AXA Investment Managers

Il credito europeo attraversa i venti di guerra

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Head of Europe IG & HY Credit AXA IM

17 marzo 2022

Why AXA WF Euro Credit Total Return?

Key messages

Portfolio Management Team

Ismael Lecanu
Head of Euro IG & HY
20 years' investment experience

Jean-Marc Frelet
Portfolio Manager
12 years' industry experience

Main Characteristics

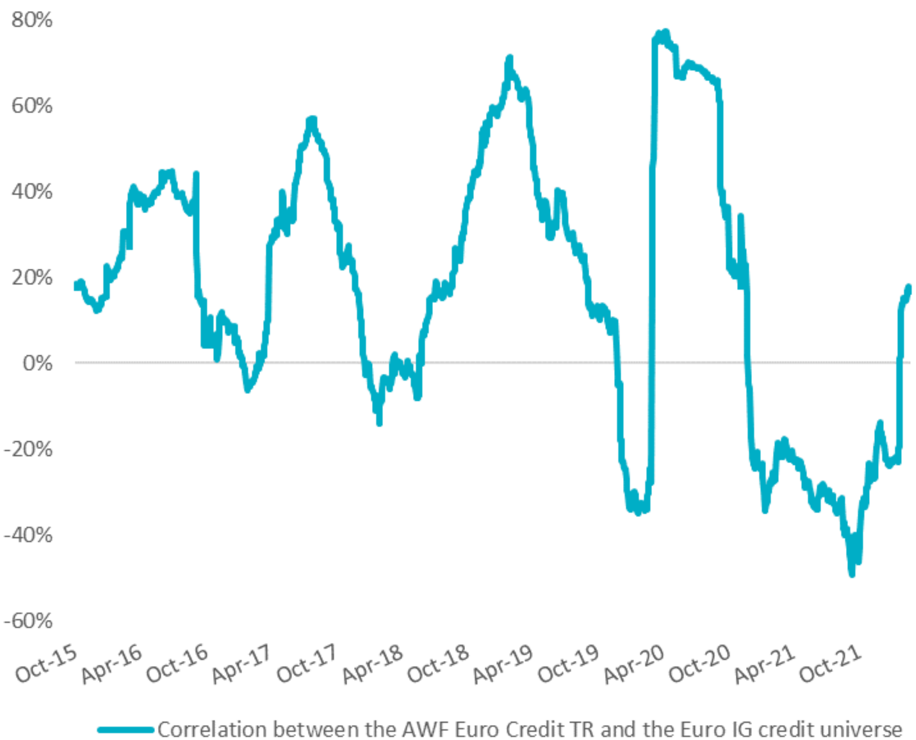
- Euro Credit **unconstrained**[1] offer launched in February 2015 to accommodate to a more challenging market environment
- **Investment Grade** quality portfolio (BBB-), investing the full euro credit universe with an extensive leeway on **High Yield** allocation (up to 50%)
- Flexible management of **Duration** risk (-2 to 6 years)
- Combination of **top-down management approach** with **tactical allocation** across identified risk buckets and return drivers
- **SFDR Article 8*** / ESG Integrated
- In the first quartile in its **Morningstar** peer group YTD and over 1Y & #3rd fund in its peer group over 3 Years and 5 Years[2]

Source: AXA IM as at 28/02/2022. (1) The fund is actively management without reference to any benchmark. (2) Morningstar: as of 31/12/2021 - EUR flexible bond universe. The figures provided relate to previous months or years and past performance is not a reliable indicator of future performance. The references to league tables and awards are not an indicator of the future places in league tables or awards and such information is necessarily evolutionary. These are internal guidelines which are subject to change without notice. Please refer to the prospectus for the fund's full investment guidelines and risks. *For more information on sustainability-related aspects please visit https://www.axa-im.com/what-is-sfdr

AXA WF Euro Credit Total Return

A profile that is decorrelated over time, both in terms of the credit market and interest rates

Correlation with the Euro Credit Investment Grade market



...and with the Bund

Source : AXA IM, Bloomberg as at 28/02/2022

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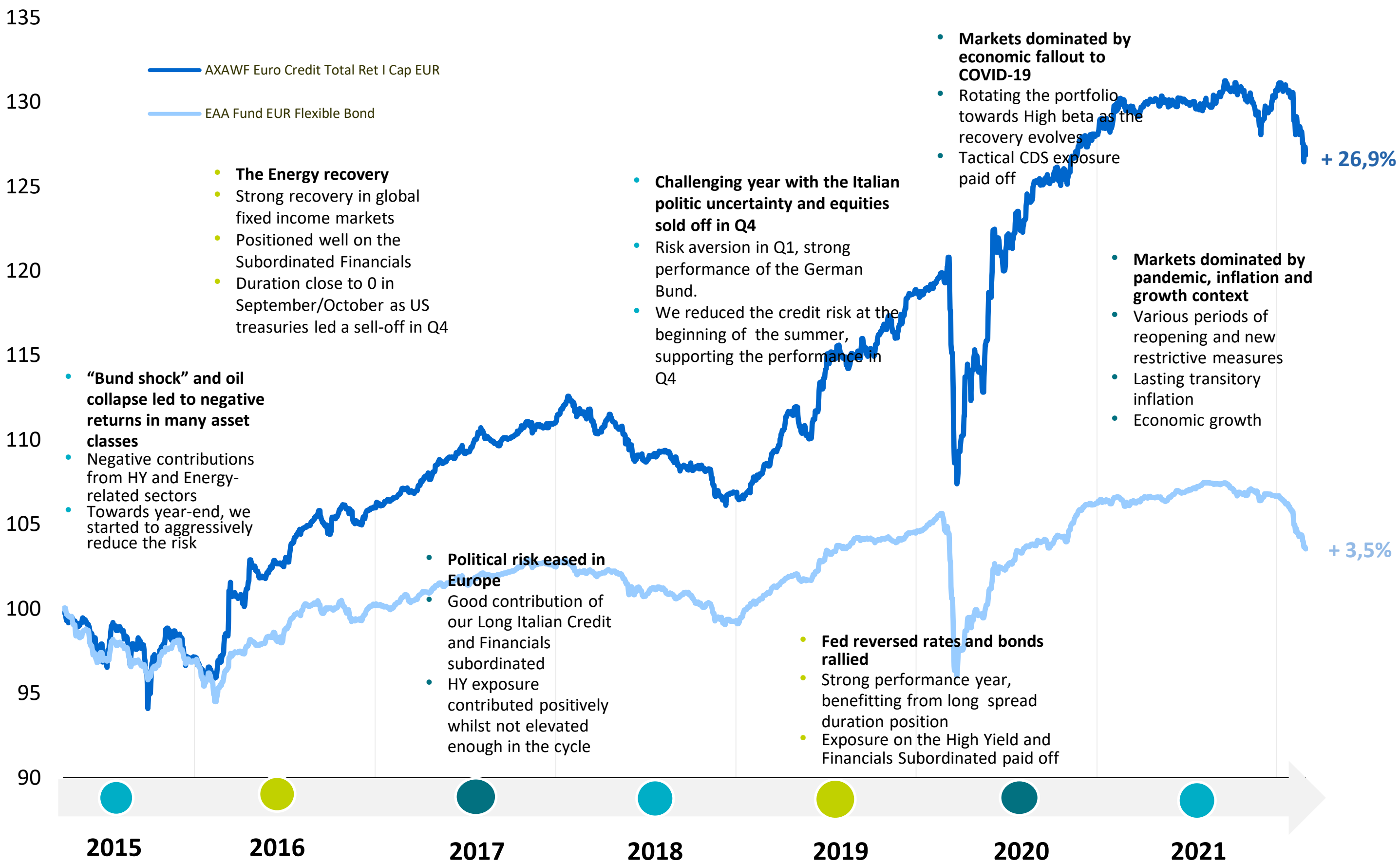
With a strong return over time (and peers)

Strong Outperformance against Morningstar category EAA Fund EUR flexible Bond



Net Perf.	AWF Euro Credit Total Return I Cap EUR	Average Morningstar Category
2022	**-2,90%**	**-2,83%**
2021	2,02%	0,49%
2020	7,72%	1,68%
2019	11,26%	5,15%
2018	-3,72%	-3,09%
2017	4,70%	2,24%
2016	9,13%	3,44%
SL	30,3%	6,7%

Max Gain	**39,49%**	**13,73%**
Max Drawdown	**-11,11%**	**-9,12%**
Max Drawdown Recovery	**72 days**	**245 days**

Source: AXA IM, Net performance I EUR as at 28/02/2022, Morningstar. The share class was launched in April 2015. References to rankings and awards are not an indicator of future rankings or awards. The information contained in this document may be updated from time to time. The information contained in this document may differ from previous or future versions of this document. Past performance is not a reliable indicator of future performance.

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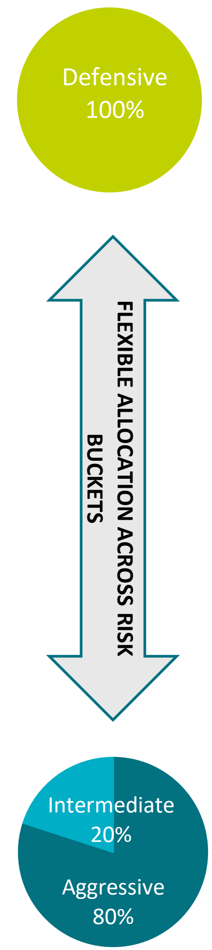
AXA WF Euro Credit Total Return

Enhanced market segmentation

	MARKET SEGMENTATION	KEY CHARACTERISTICS
Defensive	▪ Cash Equivalent ▪ Senior Financial Core ▪ Senior Corporate Core	Defensive High Liquidity Low Volatility
Intermediate	▪ Senior Financial Periphery ▪ Global Corporate IG ▪ Senior Corporate Periphery	Recovery and Convergence assets Medium carry Average volatility
Agressive	▪ Corporate High Yield ▪ Corporate Hybrids ▪ Financial Subordinated	Specific value stories High carry Medium to high volatility



Risk monitoring

- High Yield limited to 50%
- Min rating investment at B-
- Only rated and public issuances
- No currency risk
- Derivatives: up to 100% of NAV – Interest futures and Itraxx indices essentially

Source: AXA IM. These are internal guidelines which are subject to change without notice. Please read the prospectus for the fund's full investment guidelines and risks.
For illustrative purposes only
The fund is unconstrained by a benchmark. The reference currency of the fund is EUR. The hedging performed by State Street is 95% hedging.

Summary of our key convictions

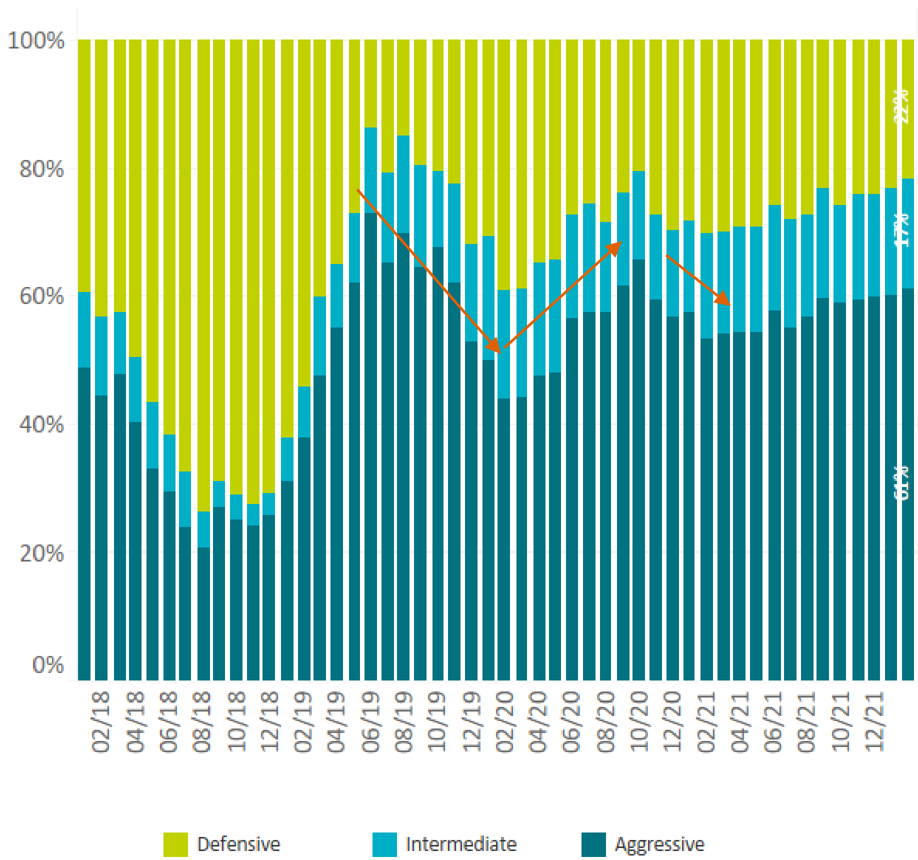
Our assessment	Our strategies
• **Rates are too low**, global growth is rebounding and inflation taking off.	• **Sell Nominal rates**, duration close to the minimum limit at -2 year.
• **IG Credit metrics are moving in the right direction**, supported by global growth rebound. Technicals are supportive and demand well in place for the credit asset class.	• **Long credit IG**, notably on the Banks, Insurance and Real Estate.
• **High Yield benefit from the economic recovery**, illustrated by a very low default rate. Carry is above 3% for a limited duration.	• **Long European HY**, exposure close to our max limit set at 50%.
• Country allocation: **convergence between Peripheral and Core countries** will continue, supported by the Next Generation EU program.	• **Long Peripheral countries**, notably Italy and Spain on the banking industry.

Source: AXA IM, December 2021.

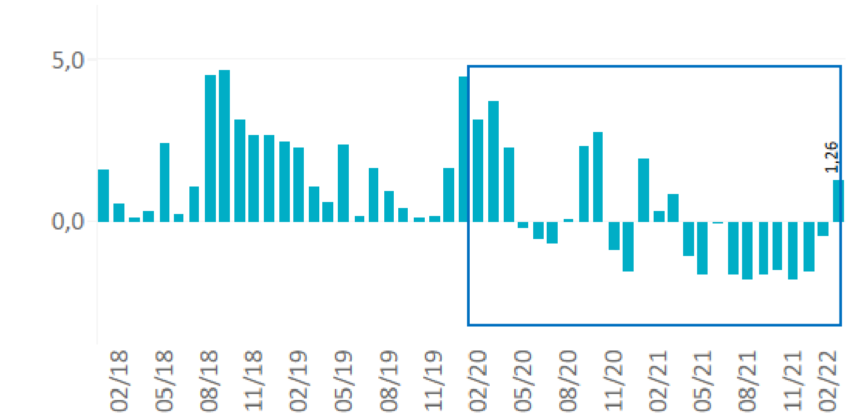
AXA WF Euro Credit Total Return

Our investment views in action - Bucket Allocation

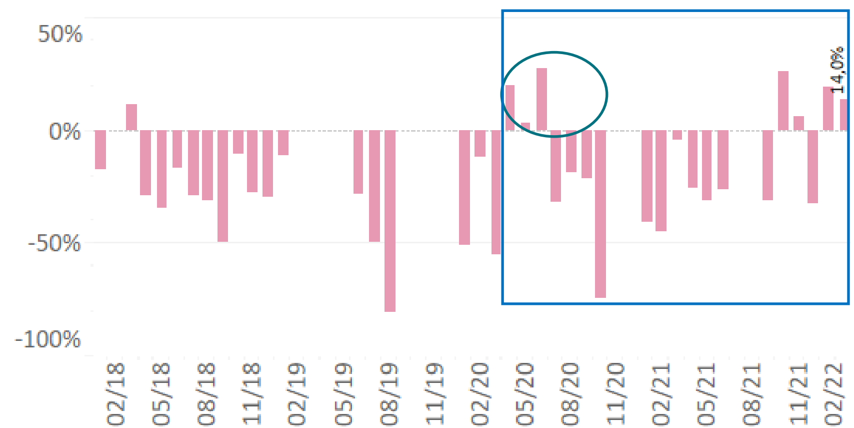
Historical Bucket Weigth Allocation



Duration Evolution



CDS exposure



Source: AXA IM, Synview as at 28/02/2022. For illustrative purpose only. These allocations are subject to change at any time at the discretion of the portfolio management team. Data is unaudited and sourced from our front office portfolio management system Synview. Calculation of High Yield is based on an average linear rating. Data based on AXA WF Euro credit Total Return I EUR share class.

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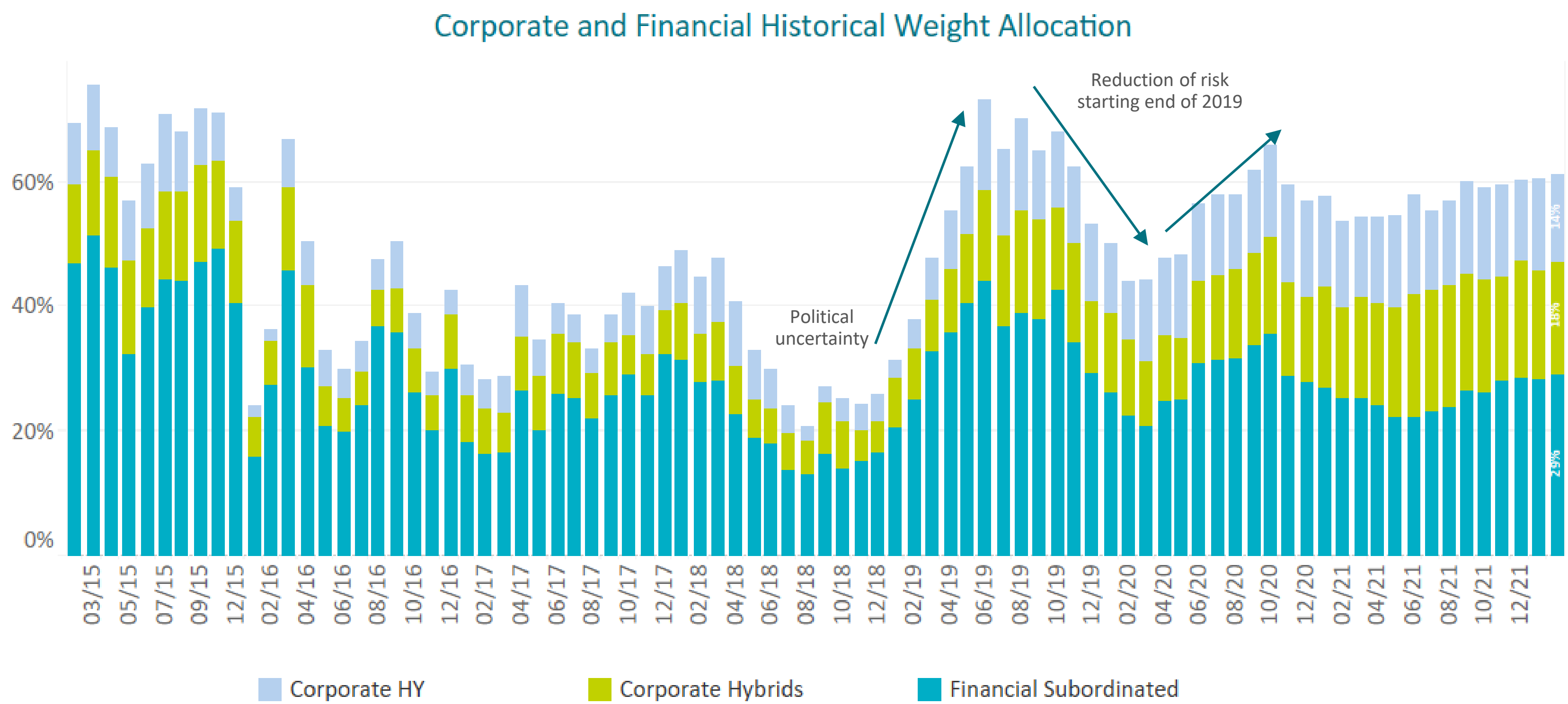
AXA WF Euro Credit Total Return

Our investment views in action - Financial and Corporate Evolution



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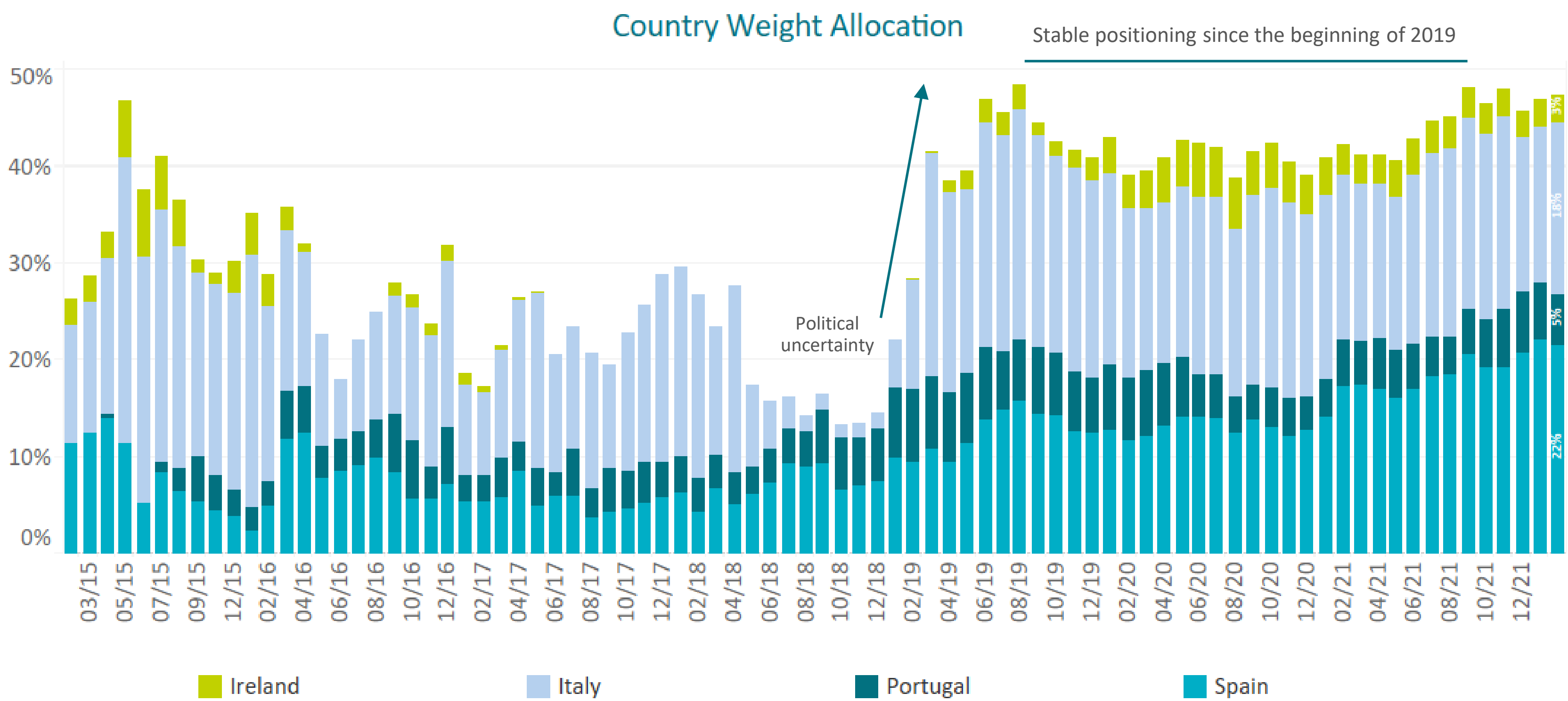
AXA WF Euro Credit Total Return

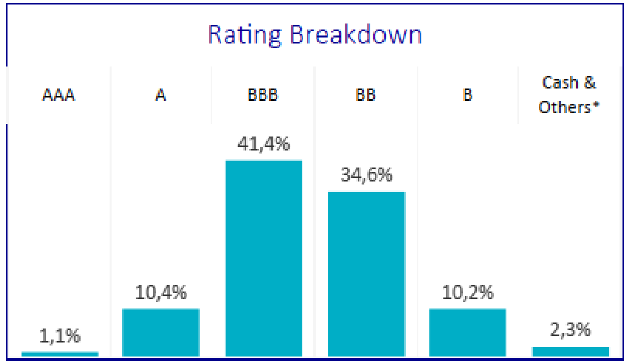
Our investment views in action - Peripheral exposure



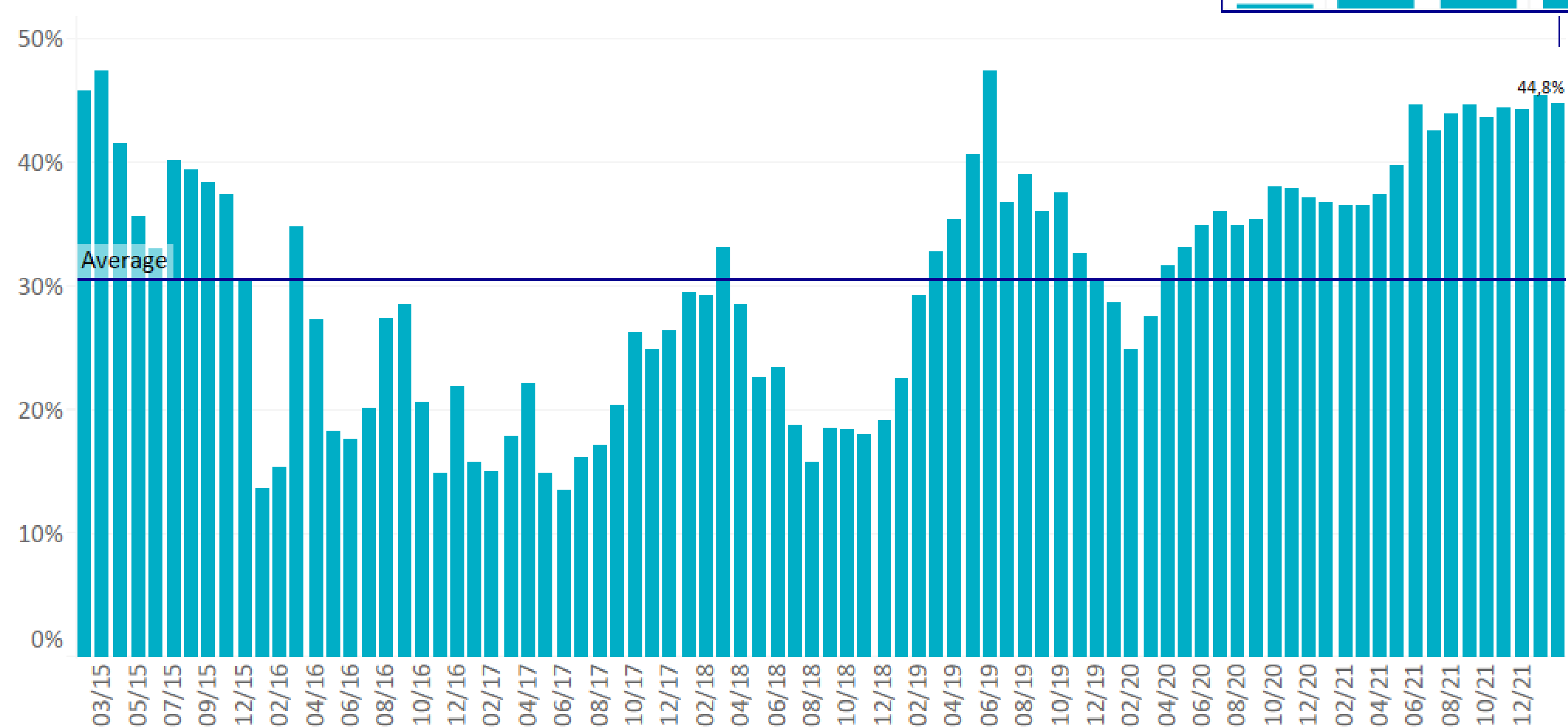
Source: AXA IM, Synview as at 28/02/2022. For illustrative purpose only. TThese allocations are subject to change at any time at the discretion of the portfolio management team. Data is unaudited and sourced from our front office portfolio management system Synview. Average linear rating of the three agencies: Fitch, Moody's and S&P. Data based on AXA WF Euro Credit Total Return – I Eur share class.

AXA WF Euro Credit Total Return

Our investment views in action - High Yield exposure



High Yield weight allocation



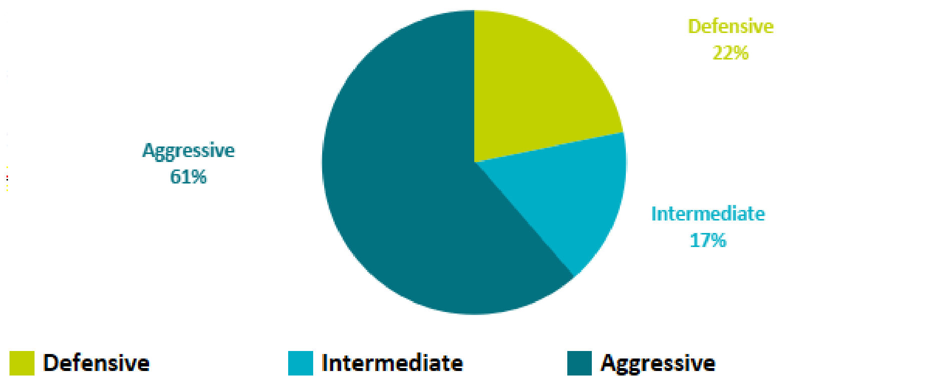
Source: AXA IM, Synview as at 28/02/2022. For illustrative purpose only. TThese allocations are subject to change at any time at the discretion of the portfolio management team. Data is unaudited and sourced from our front office portfolio management system Synview. Average linear rating of the three agencies: Fitch, Moody's and S&P. Data based on AXA WF Euro Credit Total Return – I Eur share class.

AXA WF Euro Credit Total Return

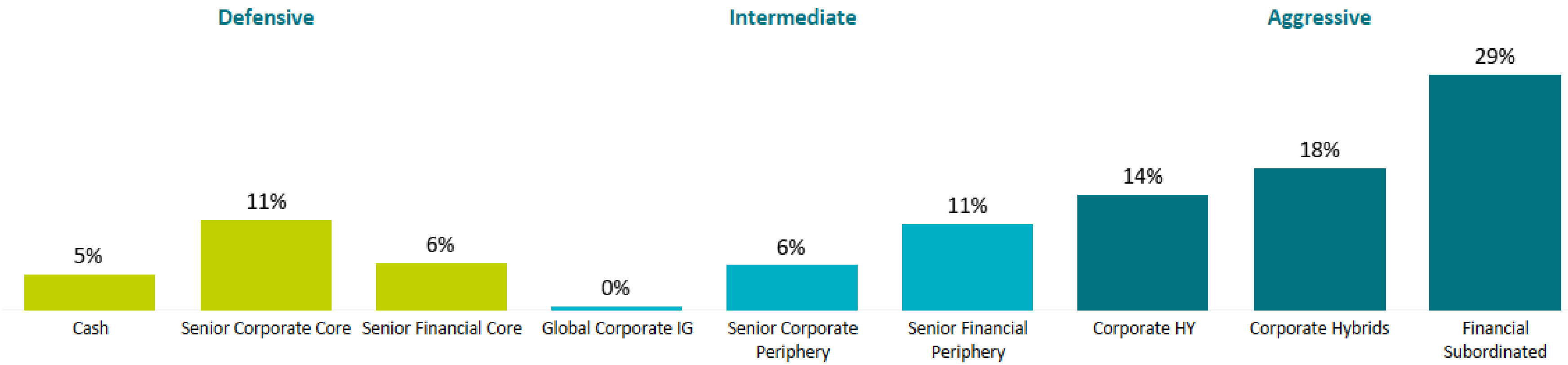
Current Positioning

Key Characteristics	
AUM (M€)	394
Duration	1,26
Spread Duration (years)	4,72
Yield to Worst	3,22%
ASW	330
Number of Issuer	124
Average Linear Rating	BBB-
High Yield	45%

Bucket Allocation



Asset Class Allocation



Sources: AXA IM, Synview as at 28/02/2022. The characteristics mentioned above are indicative only and may be modified without notice. They are provided for information purpose only. Yields are not guaranteed and will change in future. Cash & Equivalents includes government bonds. Average linear rating of the three agencies: Fitch, Moody's and S&P. Data based on AXA WF Euro Credit Total Return – I Eur share class.

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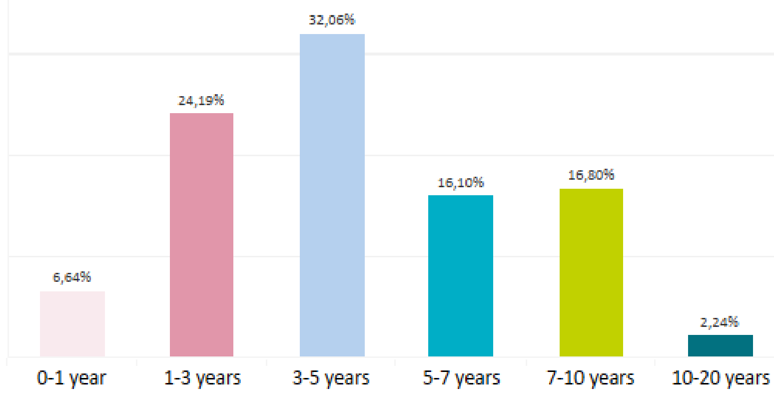
AXA WF Euro Credit Total Return

Current Positioning

Sector Breakdown

Sovereign	Sovereign	1,12%
Utility	Utility	6,13%
Financial	Banking	36,36%
	Insurance	10,50%
	Financial Services	1,53%
Industrials	Real Estate	9,35%
	Telecommunications	8,34%
	Energy	7,49%
	Transportation	3,91%
	Basic Industry	2,81%
	Healthcare	2,76%
	Automotive	2,39%
	Services	1,72%
	Technology & Electronics	0,95%
	Capital Goods	0,71%
	Retail	0,56%
	Media	0,27%
cash	Cash	0,54%
Null	Null	1,05%
FX	.FX	-0,08%
Pfd-Financial	Pfd-Banking	0,97%
Securitized	Asset Backed	0,63%

Maturity Breakdown for Bonds



Top 10 Issuers

1	CaixaBank SA	3,68%
2	Banco de Sabadell SA	3,58%
3	UniCredit SpA	3,43%
4	TotalEnergies SE	2,78%
5	Repsol International Finance BV	2,52%
6	AIB Group PLC	2,32%
7	Just Group PLC	2,31%
8	Telefonica Europe BV	2,29%
9	Banco Comercial Portugues SA	2,08%
10	Intesa Sanpaolo SpA	2,05%

Sources: AXA IM, Synview 28/02/2022. The characteristics mentioned above are indicative only and may be modified without notice. They are provided for information purpose only. Yields are not guaranteed and will change in future. Cash & Equivalents includes government bonds. Others include the following sectors: Healthcare, Consumer Goods, Capital Goods, and Financial Services. Companies shown are for illustrative purposes only as of 28/02/2022 and may no longer be in the portfolio later. It does not constitute investment research or financial analysis relating to transactions in financial instruments, nor does it constitute an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. Data based on AXA WF Euro Credit Total Return – I Eur share class.

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Credit Market Views

Macroeconomic backdrop

Main scenario could be hurt by recent event

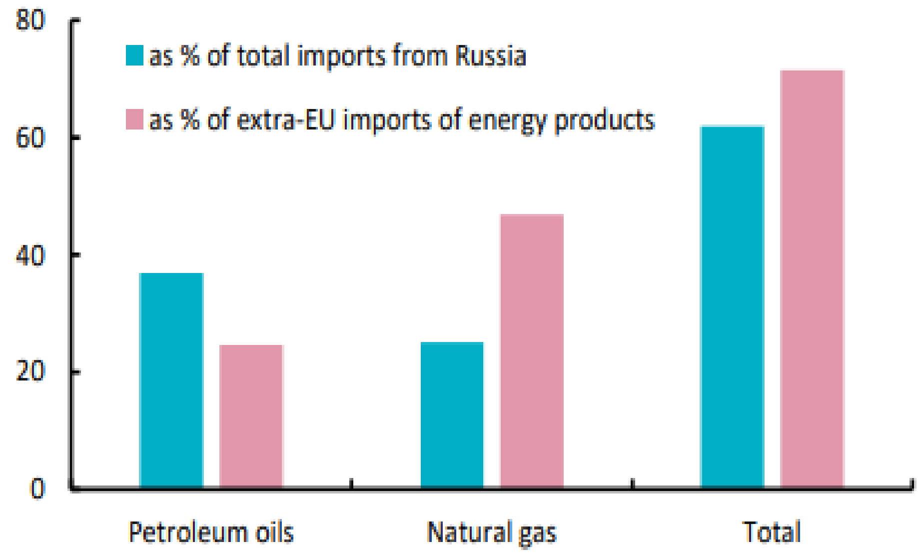
- Russia has taken a step that no one dared to consider a few weeks ago. The international response has been unequivocal with significantly increased sanctions vis-à-vis Russia. In that context, the growth perspective could be impacted and we will reassess our forecasts. Price rises will exacerbate real income squeezes, resulting in global GDP slowing to 3.6% this year (from 4.0%), with output falling by 0.6 to 0.3pp in key economies.
- Despite some headwinds, last PMI and CPI datas were above forecasts and continue to reveal a strong inflation path. In that context, rates remain very volatile and this impact our asset class.

Growth forecasts

Summary of Russia-Ukraine conflict assumptions and projections

Assumptions		2022		2023	
Oil price (WTI)		$125 (peak)		$100 (end)	
European gas price		€125/MWh (peak)		€80/MWh (end)	
Projections (%)		Projected new forecast		Current forecast	
		2022	2023	2022	2023
Global	GDP (avg)	3.6	3.2	4.0	3.5
Euro area	GDP (avg)	3.0	1.6	3.4	2.1
	CPI (avg)	5.1	2.2	4.0	1.7
	Policy rate (end yr)	-0.25	0.00	-0.25	0.0
US	GDP (avg)	2.9	2.2	3.2	2.0
	CPI (avg)	5.8	3.1	5.0	2.9
	Policy rate (end yr)	1.25	2.25	1.25	2.75
China	GDP (avg)	5.0	5.0	5.0	5.3
	CPI (avg)	2.5	2.8	2.0	2.3
	Policy rate (end yr)	2.65	2.65	2.75	2.75
UK	GDP (avg)	4.0	1.7	4.3	2.1
	CPI (avg)	6.3	2.4	5.5	2.1
	Policy rate (end yr)	1.00	1.00	1.00	1.00
EM	GDP (avg)	4.0	3.9	4.4	4.3

Europe import a sizable share of energy products from Russia



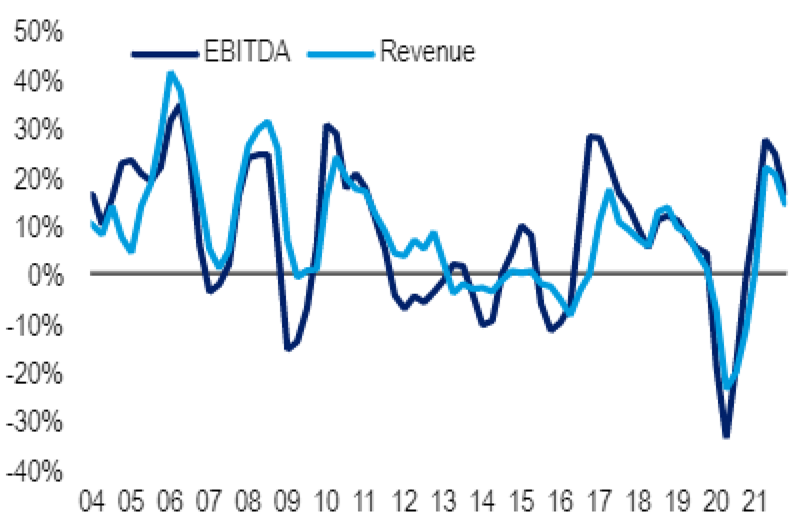
Source: INSEE, AXA IM Research, NovemFebruary 2022

Corporates

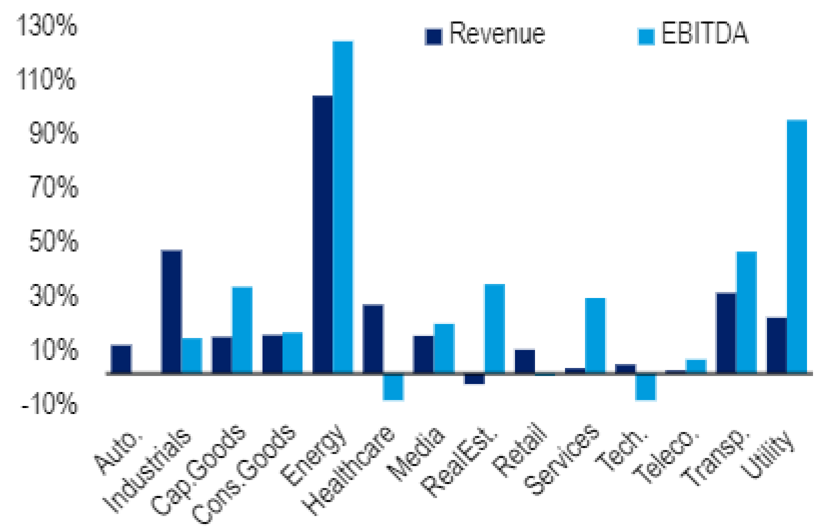
A decent set of results in Europe

- In the Euro investment-grade credit universe, the earnings season has been rather strong with revenues up by 15% and Ebitda up by 16%, but growth is moderating here as well. Margins have hence improved again in Q4'21 supported by better macroeconomic perspective and positive base effects.
- By sector, Energy was the largest outperformer with an impressive rebound in terms of revenues and Ebitda thanks to a surge in commodity prices. Transportation and Real Estate sectors has also benefited from a Covid catch-up effect.

Ebitda and revenues growth still very robust



Ebitda and revenues growth by Sector



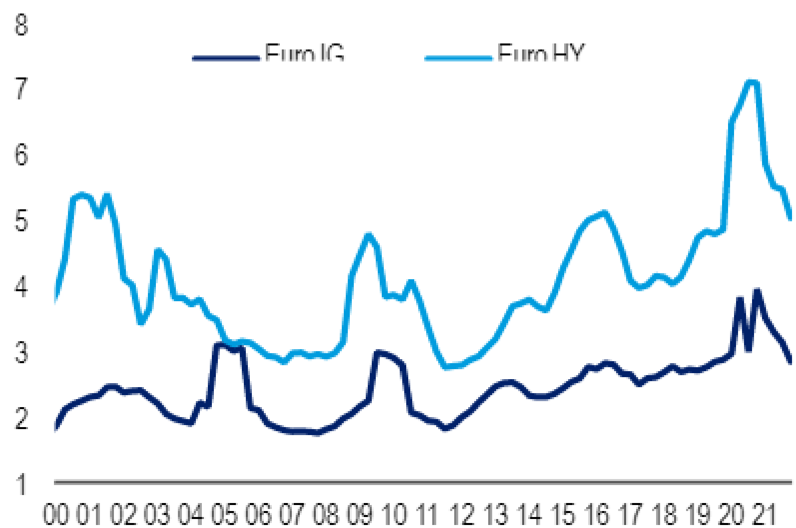
Source: BofA Research, March 2022

Corporates

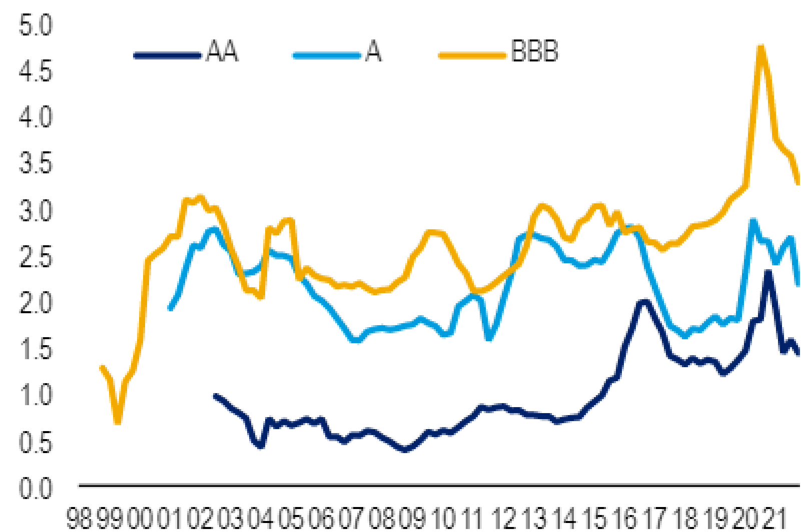
A decent set of results in Europe

- Better earnings have led to lower leverage overall. Indeed, the rebound in operating profit has supported credit metrics with debt reduction and better leverage ratios. As of December, net leverage has dropped again by 0.3x to 2.8x.
- By ratings, the BBB bucket has performed better than the high-quality credits.
- Cash levels have reduced as companies are no more pilling-up on cash.

Net debt to Ebitda ratio has declined



Net debt to Ebitda across ratings in IG



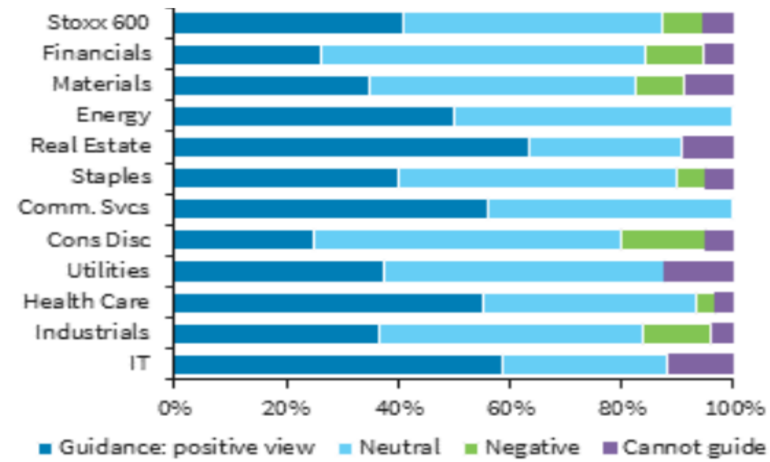
Source: BofA Equity Research, March 2022

Corporates

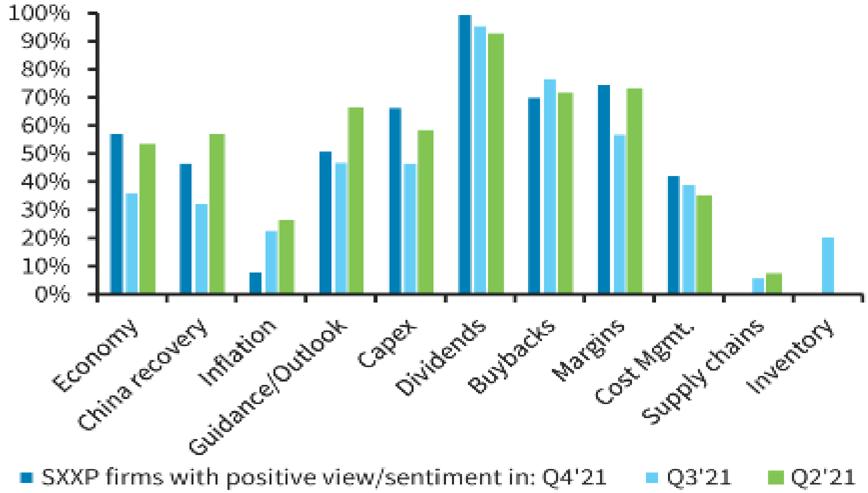
Momentum still positive but decelerating

- Despite rising costs, firms remain constructive on their margins, but the tone is more prudent. Indeed, inflation and higher input prices remain a theme, but this is partly offset by strong demand. Guidance continue to constructive for 2022. We believe that some moderation in guidance may have to be factored in, given most of the reporting happened before the conflict began. With the "easy phase" of the rebound now behind us, corporates may face a more challenging environment to grow the top line.
- There has been an uptick in announcements in both dividends and share buy-backs so far in Europe.

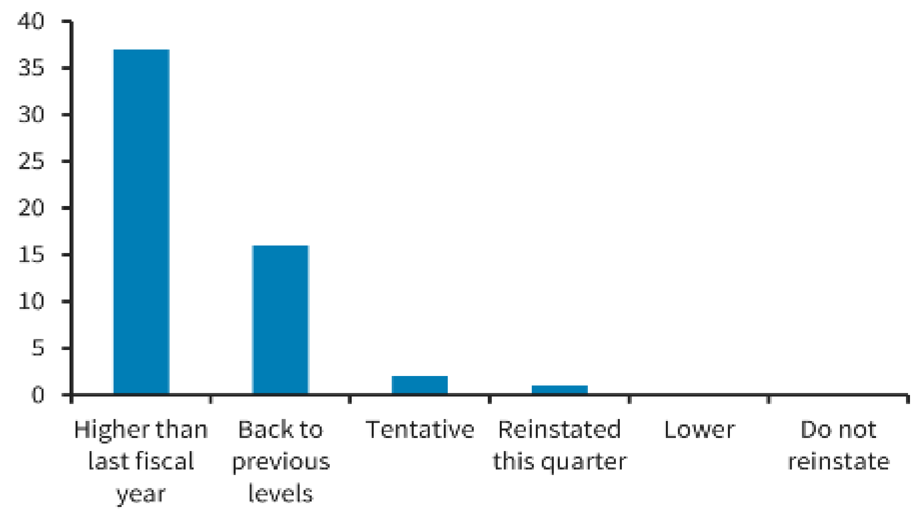
More than c.75% of companies were positive/neutral on outlook



Companies' sentiment on key themes



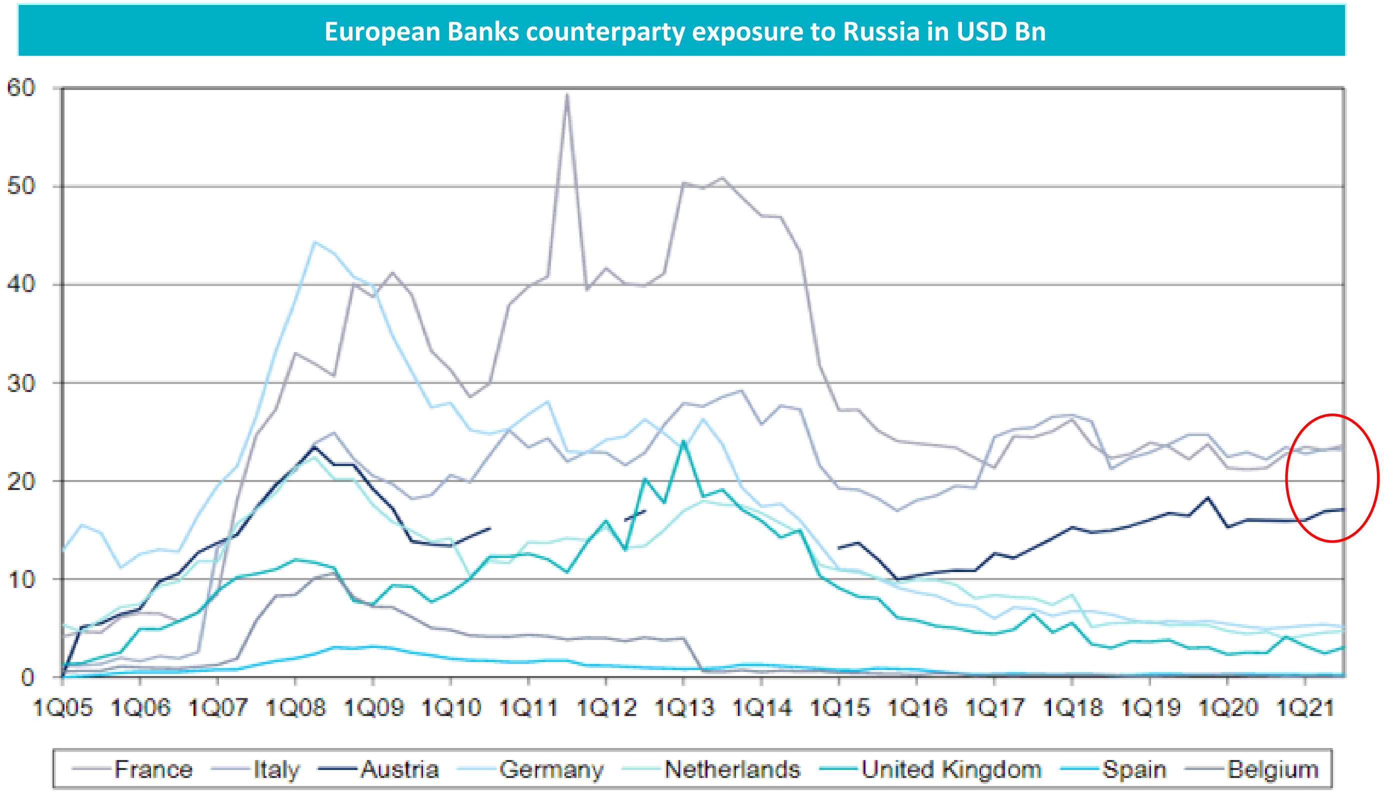
Capital return announcements stronger



Source: Barclays Equity Research, February 2022

Banks

Potential impact of the conflict between Ukraine and Russia



- Direct counterparty exposure : EU Banks with greatest exposure to Russia include French, Italian and Austrian Banks.
- Indirect exposure : EU exports to Russia account for only 0.7% of EU GDP, but Russia covers 38% of Europe's gas needs. Regions with greatest reliance on Russian imports/exports include Baltic & CEE countries. Regions with greatest reliance on Russian oil & gas include the same aforementioned regions, plus Germany, Italy and Greece.

Source: BIS, Citigroup, March 2023

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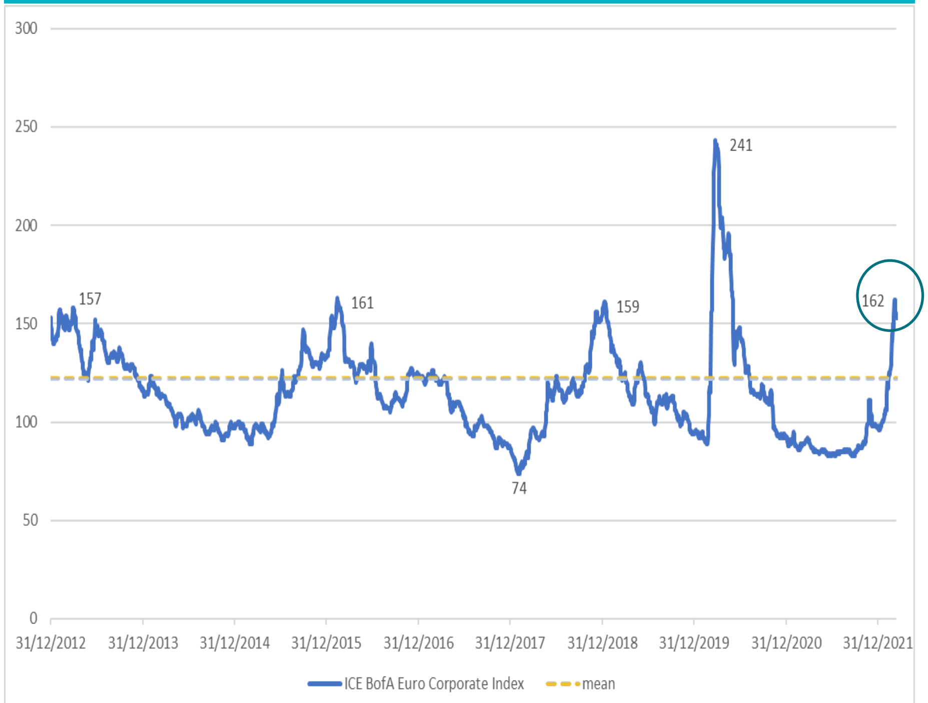
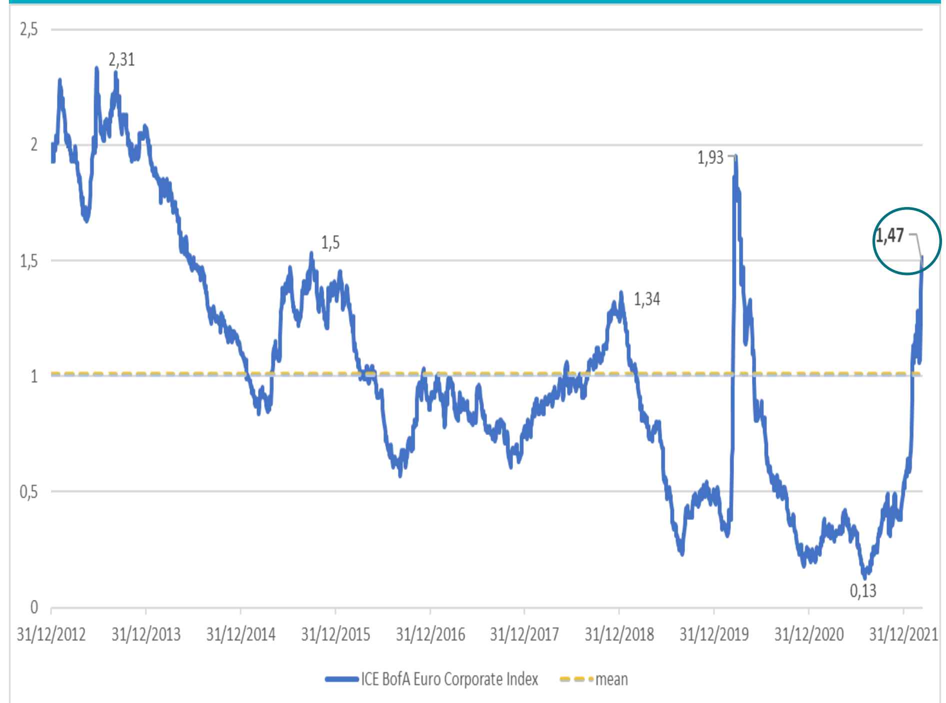
Valuation on Investment Grade Market

Credit Spreads appears much more appealing

Euro Investment Grade Credit Market: Spread evolution



Euro Investment Grade Credit Market: Yield evolution

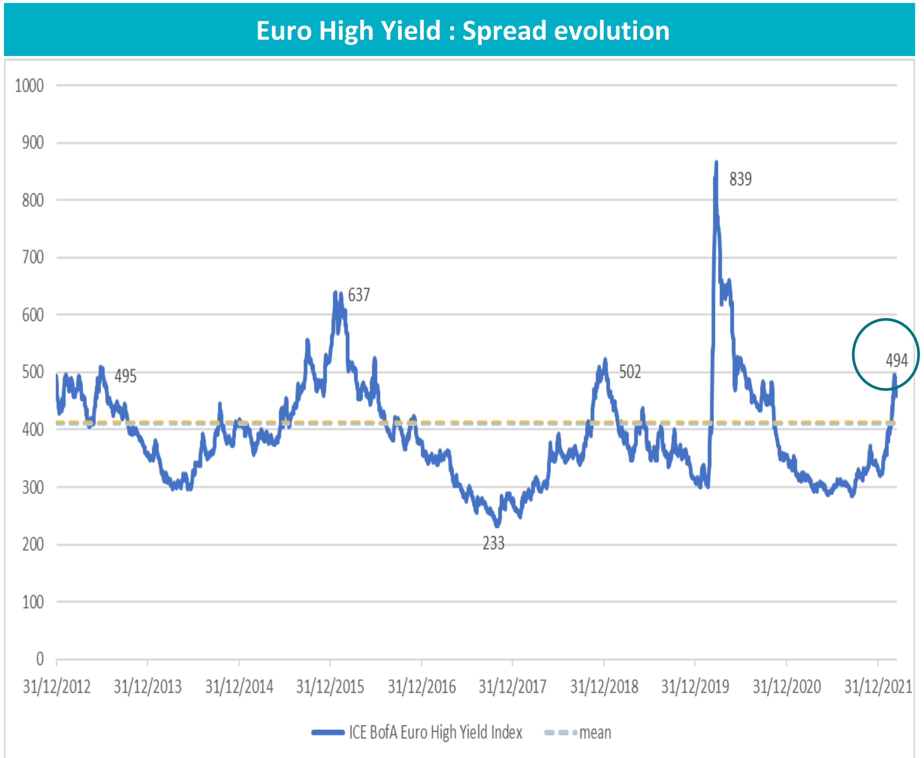


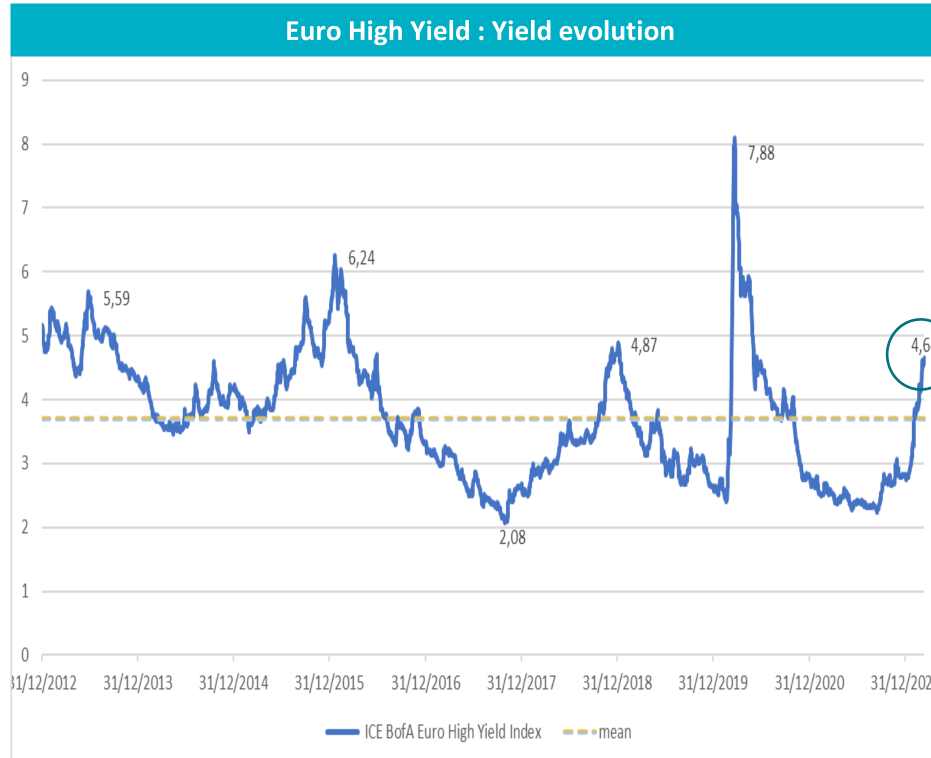
- Credit spreads are back to “recession” levels, such as in Q4 2018 or Q1 2016
- Including in Yield terms, reaching 1,5% is a level not seen since the beginning of the QE program(Ex March 2020)

Source: AXA IM, Bloomberg, BofAML Indices as of 15/03/2022. For illustrative purpose only.

Valuation on the High Yield Market

Credit Spreads appears much more appealing



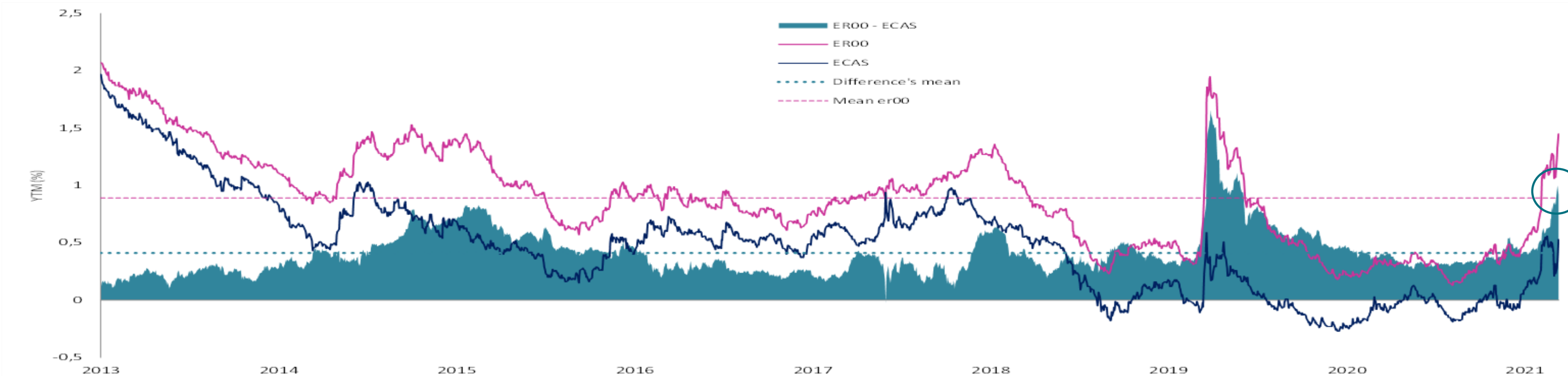


- Credit spreads are back to “recession” levels, such as in Q4 2018 but not yet as extreme as Q1 2016
- Including in Yield terms, we are very close of Q4 2018

Source: AXA IM, Bloomberg, BofAML Indices as of 15/03/2022. For illustrative purpose only.

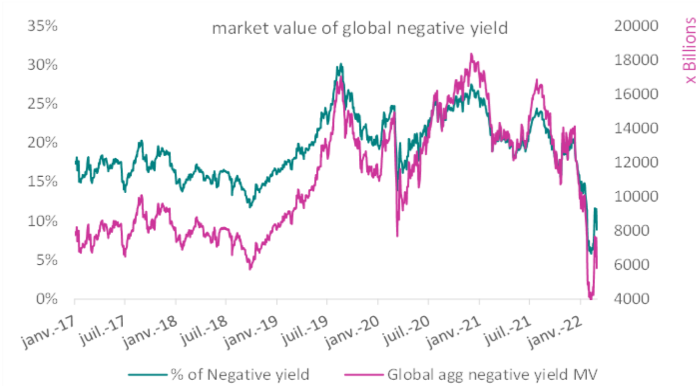
Very few alternatives from an asset allocation stand point!

Credit vs. Govies spread



	Yield as of 31/12/2020	Yield as of 13/12/2021	Yield as of 31/12/2021	Yield as of 10/03/2022	Duration	spread per unit of risk
Euro Governments Bonds (ECAS)	-0,23%	-0,08%	0,09%	0,53%	7,73	0,28
Euro Credit IG (ER00)	0,23%	0,38%	0,51%	1,45%	5,15	1,55
Euro Credit HY (HE00)	2,82%	2,78%	2,80%	4,53%	3,66	5,57

Negative Yield in the Global Aggregate World



Source : AXA IM, Bloomberg as of 10/03/2022.

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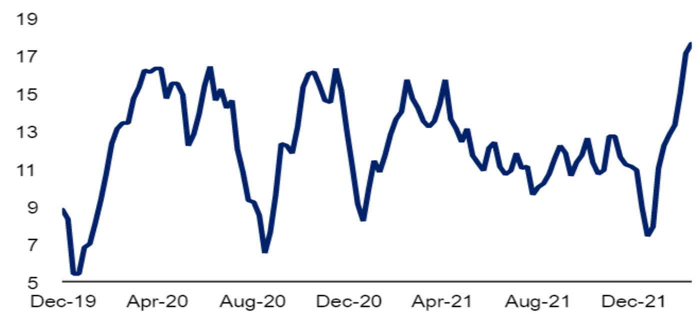
Technicals

Definitively less supportive

- Fund flows were affected by the negative total return and the Russian crisis
- ECB has appeared much more hawkish tan expected
- Positively the supply was limited due to the crisis

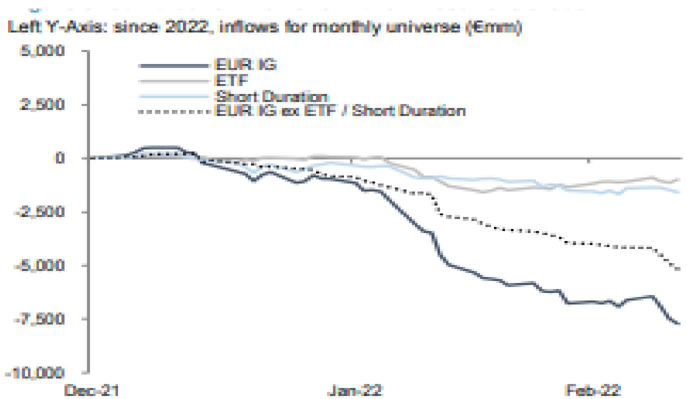
Record pace of credit buying under CSPP YTD

The ECB has bought corporate bonds at an average weekly pace of €2.2bn over the past two months, a record under CSPP2.0



Source: BofA Global Research, ECB. 8-week cumulative gross buying of credit under the CSPP.

Cummulative flows deeply negative



Very limited issuance since the 24/02

in EUR bln	1 Wk	MTD Mar-22	YTD 2022	YTD 2021	FY 2021	YoY
European Issuance (any ccy)						
European IG Non-Fin	€5.0	€5	€58	€66	€303	-12%
European HY Non-Fin	€0.0	€0	€12	€30	€136	-60%
European Inst. Lev Loans		€0	€15	€36	€112	
EUR Denominated Issuance						
EUR IG Non-Fin	€3.0	€3	€52	€67	€289	-22%
Reverse Yankee (%)	*100%*	*100%*	*17%*	*10%*	*19%*	
EUR HY Non-Fin	€0.0	€0	€9	€25	€121	-63%

Note: Institutional loans YTD 2021 figure as of end Mar-21; Data as of the week ending 04-Mar-22
Source: Bondradar, S&P LCD, Morgan Stanley Research

Source: Morgan Stanley, SocGen, March 2022

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