volatility. Up to 5% of the fund may be held in bonds rated below investment grade. This tends to be used to buy bonds which are rated BB and which the managers believe have the potential to be upgraded to investment grade, and to appreciate in value as a result.

Technically the managers can hold up to 10% of the fund in bonds with a final legal maturity of up to 10 years if they believe that the bonds will be redeemed within the next 5 years (as is possible with so called "callable bonds" which make up a part of the market). In reality, however, over 95% of the fund is usually invested in bonds with a final legal maturity of less than 5 years. This is a conservative fund and the managers do not want to do anything to increase the risk.

The investment universe of all AXA IM funds is subject to negative screens that preclude the managers investing in companies strongly exposed to controversial weapons, palm oil, coal and soft commodities, activities considered by AXA IM to be unethical or controversial.

Risk Summary

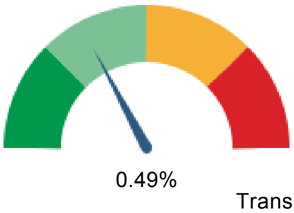
The fund invests in short-dated fixed interest instruments and the major risks are likely to be interest rate risk and credit risk. About 20% of the portfolio matures each year, which gives some protection against any future rises in interest rates, as the manager should be able to re-invest maturing bonds at higher yields. However, if interest rates rise very quickly it would be likely to adversely impact the fund. Credit risk will always be prevalent in the fund, although the manager looks to mitigate this through careful credit analysis and good diversification of the portfolio. Whilst AXA IM have an extensive and very able team of credit analysts, there is always the possibility that a company whose bonds are held in the portfolio could default on their debt. The fund is well diversified and the impact of any individual bond defaulting should thus be small. Whilst there will always be risks present in a fund such as this, we believe that the simple and consistent way in which the fund is managed, together with the experienced team and wider resources at AXA IM go a long way to mitigating these risks.

Value for Money

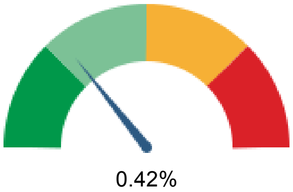
The fund's total cost of investment (TCI) is below the median of the peer group, which we consider to be good value for money. Given the lower turnover of this fund we would expect the cost to be lower than the sector average, but we believe this to be a good price as it gives access to the knowledge and expertise of the team at AXA Investment Managers, including a specialist dealing desk and a large bank of credit analysts, as well as a simple yet robust process.

Following the introduction of MiFID II regulations, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside the OCF such as research costs. As a result, AXA Investment Managers will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors.

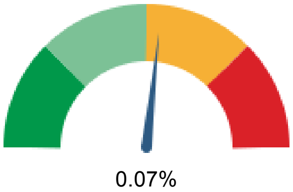
TCI v Peer Group



OCF v Peer Group



Transaction Costs v Peer Group



ESG Integration

Company Assessment	0	1	**2+**	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	**2**	3
ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
☑	☐	☐	☐

Additional Information

Annualised Return	1.67%
Annualised Volatility	1.82%
Max Drawdown	-3.74%
Max Gain	4.47%
Max Loss	-3.74%
Sharpe Ratio	0.66
Sortino Ratio	0.54

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

103.6 pence

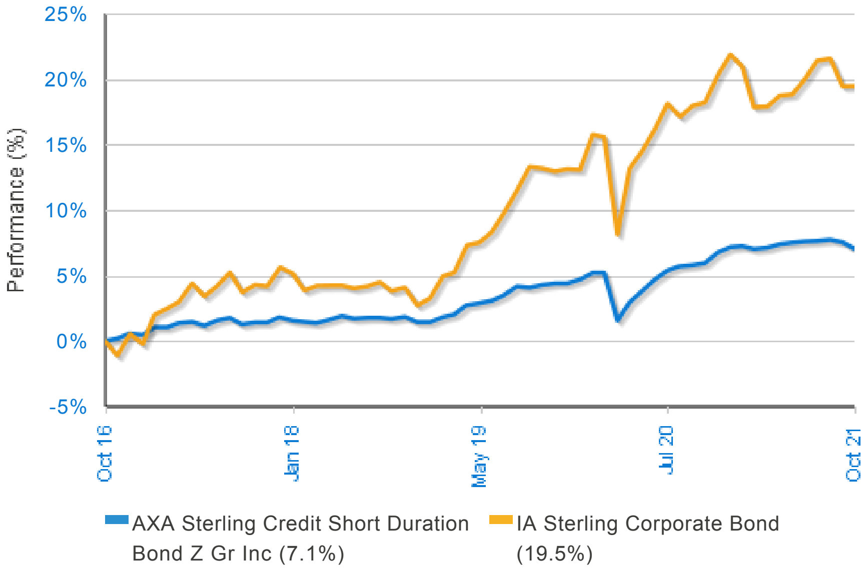
Benchmark

3 Month LIBOR GBP

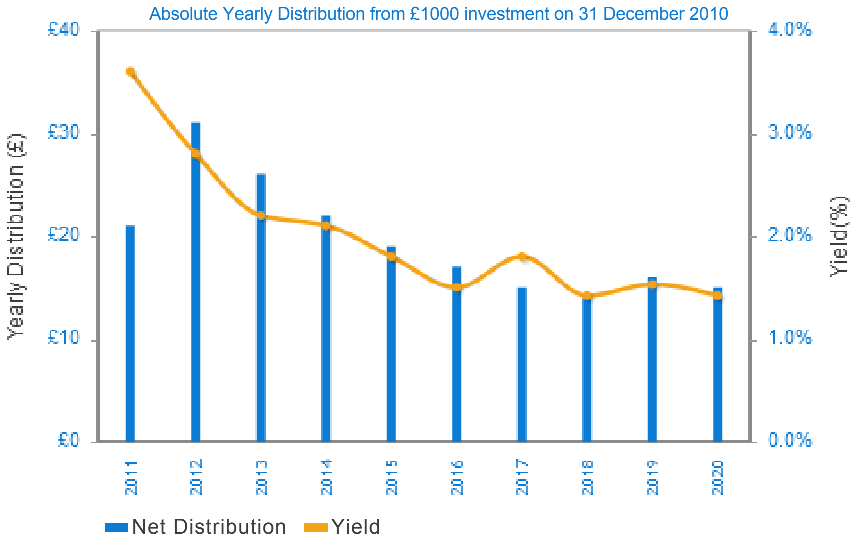
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	1.6	1.3	2
12-24m	1.5	4.2	4
24-36m	2.6	9.0	4
36-48m	0.4	0.1	2
48-60m	0.9	0.6	2

Capital Growth

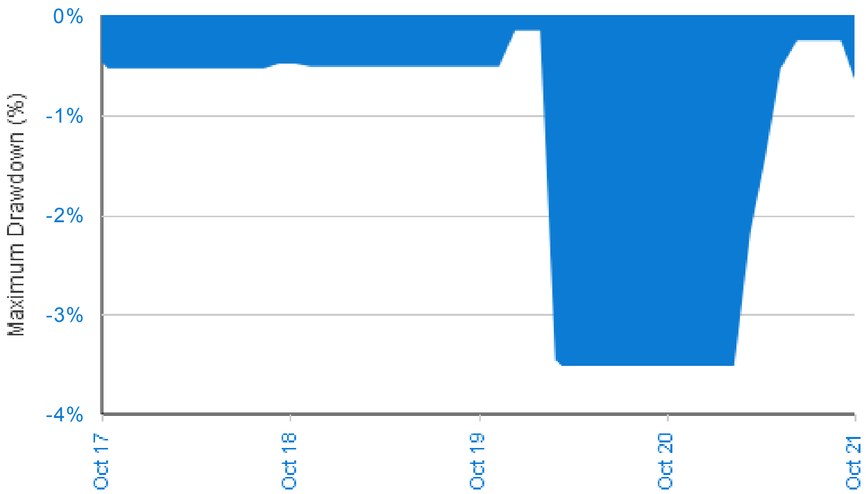


Income



This graph assumes that income is distributed to shareholders and not reinvested.
Yield represents share price fluctuations.

Maximum Drawdown (Rolling 12 Months)



Credit Rating

(Data as at 29 Oct 2021)

Name	%
AAA	6.1
AA	13.9
A	30.4
BBB	42.2
BB	2.6
Cash	4.8

Asset Allocation Positioning

Name	%
UK Fixed Interest	33.8
Global Fixed Interest	12.8
US Fixed Interest	11.5
French Fixed Interest	10.2
German Fixed Interest	9.2
Money Market	4.8
Australian Fixed Interest	4.0
Others	13.7

(Data as at 29 Oct 2021)

Top Ten Holdings

(Data as at 29 Oct 2021)

Company Name	%
UNITED KINGDOM GILT 0.125% 01/31/2023	2.8
KFW 1.25% 12/29/2023	2.4
DEXIA CREDIT LOCAL SA 0.5% BDS 22/07/23 GBP100000	1.7
EDP FINANCE BV 8.625% 01/04/2024	1.6
LAND SECURITIES CAPITAL MARKETS 1.97% 02/08/2024	1.6
DNB BANK ASA 1.625% BDS 15/12/23 GBP100000	1.6
FONTERRA CO-OPERATIVE GROUP LTD 9.375% 12/04/2023	1.5
SCENTRE GROUP TRUST 1 / TRUST 2 2.375% 04/08/2022	1.5
CPUK FINANCE LTD 7.24% 02/28/2024	1.4
WHITBREAD PLC 3.375% GTD BDS 16/10/25 GBP100000	1.3

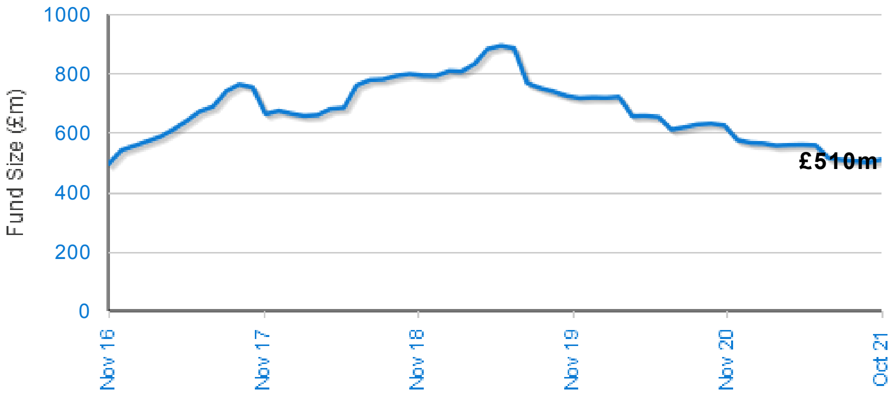
Sector Breakdown

(Data as at 29 Oct 2021)

Geographic Breakdown

(Data as at 29 Oct 2021)

Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			🟢
Interest Rate Risk		🟡	
Credit Risk	🔴		
Exchange Rate Risk			🟢
Liquidity Risk		🟡	
Emerging Markets Risk			🟢
Derivative Risk			🟢
Manager Risk		🟡	

Equity Risk
The fund has no material direct exposure to shares.

Interest Rate Risk
The fund is invested in short-dated fixed interest instruments. The fund price may fall if interest rates rise more rapidly than expected, although any such impact is likely to be limited by the short-dated nature of the assets held.

Credit Risk
The fund has significant exposure to high grade corporate debt. Widespread credit downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

Exchange Rate Risk
The fund has exposure to assets denominated in foreign currencies, but the manager intends to hedge the foreign exchange risks away.

Liquidity Risk
The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

Emerging Markets Risk
The fund predominantly invests in securities issued by governments or companies in developed markets.

Derivative Risk
The fund is predominantly invested in underlying cash securities and does not make extensive use of derivatives except to manage exchange rate risk.

Manager Risk
The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

FE Risk Rating: 8.00

SRRI: 2

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