

# AXA Framlington Managed Balanced Fund

## AXA Framlington is a leading equity expertise within the AXA Investment Managers Group, with teams based in London and Paris.

We are primarily a bottom-up, active equity manager. This fundamental approach to stock selection, combined with the experience of our team of fund managers, focuses on delivering long-term investment performance for our clients.

We offer competitive products backed up with excellent service. Our structure and size creates a dynamic environment for our fund managers. This encourages a high level of personal responsibility in which both individual flair and teamwork flourish.

AXA Framlington funds under management exceed £48.8 billion (as at 31 December 2016).

### Investment objective and policy

Capital growth through investment in a broad range of securities in all or any economic sectors in all or any parts of the world which, in the manager's opinion, show above average profitability, management quality and growth, balancing risk and returns for investors.

The Fund may use derivatives for Efficient Portfolio Management.

### Review and outlook

The past year proved a very difficult one in which to achieve strong relative performance (against the comparative benchmark index), although absolute returns were good for both equities and bonds. The year started poorly with weak commodity prices, suggesting a further slowdown in global growth. Economic data then stabilised, particularly in the US and China, and we saw a significant rally in commodity prices and resources stocks, which were the strongest performers during 2016. The second quarter of 2016 was dominated by the UK-EU referendum and the surprise 'leave' vote. Equities rallied following the initial fall and made further progress in the third quarter as liquidity remained strong and sterling's sharp fall boosted the value of overseas assets and earnings. In the final quarter, the election of Donald Trump as US President was an even bigger surprise than the Brexit vote. Investors proved remarkably sanguine, however, with equity investors attracted to the prospect of significant infrastructure investment and tax cuts. With resilient economic growth in the US, the Federal Reserve (Fed) felt able to increase interest rates in December. The prospect of higher interest rates and bond yields was good for financials while resources stocks benefitted from strength in commodity prices, with OPEC's production ceiling agreement helping the oil price. The weakness of sterling (-14.7% on a trade weighted basis) boosted the value of overseas assets during the year.

Although the Fund's relative performance was satisfactory, this was a difficult year for our investment style with growth stocks underperforming value stocks almost everywhere, and more cyclical stocks, where we tend to be underweight, outperforming. We made no significant change to our geographical equity allocation but did allow the equity weight to increase modestly in the final quarter as a result of market movements.

2016 proved a perfect storm for UK active equity managers. When resources stocks rallied so strongly there were few active managers who were up to benchmark weight in these areas. The election of Donald Trump caused a further sea change in attitudes as the prospect of fiscal stimulus and faster growth in 2017/2018 saw investors switch to more cyclical stocks, out of the slow growing bond proxies (mature, low growth, higher yielding stocks). Financials, which had underperformed for a long time and which were also under-owned, also rallied as investors started to anticipate higher interest rates and bond yields in 2017. The FTSE All-Share Index returned +16.75% with larger companies represented by the FTSE 100 Index returning +19.07% while the mid-cap FTSE 250 (ex investment trusts) Index, where most active managers have been overweight, returned only +5.1%. The FTSE 250 Index also has a lower weight in resources and financials as well as a more domestic bias. Our UK portfolio returned +12.53% (R Acc, GBP) which was well behind the FTSE All-Share Index benchmark but was marginally better than the relatively disappointing returns from the IA UK All Companies peer group. We started the period underweight in resources but later added to positions in BP, Rio Tinto, Royal Dutch Shell and introduced Randgold, the highest quality gold miner. We bought Standard Chartered Bank where we were attracted to the restructuring being undertaken by a new management team. We added to ITV which we felt had been oversold following the Brexit vote and looked the cheapest broadcaster in Europe. We also bought TP ICAP recently, the business resulting from the merger of Tullett Prebon and ICAP's voice broking business which offers significant synergies and an improving industry background.

As we reported in the interim report the environment for growth investors had been particularly difficult in the US. A period of relative calm ensued in the third quarter before the surprise election result in November. Following the result, leadership in the equity market turned sharply: overnight investors forgot about their fears of recession and embraced Trump's vision of industrial renaissance and stronger growth. Commodities, cyclicals and financial stocks surged. We believe this latest trend towards cyclical stocks will ultimately prove as incorrect as the previous focus on bond proxies.

# AXA Framlington Managed Balanced Fund

One area of focus for the Fund that continued to underperform in the fourth quarter was healthcare. Prior to the election investors feared that a Clinton presidency would result in price controls and higher levels of regulation. Following the election, sentiment is little changed as a series of populist tweets from the President-elect have continued to undermine confidence. However, we believe Trump's appointments to the relevant administrative departments should be viewed as a positive for the group and the outlook has been materially de-risked. Growth for the group has continued apace over the last year and many companies now stand at multi-year low valuations. The US portfolio returned +21.6% compared with +34.11% from the FTSE World North American Index.

The European Central Bank (ECB) continued to support activity in Europe through quantitative easing (QE) and zero interest rates. Despite the negative sentiment associated with the UK referendum result and the resignation of Italian premier Renzi, economic activity remained relatively healthy. Political risks remain, however, with elections in the Netherlands, France and Germany in 2017, the start of Brexit negotiations in earnest and the possible requirement to extend credit terms to Greece. The recent weakness of the euro relative to the US dollar is likely to support the export sector. Although we were underweight in the strongest performing areas stock selection was good, particularly in energy, financials and technology. The European portfolio returned +20.7% compared with the FTSE World European ex UK Index return of +19.69%.

Japan was the weakest major market in local currency terms as despite ever increasing monetary stimulus, including unconventional measures, growth and inflation continued to disappoint. In the first half of the year our focus on smaller more domestic stocks worked well and we outperformed significantly. In the third quarter, the weakness of the yen attracted more foreign investors who focused on financials, commodities and larger exporters, sectors where we are normally underweight. With domestic demand trends mixed in the final quarter we underperformed significantly. For the year overall, however, the Japanese portfolio returned +24.45% compared with the FTSE World Japan Index return of +22.68%. Although 'Abenomics' has so far failed to generate the promised growth or inflation we remain positive about Japan, which is politically stable and where company managements now appear to be following more shareholder friendly policies.

After many years of underperformance, emerging markets and the Pacific ex Japan region performed well. We saw political reform and improving current account positions in a number of countries and generally better than expected growth data. Since the US election, however, the strength of the US dollar has been unhelpful and the possibility of increased US protectionism was also a negative influence, so these regions were the weakest in the final quarter. Our emerging markets fund returned +24.87% compared with the MSCI Emerging Markets Index at +33.12%, while the Pacific ex Japan portfolio returned +21.32% compared with FTSE World Pacific ex Japan Index return of +31.69%.

Government bonds performed well for most of the year supported by central bank and regulatory purchases. More recently, the prospect of higher interest rates and less QE in 2017 saw investors sell some of their government bond holding to realise profits. Overseas bonds benefitted from sterling's weakness but we didn't receive that benefit as we hedge foreign currency exposure back into sterling. As was widely expected the Fed increased US interest rates in December and suggested three further increases in 2017. The latter is only likely if the recent growth momentum is sustained and President Trump's fiscal plans are implemented. We remain cautious, nevertheless, about likely returns over the medium term. Overall, the one year return for the UK bond portfolio was +8.51% compared with the FTSE UK Gilts All Stock Index return of +10.1%.

## Outlook

US interest rates are expected to rise in 2017 but no increases are expected elsewhere. If President Trump's policies are implemented quickly, economic growth should be a little better in the US. Elsewhere, activity may be similar to 2016, so the recent sector rotation may have gone far enough. With slightly stronger global growth in prospect, however, earnings forecasts may actually be achieved in 2017 after a number of years when the final earnings outcomes were well behind original expectations. For the UK and Europe, the Brexit negotiations could generate volatility while a number of elections in Europe could also weigh on the euro. Europe, nevertheless, looks the more attractive of the major markets in terms of valuations. The correction in bond yields should have further to go and we therefore expect yields to rise into 2017 (with the associated fall in bond prices). As a result equities look to be the favoured asset class, even though equity

share prices are not obviously cheap compared with historic valuation ranges.

**Richard Peirson**

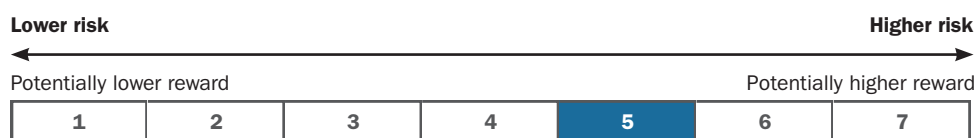
**Saturday, December 31, 2016**

All performance data source: AXA Investment Managers and Lipper to 31 December 2016.

# AXA Framlington Managed Balanced Fund

## Risk and reward profile

The Fund invests in a wide range of securities, both in the UK and overseas and may therefore hold currencies other than sterling. As a result, exchange rate movements may cause the value of investments to fall or rise. The Fund invests a proportion of its assets in smaller companies which offer the possibility of higher returns but may also involve a higher degree of risk. The Fund may also invest in emerging markets which may involve a higher degree of risk than investing in established markets due to heightened geopolitical risk and potential large currency volatility. Investors should consider carefully whether this investment risk is suitable for them. The value of investments and the income from them is not guaranteed and can go down as well as up.



The risk category is calculated using historical performance data and may not be a reliable indicator of the Fund's future risk profile. The risk category shown is not guaranteed and may shift over time. The lowest category does not mean risk free.

### Why is this Fund in this category?

The capital of the Fund is not guaranteed. The Fund is invested in financial markets and uses techniques and instruments which are subject to some levels of variation which may result in gains or losses.

### Additional risks

**Credit Risk:** the risk that an issuer of bonds will default on its obligations to pay income or repay capital, resulting in a decrease in Fund value. The value of a bond (and, subsequently, the Fund) is also affected by changes in market perceptions of the risk of future default. Investment grade issuers are regarded as less likely to default than issuers of high yield bonds.

**Currency Risk:** the Fund holds investments denominated in currencies other than the base currency of the Fund. As a result, exchange rate movements may cause the value of investments (and any income received from them) to fall or rise affecting the Fund's value.

**Emerging Market Risks:** emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. As a result, investments in such countries may cause greater fluctuations in the Fund's value than investments in more developed countries. In addition the reliability of trading, settlement and custody systems in some emerging market countries may not be equal to more developed countries and result in greater operational and liquidity risk.

**Interest Rate Risk:** fluctuations in interest rates will change the value of bonds, impacting the value of the Fund. Generally, when interest rates rise, the value of the bonds fall and vice versa. The valuation of bonds will also change according to market perceptions of future movements in interest rates.

Further explanation of the risks associated with an investment in this Fund can be found in the prospectus.

## FUND FACTS

Lead Fund manager	Richard Peirson
Sector	IA Mixed Investment 40-85% Shares
Comparative Benchmark	IA Mixed Investment 40-85% Shares
Date of establishment	21 Dec 1992
Fund size at 31 Dec 2016	£1,053m
Fund size at 31 Dec 2015	£979m
Minimum investments	
Lump sum	R: £1,000 Z: £100,000 ZI: £50,000,000
Minimum subsequent purchase and redemption	R: £100 Z: £5,000 ZI: £1,000
Net Yield	
R Inc / R Acc	0.98% / 0.98%
Z Inc / Z Acc	1.55% / 1.55%
ZI Inc / ZI Acc	1.66% / 1.66%
Unit type	Inc/Acc
Number of stocks	221
Initial charge	R: 5.25% Z: Nil ZI: Nil
Annual management charge	R: 1.25% Z: 0.625% ZI: 0.50%
Ongoing charges**	
R Inc / R Acc	1.27% / 1.27%
Z Inc / Z Acc	0.64% / 0.64%
ZI Inc / ZI Acc	0.52% / 0.52%
Accounting dates (interim)	30 Jun
Accounting dates (annual)	31 Dec
Distribution dates (annual)	28 Feb*

All data, source: AXA Investment Managers as at 31 December 2016.

\*or 29 February.

\*\*For more information on AXA's fund charges and costs please use the following link <https://retail.axa-im.co.uk/fund-charges-and-costs>.

## Top five purchases

### Year ending 31 December 2016

UK Treasury 1% 07/09/2017
UK Treasury 1.5% 22/07/2026
UK Treasury 4.75% 07/03/2020
Japan Government Ten Year Bond 0.1% 20/09/2026
UK Treasury 2% 07/09/2025

## Top five sales

### Year ending 31 December 2016

UK Treasury 5% 07/03/2025
Bundesobligation 0.25% 13/04/2018
UK Treasury 1.5% 22/07/2026
US Treasury 1.625% 30/11/2020
UK Treasury 1% 07/09/2017

# AXA Framlington Managed Balanced Fund

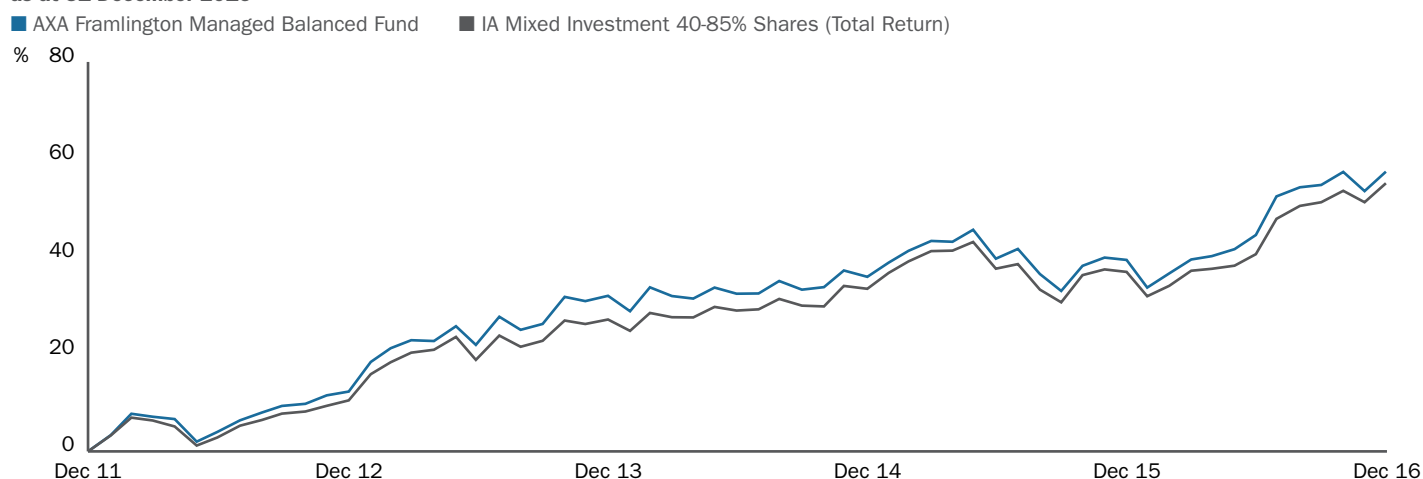
## Five year discrete annual performance %\*

Dec 11 to Dec 12	Dec 12 to Dec 13	Dec 13 to Dec 14	Dec 14 to Dec 15	Dec 15 to Dec 16
+12.29%	+17.52%	+2.96%	+2.55%	+13.01%

Past performance is not a guide to future performance. Sources: AXA Investment Managers and Lipper as at 31 December 2016. Basis: Single Price NAV, with no revenue reinvested, net of fees in GBP. Performance is representative of R Acc class.

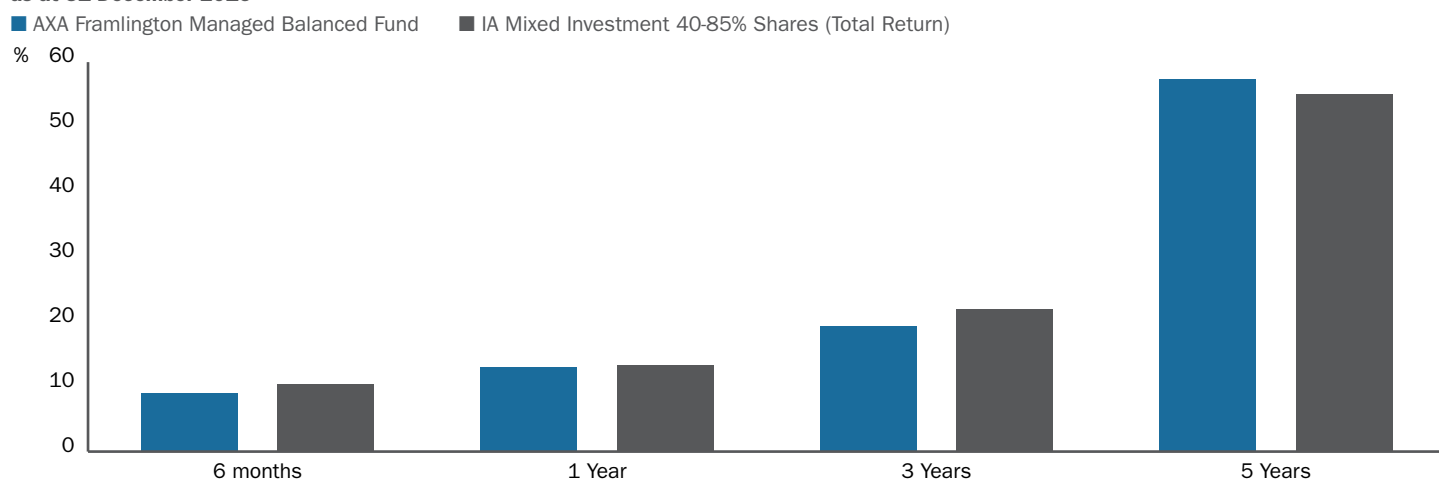
## Cumulative fund performance versus comparative benchmark\*

as at 31 December 2016



Past performance is not a guide to future performance. Sources: AXA Investment Managers and Lipper as at 31 December 2016. Basis: Single Priced NAV with net revenue reinvested, net of fees in GBP. Performance is representative of R Acc Class.

as at 31 December 2016



Past performance is not a guide to future performance. Sources: AXA Investment Managers and Lipper as at 31 December 2016. Basis: Single Price NAV, with no revenue reinvested, net of fees in GBP. Performance is representative of R Acc class.

\* Performance Calculation for all of the above: Single Price NAV from 6 October 2014 and bid price prior to this. To ensure consistent performance figures between bid and NAV prices, an adjustment factor has been applied.

## AXA Framlington Managed Balanced Fund

## Comparative Tables

Change in net assets per unit	R Inc			R Acc		
	31/12/2016 (p)	31/12/2015 (p)	31/12/2014 (p)	31/12/2016 (p)	31/12/2015 (p)	31/12/2014 (p)
Opening net asset value per unit†	214.20	210.20	205.70	321.50	313.20	304.20
Return before operating charges^	30.43	8.29	8.80	45.66	12.40	13.04
Operating charges	(2.82)	(2.75)	(2.73)	(4.25)	(4.10)	(4.04)
Return after operating charges^	27.61	5.54	6.07	41.41	8.30	9.00
Distributions	(2.37)	(1.54)	(1.57)	(3.55)	(2.29)	(2.32)
Retained distributions on accumulation units	-	-	-	3.55	2.29	2.32
<b>Closing net asset value per unit†</b>	<b>239.44</b>	<b>214.20</b>	<b>210.20</b>	<b>362.91</b>	<b>321.50</b>	<b>313.20</b>
*^ after direct transaction costs of:	0.24	0.25	0.06	0.37	0.37	0.08
<b>Performance</b>						
Return after charges	12.89%	2.63%	2.95%	12.88%	2.65%	2.96%
<b>Other information</b>						
Closing net asset value†	26,304,436	31,260,057	37,661,849	385,704,535	398,108,394	448,082,265
Closing number of units	10,985,954	14,592,318	17,916,510	106,280,783	123,819,714	143,065,627
Operating charges	1.27%	1.31%	1.33%	1.27%	1.31%	1.33%
Direct transaction costs*	0.11%	0.12%	0.03%	0.11%	0.12%	0.03%
<b>Prices</b>						
Highest unit price #	246.60	227.50	214.30	370.10	338.90	317.00
Lowest unit price #	194.90	204.10	197.40	292.60	304.10	292.00

Change in net assets per unit	Z Inc			Z Acc		
	31/12/2016 (p)	31/12/2015 (p)	31/12/2014 (p)	31/12/2016 (p)	31/12/2015 (p)	31/12/2014 (p)
Opening net asset value per unit†	126.70	124.60	121.80	133.90	129.80	125.30
Return before operating charges^	18.33	4.66	5.36	19.32	4.97	5.39
Operating charges	(0.86)	(0.83)	(0.86)	(0.91)	(0.87)	(0.89)
Return after operating charges^	17.47	3.83	4.50	18.41	4.10	4.50
Distributions	(2.24)	(1.73)	(1.70)	(2.36)	(1.80)	(1.74)
Retained distributions on accumulation units	-	-	-	2.36	1.80	1.74
<b>Closing net asset value per unit†</b>	<b>141.93</b>	<b>126.70</b>	<b>124.60</b>	<b>152.31</b>	<b>133.90</b>	<b>129.80</b>
*^ after direct transaction costs of:	0.15	0.15	0.03	0.15	0.16	0.04
<b>Performance</b>						
Return after charges	13.79%	3.07%	3.69%	13.75%	3.16%	3.59%
<b>Other information</b>						
Closing net asset value†	63,023,201	48,073,342	29,450,712	506,299,424	434,169,919	280,975,388
Closing number of units	44,404,524	37,931,918	23,643,459	332,424,478	324,335,477	216,453,137
Operating charges	0.64%	0.67%	0.71%	0.64%	0.67%	0.71%
Direct transaction costs*	0.11%	0.12%	0.03%	0.11%	0.12%	0.03%
<b>Prices</b>						
Highest unit price #	146.80	135.10	127.70	155.10	140.70	131.30
Lowest unit price #	115.60	121.50	117.60	122.10	126.60	120.90

## AXA Framlington Managed Balanced Fund

## Comparative Tables

Change in net assets per unit	ZI Inc			ZI Acc		
	31/12/2016 (p)	31/12/2015 (p)	31/12/2014 (p)	31/12/2016 (p)	31/12/2015 (p)	31/12/2014 (p)
Opening net asset value per unit†	106.30	104.50	102.20	109.50	106.10	102.20
Return before operating charges^	15.39	3.95	4.44	15.85	3.96	4.49
Operating charges	(0.58)	(0.57)	(0.59)	(0.60)	(0.56)	(0.59)
Return after operating charges^	14.81	3.38	3.85	15.25	3.40	3.90
Distributions	(2.02)	(1.58)	(1.55)	(2.08)	(1.61)	(1.55)
Retained distributions on accumulation units	-	-	-	2.08	1.61	1.55
<b>Closing net asset value per unit†</b>	<b>119.09</b>	<b>106.30</b>	<b>104.50</b>	<b>124.75</b>	<b>109.50</b>	<b>106.10</b>
*^ after direct transaction costs of:	0.12	0.13	0.03	0.13	0.13	0.03
<b>Performance</b>						
Return after charges	13.93%	3.24%	3.76%	13.93%	3.20%	3.82%
<b>Other information</b>						
Closing net asset value†	2,967,502	2,989,438	2,165,694	69,189,187	64,885,596	39,472,275
Closing number of units	2,491,902	2,811,430	2,072,322	55,463,424	59,252,660	37,218,545
Operating charges	0.52%	0.54%	0.58%	0.52%	0.53%	0.58%
Direct transaction costs*	0.11%	0.12%	0.03%	0.11%	0.12%	0.03%
<b>Prices</b>						
Highest unit price #	123.30	113.30	106.20	127.00	115.00	106.20
Lowest unit price #	96.99	102.00	99.24	99.92	103.50	99.22

† Valued at bid-market prices.

# High and Low price disclosures are based on quoted unit prices. Therefore the opening and closing NAV prices may fall outside the high / low price threshold.

^ Operating charges include indirect costs incurred in the maintenance and running of the fund, as disclosed (but not limited to) the detailed expenses within the Statement of Total Return. The figures used within the table have been calculated against the average Net Asset Value for the accounting period.

\* Direct transaction costs include fees, commissions, transfer taxes and duties in the purchasing and selling of investments, which are offset (where applicable) against any dilution adjustment applied within the accounting period.

# AXA Framlington Managed Balanced Fund

## Top ten holdings as at 31 December 2016

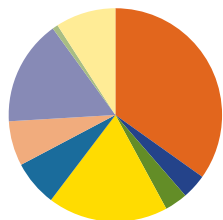
Company	Sector	%
AXA Framlington Emerging Markets Fund	Emerging Markets	3.46
UK Treasury 4.75% 07/03/2020	UK Government Stocks	2.19
BP	UK Equities	2.09
Royal Dutch Shell 'B'	UK Equities	1.91
GlaxoSmithKline	UK Equities	1.49
UK Treasury 1% 07/09/2017	UK Government Stocks	1.41
Rio Tinto	UK Equities	1.35
Japan Government Ten Year Bond 0.1% 20/09/2026	Japan Government Stocks	1.19
AstraZeneca	UK Equities	1.16
Vodafone	UK Equities	1.14

## Top ten holdings as at 31 December 2015

Company	Sector	%
AXA Framlington Emerging Markets Fund	Emerging Markets	2.98
UK Treasury 5% 07/03/2025	UK Government Stocks	2.13
Bundesobligation 0.25% 13/04/2018	Euro Denominated Bonds	1.98
HSBC	UK Equities	1.57
Vodafone	UK Equities	1.56
UK Treasury 4.5% 07/09/2034	UK Government Stocks	1.53
AstraZeneca	UK Equities	1.49
US Treasury 1.625% 30/11/2020	US Government Stocks	1.44
GlaxoSmithKline	UK Equities	1.34
UK Treasury 1.25% 22/07/2018	UK Government Stocks	1.29

## Portfolio breakdown

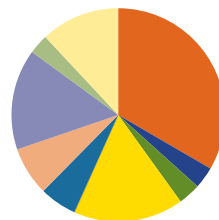
as at 31 December 2016



Sector	%
United Kingdom	34.87
Asia/Pacific (ex. Japan)	3.78
Emerging Markets	3.46
Europe (ex. UK)	18.25
Forward Currency Contracts	-0.07
Japan	6.95
UK Bonds	6.79
North America	15.99
Overseas Bonds	0.85
Net Current Assets	9.13

All data, source: AXA Investment Managers

as at 31 December 2015



Sector	%
United Kingdom	33.42
Asia/Pacific (ex. Japan)	3.30
Emerging Markets	3.39
Europe (ex. UK)	16.72
Forward Currency Contracts	-0.14
Japan	5.64
UK Bonds	7.39
North America	15.31
Overseas Bonds	2.99
Net Current Assets	11.98



# AXA Framlington Managed Balanced Fund

## Important information

**The Manager**

AXA Investment Managers UK Limited  
7 Newgate Street  
London, EC1A 7NX

**The Sub-Investment Managers:**

AXA Investment Managers Paris  
Tour Majunga  
La Défense 9  
6, Place de la Pyramide  
92800 Puteaux  
France

*Authorised and regulated by the Financial Conduct Authority. Member of the IA.*

**The Administrator and address for inspection of Register:**

International Financial Data Services Limited and International Financial Data Services (UK) Limited  
IFDS House  
St Nicholas Lane  
Basildon  
Essex, SS15 5FS

**Trustee**

National Westminster Bank plc  
Trustee and Depositary Services  
Younger Building  
1st Floor  
3 Redheughs Avenue  
Edinburgh, EH12 9RH

*Authorised and regulated by the Financial Conduct Authority.*

**Dealing and Correspondence**

PO Box 10908  
Chelmsford, CM99 2UT

**Legal advisers:**

Eversheds LLP  
One Wood Street  
London, EC2V 7WS

**Auditor**

Ernst & Young LLP  
Ten George Street  
Edinburgh, EH2 2DZ

*Authorised and regulated by the Financial Conduct Authority.*

**Fund Accounting Administrator**

State Street Bank & Trust Company  
20 Churchill Place  
London, E14 5HJ

Telephone dealing & enquiries

**0345 777 5511**

IFA dealing & enquiries

**0845 766 0184**

If you are calling us from outside of the UK:

**+44 1268 448667**

Our lines are open Monday to Friday between 9am and 5:30pm

**For more information on any AXA Framlington unit trust please contact us via our website or telephone number.**

Copies of the latest Manager's Report (long form) and Prospectus are available free of charge from the administration office: PO Box 10908, Chelmsford, CM99 2UT.

## ADDITIONAL INFORMATION

**Report and accounts**

The purpose of sending this Short Report for the Fund is to give you a summary of how the Fund has performed during the accounting period in accordance with the Collective Investment Schemes Sourcebook (COLL). If you would like any additional information about the Fund you can request a free of charge copy of the more detailed long form accounts for the Fund. For a copy of this, please contact our dedicated customer services team on 0345 777 5511.

**UCITS V Directive**

The UCITS V Directive was implemented into national law on the 18 March 2016. The Directive aims to increase the level of protection already offered to investors in UCITS and to improve investor confidence in UCITS. It aims to do so by enhancing the rules on the responsibilities of depositaries, including a strict liability regime making the depositary liable for the avoidable loss of a financial instrument held in custody and by introducing remuneration policy requirements for UCITS fund managers.

The value of investments and the income from them can fluctuate and investors may not get back the amount originally invested. Past performance is not a guide to future performance. AXA Framlington is an expertise of AXA Investment Managers UK Limited. Issued by AXA Investment Managers UK Ltd registered in England No. 01431068. The registered office address is 7 Newgate Street, London EC1A 7NX. AXA Investment Managers UK Ltd (119368) is authorised and regulated by the Financial Conduct Authority under the account shown. A member of the IA. Telephone calls may be recorded or monitored for quality assurance purposes.

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