Short Report

An AXA Investment Managers Expertise

# AXA Framlington UK Growth Fund

For the six months ended 15 November 2013

## Investment objective and policy

Capital growth through investment principally in UK large and medium capitalisation companies which, in the Manager's opinion, show above average profitability, management quality and growth.

## Results

| Unit Class | Unit Type | Price at 15.05.13 (p) | Price at 15.11.13 (p) | Unit Class Performance | Comparative Benchmark |
|---|---|---|---|---|---|
| R | Acc* | 228.7 | 244.7 | 7.00% | 2.71%^ |
| Z | Acc* | 124.0 | 133.1 | 7.34% | 2.71%^ |
| R | Inc** | 169.2 | 178.7 | 5.61% | 0.97%^^ |
| Z | Inc** | 121.2 | 127.6 | 5.28% | 0.97%^^ |

* Acc units include net revenue reinvested, total return. ** Inc units do not include net revenue reinvested, capital return dividends excluded. ^ FTSE All-Share (Total Return), ^^ FTSE All-Share (Capital Return). Source of all performance data: AXA Investment Managers and Lipper, bid to bid, to 15 November 2013.

## Review

UK equities enjoyed further gains during the period. Markets rose due to aggressive and unprecedented levels of government stimulus, combined with recovering economic growth and attractive valuations.

However, it was not all plain sailing. From May through to June, equities experienced a sharp setback as the US Federal Reserve (the Fed) bank announced its intention to withdraw the non-conventional liquidity programme (known as quantitative easing, or QE). The timing both surprised and concerned markets. Precedents of policy inflection, such as in 1994, proved unhelpful for sentiment in the short-term. Bond yields rose and equities fell, with emerging markets hit the hardest.

Despite an increasingly volatile background and much political wrangling, equities subsequently regained their composure, with UK shares delivering some of the best returns. QE tapering in the US was delayed, fearful of destabilising their housing recovery and mindful of the debt ceiling impasse, during which an unprecedented US debt default was thankfully averted. The prospect of military intervention in Syria subsided, as did risks in the Eurozone as difficult political storms in Greece, Germany and Italy were navigated.

Global economic data showed signs of improvement, with the rebound in UK domestic growth particularly strong. Retail sales and services positively surprised, with new mortgage approvals building to a five-year high. In November, Britain's manufacturing and employment grew at its strongest pace in three years. Confidence is slowly returning.

UK equity returns continued to be two-tiered in nature, with the more economically-sensitive small and mid-cap stocks outperforming their larger peers. The UK equity market remains very concentrated in its construct, with the largest 15 companies representing some 45% of total market capitalisation and 60% of dividend income flow. Returns from the mega caps have simply failed to keep pace, for example, avoiding the major integrated oil and mining companies has proved beneficial for most fund managers in recent years.

**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).

redefining / investment solutions

We have clearly seen a regime change in investor preferences: from bonds to equities, from emerging to developed markets and from staples and materials to companies with more domestic, cyclical and financial exposures. With the increased risk appetite, shares have re-rated. As a consequence of improving economic growth, the more economically-sensitive shares have rallied and the valuation gap, or dispersion between the lowest and highest-valued stocks, has reduced significantly.

The AXA Framlington UK Growth Fund outperformed during the period in review, driven predominantly by positive stock selection, with a healthy distribution of gains. From a sector perspective, holdings in consumer services, healthcare and financials proved beneficial, as did avoiding a number of consumer goods (emerging markets slowdown) and utility companies (fear of rising bond yields). Technology positions, however, disappointed during the period.

Holdings exposed to the domestic economic recovery led the way. Broadcaster ITV experienced recovering advertising revenues and growth in content production, whilst retailer Sports Direct continued expanding ahead of consensus expectations through a combination of owned-brands and a growing internet and European presence. Property internet portal Rightmove, telecoms operator BT Group (TV content, fibre investment, growing dividend) and leisure company Whitbread (structural growth in Premier Inns and Costa Coffee) also performed strongly.

Elsewhere, specialist pharmaceutical company Shire grew its rare disease franchise and GKN experienced a cyclical recovery in the autos business and consolidation in the aerospace division. Both delivered positive returns.

These gains offset declines from technology holdings, which lagged as the expected recovery in cap-ex failed to materialise. Spirent Communications (departure of its CEO, cap-ex slowdown), Imagination Technologies (increased competitive environment) and SDL (failure to turnaround ailing language software business) were poor performers. As economic growth continues to normalise in 2014 so should the fortunes of technology companies. Increased mobile telephony, ubiquity of computing and data usage will encourage the further required capital investment and servicing. The recent payment failures experienced by banking customers of the RBS Group resulted from struggling legacy IT systems, and are a clear case in point.

## Market Outlook & Strategy

UK equity returns have been very strong. A powerful cocktail of low starting valuations, huge liquidity stimulus by central banks and improving economic data have prompted the return of risk appetite. But can the good times last into 2014 and beyond?

We are fast approaching another debt ceiling impasse in the US, whilst fears of QE tapering by the Fed have only been deferred. These events add uncertainty and volatility to markets and equities historically weaken, at least initially, on news of policy exit. Mind the gap, as the bad news of tapering may arrive before the good news of a profit recovery. Clarity from the US Fed is required. Any loss in US economic momentum, or a sharp spike in bond yields, would also prove problematic for further equity gains. Meanwhile, will Europe deviate from the path of structural reform now that the immediate pressures have eased? As 2014 progresses, the debate on interest rates and the 2015 UK elections will also come to the fore.

Upward revisions to the UK's GDP have notably failed to translate into corporate earnings growth. Despite two years of aggregate profit downgrades, UK equity share prices have surged regardless, and a number of sentiment indices look stretched. For some, the current level of optimism is unacceptable, signalling a market correction is now overdue.

However, we remain positive on UK equities and would view any resultant weakness in shares to be a buying opportunity. The significant liquidity stimulus from central banks has been instrumental in fighting the twin perils of systemic risk and deflation. The withdrawal will be gradual and reflects an encouraging normalisation in the world's growth. Inflation remains subdued, enabling policymakers some latitude in their approach. Interest rates remain low for now. The US economy appears resilient, as the drag of Sequestration abates, whilst Europe and the UK continue to recover. Meanwhile, investors are fully aware that emerging market and Chinese growth have slowed.

Equities have re-rated but valuations are not excessive, especially when compared with other asset classes. Companies are in good shape; cash generation and capital returns abound, whilst 2014 may finally herald the recovery in capital expenditure and earnings. The last five years have been defined by high macro drama and the need to repay abnormally high levels of debt. As these issues abate perhaps we will see a return to assuredness, to profit growth and corporate activity once more.

So our strategy is to keep it simple. First, we find good companies and stick with them, for example, core compounders such as Whitbread, Booker, Compass, Rightmove, Essentra, Prudential, St James's Place and BT Group are defined by their ability to deliver healthy organic growth and rising and resilient margins, enhanced by growing cash returns. These stocks are the strong survivors and look well-placed in a world of recovering, albeit modest, growth. The ethos of total shareholder return remains very appealing.

Second, we consider long-term thematics that we believe will shape investment thinking over the years to come. Growth of the global middle classes, health and obesity, data and the technology sector, energy and efficiency and the US industrial renaissance to name but a few.

Finally, we selectively consider large caps that have lagged this rally, especially with the sale proceeds of Vodafone's US arm looking for a home in early 2014. Collectively, they are as relatively cheap as they have ever been. We have recently added to positions in Rio Tinto and BP, where management suggest a more disciplined approach to capital expenditure and shareholder returns, which prompts a more positive reappraisal.

We continue to believe equities are the place to be. For companies the improving economic data is positive, relative valuations are still encouraging and the nascent rotation from bonds to equities should also prove supportive. Put simply, unless one believes in financial Armageddon, where else would you put your money?

**Jamie Hooper**

**10 December 2013**

All performance data source: AXA Investment Managers and Lipper to 15 November 2013.

## Risk and reward profile

The Fund invests principally in UK large and medium capitalisation equities. 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.

## FUND FACTS

| | |
|---|---|
| Lead Fund Manager | Jamie Hooper |
| Sector | UK All Companies |
| Comparative benchmark | FTSE All-Share (TR) |
| Launch date | 31 Dec 1992 |
| Fund size at 15 November 2013 | £238m |
| Fund size at 15 May 2013 | £231m |
| Minimum investments | |
| Lump sum | R: £1,000<br>Z: £100,000 |
| Minimum subsequent investment | R: £100 / Z: £5,000 |
| Net yield | |
| R Inc | 1.23% |
| R Acc | 1.22% |
| Z Inc | 1.87% |
| Z Acc | 1.88% |
| Unit type | Inc/Acc |
| Number of stocks | 57 |
| Initial charge | R: 5.25% / Z: 0.00% |
| Annual Management Charge | R: 1.50% / Z: 0.75% |
| Ongoing charges | |
| R Inc | 1.59% |
| R Acc | 1.59% |
| Z Inc | 0.83% |
| Z Acc | 0.84% |
| Accounting dates (interim) | 15 Nov |
| Accounting dates (annual) | 15 May |
| Distribution dates (annual) | 15 Jul |

*All data, source: AXA Investment Managers as at 15 November 2013.*

## Top five purchases

| For the six months ended 15 November 2013 |
|---|
| Aviva |
| Unilever |
| GlaxoSmithKline |
| Prudential |
| WPP |

## Top five sales

| For the six months ended 15 November 2013 |
|---|
| Diageo |
| BHP Billiton |
| BP |
| Standard Chartered |
| Premier Oil |

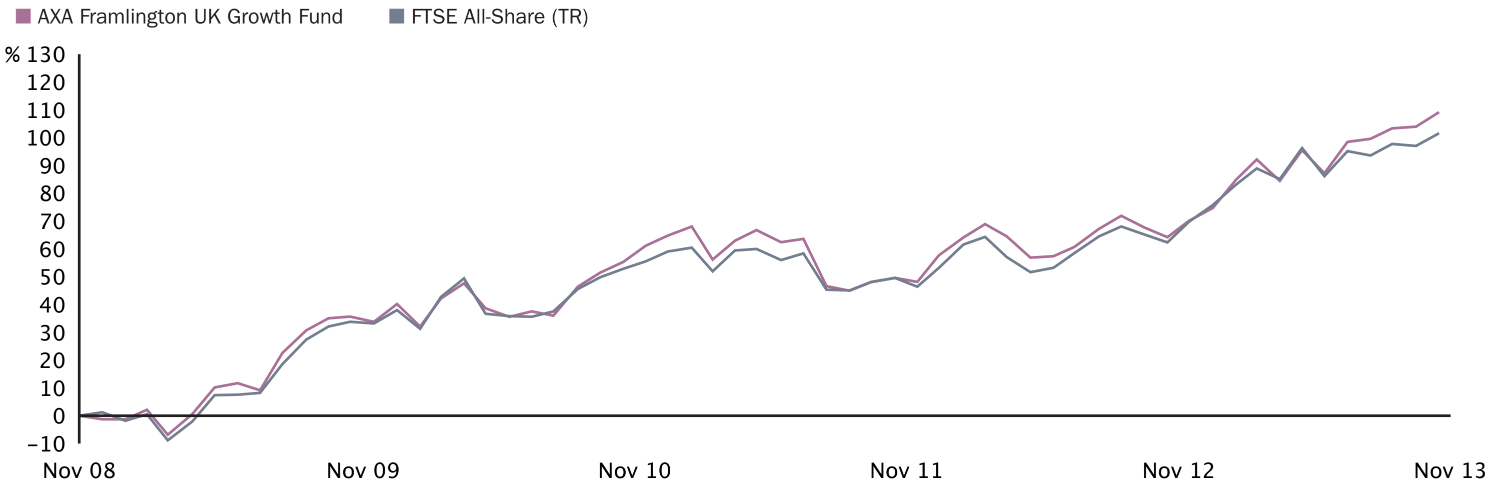
## Five year discrete annual performance %

| Nov 08 to Nov 09 | Nov 09 to Nov 10 | Nov 10 to Nov 11 | Nov 11 to Nov 12 | Nov 12 to Nov 13 |
|---|---|---|---|---|
| 35.65% | 14.48% | -3.68% | 9.77% | 27.38% |

*Past performance is not a guide to future returns. Sources: AXA Investment Managers and Lipper as at 15 November 2013. Basis: Bid to bid, with net revenue reinvested, net of fees in GBP. Performance is representative of R Acc class.*

## Cumulative fund performance versus comparative benchmark

**as at 15 November 2013**

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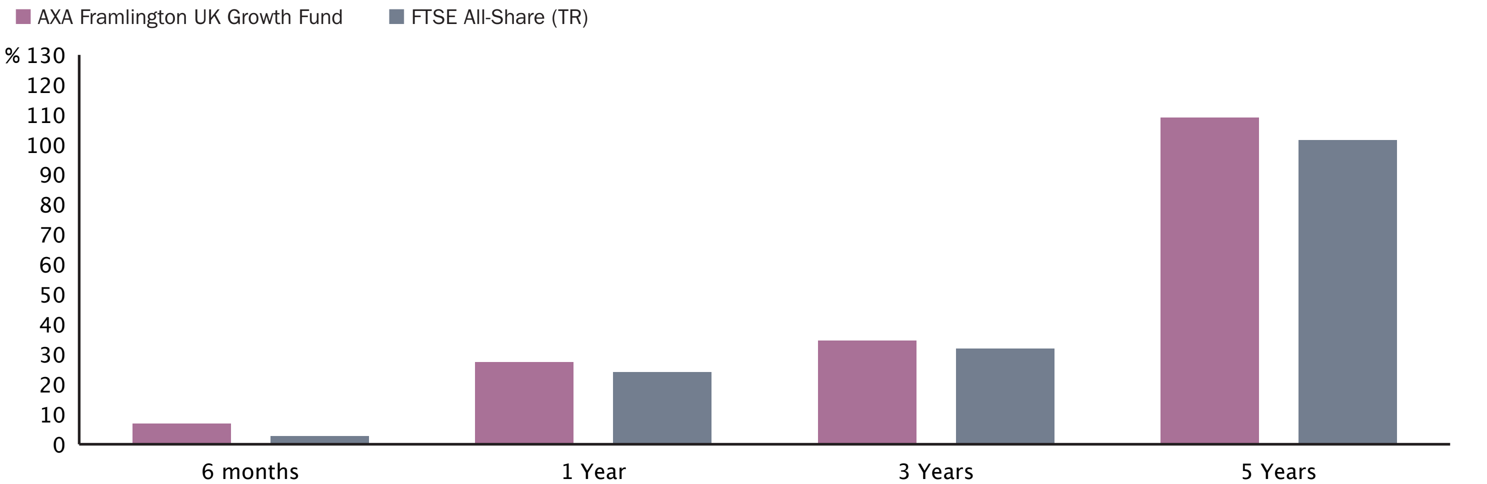
**as at 15 November 2013**

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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 | 148.4 | 77.90 | 1.884 |
| 2008 | R | Acc | 185.6 | 98.50 | 2.351 |
| 2009 | R | Inc | 133.0 | 78.63 | 2.469 |
| 2009 | R | Acc | 172.4 | 99.50 | 3.123 |
| 2010 | R | Inc | 154.9 | 112.4 | 2.420 |
| 2010 | R | Acc | 204.8 | 148.5 | 3.137 |
| 2011 | R | Inc | 159.0 | 117.5 | 1.060 |
| 2011 | R | Acc | 211.7 | 156.3 | 1.400 |
| 2011# | Z | Inc | 107.2 | 83.54 | - |
| 2011# | Z | Acc | 107.2 | 83.48 | - |
| 2012 | R | Inc | 159.0 | 131.1 | 2.046 |
| 2012 | R | Acc | 213.7 | 177.1 | 2.701 |
| 2012 | Z | Inc | 107.8 | 93.20 | 1.989 |
| 2012 | Z | Acc | 109.5 | 95.15 | 2.022 |
| 2013* | R | Inc | 191.3 | 149.5 | 2.281 |
| 2013* | R | Acc | 261.9 | 202.0 | 3.075 |
| 2013* | Z | Inc | 129.7 | 106.8 | 2.404 |
| 2013* | Z | Acc | 135.3 | 109.2 | 2.525 |

*Highest offer and lowest bid price quoted at any time in the calendar year and * to 15 November 2013.*
*# Launched 22 June 2011.*

## Net asset value record

| Unit class | Unit type | Net asset value per unit as at 15 Nov 2013 (pence) | Net asset value per unit as at 15 May 2013 (pence) |
|---|---|---|---|
| R | Inc | 178.8 | 167.2 |
| R | Acc | 245.0 | 229.1 |
| Z # | Inc | 127.5 | 118.8 |
| Z # | Acc | 133.0 | 123.9 |

*# Launched 22 June 2011. Please note, that the NAV prices shown above are different from the Results prices as at 15 November 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 Growth 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 Growth 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 15 November 2013

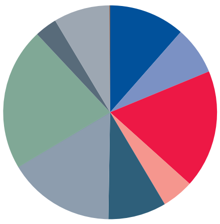
| Company | Sector | % |
|---|---|---|
| HSBC | Financials | 5.04 |
| GlaxoSmithKline | Health Care | 4.71 |
| Vodafone | Telecommunications | 3.91 |
| Rio Tinto | Basic Materials | 3.41 |
| BT | Telecommunications | 3.33 |
| BG | Oil & Gas | 3.32 |
| ITV | Consumer Services | 3.28 |
| Shire | Health Care | 3.06 |
| Prudential | Financials | 2.94 |
| Rolls Royce | Industrials | 2.62 |

## Top ten holdings as at 15 May 2013

| Company | Sector | % |
|---|---|---|
| HSBC | Financials | 5.40 |
| BP | Oil & Gas | 3.95 |
| GlaxoSmithKline | Health Care | 3.94 |
| Vodafone | Telecommunications | 3.79 |
| Royal Dutch Shell 'B' | Oil & Gas | 3.48 |
| BG | Oil & Gas | 3.33 |
| BT | Telecommunications | 3.01 |
| Rio Tinto | Basic Materials | 2.69 |
| ITV | Consumer Services | 2.64 |
| Diageo | Consumer Goods | 2.60 |

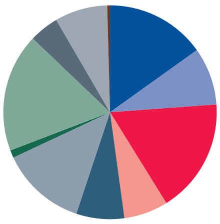
## Portfolio breakdown

**as at 15 November 2013**



| Sector | % |
|---|---|
| OIL & GAS | 11.48 |
| BASIC MATERIALS | 7.28 |
| INDUSTRIALS | 17.89 |
| CONSUMER GOODS | 4.81 |
| HEALTHCARE | 8.80 |
| CONSUMER SERVICES | 16.17 |
| UTILITIES | 0.00 |
| FINANCIALS | 21.60 |
| TECHNOLOGY | 3.38 |
| TELECOMMUNICATIONS | 8.49 |
| NET CURRENT ASSETS (INCL CASH) | 0.10 |

**as at 15 May 2013**



| Sector | % |
|---|---|
| OIL & GAS | 15.13 |
| BASIC MATERIALS | 8.70 |
| INDUSTRIALS | 17.32 |
| CONSUMER GOODS | 6.69 |
| HEALTHCARE | 7.28 |
| CONSUMER SERVICES | 12.92 |
| UTILITIES | 1.15 |
| FINANCIALS | 17.92 |
| TECHNOLOGY | 4.48 |
| TELECOMMUNICATIONS | 7.99 |
| NET CURRENT ASSETS (INCL CASH) | 0.42 |

All data, source: AXA Investment Managers

## Important information

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

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Unit Trust Registrars
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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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