An AXA Investment Managers Expertise

# AXA Framlington Global Technology Fund

For the year ended 15 January 2014

**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 £54.0 billion (as at 31 December 2013).

## Investment objective and policy

To achieve long term growth principally through investments in companies engaged in the research, design and development of technologies in all sectors including information technology and the internet and in companies manufacturing and distributing products and/or providing services resulting from such research, design and development.

## Results

| Unit Class | Unit Type | Price at 15.01.13 (p) | Price at 15.01.14 (p) | Unit Class Performance | Comparative Benchmark |
|---|---|---|---|---|---|
| R | Inc* | 39.89 | 47.53 | 19.15% | 24.22%^ |
| Z | Inc* | 110.3 | 132.4 | 20.04% | 24.22%^ |
| R | Acc** | 39.90 | 47.54 | 19.15% | 25.78%^^ |
| Z | Acc** | 110.2 | 132.3 | 20.05% | 25.78%^^ |

*Inc units do not include net income reinvested, capital return dividends excluded. ** Acc units include net income reinvested, total return. ^ MSCI World Information Technology Index (capital return), ^^ MSCI World Information Technology Index (net return). Source of all performance data: AXA Investment Managers and Lipper, bid to bid, to 15 January 2014.

## Review

For technology investors, 2013 was very much shaped by events in the first few months of the year, as detailed in our Interim Report. While equity markets started the year strongly the impact of the US Federal Budget sequestration, which was enacted on 1 March 2013, was bigger than anticipated and spending decisions were put on hold. Additionally, the banking crisis that same month in Cyprus paused European expenditure until the outcome was clarified. As a result, confidence was impacted as it appeared that growth forecasts for 2013 were at risk.

There was also the expectation that with a weaker economic backdrop caused by these uncertainties, the US Federal Reserve (the Fed) would postpone plans to reduce their quantitative easing (QE) agenda, and thus treasury yields would continue to stay low. This led to assets being reallocated from bonds to equities, but they were mainly being invested in dividend-paying stocks as the bond-like attributes of a regular coupon were considered more attractive in an environment where confidence in growth was low. As discussed in our Interim Report, this adversely impacted the relative performance of the AXA Framlington Global Technology Fund, which is biased towards smaller and medium-sized corporations rather than the larger enterprises that dominate the comparative benchmark, many of which have increased their pay-out ratios and benefitted from the 'hunt for yield' that took place.

During this past year, while many of our investments have delivered strong returns, we have struggled with the fact that a handful of large index constituents such as Microsoft, Hewlett Packard and Nokia, to which we have no exposure, have seen their share prices climb considerably, bucking the trend of recent years. As an example, Hewlett Packard's share rose by 75% during the period under review, despite their revenues falling almost 6% in the 12 months to 31 January 2014. We feel that in these cases the fundamentals of the business have not shown material improvement, but share prices have risen due to expectations that changes (usually to the management team) could lead to an unlocking of value. In the current investment climate where value has been a more sought-after attribute in comparison to growth, these expectations have carried a lot of weight.

As the year progressed, it became apparent that with improving economic data (particularly employment statistics) suggesting that the US was recovering from its slump, the Fed could begin ‘tapering’ QE. This expectation caused a rise in treasury yields, resulting in a more balanced demand for value and growth stocks. However, confidence was shaken again in October due to a forced US federal shutdown as the debt ceiling was negotiated in Washington DC, and it took until early December for the agreement over the fiscal budget to ultimately be reached. Concurrently, the Fed finally announced its intention to taper its stimulus policies, indicating their increased confidence in the sustainability of the economic recovery by winding down the bond-buying program it initiated in November 2008.

We stated in our Interim Report that we believe that as confidence continues to return to the economy and growth resumes, our investment approach will create value for investors. During the second half of the period under review the Fund outperformed its comparative benchmark in part due to the strong performance of our investments in smaller and medium-sized companies such as Splunk (+39% in 6 months to 15 January 2014, $10 billion market capitalisation), Dialog Semiconductor (+45%, €1.1 billion mkt cap), ChannelAdvisor (+130%, $1 billion mkt cap) and Qualys (+62%, $850 million mkt cap).

Merger activity continues to support our thesis; the Fund has benefitted recently from two more bids as LSI have accepted a proposal to be purchased by Avago Technologies and Oracle announced their intention to purchase Responsys. This is in addition to the three bids for investee companies that the Fund profited from during the first half of 2013. While we make investments on the underlying merits of the individual companies rather than on the assumption that they are potential acquisition candidates, with over $450 billion of cash residing on Apple, IBM, Microsoft, Cisco, Qualcomm, Google, Oracle and Intel’s combined balance sheets, we would expect to see further consolidation over the coming years.

## Fund construction

The Fund is constructed using a bottom-up stock-picking approach. It references a thematic overlay that ensures that any investment is a beneficiary of at least one of several technology drivers that will define the sector’s opportunities in the coming years. Themes that the Fund’s investments benefit from include enterprise productivity, ubiquitous and mobile computing, broadband adoption, digitalisation, Web2.0/cloud computing and globalisation.

The Fund is constructed with an awareness of the comparative benchmark but not the necessity to adhere to it because, in our opinion, the benchmark is populated with the successful technology companies of the past, which are not necessarily the successful technology companies of the future. The Fund’s bias is therefore towards investing in smaller and medium-sized corporations rather than the larger enterprises dominating the comparative benchmark. We firmly believe that over the longer term this approach will create significant value for investors.

## Portfolio

As an interesting aside, three of the Fund’s largest investments, Apple, Google and Facebook, are all celebrating important anniversaries in 2014. 30 years ago, on 24 January 1984, Apple’s then chairman Steve Jobs introduced the original Apple Macintosh personal computer (PC). Since then the trials, tribulations and successes of Apple Inc. have been widely documented, and the ’Macintosh‘ remains an iconic design in the world of PCs, and one that is remembered fondly by those of a certain age.

Fast-forward to today, and the PC is a massive, global industry selling millions of units each year, with its presence felt in businesses, homes and academic facilities around the world. The traditional PC (desktops and laptops) has seen its popularity wane over the past couple of years, however new iterations of personal computing devices in the shape of tablets and smartphones have emerged and seen rapid adoption driven by the need to be connected. Global shipments in the first half of 2013 amounted to 69 million desktops, 85 million laptops, 34 million tablets and 454 million smartphones.

Computer-related technology has become significantly more affordable over the past three decades (partly thanks to an observation commonly known as Moore’s Law) and, when married with the widespread availability of broadband data connectivity, it has proliferated into our everyday lives. This is evidenced by Facebook being able to claim that it has 1.23 billion active users per month, and the Korean pop star, Psy, who can boast that there have now been over 1.9 billion views of his video on YouTube?

Google became a public company in 2004 - the first big internet initial public offering (IPO) since the dot-com crash (and the largest until Facebook's IPO in 2012). This put the technology sector, which was still out-of-favour following the bubble, back in the spotlight. Since its IPO it has delivered a total annualised return of about 31%. The share price is up 14 times since its $85 debut. As well as dominating internet search, the company developed Android, the world’s most broadly-used mobile operating system, and is a leading player in social media with its YouTube offering.

Facebook has recently celebrated its 10th birthday, but had a disastrous start to life as a public company after a series of missteps led to its share price halving within a few months of IPO. In our opinion, Facebook became investable in early 2013 once the company had delivered several quarters of results that demonstrated they were able to monetise their mobile traffic without damaging the experience mobile users received. Revenue and subscriber growth concurrently provided good justification for investing, which we duly did in May 2013. We believe Facebook has the potential to grow its predominantly advertising-based revenues significantly over the coming years.

## Conclusion

An important step forward in the economic recovery was the vote of confidence the Fed has shown in the US economy with its December announcement to begin tapering the asset purchases (which it had commenced under its QE plan in November 2008) which, along with the recent US fiscal budget agreement, will help improve both corporate and consumer confidence. Technology companies are supported by strong balance sheets and are generating good profitability and cash. Additionally, valuations continue to be attractive in relation to the sector’s potential for growth.

As technology continues to have an impact not just on traditional industries associated with computers and electronics, but also on other businesses such as manufacturing, healthcare, automotive and finance, we continue to believe that a broadly-diversified technology fund investing in companies with exposures to these multiple sectors, with an importance placed upon stock selection, will provide investors with healthy returns in the future.

**Jeremy Gleeson CFA - 25 February 2014**

All performance data source: AXA Investment Managers and Lipper, bid to bid, to 15 January 2014.

## Risk and reward profile

As the Fund invests in a single sector it has the potential to be more volatile than a fund which invests in a more diversified portfolio of equities across a range of sectors. The Fund also invests in overseas securities and therefore it may hold currencies other than sterling. As a result, exchange rate movements may cause the value of investments to fall or rise. The Fund may also invest in smaller companies and emerging markets which offer the possibility of higher returns, but may also involve a higher degree of risk. The value of investments and the income 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**

Geopolitical Risk: Investments in securities issued or listed in different countries may imply the application of different standards and regulations. Investments may be affected by movements of foreign exchange rates, change in laws or restrictions applicable to such investments, changes in exchange control regulations or price volatility.

## FUND FACTS

| | |
|---|---|
| Lead Fund manager | Jeremy Gleeson |
| Sector | IMA Technology & Telecoms |
| Comparative Benchmark | MSCI World Information Technology Index CR GBP |
| Launch date | 10 May 1999 |
| Fund size at 15 Jan 2014 | £222m |
| Fund size at 15 Jan 2013 | £204m |
| Minimum investments | |
| Lump sum | R: £1,000<br>Z: £100,000 |
| Minimum subscription | R: £100 / Z: £5,000 |
| Net Yield | |
| R Inc/Acc | Nil |
| Z Inc/Acc* | Nil |
| Unit type | Inc/Acc |
| Number of stocks | 60 |
| Initial charge | R: 5.25% / Z: 0.00% |
| Annual charge | R: 1.50% / Z: 0.75% |
| Ongoing charges | |
| R Inc/Acc | 1.58% / 1.58% |
| Z Inc/Acc* | 0.83% / 0.83% |
| Accounting dates (interim) | 15 Jul |
| Accounting dates (annual) | 15 Jan |
| Distribution dates (annual) | 15 Mar |

*All data, source: AXA Investment Managers as at 15 January 2014.*
**Unit class launched 22 June 2011, renamed to Z 16 April 2012.*

## Top five purchases

| For the year ended 15 January 2014 |
|---|
| Facebook |
| LSI |
| Fortinet |
| SBA Communications |
| Palo Alto Networks |

## Top five sales

| For the year ended 15 January 2014 |
|---|
| International Business Machines |
| EMC |
| Exacttarget |
| Sourcefire |
| Autodesk |

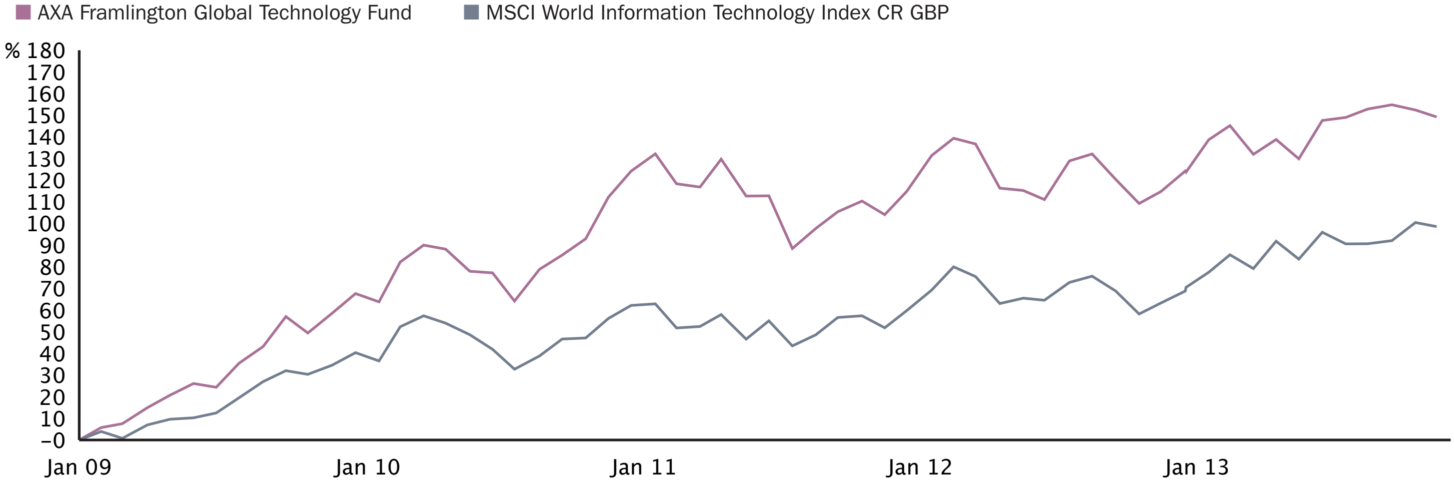
## Five year discrete annual performance %

| Jan 09 to Jan 10 | Jan 10 to Jan 11 | Jan 11 to Jan 12 | Jan 12 to Jan 13 | Jan 13 to Jan 14 |
|---|---|---|---|---|
| 67.62% | 33.74% | -4.19% | 4.40% | 19.15% |

*Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 15 January 2014. Basis: Bid to bid, with no income reinvested, net of fees in GBP. Performance is representative of R Inc class.*

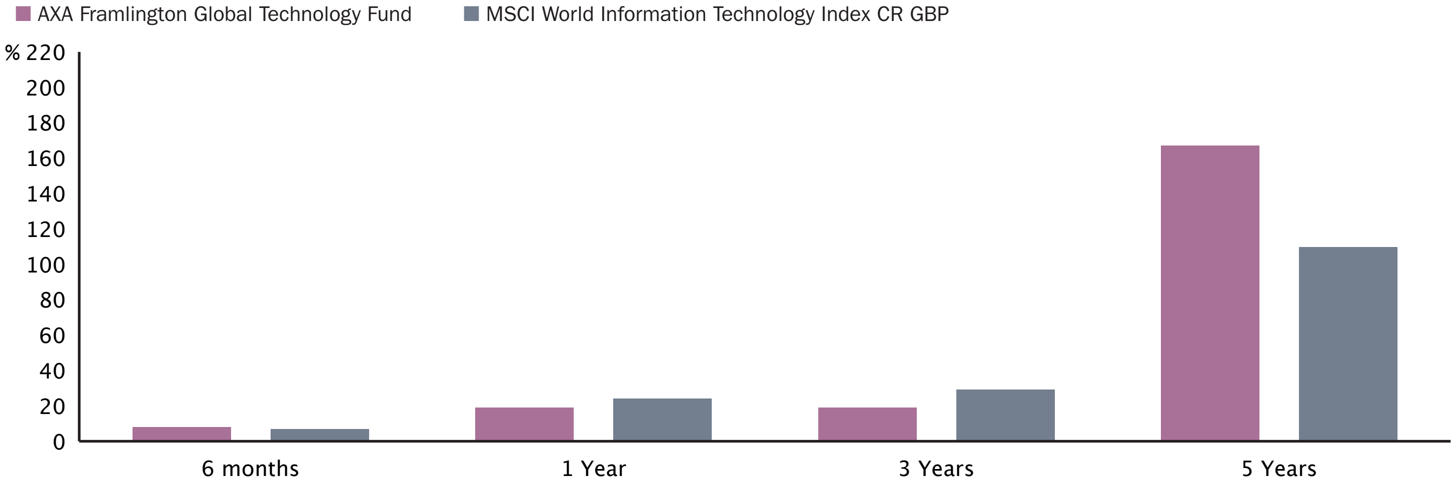
## Cumulative fund performance versus comparative benchmark

**as at 15 January 2014**




*Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 15 January 2014. Basis: Bid to bid, with no income reinvested, net of fees in GBP. Performance is representative of R Inc class.*

**as at 15 January 2014**




*Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 15 January 2014. Basis: Bid to bid, with no income reinvested, net of fees in GBP. Performance is representative of R Inc 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 | 31.88 | 17.01 | nil |
| 2009 | R | Acc | 31.88 | 17.01 | nil |
| 2010 | R | Inc | 41.34 | 27.83 | nil |
| 2010 | R | Acc | 41.34 | 27.83 | nil |
| 2011 | R | Inc | 43.82 | 29.86 | nil |
| 2011 | R | Acc | 43.82 | 29.86 | nil |
| 2011 | Z | Inc | 111.2 | 81.46 | nil |
| 2011 | Z | Acc | 111.2 | 81.52 | nil |
| 2012 | R | Inc | 45.93 | 36.53 | nil |
| 2012 | R | Acc | 45.92 | 36.53 | nil |
| 2012 | Z | Inc | 119.7 | 99.95 | nil |
| 2012 | Z | Acc | 119.8 | 100.1 | nil |
| 2013 | R | Inc | 49.43 | 38.76 | nil |
| 2013 | R | Acc | 49.44 | 38.76 | nil |
| 2013 | Z | Inc | 130.6 | 107.1 | nil |
| 2013 | Z | Acc | 130.6 | 107.1 | nil |
| 2014* | R | Inc | 50.13 | 46.46 | nil |
| 2014* | R | Acc | 50.14 | 46.47 | nil |
| 2014*# | Z | Inc | 132.5 | 129.4 | nil |
| 2014*# | Z | Acc | 132.5 | 129.3 | nil |

*Highest offer and lowest bid price quoted at any time in the calendar year and * to 15 January 2014.*
*# Unit class launched 22 June 2011, renamed to Z on 16 April 2012.*

## Net asset value record

| Unit class | Unit type | Net Asset Value per unit as at 15 January 2014 (pence) | Net Asset Value per unit as at 15 January 2013 (pence) |
|---|---|---|---|
| R | Inc | 47.57 | 40.03 |
| R | Acc | 47.57 | 39.99 |
| Z # | Inc | 132.4 | 110.2 |
| Z # | Acc | 132.4 | 110.2 |

*# Launched 22 June 2011, renamed to Z on 16 April 2012. Please note, that the NAV prices shown above are different from the results prices as at 15.01.14. 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). 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 0845 777 5511.

## Top ten holdings as at 15 January 2014

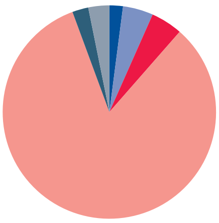
| Company | Sector | % |
|---|---|---|
| Apple | USA Equities | 7.11 |
| Google | USA Equities | 6.93 |
| Qualcomm | USA Equities | 3.86 |
| Facebook | USA Equities | 3.64 |
| Oracle | USA Equities | 3.48 |
| Visa | USA Equities | 3.41 |
| eBay | USA Equities | 2.41 |
| LSI | USA Equities | 2.07 |
| Telefonaktiebolaget LM Ericsson | Sweden Equities | 2.02 |
| Ciena | USA Equities | 1.91 |

## Top ten holdings as at 15 January 2013

| Company | Sector | % |
|---|---|---|
| Apple | USA equities | 6.43 |
| Qualcomm | USA equities | 4.12 |
| Google | USA equities | 4.11 |
| Oracle | USA equities | 3.95 |
| International Business Machines | USA equities | 3.84 |
| EMC | USA equities | 2.96 |
| Visa | USA equities | 2.75 |
| eBay | USA equities | 2.69 |
| American Tower 'A' | USA equities | 1.92 |
| Check Point Software | Israel equities | 1.84 |

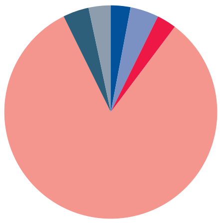
## Portfolio breakdown

**as at 15 January 2014**



| Sector | % |
|---|---|
| United Kingdom | 2.05 |
| Asia/Pacific (ex Japan) | 4.60 |
| Europe (ex UK) | 4.80 |
| Americas | 82.93 |
| Middle East | 2.44 |
| Net Current Assets | 3.18 |

**as at 15 January 2013**



| Sector | % |
|---|---|
| United Kingdom | 2.99 |
| Asia/Pacific (ex Japan) | 4.32 |
| Europe (ex UK) | 2.96 |
| Americas | 82.43 |
| Middle East | 3.94 |
| Net Current Assets | 3.36 |

All data, source: AXA Investment Managers

## Important information

**Authorised Fund Manager and Investment Adviser**
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*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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