Short Report

AXA Framlington
An AXA Investment Managers Expertise

AXA Framlington Monthly Income Fund
For the Six Months ended 6 September 2013

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 £51.7 billion (as at 31 August 2013).

Investment objective and policy

To combine a regular income with the potential for long-term capital growth. The Fund will invest mainly in equities and fixed interest securities. The Fund provides monthly income payable direct to a UK bank or building society account.

Results

Unit Class	Unit Type	Price at 06.09.13 (p)	Price at 06.03.13 (p)	Unit Class Performance	Comparative Benchmark
R	Acc*	412.4	373.5	10.41%	5.17%^
Z#	Acc*	125.3	113.4	10.49%	5.17%^
R	Inc**	209.6	194.1	7.99%	2.88%^^
Z#	Inc**	118.3	109.6	7.94%	2.88%^^

* Acc units include net income reinvested, total return. ** Inc units do not include net income reinvested, capital return dividends excluded. ^ FTSE All-Share Index (total return), ^^ FTSE All-Share Index (capital return). # Launched 16 April 2012. Source of all performance data: AXA Investment Managers and Lipper, bid to bid, to 6 September 2013.

Review

The six months to 6 September was a less dramatic time than prior periods, with less stark headlines to worry investors. The biggest hurdle was the bailout of Cyprus in late March which included the closing down of one of their largest banks. This bailout included the imposition of large losses on depositors above the secured minimum. This produced some political angst as many who were impacted were Russian, leading to attempts to orchestrate a bail out involving Russia. The mechanisms of the bailout were understood by investors and markets largely brushed concerns aside.

The US economy had to cope with the impact of sequestration on the US budget and despite these headwinds continued to produce steady growth. This was helped by an improving housing market where the combination of price falls and low interest rates helped to bring affordability to historically high levels. In addition, the availability of finance improved as US bank balance sheets were largely repaired. As the recovery became more established, the US Federal Reserve started to indicate that they would look towards exiting from their quantitative easing policy. The start to this programme will be a reduction in the pace of asset purchasing or ‘tapering’.

Markets reacted extremely to the proposed tapering, with bond markets selling off. The US 10-year Treasury bond yield moved from a low of around 1.6% in early May, to 2.9% around the period end. This caused mortgage rates to rise, slowing the momentum in the housing market. The scale of the reaction was greater than warranted in the short-term, with the Federal Reserve’s intention being to pave the way for a ‘normalisation’ of interest rates.

There was a chain reaction from the rise in the US interest rates. In the period of very low interest rates in the developed world, capital had been allocated to emerging economies in pursuit of higher returns. Many of these countries are running trade deficits which are being funded by these capital flows. As rates started to rise, some money was reallocated to the US dollar, placing significant pressure on currencies such as the Indian Rupee. Many of these countries will need to make some adjustments

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which will dampen their growth rates.

The Chinese economy saw continued growth, but at lower levels than in prior periods, while Japan saw a pick up in response to their own aggressive quantitative easing policy. Europe saw sluggish conditions, but also some signs of improvement in sentiment over the summer.

The UK economy produced some pleasant surprises with data being consistently stronger than expected. The main catalyst was the housing market where government policies bolstered confidence. Record numbers in employment also bolstered consumer spending. Parts of the manufacturing sector, such as the automotive and civil aerospace sectors, are also doing very well.

Equity markets made limited progress during the six months with the FTSE All-Share Index (Total Return) rising by +5.17%. Initial strength was followed by a market setback as concerns over the potential implementation of tapering in the US, impacted markets. This saw a sell-off of more than 10% as some of the 'froth' was shaken out of the markets. However, this was followed by a rapid recovery.

The portfolio performed strongly with the R acc units, which includes reinvested income, rising by +10.41%. The outperformance of the comparative benchmark was led by some of the smaller cap holdings with exposure to the domestic economy. Stocks such as Alumasc, Cineworld, Gleeson (MJ), Pendragon and Topps Tiles, all rose by more than 25%. Another strong performer was Juridica which saw good returns from its backing of legal cases which is being reflected in strong dividend payments.

It was not all plain sailing with Zytronic, which had performed strongly in prior periods, falling back as they experienced delays to large, prospective contracts.

The strong rises in some of these stocks took valuations to higher levels and holdings such as Cineworld, Gleeson (MJ), Pendragon and Topps Tiles, were reduced. A new purchase was made in Phoenix Group, which specialises in closed life and pension fund management and administration. Strong cashflows are reducing debt and funding healthy dividends.
Polar Capital was also purchased, an asset management firm seeing robust fund growth which is driving strong profit and dividend growth. The other major new purchase during the period was Randall & Quilter, which owns and manages insurance companies and captives in run offs. Once again, the company offers an attractive yield at the purchase price.

The holdings of Cambrian Global Timber and Euromoney Institutional Investor were sold - the former having failed to deliver on its business plan, while the latter had performed well and the share yield had fallen too low to justify retention.

Outlook

Looking to the future, equity markets face some political uncertainty, with US politicians scoring points off each other while threatening a sovereign default if the budget ceiling is not increased. This is not a process that will improve confidence. In Europe, a breakdown of the Italian coalition continues a long running saga of political instability. The German constitutional court will rule on whether the European Central Bank's Outright Monetary Transactions (OMT) are unlawful. If they so decide, they have the power to forbid the Bundesbank from participating in the OMT programme which would threaten financial stability.

Even in the UK the run up to the 2015 General Election provides political risk, as evidenced by the proposed policies of the Labour Party in regulating the UK power industry. Investment is required to maintain sufficient generating capacity and this is threatened by the current uncertainty.

The recovery since the financial crisis has been very slow in comparison to non-financially based recessions. Balance sheets are being repaired and the pace of recovery is likely to pick up but still remain sluggish. As this unfurls central banks will begin to end quantitative easing and will eventually begin to normalise interest rates. The latter event still appears to be a long way off. The volatility of the summer gives an indication of the likely market reaction to policy moves, but this should coincide with a period of decent corporate profitability which should support equity markets.

George Luckraft

1 October 2013

All performance data source: AXA Investment Managers and Lipper to 6 September 2013.

Risk and reward profile

The Fund invests primarily in UK equities and convertible shares. The Fund invests a proportion of its assets (around 30%) in smaller companies which offer the possibility of higher returns but which 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. The management fee is charged to capital, and while this will increase the distributable income, this may accordingly erode capital growth.

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: Risk that the Fund may face difficulties purchasing or selling its assets.

FUND FACTS

Lead Fund manager	George Luckraft
Sector	UK Equity Income
Comparative Benchmark	FTSE All-Share Index (Capital Return)
Launch date	26 Oct 1984
Fund size at 6 Sept 2013	£95m
Fund size at 6 Mar 2013	£92m
Minimum investments	
Lump sum	R: £1,000 Z: £100,000
Minimum subsequent investment	R: £100 / Z: £5,000
Net Yield	
R Inc/Acc	4.22% / 3.97%
Z Inc*/Acc*	4.16% / 4.02%
Unit type	Inc/Acc
Number of stocks	72
Initial charge	R: 5.25% / Z: 0.00%
Annual charge	R: 1.50% / Z: 0.75%
Ongoing charges	
R Inc/Acc	1.58% / 1.57%
Z Inc*/Acc*	0.83% / 0.83%
Accounting dates (interim)	6 Sep
Accounting dates (annual)	6 Mar
Distribution dates (interim)	6th of each month
Distribution dates (annual)	6 Apr

*All data, source: AXA Investment Managers as at 6 September 2013. *Unit class launched 16 April 2012.*

Top five purchases

For the six months ended 6 September 2013
Phoenix Group
Rio Tinto
Polar Capital
Lancashire Holdings
Randall & Quilter Investment

Top five sales

For the six months ended 6 September 2013
Cineworld
Imperial Tobacco
Pendragon
Euromoney Institutional Investor
Low & Bonar

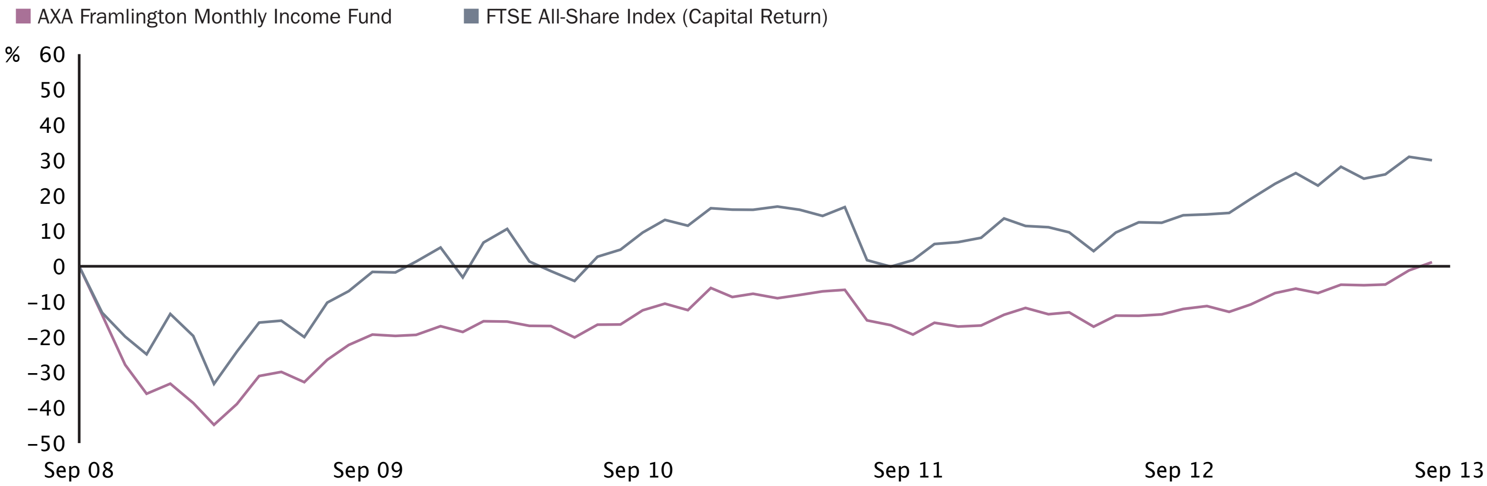
Five year discrete annual performance %

Sep 08 to Sep 09	Sep 09 to Sep 10	Sep 10 to Sep 11	Sep 11 to Sep 12	Sep 12 to Sep 13
-22.25%	7.45%	-0.23%	3.65%	17.10%

Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 6 September 2013. 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 6 September 2013



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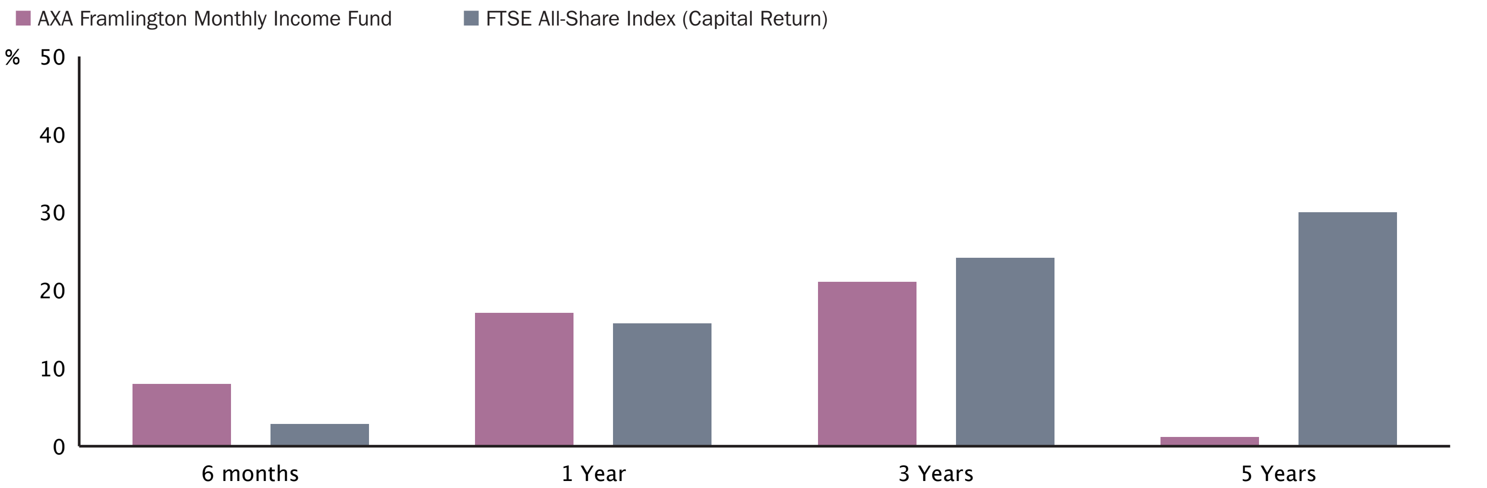
as at 6 September 2013



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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)
2008	R	Inc	287.2	132.3	11.73
2008	R	Acc	432.1	209.4	17.97
2009	R	Inc	185.4	113.0	8.367
2009	R	Acc	309.0	181.8	13.58
2010	R	Inc	206.5	163.9	6.472
2010	R	Acc	359.3	280.0	11.00
2011	R	Inc	207.4	164.6	8.570
2011	R	Acc	369.9	296.2	15.16
2012	R	Inc	198.3	170.1	8.506
2012	R	Acc	371.3	312.7	15.12
2012 #	Z	Inc	103.9	95.30	2.600
2012 #	Z	Acc	106.2	95.53	2.720
2013*+	R	Inc	222.9	194.7	6.683
2013*+	R	Acc	438.8	349.5	12.40
2013*+ #	Z	Inc	119.4	103.3	3.790
2013*+ #	Z	Acc	126.3	106.0	3.863

*Highest offer and lowest bid price quoted at any time in the calendar year and * to 6 September 2013. + Distribution to 4 October 2013. # Launched 16 April 2012.*

Net asset value record

Unit class	Unit type	Net asset value per unit as at 6 Sept 2013 (pence)	Net asset value per unit as at 6 Mar 2013 (pence)
R	Inc	209.2	192.8
R	Acc	413.2	373.9
Z #	Inc	117.9	108.6
Z #	Acc	125.3	113.2

 # Launched 16 April 2012. Please note, that the NAV prices shown above are different from the Results prices as at 6 September 2013. 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 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.

European Savings Directive
The AXA Framlington Monthly Income Fund has been reviewed against the requirements of the directive 2003/48/EC on taxation of savings in the form of interest payments (ESD), in line with the HM Revenue & Customs debt investment reporting guidance notes. Under the Directive, information is collected about the payment of savings income to residents in certain other countries and is reported to HM Revenue & Customs to be exchanged with tax authorities in those countries. The AXA Framlington Monthly Income Fund does not meet the HM Revenue & Customs debt investment reporting thresholds. This means that no details of income distributions will be reported to HM Revenue & Customs.

Top ten holdings as at 6 September 2013

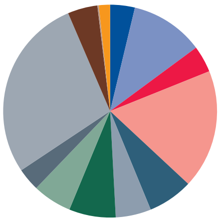
Company	Sector	%
HSBC	Banks	5.63
Royal Dutch Shell	Oil & Gas Producers	5.11
Vodafone	Mobile Telecommunications	4.65
GlaxoSmithKline	Pharmaceuticals & Biotechnology	4.51
BP	Oil & Gas Producers	3.64
Premier Farnell	Electronic & Electrical Equipment	3.62
Hilton Food	Food Producers	2.91
Skyepharma 6% 04/05/24	Corporate Bonds	2.85
British American Tobacco	Tobacco	2.49
KBC Advanced Technologies	Oil Equipment, Services & Distribution	2.36

Top ten holdings as at 6 March 2013

Company	Sector	%
Royal Dutch Shell	Oil & Gas Producers	5.93
HSBC	Banks	5.82
GlaxoSmithKline	Pharmaceuticals & Biotechnology	4.16
Vodafone	Mobile Telecommunications	4.10
Premier Farnell	Electronic & Electrical Equipment	4.07
BP	Oil & Gas Producers	3.95
British American Tobacco	Tobacco	3.17
Cineworld	Travel & Leisure	3.02
Zytronic	Electronic & Electrical Equipment	2.98
Hilton Food	Food Producers	2.66

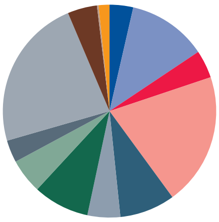
Portfolio breakdown

as at 6 September 2013



Sector	%
Corporate Bonds	3.73
Oil & Gas	11.11
Basic Materials	4.05
Industrials	18.08
Consumer Goods	6.83
Health Care	5.36
Consumer Services	7.06
Telecommunications	5.92
Utilities	3.48
Financials	27.96
Technology	4.51
North America	0.22
Net current assets	1.69

as at 6 March 2013



Sector	%
Corporate Bonds	3.58
Oil & Gas	12.03
Basic Materials	4.23
Industrials	20.13
Consumer Goods	8.40
Health Care	4.97
Consumer Services	8.52
Telecommunications	5.27
Utilities	3.39
Financials	23.12
Technology	4.47
North America	0.25
Net current assets	1.64

All data, source: AXA Investment Managers

Important information

Authorised Fund Manager / Investment Manager
AXA Investment Managers UK Ltd
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London EC1A 7NX
Authorised and regulated by the Financial Conduct Authority (formerly the Financial Services Authority). Member of the IMA.

Trustee
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Authorised and regulated by the Financial Conduct Authority (formerly the Financial Services 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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All data sources: AXA Investment Managers unless otherwise stated.

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