SHINING A LIGHT ON……
AXA FRAMLINGTON UK MID CAP FUND

At a glance

There are over 400 UK Equity Growth and Income Funds; providing investors with access to many different investment styles. So choosing the right fund depends upon understanding their methods and aims.

Performance is part of the equation but equally the management team is crucial. We have met a number of talented Fund Managers, the likes of Standard Life Investments, Neptune, Schroders, Legal and General, Threadneedle and Liontrust (not all of these are in our portfolios).

We have recently been introduced to Chris St John who manages the AXA Framlington UK Mid Cap Fund. The fund was launched in June 2011.

The manager has adopted a conservative approach to management with over 70 holdings. No holdings dominate the portfolio; the top ten holdings have similar weightings and the manager does not look to hold more than 4% in any one stock. This reduces the volatility of the fund which some investors might like.

The approach has not compromised returns with outperformance across all periods since launch.

Who are the team behind the fund?

Chris St John joined AXA Framlington in 2005 working on the UK Small Cap desk. He was appointed manager of the small cap fund in 2008 and has been manager of this fund since launch. He has an impressive track record outperforming against his peer group over 1, 3, 5, 7 and 10 years.

He is supported by Nigel Thomas who joined AXA in 2002 and has an equally impressive track record managing the UK Select Opportunities Fund.

What is the story behind the investment?

The Mid Cap arena is a dynamic changing sector with 50% of earnings coming from the UK; when the UK economy is growing these stocks benefit strongly.

This is not only through consumer spending but also large cap stocks have large amounts of cash on their balance sheets, when they are confident they will invest this and the Mid Cap Sector often sees increased M&A activity.

These companies also have strong growth prospects because they are coming from a smaller base. Typically they have grown earnings by 3 to 4% p.a. more than large cap stocks over the last decade.

In summary these are dynamic, smaller companies, with strong growth potential which should benefit from a growing UK economy.

Fund highlights?

The fund has less than £70 million of assets, giving the manager investment freedom.

The number of holdings is high (71) and is unlikely to appeal to investors seeking a concentrated / conviction driven portfolio. As a comparison the Neptune UK Mid Cap Fund has 36 holdings.

Chris explained that the types of companies that he is seeking are those which will benefit from an economic tailwind. Two examples he gave were Rightmove and Sports Direct.

With a rising property market Rightmove is perfectly placed to benefit. It operates a UK based website that lists residential property.

It is a dominant player with 80% market share by internet page views. This means it has considerable pricing power, delivering a cash generative business with a focus on total shareholder returns.

As an alternative Sports Direct is a leading sports apparel retailer which has thrived where others have declined (JJB Sports); its focus is on price, availability and service. Although it is a UK business it has a growing international base and continues to expand on-line and through stores.

In summary the fund will appeal to investors looking to invest in the mid-cap space. The manager has a proven track record and seeks companies which will benefit from the UK recovery.

Fund performance

Performance since launch is shown below.

	2011 (launch 04/03/11)	2012	2013	2014	Since Launch
AXA Framlington UK Mid Cap Fund	-6.01%	29.31%	42.18%	7.44%	22.94% p.a.
Lyxor ETF FTSE All Share	-5.53%	11.67%	20.16%	1.94%	8.92% p.a.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced. Returns are based on the US share class.

Conclusion

In reviewing the fund although the fund manager is talented and can deliver outperformance we felt it could not deliver any additional benefit to the funds we use. For this reason we would not add this to the portfolios.

The source of information in this note has been provided by AXA Framlington and is correct as at February 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.