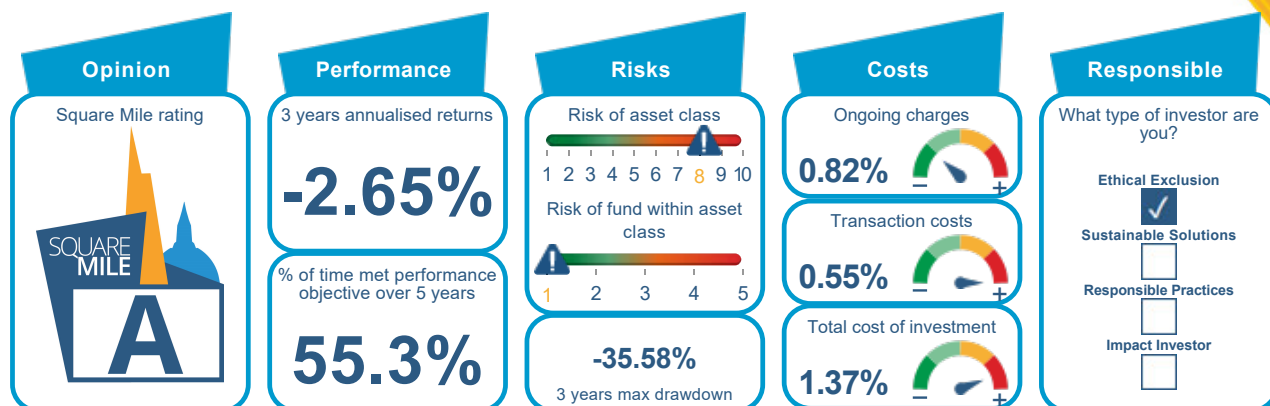


# AXA Framlington UK Mid Cap Z Acc

February 2024



Source: Square Mile and Refinitiv, Data as at: 31st December 2023.

## Overview

The focus of the fund is on growing the capital value of investments over time through a portfolio of UK equities predominantly listed on the FTSE 250 index. Whilst equities can lose money over short to medium time periods, over longer timeframes, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

## Square Mile's Expected Outcome

We believe that the fund should be able to outperform the FTSE 250 (ex investment trusts) index by around 2% per annum over rolling five year periods.

## Square Mile's Opinion

Having been managed by Chris St John since its launch in March 2011, this fund benefits from an articulate and competent fund manager, who has consistently applied his investment philosophy and process over his career. During this time, he has enjoyed a reasonable level of performance success, primarily managing UK small and mid-cap strategies. Mr St John is an integral part of AXA Investment Managers' highly collegiate UK equity team, which works closely together, and so, whilst individual thinking is very much encouraged, it is natural to see some common themes and similar stocks held across the range of strategies managed by the desk.

We like the manager's overarching investment philosophy, which is based on the belief that companies with the ability to compound returns over time, without taking on excessive levels of debt, will outperform. Whilst that might sound somewhat obvious and simplistic, we do support the view that, over the longer term, higher quality companies do tend to outperform their peers. Moreover, the underlying process is well thought out and, in keeping with the style promoted across the team, this is very much a conviction based portfolio. That being said, Mr St John is acutely aware that the area of the market in which this fund invests can be risky and so he takes appropriate steps to mitigate this, such as ensuring that the portfolio is sufficiently diversified. We would note that this is a sensibly managed fund that seeks to meet its investment objective in a steady, reliable and repeatable fashion, rather than to shoot the lights out, and it has succeeded in meeting this goal for the majority of time since its launch.

## Fund Manager's Formal Objective

The aim of this Fund is to provide long-term capital growth over a period of 5 years or more. The Fund has at least 70% of its investments in shares of companies domiciled, incorporated or having significant business in the UK which the fund manager believes will provide above-average returns. The Fund invests primarily (meaning at least 70% of its assets) in medium-sized companies.

<b>Outcome:</b> Capital Accumulation	<b>Domicile:</b> UK
<b>Active/Passive:</b> Active	<b>Benchmark:</b> FTSE 250 Ex IT
<b>Asset Class:</b> Equity	<b>IA Sector:</b> IA UK All Companies
<b>Yield:</b> 2.26%	<b>Fund size:</b> £384 M
<b>Fund Manager:</b> Christopher St.John	<b>Distribution Pay Date:</b> May, November
<b>Fund Price:</b> 2.7 Pounds	<b>Dividend Frequency:</b> Semi-annual
<b>Currency of Share Class:</b> GBP	<b>Share Class Launch Date:</b> 04/03/2011

Source: Square Mile and Refinitiv, Data as at: 31st December 2023

## Asset Manager Overview

AXA Investment Management (IM) is part of the AXA Group. AXA IM is a large global asset management company which manages a diverse selection of funds across a range of geographies. It follows an active, responsible and long-term investment philosophy, managing strategies across fixed income, equities, multi-asset, real estate, infrastructure, private equity and alternative and private credit. As at the end of March 2023 it had €842bn in assets under management.

## Fund Manager/Team Overview

This fund has been managed by Chris St John since its launch in March 2011. Mr St John has been part of AXA Investment Managers' (AXA IM) very collegiate team of UK equity fund managers and analysts for over 10 years, working particularly closely with the highly accomplished fund manager, Nigel Thomas. In fact, following Mr Thomas' retirement at the end of 2018, Mr St John assumed responsibility of the AXA Framlington UK Select Opportunities fund (subsequently appointed deputy to Nigel Yates from December 2023) and has also been lead manager of the multi cap focused offshore based AXA WF Framlington UK fund, since its launch in March 2016.

## Investment Philosophy & Process Overview

The manager is essentially a stock picker but, together with the rest of the team, he has an appreciation of the wider economy and industrial and secular trends, using these to help guide him in the selection of companies. The team conducts proprietary analysis that is supplemented with external research. This is primarily used to validate and cross check their own work and is generally provided by independent research houses, stockbrokers and through contacts generated from conferences attended by the team's members. The types of companies sought by the manager are those considered able to grow organically, have little or no debt, pricing power and high barriers to entry. Management teams' ability to effectively allocate capital is also assessed and, as a chartered accountant, Mr St John is wholly comfortable with analysing company balance sheets and other financial statements. In addition, interaction with company management is considered an important part of the decision making process. Although naturally a growth investor, the manager is not prepared to overpay for stocks and looks at each company's valuation relative to his growth projections for the business, its ability to generate cashflow, grow dividends and return on capital. Valuation measures against the firm's history and against that of the market tend not to be used.

The final portfolio is constructed without reference to its FTSE 250 benchmark and can, at times, look vastly different from this index. An outcome of the investment process is that the manager tends to avoid specific areas of the market including certain financials and commodity-related stocks. This could lead to periods of relative performance variability should these areas outperform. Mr St John is risk aware and uses a sensible range of self-imposed guidelines to mitigate risk as much as possible. These include holding a maximum of 4% in any one company and investing in the region of 50-80 companies to ensure a suitable level of diversification. There is scope to invest outside of the benchmark, but the fund must have a minimum exposure of 70% to the index at all times. Up to 15% can be held in larger FTSE 100 companies.

Portfolio activity tends to be quite low with turnover in the region of 30-35% p.a. equating to an average holding period of three to five years. The sale of a stock is considered following a strong period of relative outperformance, an unexplained deterioration of profitability or cash generation, evidence of inconsistent decision making by company management or when a more compelling idea is uncovered.

The investment universe of all AXA IM funds is subject to negative screens that exclude companies strongly exposed to controversial weapons, palm oil, coal and soft commodities, activities considered by AXA IM to be unethical or controversial.

## ESG Integration

### Asset Manager ESG Integration

We believe AXA IM has made strong efforts to integrate ESG within the firm's processes and strategies. The business has been a signatory to the UN PRI since May 2007 and at its latest review it scored 4 out of 5 for Investment & Stewardship Policy. The firm has also supported and complied with the principles of the UN Global Compact since 2000 and is currently a UK Stewardship Code signatory. The group is a founding member of the Net Zero Asset Managers Initiative.

AXA IM believes that integrating non-financial factors within traditional fundamental analysis is crucial when constructing portfolios for the long term, as ESG issues ultimately have an impact on share price returns. The firm has group wide exclusions in place, which are based on companies' ESG risks. These include those businesses involved in controversial weapons, palm oil and soft commodities. There are additional exclusions for any strategies that are run to a responsible mandate. The group has dedicated RI specialists who are embedded within the investment and research teams; these experts work closely with the portfolio managers of the various desks, helping to provide insights into issues not covered by traditional financial analysis. The RI research team also covers engagement and other areas such as thematic research (for example on biodiversity). The firm continues to build its resource in this space, for instance, heads of RI Research and RI Coordination & Governance have been added over the past 12 months. The firm has also enhanced its internal data systems.

Voting is also a key part of the firm's processes, and in 2022 it strengthened its voting policy with the aim of encouraging companies to consider ESG factors in a more comprehensive manner. The group has shown its willingness to vote against management and the firm's voting track record is publicly available on its website and updated on a regular basis.

### Fund ESG Integration

This fund excludes investment into certain controversial activities, such as palm oil producers, that have not been approved by the Roundtable on Sustainable Palm Oil (RSPO), as well as firms that generate more than 50% of their revenue from electricity production coming directly from coal or from coal extraction. The manager also considers an evaluation of company management and internal governance to be very important and has a strong preference for those firms whose interests, and actions, are aligned with shareholders. However, broader environmental and social factors are not an integral part of the investment process.

Nonetheless, at the firm level, AXA Investment Managers (AXA IM) has a dedicated ESG department which shares its expertise across the AXA IM platform.

Risk Summary

This fund invests in medium sized, UK listed equities and, as such, the main risk is that these, as higher risk assets, can be volatile investments. We would note here that the medium sized companies that this fund invests in tend to be more volatile when compared to their larger peers. Moreover, the portfolio is constructed without reference to its benchmark and so can, at times, look and act very differently to the index. However, the fund's manager, Mr St John, is acutely aware of the risks that both these companies and his investment process present and takes appropriate steps to mitigate these whenever possible. This strategy may be suited to investors with a longer investment time horizon.

Additional Information

Annualised Return:	-2.65%
Annualised Volatility:	17.88%
Max Drawdown:	-35.58%
Max Gain:	15.86%
Max Loss:	-11.54%
Sharpe Ratio:	-0.01
Sortino Ratio:	-0.18

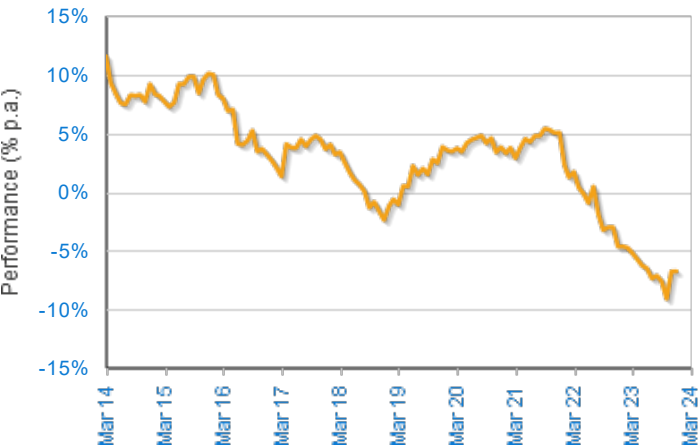
(3 years data to last month end unless otherwise stated)

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			

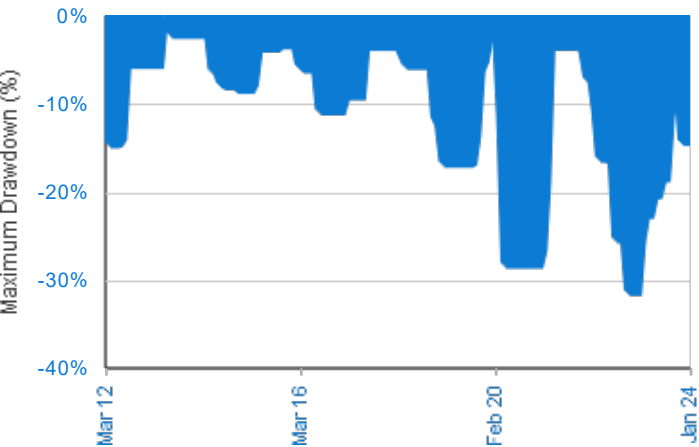
For the full summary of the risks, [click here](#)

3 Year Rolling Sector Outperformance



Source: Square Mile and Refinitiv, Data as at: 31st January 2024. Share price total return.

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and Refinitiv, Data as at: 13th February 2024

Calendar Year Performance To Quarter End

Period	Fund (%)	Sector (%)
2023	5.0	7.2
2022	-24.4	-9.3
2021	16.3	17.1
2020	-1.9	-6.3
2019	36.3	22.4

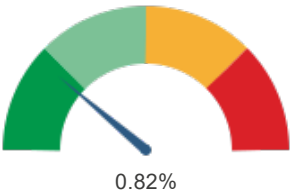
Source: Square Mile and Refinitiv, Data as at: 14th February 2024

Value for Money

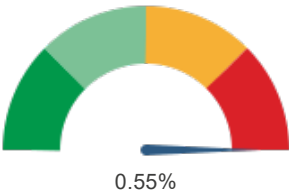
When compared to the smaller subset of strategies focused on the mid cap area of the market, the fund's ongoing charge figure (OCF) is significantly below the median level. This, when combined with the fund's slightly elevated transactions cost, leads to a total cost of investment that is lower than the peer group average. Overall, we believe this fund offers good value for money, given that it is a well-regarded and actively managed strategy.

In line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of their funds, including items outside of the OCF, such as research costs, which the majority of firms have decided to absorb. Indeed, AXA IM absorbs all of the costs associated with its research, which should slightly reduce the overall fee paid by investors.

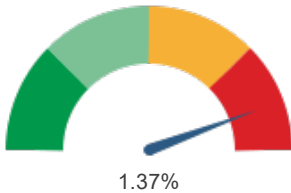
OCF v Peer Group



Transaction Costs v Peer Group



TCI v Peer Group



Source: Square Mile and Refinitiv, Data as at: 31st December 2023.

## Square Mile Analysts

David Holder - Senior Investment Research Analyst

Mark Hinton - Equity Fund Research Manager

## Rating Changes

There have been no ratings changes over the last 12 months.

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The Square Mile ratings are reviewed every 6 months. For full details on the methodologies, [click here](#).

For a full list of all Square Mile rated funds, [click here](#).

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