AXA Framlington
An AXA Investment Managers Expertise

AXA Framlington UK Smaller Companies Fund

For the year ended 30 April 2014

Investment objective and policy

Capital growth through investment principally in smaller UK quoted companies.

Results

Unit Class	Unit Type	Price at 30.04.13 (p)	Price at 30.04.14 (p)	Unit Class Performance	Comparative Benchmark
R	Acc*	134.7	177.6	31.85%	31.83%^
Z	Acc*	123.4	163.9	32.82%	31.83%^
R	Inc**	129.9	170.8	31.49%	28.44%^^

* Acc units include net revenue reinvested, total return. ** Inc units do not include net revenue reinvested, capital return dividends excluded. ^ FTSE SmallCap (Ex Investment Companies) (Total Return) Index, ^^ FTSE SmallCap (Ex Investment Companies) (Capital Return) Index. Source of all performance data: AXA Investment Managers and Lipper, bid to bid, to 30 April 2014.

Review

UK smaller companies have again outperformed their larger peers over the last twelve months and, pleasingly, the Fund has outperformed both its peer group and its comparative benchmark, the FTSE Small Cap Ex-IC Index.

In previous reports, we have noted that the reasons behind the longer-term outperformance of smaller companies have included the premium growth profile of smaller companies in comparison to larger companies, the under-researched nature of our investment universe and the fact that smaller companies are often beneficiaries of merger and acquisition (M&A) activity. The third factor has, however, been noticeably absent over the last few years.

While macroeconomic conditions have improved, cash on balance sheets has grown, valuations have risen and access to credit has dramatically improved for listed companies, the major missing pillar has been confidence. The latest CBI report indicated, however, that this has changed and the quarterly business confidence reading is the highest since 1973 (Citigroup: April, 2014). Indeed, plant and machinery investment intentions are the highest since 1997, and expected new orders are the highest since 1996. Global M&A is about $1.2 trillion for the year to date, the highest level since 2007 and up 42% on a year ago (Financial Times, 28 April 2014). In the UK, it has so far been focused further up the market capitalisation scale and, in particular, in the healthcare sector, with a bid for AstraZeneca by Pfizer and an asset swap deal struck between GlaxoSmithKline and Novartis. While none of the Fund's holdings have been acquired in the period, a number of the Fund's holdings have themselves been on the acquisition trail. These include RPC, Brammer, GB Group, Johnsons Services Group and Regenersis. We have supported these transactions in the Fund, which have been completed using a mix of cash and shares and, in many cases, have been significantly earnings-enhancing. Supporting good management teams, which have a history of successfully executing on a stated strategy that we are familiar with, should be seen as a less risky venture than investing new money in fashionable initial public offerings (IPOs) with no listed track record and at premium prices.

Regenersis, a provider of after-sale services, product repair and refurbishment, recently announced the acquisition of Blancco, a global leader in data erasure software (software predominantly used to wipe

AXA Framlington is a leading equity expertise within the AXA Investment Managers Group, with teams 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 £54.5 billion (as at 30 April 2014).

solid state memories on, for example, laptops or mobiles before disposal or refurbishment) and a supplier of such services to Regenersis. Regenersis has been a Fund holding since the third quarter of 2012, during which time the shares have more than trebled. From a top-down/thematic perspective, data erasure is set to become an important item on the agenda of any corporate. Current EU data protection legislation has not significantly changed since 1995, and most corporates do not have an effective and audited policy for data erasure and protection, necessary when devices such as smart phones or laptops are disposed of or changed. The 2015 new European Data regulation will be much tougher and could mean that corporates that fail to comply are fined as much as 5% of global turnover. Not only is Blancco the market leader, but the market is growing at over 20% per annum and legislation will help drive this growth. From a bottom-up perspective, it is a cloud-based recurring revenue business model with over 30% margins and plenty of scope to increase prices and scale the technology across multiple new clients and geographies. Blancco has a competitive advantage in terms of its technological leadership, broad range of accreditations and ability to provide an audit trail.

In spite of impressive equity market returns over the last three years, earnings downgrades have still outweighed earnings upgrades, and this has contributed to a re-rating in equity valuations. Indeed Graham Secker, the Morgan Stanley strategist, recently quipped “If you are an analyst working at an investment bank in Europe, if you’ve been doing this job for three years or less, you may have never seen an upgrade” (Financial Times, 28 April 2014). Despite the more positive economic backdrop, this trend has continued into the first half of 2014. One of the factors behind this, more recently, has been the strength of sterling relative to other currencies, which has meant that foreign earnings have been translated back into sterling at a lower rate than previously. This translation headwind is important as almost 50% of FTSE Small Cap Ex-IC revenues come from outside the UK.

However, one theme that has contributed to the Fund’s performance in this period of downgrades has been that of self-help and the ability of new management to reinvigorate a business. This is evident in many of the Fund’s holdings, such as Brammer, Scapa, Avon Rubber and others. In September last year during a secondary placing of stock, we purchased a holding in Restore, one of the market leading providers of document management and office relocation services. The chief executive, Charles Skinner (who previously ran Brandon Hire before it was sold to Wolseley), has done a terrific job of restructuring Restore (formerly called Mavinwood) since he took over in 2009. In a market that has not grown, Skinner has built up the business to over £50 million of sales (from just £12.8 million in 2009) through a series of bolt-on deals that have expanded their addressable market from just hard copy document storage to scanning, shredding, office relocations and IT disposal (Restore is actually a customer of Blancco, mentioned earlier). These extra revenue opportunities can be extracted from the same customer base, and with no need to add significant costs, and are therefore very earnings enhancing. Document storage is a high margin business with excellent visibility of cash flow as customers rarely change provider or dispose of boxes. Debt has been reduced through disposals of non-core activities and a dividend has been introduced. With a market capitalisation of over £100 million, it is starting to get on investors’ radars (although it is still under-researched) and profits are forecast to grow by over 15% this year.

As confidence and economic growth shows signs of improvement, it is easy to get carried away. Companies are queuing up to list on public markets, with valuations reflective of the current elevated appetite for risk. We have only played a small part in the IPO market recently and have done so with the words ‘caveat emptor’ ingrained in our minds. IPOs we have got involved with include Bonmarche, Manx and Cambian. When investing, we have tried to ensure that analyst earnings forecasts do not encapsulate all of the potential upside and thereby leave room for positive optionality or upside to expectations (this includes the valuation rating). Furthermore, management should remain incentivised in the business after listing. JD.com’s (the Chinese ecommerce rival to Alibaba) listing document provides a welcome reminder of the risks. A provision in the document states that the board cannot vote on any matter unless the founder, Richard Liu, is present. This means that Mr Liu could potentially block any vote (including takeover) by staying at home!

On IPO, Manx, the incumbent telecoms operator in the Isle of Man, offered a yield of 7% and earnings growth from expanding its data centre footprint and growing its off-island revenues. It was attractively priced and came on a valuation of just 12x P/E, a significant discount to the circa 90x P/E of AO World.com! Pricing power and barriers to entry are important attributes that we look for in investments and Manx have 100% of the fixed line market in the Isle of Man. The size of the market and their strong relationship with the regulator deter would-be entrants.

Outlook

UK smaller companies remain an under-researched area of the market and the asset class has experienced net outflows over the last decade as many investors have preferred to switch their exposure into global equity returns. Recent UK equity inflows suggest that this trend has started to reverse and this should be positive for the asset class. As illustrated above, UK smaller companies offer an attractive mix of overseas and domestic earnings and are in strong financial shape to evolve and prosper in what is a dynamic economic and geopolitical environment. We remain confident that the Fund is well positioned to exploit the current backdrop and it is encouraging to see a number of companies in the Fund reporting strengthening order books and management thinking how they might best deploy their balance sheets.

Henry Lowson

21 May 2014

All performance data source: AXA Investment Managers and Lipper to 30 April 2014.

Risk and reward profile

The Fund invests predominantly in UK listed smaller capitalisation companies. Such companies' stocks have the possibility of higher returns than larger capitalisation company stocks but their value can fluctuate more in value and as a result involve a higher degree of risk. Investors should consider carefully whether this investment risk is suitable for them. The value of investments and the revenue from them is not guaranteed and can go down as well as up.

Lower risk — **Higher risk**

Potentially lower reward — Potentially higher reward

1	2	3	4	**5**	6	7

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 may be subject to sudden and significant variation, which may result in substantial gains or losses.

Additional risks

Liquidity risk: the liquidity of the Fund is a function of the liquidity of the underlying investments. The Fund's assets mainly consist of readily realisable securities but investors should note that liquidity within the smaller companies is generally less than in larger companies. This risk is managed by maintaining a well diversified portfolio of investments. This should enable the payment of the Fund's liabilities and any investor's redemption of units.

FUND FACTS

Lead Fund Manager	Henry Lowson
Sector	UK Smaller Companies
Comparative benchmark	FTSE SmallCap Ex IC (Total Return)
Launch date	27 Apr 2001
Fund size at 30 Apr 2014	£93m
Fund size at 30 Apr 2013	£57m
Minimum investments	
Lump sum	R: £1,000 Z: £100,000
Minimum subsequent investment	R: £100 / Z: £5,000
Net yield	
R Inc / Acc	0.14% / 0.14%
Z Acc	0.81%
Unit type	Inc/Acc
Number of stocks	90
Initial charge	R: 5.25% / Z: 0.00%
Annual management charge	R: 1.50% / Z: 0.75%
Ongoing charges	
R Inc/Acc	1.60% / 1.60%
Z Acc	0.85%
Accounting dates (interim)	31 Oct
Accounting dates (annual)	30 Apr
Distribution dates (interim)	31 Dec
Distribution dates (annual)	30 Jun

All data, source: AXA Investment Managers as at 30 April 2014.

Top five purchases

For the year ended 30 April 2014
4imprint
British Polythene Industries
STV
Safestore
Cambian

Top five sales

For the year ended 30 April 2014
NCC
Beazley
Dialight
Idox
Kcom

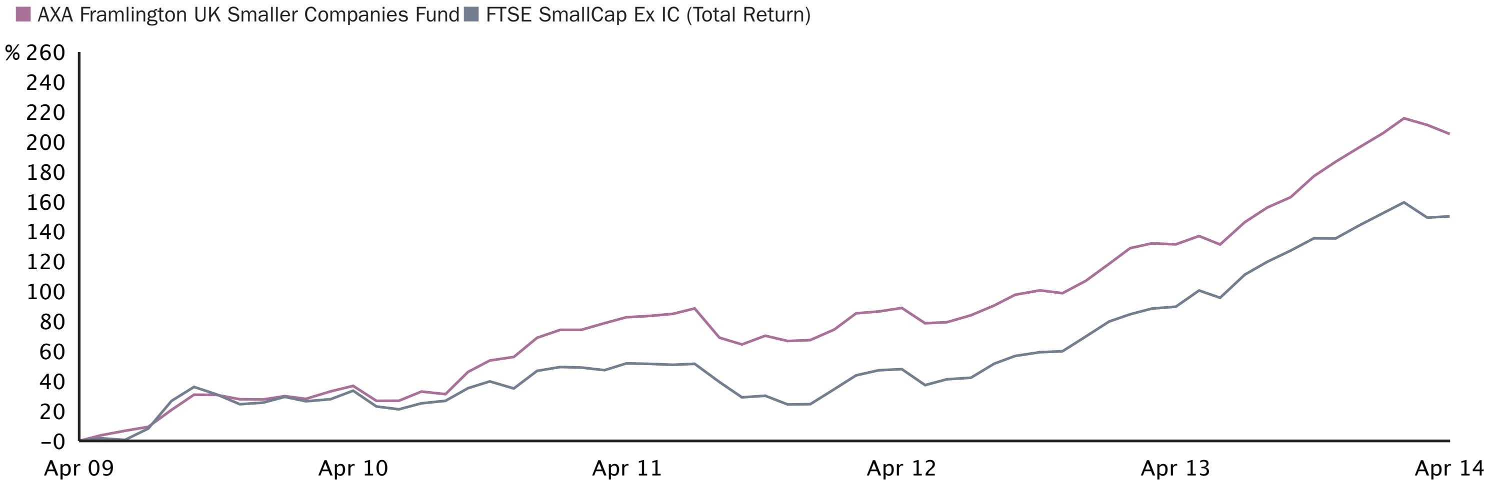
Five year discrete annual performance %

Apr 09 to Apr 10	Apr 10 to Apr 11	Apr 11 to Apr 12	Apr 12 to Apr 13	Apr 13 to Apr 14
36.80%	33.47%	3.38%	22.46%	31.85%

Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 30 April 2014. Basis: Bid to bid, with net revenue reinvested, net of fees in GBP. Performance is representative of R Acc class. Please note that for years 2010 and 2011, the performance figures have been adjusted to reflect the figures as currently shown in Lipper.

Cumulative fund performance versus comparative benchmark

as at 30 April 2014



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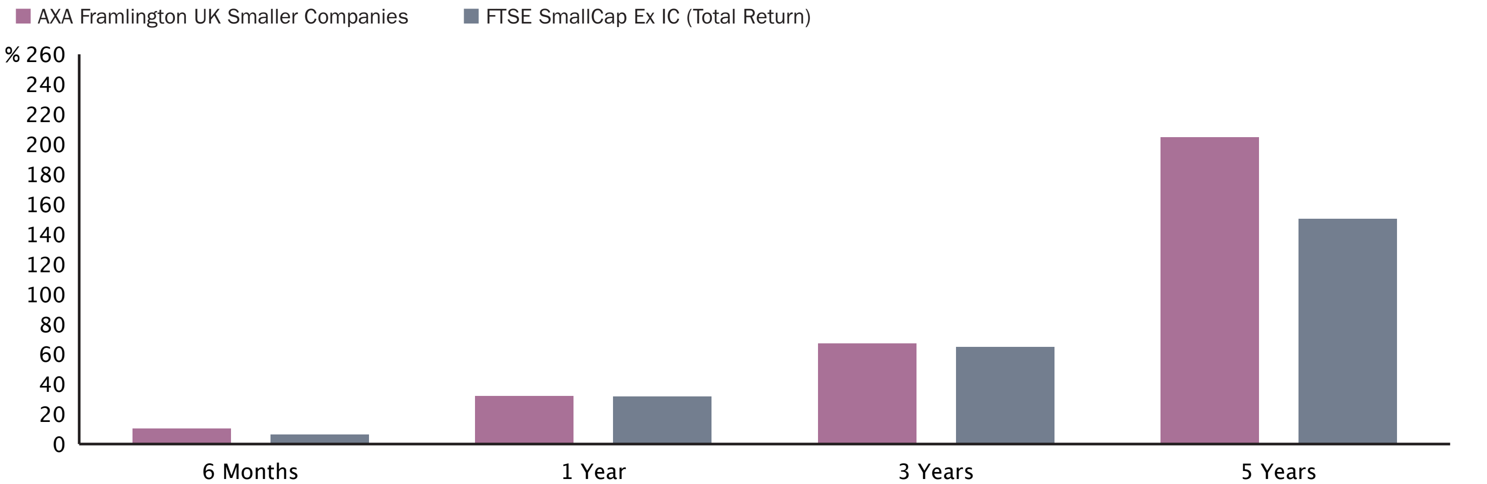
as at 30 April 2014



Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 30 April 2014. Basis: Bid to bid, with net revenue reinvested, net of fees in GBP. Performance is representative of R Acc class.

Summary of historic prices and distributions

Year	Unit class	Unit type	Highest offer price (pence)	Lowest bid price (pence)	Total net distribution per unit (pence)
2009	R	Inc	81.92	45.46	0.581
2009	R	Acc	84.08	46.21	0.590
2010	R	Inc	101.8	69.77	0.394
2010	R	Acc	105.0	71.95	0.404
2011	R	Inc	116.1	89.08	0.209
2011	R	Acc	119.9	92.07	0.215
2012	R	Inc	123.6	94.53	0.357
2012	R	Acc	128.1	97.69	0.367
2012#	Z	Acc	113.0	92.64	0.199
2013	R	Inc	176.4	118.0	0.375
2013	R	Acc	183.5	122.4	0.386
2013	Z	Acc	161.4	111.9	1.208
2014*+	R	Inc	189.8	166.4	0.242
2014*+	R	Acc	197.4	173.0	0.251
2014*+	Z	Acc	174.0	159.3	1.344

*Highest offer and lowest bid price quoted at any time in the calendar year and * to 30 April 2014.*
+ Distribution pays 30 June 2014. # Launched 16 April 2012.

Net asset value record

Unit class	Unit type	Net asset value per unit as at 30 Apr 2013 (pence)	Net asset value per unit as at 30 Apr 2014 (pence)
R	Inc	129.8	170.7
R	Acc	135.0	177.8
Z	Acc	123.3	164.0

Please note, that the NAV prices shown above are different from the Results prices as at 30 April 2014. 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 (for example, notional dealing charges are removed).

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 free 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.

Top ten holdings as at 30 April 2014

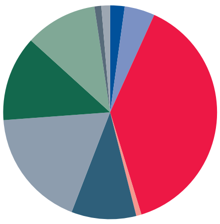
Company	Sector	%
Tyman	Industrials	2.47
Regenersis	Industrials	2.28
CLS	Financials	2.20
Brammer	Industrials	1.96
Avon Rubber	Industrials	1.84
4imprint	Consumer Services	1.79
Elementis	Basic Materials	1.77
RPC	Industrials	1.77
STV	Consumer Services	1.72
Spirit Pub	Consumer Services	1.70

Top ten holdings as at 30 April 2013

Company	Sector	%
CLS	Financials	2.71
Elementis	Basic Materials	2.11
Devro	Consumer Goods	2.04
St Modwen Properties	Financials	2.03
Keller	Industrials	2.02
Paragon	Financials	2.01
Tyman	Industrials	1.95
RPC	Industrials	1.91
RWS	Industrials	1.91
Dechra Pharmaceuticals	Health Care	1.90

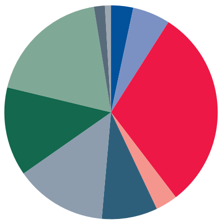
Portfolio breakdown

as at 30 April 2014



Sector	%
Oil & Gas	2.19
Basic Materials	4.58
Industrials	38.50
Consumer Goods	0.79
Health Care	9.80
Consumer Services	17.97
Financials	12.90
Technology	10.92
Telecommunications	1.03
Net current assets	1.32

as at 30 April 2013



Sector	%
Oil & Gas	3.35
Basic Materials	5.69
Industrials	30.57
Consumer Goods	3.33
Health Care	8.45
Consumer Services	13.91
Financials	13.45
Technology	18.68
Telecommunications	1.65
Net current assets	0.92

All data, source: AXA Investment Managers

Important information

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Authorised and regulated by the Financial Conduct Authority. Member of the IMA.

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London, EC1A 7NX
Authorised and regulated by the Financial Conduct Authority.

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

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

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