

AXA Ethical Distribution Fund Z GBP



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UtrAy 2021

Nigel joined Framlington Equities in Jan 2021 as lead portfolio manager for the UK Growth Fund.

Prior to joining Framlington Equities, Nigel worked at NFU Mutual where he joined as a Financial Analyst in 2001 before assuming a role as a Trainee Equity Fund Manager in 2005. He was appointed lead manager for the UK Growth fund, as well as the UK Pension and Life funds in 2009 and ran the Funds until his departure in Jan 2021.

Nigel graduated from Cardiff University in 2000 with an Honour's degree in Business Economics and gained his Investment Management Certificate in 2006 & qualified as a CFA Charterholder in 2009.

Converted to an OE from the SL Ethical UT on 08/03/1999. The AXA Ethical fund transferred to newly created AXA Ethical Distribution Fund on 21/11/2008.

Objective

The aim of this Fund is to achieve growing income with some prospects for capital growth over the medium to long term.

Strategy

Investment approach

In the equity portfolio, we added to our position in Ashtead as the shares pulled back slightly despite their strong results. In the fixed income portfolio we reduced our duration (a measure of the sensitivity of a bond's price to a change of interest rates) exposure in early December as 10-year gilt yields traded near 0.7%, while later in the month we added back some duration following the sell-off in yields and the underperformance of index-linked bonds. We ended the year with a small overweight duration position relative to the Fund's benchmark.

Factors affecting performance during December

Having started the month with a broad sell-off due to concerns over the Omicron variant of COVID-19, the market gradually came to the conclusion that this strain of the virus was highly transmissible but likely less dangerous, and thus less disruptive to economic growth. A more surprising development came in the middle of the month when the Bank of England (BoE) unexpectedly increased interest rates for the first time in more than three years.

The UK equity markets managed the traditional 'Santa rally' through the final month of 2021 and unlike much of the rest of the year where style, size, and currency factors skewed performance, during December the market's advance was broadly spread. The FTSE All Share Index was up +4.68%, the FTSE 100 Index added +4.75%, and the FTSE 250 ex-investment companies Index was up +4.95%, while the FTSE Small Cap ex-investment companies Index performed strongest of all, up +5.83%. Over the 12 months, the FTSE 100 Index gained +18.40%, performing in-line with the FTSE 250 ex-investment companies Index, which returned +18.35%, while the FTSE Small Cap ex-investment companies Index, outperformed, gaining +31.26%.

In corporate news, December is a relatively quiet reporting month but encouragingly the Fund holdings that did report, provided solid results. The update from Hollywood Bowl highlighted a strong period of trading post COVID-19 re-opening and RWS and GB Group reported numbers solidly in line with expectations. Additionally, Domino's Pizza posted strong returns after it finally settled its profit-sharing dispute with its franchisees.

December proved to be a month of two halves for global bond markets, initially bonds rallied on concerns of rising virus case numbers as the Omicron variant spread, before the tone changed mid-month as central banks appeared increasingly hawkish (monetary policy that promotes raising interest rates). The month started with a weaker-than-forecast headline US employment data release, although the underlying data remained strong, with the unemployment rate falling to just 4.2%. The US Federal Reserve (Fed) meeting on 15 December proved to be a hawkish pivot by the Fed, announcing a doubling of the pace of tapering of asset purchases to \$30bn per month meaning the programme will end in March 2022. The Fed 'dot plot' signalled three rate hikes in 2022, which was up from just one hike in its September projections. Further hawkish comments from Fed governor Christopher Waller suggested that rate hikes might come as soon as the end of the first quarter, when he said the March meeting was a 'live' meeting. In terms of market moves, the 10-year US treasury opened the month at 1.45% and traded as low as 1.33% early in the month before reversing, eventually closing at 1.51%. Short-dated bonds suffered more on the repricing, with two-years 15 basis points (bps) higher, with the curve flattening (the yield gap between long and short gilts decreases) over the period. The BoE surprised markets by raising rates for the first time since 2018 at its December meeting, with the Monetary Policy Committee voting 8-1 to raise rates 15bps to 0.25%. 10-year gilt yields started the month at 0.8% and traded through 0.7% early in the month before reversing after the surprise rate hike, closing the year at 1%. The gilt yield curve steepened (the yield between long and short gilts increases) with longer-dated gilts underperforming. In Europe, the European Central Bank delivered a slightly hawkish surprise, announcing when its emergency asset purchase programme (PEPP) ended in March it would only increase its regular asset purchase programme (APP) by €40bn which underwhelmed markets, with 10-year bund yields rising 15bps to close the year at -0.15%. Risk assets reversed their negative returns for November; US and UK equity markets posted returns in excess of 4%.

Global inflation-linked bonds generally outperformed nominals, breakevens (the difference in yield between a nominal bond and an inflation-linked bond) widening and reversing November's underperformance. Strong inflation readings as well as the rebound in risk sentiment were supportive of the asset class. Headline US Consumer Price Index (CPI) for November came in at 6.8%, the highest in 40 years, while Europe also saw levels of inflation last seen in the early 1990s. The exception to the widening theme was the UK which saw an underperformance in index-linked bonds late in the month, with breakevens narrowing by 20-30bps largely attributable to the sharp fall in natural gas prices.

The UK's CPI inflation rate rocketed to 5.1% while the Retail Price Index measure of inflation rose to 7.1%.

Current market influences and outlook

The central asset mix of the Fund is 53% UK equities, 26% index-linked gilts, 13% conventional gilts, and 8% cash. Within the equity portfolio, our approach remains to look for opportunities to buy into strong companies, which meet the Fund's ethical criteria, at attractive valuations, particularly in situations where we perceive short term market sentiment to be overly pessimistic.

Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and you may not get back the full amount originally invested. Before investing you should read the fund's Key Investor Information Document (KIID) for full product details including investment risks and contact a financial adviser where unsure.

Top ten holdings

	%
UK GILT INFLATION LINKED 0.125% 03/22/2024	5.5
UK GILT INFLATION LINKED 0.125% 03/22/2026	3.7
DIAGEO PLC	3.1
UNITED KINGDOM GILT 0.25% 01/31/2025	2.6
UNITED KINGDOM GILT 0.875% 07/31/2033	2.5
UNITED KINGDOM GILT 0.125% 01/31/2024	2.4
UK GILT INFLATION LINKED 2.5% 07/17/2024	2.3
EXPERIAN PLC	1.9
UK GILT INFLATION LINKED 0.125% 08/10/2031	1.9
PRUDENTIAL PLC	1.8
Total*	27.6
Total number of holdings	96

* Total may not equal sum of top ten holdings weightings (above) due to rounding.
Stocks shown for information purposes only. They should not be considered as advice or a recommendation.

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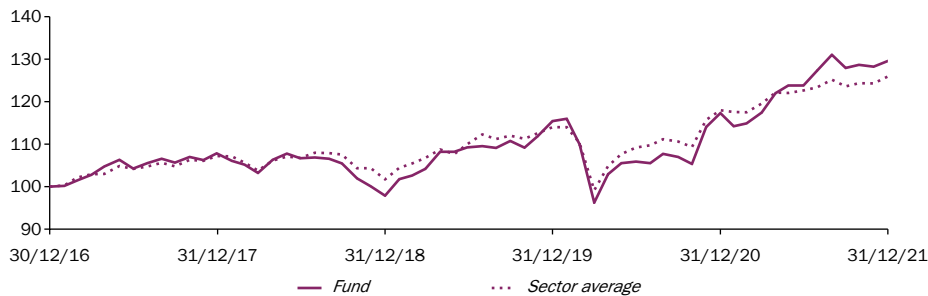
Discrete performance over 12 month periods to latest quarter end (%)

	31/12/16	31/12/17	31/12/18	31/12/19	31/12/20
	- 31/12/17	- 31/12/18	- 31/12/19	- 31/12/20	- 31/12/21
AXA Ethical Distribution Fund Z GBP	7.8	-9.2	17.9	1.6	10.5

Cumulative performance

	Fund (%)	Sector median (%)	Ranking	Quartile
6 M.	4.7	2.8	15/170	1
Year to date	10.5	7.4	21/166	1
1 Y.	10.5	7.4	21/166	1
3 Y.	32.4	24.9	15/140	1
5 Y.	29.6	26.6	42/128	2

Cumulative performance over five years



Performance data takes into account the annual management charges, but not any initial charge that may be payable.

Source: AXA Investment Managers and Morningstar. Figures are quoted on single price basis, net of R share class fees and expenses with net income reinvested, in GBP. Performance takes into account ongoing charges but not any initial charge that may be payable. **Past performance is not a guide to future performance.**

The fund does not have an official benchmark. The fund's peer group sector is the IA OE Mixed Investment 20-60% Shares sector which is provided here for comparison purposes only.

Asset Class Allocation

Asset Class	Allocation (%)
Sterling Equities	52.99
Sterling Index-Linked	25.88
Sterling Government Bonds	12.73
Cash	7.65
Overseas Equities	0.76

Ratings allocation of bond portfolio

Ratings	Allocation (%)
AA	100.00

Fund facts

Fund type	OEIC
Fund size	£228.9m
Underlying Yield*	1.00%
Launch date	24/11/08
IA Sector	Mixed Investment 20-60% Shares
Currencies available	GBP
Dealing day	09:00 to 17:30 business hours
Valuation point	12:00 London time

* The Underlying yield reflects the annualised income net of expenses of the fund as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any initial charge and investors may be subject to tax on distributions.

Investment information

Initial charge	Nil%
Ongoing charges	0.78%
Min initial investment	£1,000
Min subsequent investment	£500
Min monthly investment	£50
ISA status	Eligible

Fund codes

Sedol	accumulation	0540926
	income	B3FKKK5
ISIN	accumulation	GB0005409262
	income	GB00B3FKKK57

Income payments

Accounting Ref Dates	Final	31 Oct
	Interim	30 Apr
Distributions	Final	31 Dec
	Interim	30 Jun

Calendar year	Net income (p)
2017	3.04
2018	3.14
2019	5.61
2020	1.77
2021	2.26

Sources: AXA Investment Managers UK Limited and Morningstar. Unless otherwise stated all data shown is at 31/12/2021.