

AXA Distribution Z Inc

November 2021
Investment Research



Overview

The fund aims to deliver a stable and potentially growing level of income over the long-term. The level of income is not targeted and may fluctuate depending on the market yield and the level of inflation.

Whilst the fund does not have an explicit inflation linked objective, the managers' aim is to deliver a consistent return over the long-term from a high quality portfolio of equities and index linked bonds that would match or exceed the rate of inflation. Since the fund's launch, the managers have delivered consistent returns well ahead of the rate of inflation with moderate levels of volatility.



Square Mile Expected Outcome

We believe this fund should be able to outperform the IA Mixed Investment 20-60% Shares Sector over a rolling five year period.

Active/Passive: Active	IA Sector: IA Mixed Investment 20-60% Shares
Launch Date: 09/04/1999	Fund Size (as at 12 Nov 2021): £665.6m
Yield: 1.62%	Distribution Pay Date: Mar 01, Jun 01, Sep 01, Dec 01 (Final)
Fund Manager: Jamie Forbes-Wilson, Matthew Huddart	Ongoing Charge Figure: 0.77%
Domicile: United Kingdom	Transaction Cost ex Ante: 0.08%
Multi-Manager: No	



Fund Opinion

A key attraction of this fund is the straightforward approach, which focuses on UK equities, UK fixed income, in particular index-linked bonds, and cash. The investment approach is designed to minimise volatility while seeking to deliver consistent long-term returns. There will be periods when the fund price suffers but the considered and consistently applied approach has rewarded longstanding investors.

The long-standing manager of the fund, Jim Stride, officially retired from Axa in June 2017. Whilst we acknowledge the experience he brought to the management of the fund, his role as he approached retirement had become more marginal. Jamie Forbes-Wilson had taken over most of the day-to-day responsibility of the fund, prior to Jim Stride's retirement. We think Mr Forbes-Wilson has acquitted himself well so far and we believe that he, along with co-manager Matthew Huddart, can continue to manage the fund in the same successful manner going forward.

Fund Description

AXA IM is a large, global asset management company specialising in actively managed funds across a range of geographies and asset classes.

Lead manager on this fund is Jamie Forbes-Wilson. Mr Forbes-Wilson is responsible for the fund's UK equity portfolio as well as its asset allocation. He also has responsibility for other funds in the firm's Distribution franchise as well as the AXA Framlington Managed Balanced fund. Co-manager on the fund is Nigel Yates. Mr Yates is the lead manager on the AXA Framlington UK Growth fund and deputy manager on the UK Multi-Cap strategy. The pair are members of AXA IM's highly regarded UK equities team. In running the fund's bond component, the pair work closely with AXA IM's fixed income team.

This strategy seeks to provide investors with income and the prospects for capital growth over the long term whilst aiming to reduce fund volatility. The fund has a central asset allocation position of 55% UK equities, 35% index-linked gilts, 7% conventional gilts and 3% cash. The managers believe that this mix of assets provides a conservative, stable and diversified platform from which to build performance throughout the economic cycle. Asset allocation is formed in the context of both the managers' view of the relative attractiveness of each asset class held and the fund's distribution objective. However, changes to the overall asset mix tend to be minimal and are not expected to be greater than 5%, at the asset class level, away from the neutral position.

The equity element of the portfolio is focused on high quality, blue-chip companies. The managers have a preference for companies that have robust balance sheets and business models with the ability to provide a steady, rising dividend over the long-term. Ideally, they seek to purchase these companies following a period of share price weakness. The manager's approach tends to be one of buy and hold, rather than continually trading, in order to realise value over time. For the fixed income component, conventional and index-linked gilts are used due to their historically low levels of correlation to equities. Overall, the managers favour use of index-linked gilts as these provide the portfolio with a direct hedge against inflation as well as improving diversification. Whilst the fixed income portfolio is actively managed it tends to stay within narrow duration limits. In particular, the index-linked bond portfolio will be managed within +/-2 years of the benchmark, which is 50% FTSE Actuaries UK Index-Linked less than 5 years index and 50% FTSE Actuaries UK Index-Linked All Stocks index. This means the fund's duration, which is its sensitivity to interest rate changes, will generally be high.

While this fund does not explicitly have an ESG objective, it does have a few hard exclusions in its mandate with the aim of reducing its exposure to controversies. This includes excluding; investment in palm oil producers that are not approved by the Roundtable for Sustainable Palm Oil; excluding firms that generate 50% or more of their revenue from electricity production coming from coal/coal extraction; excluding soft commodity derivatives.

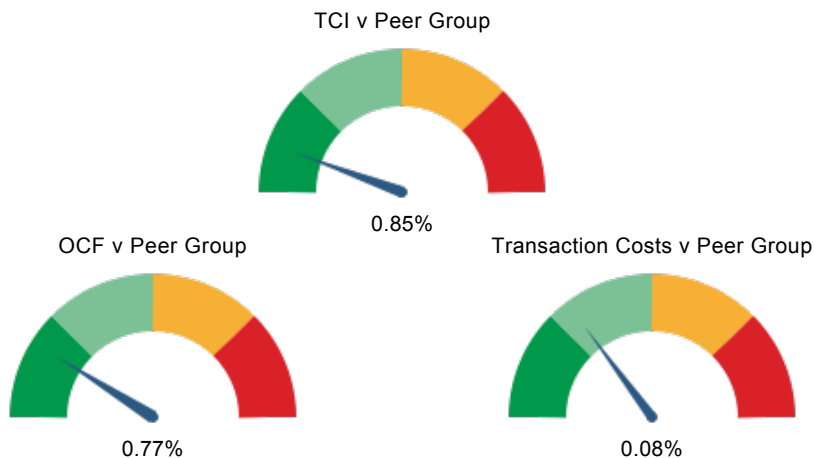
Risk Summary

The fund invests predominantly in UK equities and government fixed interest markets. Equities are a volatile asset class and the fixed interest section of the portfolio also has interest rate risk. We believe that the fund's asset mix provides some element of inflation protection for investors over the longer term, however, this is an implicit objective of the fund and it should not be relied upon. Historically, inflation-linked bonds have proved to be a good way of protecting portfolios from the effects of inflation in the longer term. Investors should note, however, that in the shorter-term technical and sentiment-driven factors may affect the valuation of the fund's investments and could lead to significant deviations away from the long-term fundamental value of the bonds as defined by their inflation linkage. The fund has a narrower investible universe than many other multi-asset funds. Whilst over the long-term we believe the fund's framework will bear fruit, over shorter time frames, the more limited opportunity set could lead to the fund struggling to keep pace with peers and funds with a more unconstrained approach. This could also lead at times to the fund having a more volatile return profile than many peers. The fund will predominantly invest in sterling denominated assets so that risks of fluctuations in currency are kept to a minimum. During periods of sterling weakness, such as that experienced in the aftermath of the UK's vote on EU membership, the fund may struggle to keep pace with peers who have exposure to international assets and therefore overseas currencies. The manager's preference for larger sized UK companies, as they provide more sustainable income streams as well as more stable returns than smaller companies, means that the equity portfolio may struggle to keep pace during periods when investor sentiment favours more cyclical and faster-growing businesses.

Value for Money

The fund has a competitive ongoing charge figure (OCF) and total cost of investment (TCI) compared to its broader peers. However, based on the simple approach of the fund we think in the current market it looks a little expensive, particularly when one considers AXA offer a very similar strategy managed by the same team which is significantly cheaper but which currently only has limited distribution.

Following the introduction of MiFID II regulations in January 2018, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, AXA will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



ESG Integration

Company Assessment	0	1	2+	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Information

Annualised Return	5.56%
Annualised Volatility	11.28%
Max Drawdown	-20.69%
Max Gain	7.28%
Max Loss	-20.24%
Sharpe Ratio	0.44
Sortino Ratio	0.40

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

143.0 pence

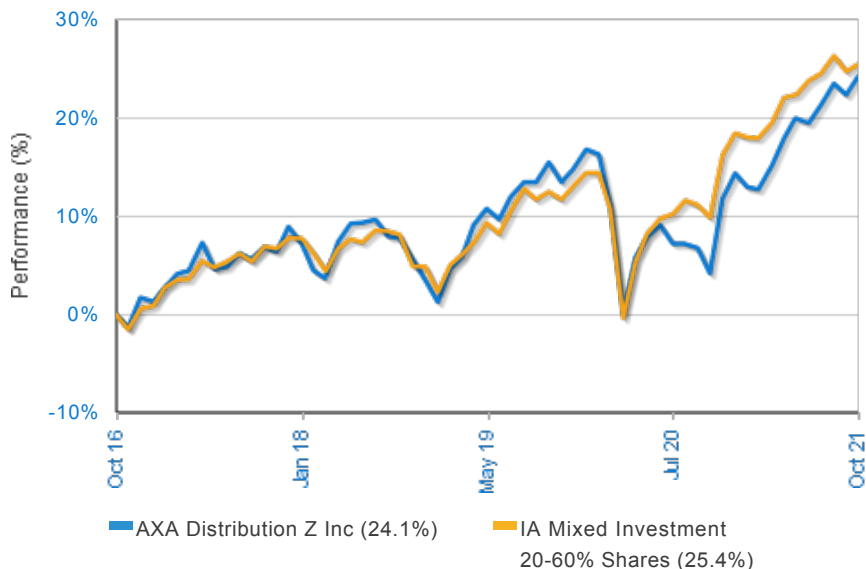
Benchmark

55% FTSE All Share, 17.5% FTA Index-Linked <5yrs, 17.5% FTA Index-Linked Gilt All Stocks, 3.5% FTA Gilt All Stock, 3.5% FTA Gilt <5yrs, 3% LIBID 7 day

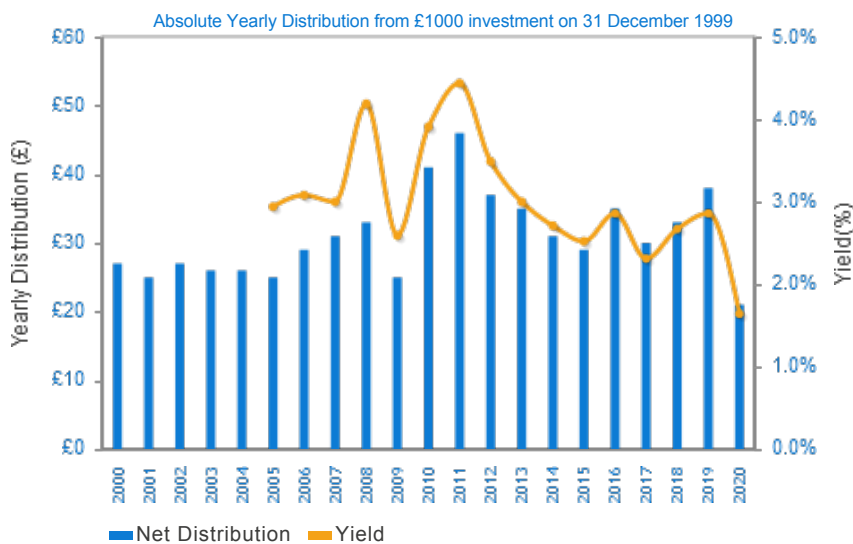
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	14.6	12.2	2
12-24m	-7.5	-1.2	4
24-36m	7.1	4.0	1
36-48m	2.0	2.6	3
48-60m	4.9	6.2	3

Capital Growth

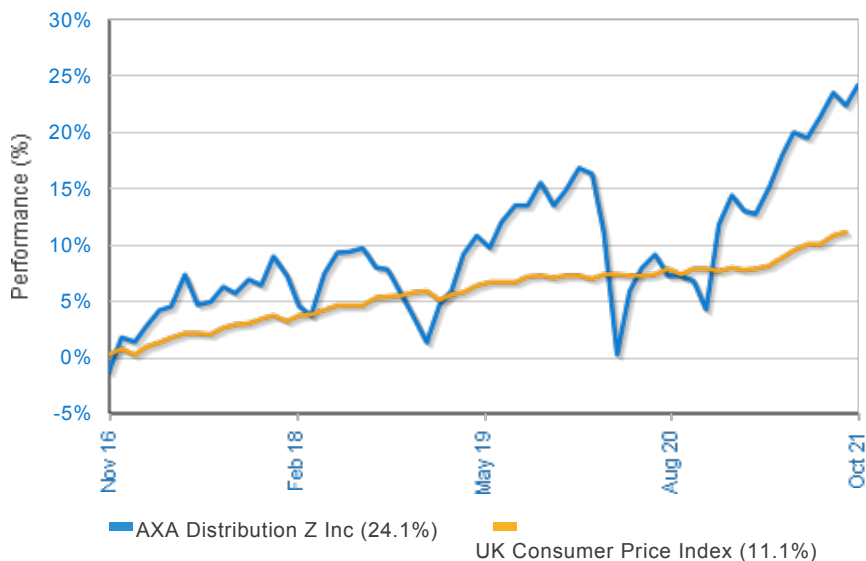


Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

Inflation Protection



Asset Allocation Positioning

Name	%
UK Equities	56.2
UK Index-Linked	31.3
UK Gilts	8.0
Money Market	4.5

(Data as at 30 Sep 2021)

Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
HM TREASURY UNITED KINGDOM DMO 0.125% IDX GILT 22/03/24 GBP0.01	7.2
UK GILT INFLATION LINKED 0.125% 03/22/2026	4.8
HM TREASURY UNITED KINGDOM DMO 4.25% GILT 07/06/2032 GBP0.01	3.1
GLAXOSMITHKLINE	2.5
HM TREASURY UNITED KINGDOM DMO 2.5% IDX LKD GILT 17/07/24 GBP0.01	2.4
ASTRAZENECA PLC	2.3
DIAGEO	2.2
HM TREASURY UNITED KINGDOM DMO 0.125% IDX LKD GILT 22/03/29 GBP0.01	2.2
BP	2.1
RECKITT BENCKISER GROUP PLC	2.1

Sector Breakdown

(Data as at 30 Sep 2021)

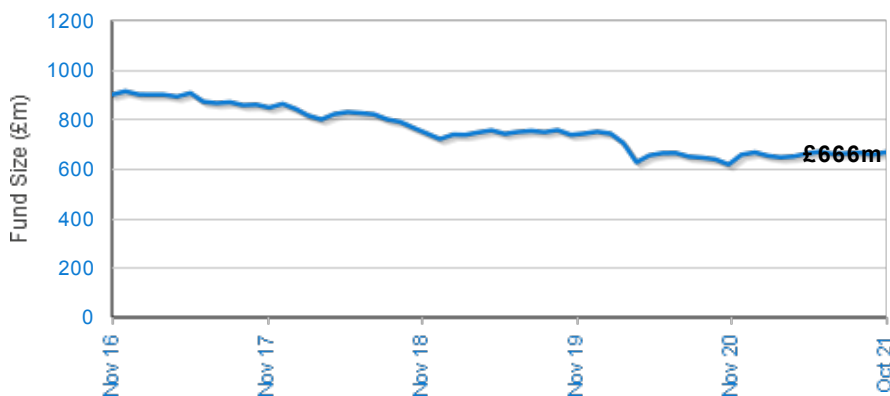


Geographic Breakdown

(Data as at 30 Sep 2021)



Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk	●		
Credit Risk			●
Exchange Rate Risk			●
Liquidity Risk			●
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk		●	

Equity Risk

The fund invests meaningfully in shares. Shares are volatile investments but diversification across asset classes may moderate these risks. At times of economic stress, volatility may rise as might correlations between asset class return.

Interest Rate Risk

The fund will hold fixed income securities which have a high sensitivity to changes in interest rates. Higher interest rates may adversely impact valuations of many financial assets.

Credit Risk

The fund primarily invests in high-quality UK government debt.

Exchange Rate Risk

The fund primarily invests in sterling-denominated assets.

Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

Emerging Markets Risk

The fund predominantly invests in securities issued by governments or companies in developed markets.

Derivative Risk

The portfolio is predominantly invested in underlying cash securities. The fund is permitted to use derivatives though historically these have not been regularly employed by the manager.

Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

FE Risk Rating: 57.00

SRRI: 5

Disclaimer

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