

# AXA Sterling Strategic Bond Fund

## For the Year Ended 30 June 2013

### Investment objective and policy

The aim of the Fund is to generate returns by gaining exposure generally to the sterling denominated bond market. The Fund may also invest at the Investment Manager's discretion in transferable securities, derivatives, cash, deposits, units in collective investment schemes and money market instruments. Use may be made of stocklending, borrowing, cash holding, hedging and other investment techniques permitted in applicable Financial Conduct Authority rules.

### Results

Share Class	Share Type	Price at 30.06.13 (p)	Price at 31.12.12 (p)	Fund Performance	Comparative Benchmark
Z gross	Acc	128.5	126.9	1.66%	0.35%
Z net	Acc	117.2	117.5	1.02%	0.35%
R net	Acc	104.1	104.0	0.48%	0.35%
R net	Inc	83.08	84.31	0.55%	0.35%
R gross	Acc	109.9	109.4	0.91%	0.35%
R gross	Inc	83.36	84.68	0.98%	0.35%
H gross	Acc	119.1	117.1	2.14%	0.35%
H net	Acc	112.2	110.8	1.53%	0.35%

Past performance is not a guide to future returns. Source of all performance data: AXA Investment Managers and Lipper up to 30 June 2013. Comparative benchmark: Bank of America Merrill Lynch (BoA ML) Sterling Broad Market Index (gross).

### Review and outlook

The 12-month review period proved generally supportive of both UK government (gilts) and corporate bond markets. Steady investor demand for gilts, along with substantial purchasing support from the Bank of England, ensured that yields remained suppressed at very low levels. Similarly, for corporate bonds, investors' thirst for yield, and steadily improving market sentiment, meant demand for sterling credit was generally strong. Only late in the review period, in May and June 2013, did we see some focused selling pressure on bond markets. However, the speed and scale of the sell-off was significant, causing prices to fall and yields to rise sharply.

The review period began positively for the gilt market, which rallied strongly in July following an announcement by the Bank of England's Monetary Policy Committee (MPC), that it was extending its asset purchase programme by £50 billion (to a total of £375 billion). At the same time, the MPC also lowered its outlook for UK growth, a view subsequently confirmed by Q2 GDP data indicating that the UK economy had contracted -0.5%. This backdrop, along with the ongoing Euro sovereign uncertainty, was all the encouragement investors needed to head for the relative safety of gilts. However, a speech by European Central Bank (ECB) President Mario Draghi in late July, in which he pledged to do "whatever it takes to preserve the euro" marked somewhat of a turning point in investor sentiment. Subsequent decisive policy action from European policy makers effectively reduced the near-term risk of a potential Eurozone breakup. This, together with some early signs of global, if not local, economic improvement, saw investor sentiment encouraged.

**AXA Investment Managers (AXA IM) is a dedicated investment manager within the AXA Group, a world leader in financial protection and wealth management. Our aim is to develop close relationships with our customers and to provide them with outstanding investment solutions backed up with exceptional customer service.**

As a 'multi-expert' investment manager, we aim to offer investment expertise across a broad range of asset classes that few of our competitors can match, but we focus on specific areas within each asset class where we can add real value for our clients.

Our total funds under management now exceed £487 billion. (Source: AXA IM as at 30 June 2013).

This environment proved supportive of credit markets which, although intermittently volatile, ultimately provided healthy total returns during the review period. A thirst for yield on the part of investors meant that there was generally a heavy demand for corporate bonds. And while new bond issuance, on the whole, was robust, the demand/supply imbalance throughout the review period was a key driver of credit market performance. Despite the weak UK economic outlook during much of the review period, credit investors remained faithful to corporate bonds on fundamental grounds, given the generally sound nature of company balance sheets – having been generally strengthened in the four years since the financial crisis.

While generally improving investor confidence was evident, the still weak nature of the UK economic recovery, along with periodic bouts of heightened market uncertainty – the US fiscal cliff, Italian election confusion, the Cyprus banking crisis – meant UK gilts also continued to find steady support throughout. Even a downgrade of the UK's AAA rating by S&P during the final quarter of 2012, had little impact in terms of slowing the steady demand for gilts.

However, the final six weeks of the 12-month review period proved to be the most significant for bond markets. Following comments from the Chairman of the Federal Reserve, suggesting that the Fed would begin 'tapering' US quantitative easing earlier than expected, government bonds sold off globally. The prospect of massive central bank support for government bonds coming to an end saw gilt yields adjust sharply higher, sending prices in the opposite direction. Corporate bonds similarly suffered as spreads widened, exacerbated by evaporating market liquidity. Faced with the prospect of higher yields over the long-term, duration considerations became central, meaning that longer dated bonds, particularly longer dated gilts, bore the brunt of selling pressure as investors looked to cut their rate risk.

During the 12-months to 30 June 2013, the AXA Sterling Strategic Bond Fund delivered a total return of +0.48% (net), compared to a +0.35% return for the BoA ML Sterling Broad Market Index.

With government bonds rallying early in the review period, and valuations looking stretched, we reduced the portfolio's exposure. The proceeds were reinvested into credit where better yields, at shorter maturities, were evident. We added banking sector debt as well as peripheral corporate bonds. We subsequently locked in some good gains on this financial exposure, tactically moving back

into government bonds which had sold off sharply in August, as well defensive utilities holdings. In September, following strong policy action by the ECB, we again increased exposure to financial credit, particularly, senior bank debt and insurance paper. We also took profits on our index-linked bond holdings following a technical rally. As the year end approached, we maintained an underweight position in government bonds, with a generally lower duration (sensitivity to interest rates) than the comparative benchmark. In the new year, we bought a tactical position in long-dated US Treasuries. We added non-financial bonds and sold subordinated bank bonds to buy senior bonds in the same companies, in order to reduce exposure to potential market weakness. We sold the Fund's exposure to Siemens hybrid bond as valuations looked stretched. We increased exposure to longer-dated corporate bonds in the peripheral Eurozone countries, using proceeds from shorter-dated equivalent bonds. Towards the end of the review period, activity revolved around actively managing the Fund's duration exposure amid rising volatility. We moved underweight duration in May and into June as bond markets sold off dramatically, sending yields higher. Then, late in June, we lengthened the Fund's duration once more, as government yields stabilised at higher levels. On the credit side, we added insurance sector names in April, buying new bonds from BUPA and Scottish Widows. As the quarter progressed and volatility increased, we focused on more defensive areas, adding holdings in the utilities and asset-backed sectors.

As we enter the traditionally quieter summer period, bond markets have stabilised after a very volatile and weak May and June. However, sentiment is fragile as investors contemplate the potential closing stages of substantial central bank support. In theory, the end of central bank support should be driven by stronger underlying economic data, but, given the quantum of liquidity provided by various central banks, the levels to which most markets have rallied on this liquidity provision, and the different speeds of global economic growth (for example, between the US and Europe and also the deteriorating emerging markets' economy), we expect further volatility in the coming months. Shorter term, we expect lower government bond yields and for credit to outperform over a longer period of time, as the higher yields on offer should prove more attractive to potential buyers in a generally lower yield environment.

**Nick Hayes**

**30 June 2013**

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# AXA Sterling Strategic Bond Fund

## For the Year Ended 30 June 2013

### Risk and reward profile

By investing in a fund which invests primarily in fixed interest stocks you are likely to be looking for an investment which will generate an income but has less potential for capital return than is the case with funds which invest primarily in equities. You are willing to accept that your investment will fall and rise in value and that you could get back less than you invest. Typically, you would prefer an investment with less risk than that of a fund which invests significantly in equities. You are aware that investing a proportion of your money in sub investment grade bonds increases the potential income but also increases risk to your investment. Typically you would be investing for a period of at least five years.

**Lower risk** **Higher risk**

← Potentially lower reward Potentially higher reward →

1	2	3	4	5	6	7
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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:** risk that issuers of debt securities held in the Fund may default on their obligations or have their credit rating downgraded, resulting in a decrease in the Net Asset Value.

**Counterparty Risk:** risk of bankruptcy, insolvency, or payment or delivery failure of any of the Fund's counterparties, leading to a payment or delivery default.

**Impact of any techniques such as derivatives:** certain management strategies involve specific risks, such as liquidity risk, credit risk, counterparty risk, legal risk, valuation risk, operational risk and risks related to the underlying assets.

The use of such strategies may also involve leverage, which may increase the effect of market movements on the Fund and may result in significant risk of losses.

### FUND FACTS

Lead Fund manager	Nick Hayes
Sector	IMA Sterling Strategic Bond
Comparative Benchmark	BoA Merrill Lynch Sterling Broad Market Index
Launch date	24 Sep 2004
Fund size at 30 June 2013	£136m
Fund size at 30 June 2012	£87m
Minimum investments (Lump sum)	R: £1,000 Z: £100,000 H: £20,000,000
Minimum per month	R: £50 / Z&H: N/A
Yield H Acc net/gross	3.40%
Yield R Inc net/gross	2.20%
Yield R Acc net/gross	2.20%
Yield Z Acc net/gross	2.90%
Share types	Inc & Acc
Number of stocks	120
Initial charge	R: 4%/ Z: Nil/ H: 5%
Annual charge	R: 1.25%/ Z: 0.50%/ H: Nil
Ongoing charges	
H Acc net/gross	0.09% / 0.09%
R Inc net/gross	1.26% / 1.26%
R Acc net/gross	1.27% / 1.27%
Z Acc net/gross	0.52% / 0.54%
Accounting dates (int/ann)	31 Dec/ 30 Jun
Distribution dates (income)	28 Feb*, 31 May, 31 Aug, 30 Nov

*All data, source: AXA IM as at 30 June 2013. \*or last day in Feb.*

### Top five purchases

#### For the year ended 30 June 2013

UK Treasury 1.75% 07/09/22
UK Treasury 1.875% IL 22/11/22
UK Treasury 4% 07/03/22
UK Treasury 4.5% 07/12/42
UK Treasury 5% 07/03/25

### Top five sales

#### For the year ended 30 June 2013

UK Treasury 1.75% 07/09/22
UK Treasury 1.875% IL 22/11/22
UK Treasury 4% 07/05/22
UK Treasury 4.5% 07/12/42
UK Treasury 5% 07/03/25

# AXA Sterling Strategic Bond Fund

## For the Year Ended 30 June 2013

### Five year discrete annual performance

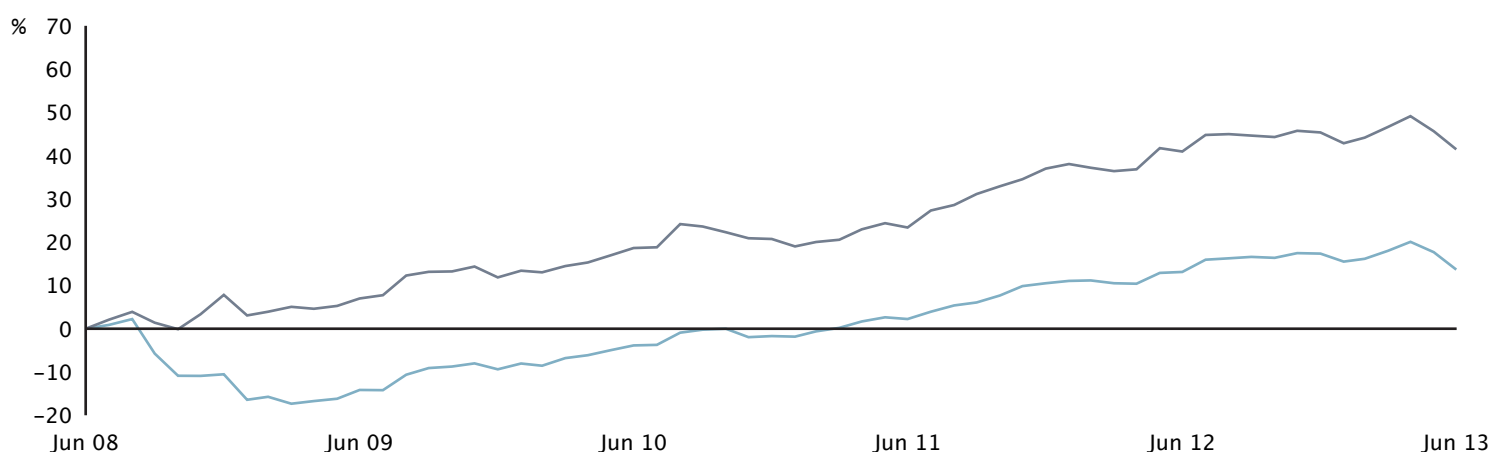
June 08 to June 09	June 09 to Jun 10	June 10 to Jun 11	June 11 to Jun 12	June 12 to Jun 13
-14.15%	+11.99%	+6.35%	+10.64%	+0.48%

Past performance is not a guide to future returns. Source: AXA IM & Lipper Hindsight as at 30 June 2013. Basis: mid to mid, with net income reinvested, net of fees in GBP

### Cumulative Fund performance versus comparative benchmark

as at 30 June 2013

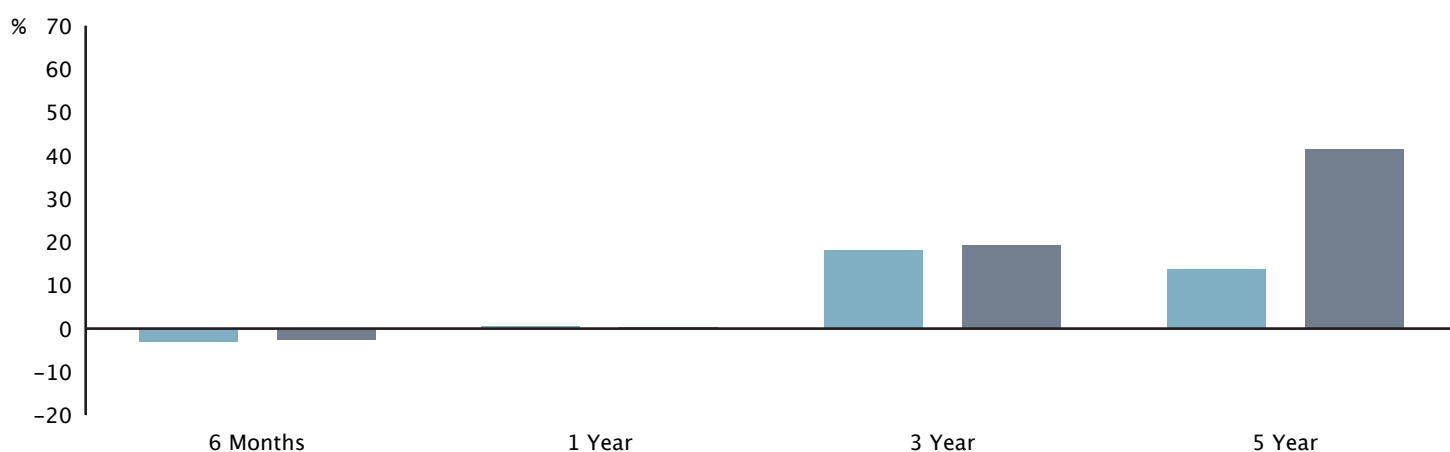
■ AXA Sterling Strategic Bond Fund ■ BoA ML Sterling Broad Market Index



Past performance is not a guide to future performance. Source: AXA IM & Lipper Hindsight, mid to mid, net of fees income reinvested to 30 June 2013. Performance refers to AXA Sterling Strategic Bond Fund Net (tax and fees) R Acc net Share Class. Benchmark: BoA ML Sterling Broad Market Index. Please note the comparative benchmark is stated without any deduction for the impact of tax and management fees.

as at 30 June 2013

■ AXA Sterling Strategic Bond Fund ■ BoA ML Sterling Broad Market Index



Past performance is not a guide to future performance. Source: AXA IM & Lipper Hindsight, mid to mid, net of fees income reinvested to 30 June 2013. Performance refers to AXA Sterling Strategic Bond Fund Net (tax and fees) R Acc net Share Class. Benchmark: BoA ML Sterling Broad Market Index. Please note the comparative benchmark is stated without any deduction for the impact of tax and management fees.

# AXA Sterling Strategic Bond Fund

## For the Year Ended 30 June 2013

### Summary of historic prices and distributions

Year	Share class	Share type	Highest share price (pence)	Lowest share price (pence)	Distribution per share (pence)	Share type	Highest share price (pence)	Lowest share price (pence)	Distribution per share (pence)
2013*+	H	Acc (net)	119.0	111.6	1.467	Acc (gross)	126.2	118.5	1.891
2013*+	R	Inc (net)	88.24	82.66	0.660	Inc (gross)	88.49	82.95	0.826
2013*+	R	Acc (net)	110.6	103.6	0.825	Acc (gross)	116.7	109.4	1.088
2013*+	Z	Acc (net)	125.6	117.7	1.298	Acc (gross)	136.2	127.8	1.759
2012	H	Acc (net)	115.9	106.5	2.982	Acc (gross)	122.6	112.2	3.839
2012	R	Inc (net)	87.10	81.53	1.457	Inc (gross)	87.36	81.84	1.853
2012	R	Acc (net)	108.3	100.1	1.811	Acc (gross)	114.0	105.2	2.415
2012	Z	Acc (net)	122.6	113.0	2.729	Acc (gross)	132.6	121.7	3.578
2011	H	Acc (net)	107.8	94.20	3.559	Acc (gross)	113.5	98.36	4.574
2011	R	Inc (net)	83.23	74.88	1.968	Inc (gross)	83.53	75.01	2.506
2011	R	Acc (net)	101.7	89.71	2.388	Acc (gross)	106.6	93.54	3.178
2011	Z	Acc (net)	114.6	100.4	3.352	Acc (gross)	123.2	107.2	4.427
2010	H	Acc (net)	96.88	86.52	3.804	Acc (gross)	100.9	89.55	4.940
2010	R	Inc (net)	77.83	71.50	2.494	Inc (gross)	78.10	71.79	3.002
2010	R	Acc (net)	92.47	83.09	2.809	Acc (gross)	96.26	86.06	3.610
2010	Z	Acc (net)	103.4	92.58	3.731	Acc (gross)	110.1	98.00	4.896
2009	H	Acc (net)	88.12	76.77	3.217	Acc (gross)	91.05	78.66	3.979
2009	R	Inc (net)	73.44	65.92	1.861	Inc (gross)	73.69	66.23	2.534
2009	R	Acc (net)	84.81	74.35	2.273	Acc (gross)	87.76	76.40	2.952
2009	Z	Acc (net)	94.36	82.41	3.088	Acc (gross)	99.76	86.40	3.970
2008	H	Acc (net)	100.6	83.40	4.913	Acc (gross)	101.4	85.19	6.206
2008	R	Inc (net)	91.41	72.66	3.530	Inc (gross)	91.67	73.07	4.422
2008	R	Acc (net)	98.69	81.02	3.870	Acc (gross)	100.0	83.00	4.906
2008	Z	Acc (net)	108.6	89.63	4.866	Acc (gross)	112.1	93.69	6.295

Highest offer and lowest bid price quoted at anytime in the calendar year and \* to 30 June 2013. + Distribution paid 31 August 2013.

### Net asset value record

Share class	Share type	Net Asset Value as at 30 June 2013 (pence)	Net Asset Value as at 30 June 2012 (pence)	Share type	Net Asset Value as at 30 June 2013 (pence)	Net Asset Value as at 30 June 2012 (pence)
H	Acc (net)	112.1	110.8	Acc (gross)	119.0	116.9
R	Acc (net)	104.0	103.9	Inc (net)	82.64	83.84
R	Acc (gross)	109.8	109.2	Inc (gross)	82.84	84.04
Z	Acc (net)	118.6	117.4	Acc (gross)	128.3	126.6

Please note, that the NAV prices shown above are different from the results prices as at 30.06.13. The differences are due to the fund performance tables taking the quoted valuation prices on the last day of the period, whereas the NAV table above is showing prices including any accounting adjustments at the end of the period. Basis: mid to mid.

# AXA Sterling Strategic Bond Fund

## For the Year Ended 30 June 2013

### Top ten holdings as at 30 June 2013

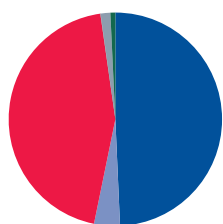
Company	Sector	%
UK Treasury 4% 07/09/16	UK Government Bonds	4.42
UK Treasury 4.25% 07/12/27	UK Government Bonds	4.05
UK Treasury 1.875% IL 22/11/22	UK Government Bonds	3.92
UK Treasury 4.75% 07/12/38	UK Government Bonds	2.86
UK Treasury 4.75% 07/12/30	UK Government Bonds	2.85
UK Treasury 4.5% 07/09/34	UK Government Bonds	2.77
US Treasury Notes 0.125% 15/07/22	US Government Bonds	2.71
UK Treasury 4.25% 07/12/46	UK Government Bonds	2.70
UK Treasury 1% 07/09/17	UK Government Bonds	2.55
UK Treasury 4.25% 07/03/36	UK Government Bonds	2.28

### Top ten holdings as at 30 June 2012

Company	Sector	%
UK Treasury 5% 07/03/25	UK Government Bonds	4.71
UK Treasury 4.75% 07/09/15	UK Government Bonds	4.49
UK Treasury 4.75% 07/03/20	UK Government Bonds	4.28
UK Treasury 4.25% 07/03/36	UK Government Bonds	3.85
UK Treasury 4.25% 07/12/27	UK Government Bonds	3.42
UK Treasury 4% 07/09/16	UK Government Bonds	3.27
UK Treasury 4.25% 07/12/46	UK Government Bonds	3.19
UK Treasury 4.5% 07/12/42	UK Government Bonds	3.17
UK Treasury 2.75% 22/01/15	UK Government Bonds	2.94
UK Treasury 4.25% 07/06/32	UK Government Bonds	2.83

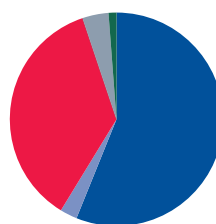
### Portfolio breakdown

As at 30 June 2013



Sector	%
Government Bonds	49.34
Government Index-Linked Bonds	3.92
Corporate Bonds	44.56
Futures	0.04
Forwards	-0.08
Cash	1.47
Other	0.75

As at 30 June 2012



Sector	%
Government Bonds	56.12
Government Index-Linked Bonds	2.61
Corporate Bonds	36.12
Futures	0.00
Forwards	0.00
Cash	3.95
Other	1.20

All data, source: AXA Investment Managers unless otherwise stated.

# AXA Sterling Strategic Bond Fund

## For the Year Ended 30 June 2013

### Authorised Corporate Director

AXA Investment Managers UK Ltd  
7 Newgate Street  
London EC1A 7NX

*Authorised and regulated by the Financial Conduct Authority (Formerly Financial Services Authority).*

### Dealing

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Telephone Enquiries / Dealing 0845 777 5511  
IFA Enquires 0845 766 0184

### Registrar

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London, EC1A 7NX

*Authorised and regulated by the Financial Conduct Authority (Formerly Financial Services Authority).*

### Investment advisers

AXA Investment Managers UK Ltd  
7 Newgate Street  
London EC1A 7NX

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### Legal adviser

Eversheds LLP  
1 Wood St  
London EC2V 7WS

### Depository

HSBC Bank Plc  
Registered Office  
8 Canada Square  
London E14 5HQ

*Authorised and regulated by the Financial Conduct Authority (Formerly Financial Services Authority).*

### Independent auditors

PricewaterhouseCoopers LLP  
7 More London Riverside  
London  
SE1 2RT

### Fund accounting administrator

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

*Authorised and regulated by the Financial Conduct Authority (Formerly Financial Services Authority).*

**For more information on any AXA IM Fund please contact us via our website or telephone number below.**

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

Telephone calls may be recorded or monitored for quality assurance purposes.

# 0845 777 5511

[www.axa-im.co.uk](http://www.axa-im.co.uk)

## 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) Rules. If you would like any additional information about the Fund you can request a copy of the more detailed long form accounts for the Fund. For a copy of this, please contact our dedicated customer services team on 0845 777 5511.

### Other information

The Fund is a sub-fund of the AXA Fixed Interest Investment Company ICVC which is an open ended investment company authorised by the FCA, and has a UCITS certificate. The Company is managed in accordance with the FCA Collective Investment Schemes Sourcebook (COLL).

### European Savings Directive

Under the European Savings Directive, information is collected about the payment of savings income to non-UK residents. The Fund falls within the 25% debt investment reporting threshold. This means that details of all income distributions and redemption proceeds paid to non UK investors will be reported by AXA Investment Managers to HM Revenue & Customs to be exchanged with the relevant tax authorities.

**0845 777 5511**

**[www.axa-im.co.uk](http://www.axa-im.co.uk)**

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. 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 IMA. Telephone calls may be recorded or monitored for quality assurance purposes.

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All data sources: AXA Investment Managers unless otherwise stated.