AXA Framlington
An AXA Investment Managers Expertise

AXA Framlington UK Smaller Companies Fund

For the six months ended 31 October 2013

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 31.10.13 (p)	Unit Class Performance	Comparative Benchmark
R	Acc*	134.7	161.2	19.67%	24.11%^
Z	Acc*	123.4	148.2	20.10%	24.11%^
R	Inc**	129.9	155.0	19.32%	22.10%^^

* 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 31 October 2013.

Review

UK smaller companies continued their strong run over the last six months – the 3rd best performing asset class globally over the past year and the past five years – superseded only by Japanese equities and technology stocks (Liberum, 4/11/2013). The FTSE SmallCap Ex IC Index increased by +24.11% during the six month review period. In comparison, the AXA Framlington UK Smaller Companies Fund returned +19.67% and was placed in the second performance quartile, relative to its IMA UK Smaller Companies peer group.

The UK has been a beneficiary of improving macroeconomic data and has effectively become the poster child of the world. While the International Monetary Fund (IMF) has recently downgraded global growth to 2.9% for 2013, the organisation upgraded UK growth forecasts for 2013 and 2014 to 1.4% and 1.9% respectively. Manufacturing output and orders have surged to their highest levels in three years (FT, 2/9/2013) and property prices in England have hit a fresh peak (aided by low interest rates and government schemes such as ‘Help to Buy’), surpassing their zenith, reached in 2008. Even UK car production is back to pre-recession levels and Britain has actually overtaken Germany to become Ferrari’s largest European market! The feel good factor has returned and with it, a more positive disposition towards shares.

As well as driving money flows out of fixed income and into equities (Liontrust, a Fund holding, has been a beneficiary of this trend), this increased optimism has also created a healthy environment for initial public offerings (IPOs) and secondary fund raisings. The Fund has participated in both during 2013, a good example being Breedon Aggregates. The business raised £61m at 21p per share, in order to purchase both quarries and downstream operations (from Marshalls and Aggregate Industries). This deal was significantly earnings enhancing, giving Breedon a much broader geographical exposure in the UK, better procurement and materials sourcing capability and scope to rationalise existing operations. In the last report, we talked about the importance of ‘self-help’ measures. The investment in Breedon encapsulates this idea. As well as offering the potential of a cyclical recovery in earnings, the company is able to grow earnings by making bolt on acquisitions and boosting its market share at attractive acquisition prices. Furthermore, the UK government plans to increase road and infrastructure spending and this should provide a useful tailwind to forecasts. The management team are highly respected in

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 £53.4 billion (as at 31 October 2013).

the industry and have significant personal ownership in Breedon, thereby aligning their interests with those of shareholders. Other capital raisings that the Fund has participated in this year include UtilityWise, the energy management services provider and Acal, a company that provides specialist electronics solutions.

The universe of smaller companies contains some genuinely unique businesses. The uniqueness of a company, whether it is in terms of the asset base, market positioning or its technology, can be a very attractive attribute. The Fund contains a number of such holdings and we hope that this quality will make them more valuable to investors over time. Avon Rubber is such a business. The company has two divisions. One manufactures respiratory protective systems, such as gas masks, while the second focuses on manufacturing milking liners for the dairy industry. Not only is the company unique in that it is a market leader in both its respective divisions, but it is also exposed to some significant secular growth themes, such as the mechanisation of dairy production as economies develop. In the US, Avon has the sole source contract for the provision of M50 gas masks to the US Department of Defence and has recently undergone an extensive investment programme to develop the next generation of modular breathing equipment that can be interchangeable between first responder services like the fire service and police force. This relentless focus on commercial innovation bodes well for future earnings growth. Other Fund holdings that are unique include Entertainment One, Elementis and Porvair. Entertainment One is the largest independent distributor of film rights in Canada and the UK. Elementis is a specialty chemicals company that has the only hectorite mine in the world (hectorite is an organo-clay used to make rheological fluids for downhole oil and gas drilling). Porvair is a specialist filtration and separation company that we have written about in previous reports.

It is a truth universally acknowledged that forecasters often get it wrong. In 2001, Dick Cheney warned that, by 2020, the US could be importing two-thirds of its oil. Current forecasts now suggest that, due to the exponential increase in shale gas production, the US could actually be energy self-sufficient shortly after that date. Peter Dixon, an economist at Commerzbank was recently quoted in the Financial Times (10/10/2013) as saying, “we’re all like crabs in the sense we go sideways: we tend to project the most recent trend out to the next couple of quarters”. For this Fund, we have always sought to invest in companies where the potential good news is not currently reflected in the forecast earnings trajectory. By this methodology, there remains a positive optionality in the share price and companies have the ability to ‘over deliver’ on achievable forecasts. One such special situation is STV, the Celtic ITV. STV holds the Scottish ITV1 license and will be a beneficiary of improvements in TV advertising as media budgets expand with the economic recovery. STV is unique in that it offers advertisers the largest commercial audience on television and has continued to take market share off Channel 4, in particular. As a fully listed company with a market capitalisation of under £100m, it is an example of an under-researched smaller company, with only three analysts currently covering it. This was reflected in the valuation which was at a c. 70% discount to the much larger ITV. The company had been dismissed due to a perceived high debt burden and a contractual dispute with ITV over the payment terms for content. STV has now agreed to pay a defined fee each year for the right to show ITV content and the contract is now on more favourable terms of trade. With small capital requirements, STV has the potential to generate substantial amounts of cash and should be debt free by 2016. Furthermore, STV is set to recommence the payment of dividends and on conservative forecasts, earnings should grow at least 10% each year.

Outlook

With the UK Smaller Companies sector having enjoyed such a strong run over the past 12 months, it is reasonable to question the sustainability of smaller company outperformance. UBS, in a recent research note (11/2013) analysed the drivers behind small company outperformance and highlight that “for the past 25 years, small companies have outperformed large caps. This trend has been consistent globally, across all continents and not dependent on the starting year.” The drivers behind this conclusion are primarily the better growth profile of smaller companies, merger and acquisition activity and less research coverage by analysts. We have alluded to the structural deficit in analyst coverage in previous reports. Even Eugene Fama, the architect of Efficient Market Hypothesis and recent joint winner of the Nobel Prize in Economics, acknowledges that small caps tend to outperform and have historically annualised superior returns to larger companies.

We continue to believe that investors should be positively disposed towards smaller companies. Their valuations remain attractive, relative to their growth opportunities in our view. Their balance sheets look healthy, with low leverage relative to history. They have access to credit and cash to fund either shareholder returns or merger and acquisition activity. We expect the latter to pick up significantly in 2014 and the Fund remains well positioned to exploit these conditions.

Henry Lowson

27 November 2013

All performance data source: AXA Investment Managers and Lipper to 31 October 2013.

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 31 Oct 2013	£67m
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	0.23% / 0.23%
Z Acc#	0.81%
Unit type	Inc/Acc
Number of stocks	89
Initial charge	R: 5.25% / Z: 0.00%
Annual management charge	R: 1.50% / Z: 0.75%
Ongoing charges	
R Inc/Acc	1.59% / 1.59%
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 31 October 2013.
 # Unit class launched 16 April 2012.

Top five purchases

For the six months ended 31 October 2013
LSL Property Services
4imprint
Restore
British Polythene Industries
Johnson Service Group

Top five sales

For the six months ended 31 October 2013
Beazley
Fenner
Cineworld
Smiths News
Carclo

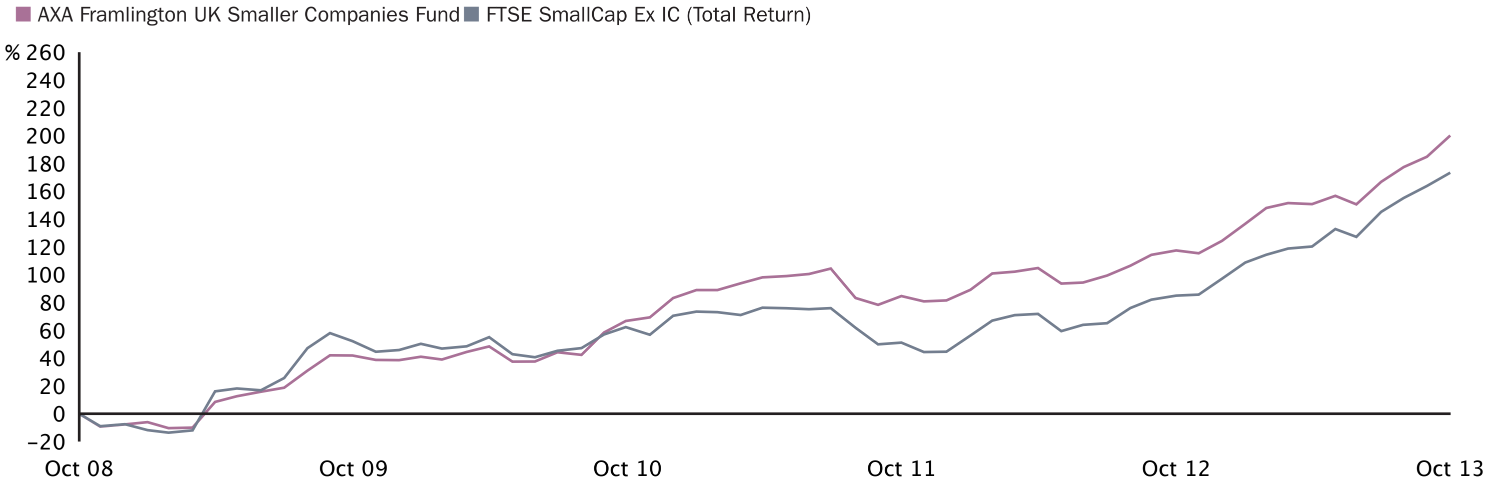
Five year discrete annual performance %

Oct 08 to Oct 09	Oct 09 to Oct 10	Oct 10 to Oct 11	Oct 11 to Oct 12	Oct 12 to Oct 13
41.87%	17.50%	10.75%	17.77%	38.01%

Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 31 October 2013. 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.

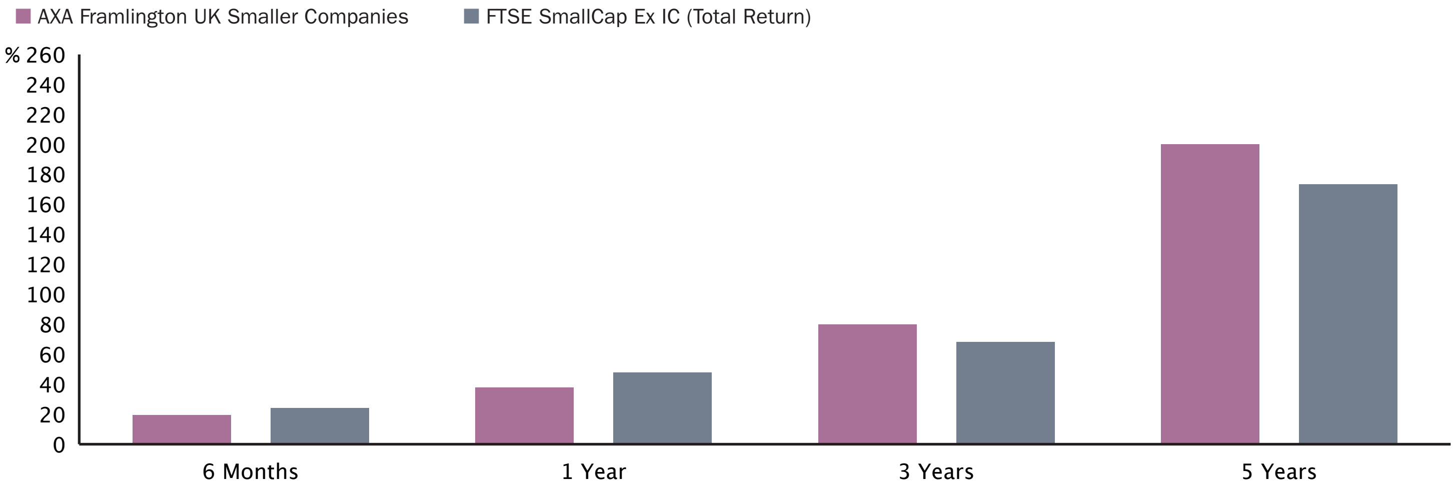
Cumulative fund performance versus comparative benchmark

as at 31 October 2013



Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 31 October 2013. Basis: Bid to bid, with net revenue reinvested, net of fees in GBP. Performance is representative of R Acc class.

as at 31 October 2013



Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 31 October 2013. 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)
2008	R	Inc	96.71	46.60	Nil
2008	R	Acc	98.29	47.37	Nil
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	165.4	118.0	0.375
2013*+	R	Acc	172.0	122.4	0.386
2013*+	Z	Acc	151.1	111.9	1.208

*Highest offer and lowest bid price quoted at any time in the calendar year and * to 31 October 2013. + Distribution to 31 December 2013. # Launched 16 April 2012.*

Net asset value record

Unit class	Unit type	Net asset value per unit as at 31 Oct 2013 (pence)	Net asset value per unit as at 30 Apr 2013 (pence)
R	Inc	155.2	129.8
R	Acc	161.4	135.0
Z #	Acc	148.0	123.3

 # Launched 16 April 2012. Please note, that the NAV prices shown above are different from the Results prices as at 31 October 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 UK Smaller Companies 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 UK Smaller Companies 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 31 October 2013

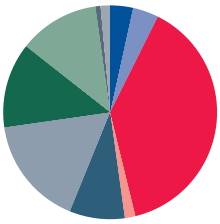
Company	Sector	%
CLS	Financials	2.65
ST Modwen Properties	Financials	2.24
Tyman	Industrials	2.23
RPC	Industrials	2.07
Entertainment One	Consumer Services	1.92
RWS	Industrials	1.88
Optimal Payments	Industrials	1.77
Paragon	Financials	1.76
Booker	Consumer Services	1.68
Devro	Consumer Goods	1.63

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

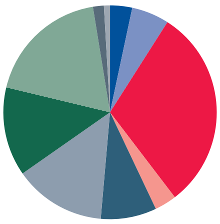
Portfolio breakdown

as at 31 October 2013



Sector	%
Oil & Gas	3.46
Basic Materials	3.92
Industrials	38.80
Consumer Goods	1.63
Health Care	8.34
Consumer Services	16.59
Financials	12.86
Technology	12.20
Telecommunications	0.74
Net current assets	1.46

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

Authorised Fund Manager and Investment Manager
AXA Investment Managers UK Limited
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Authorised and regulated by the Financial Conduct Authority. Member of the IMA.

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

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Unit Trust Registrars
7 Newgate Street
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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All data sources: AXA Investment Managers unless otherwise stated.

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