

**SHINING A LIGHT ON.....
AXA UK SMALLER COMPANIES FUND**

Update....

Back in November 2015 we first reviewed this fund. In January we had a follow up meeting with the manager, Henry Lawson, to understand more about the investment process. Henry opened the meeting by explaining that he has run the fund for 4 years and prior to that he ran their AIM Inheritance Tax Fund. The fund is focused primarily on small and AIM listed companies.

We talked about the number of holdings as on paper this seems high at 80 plus. Henry explained that this is a conviction led portfolio and it only holds the companies he believes in. However, these companies can suffer negative sentiment and his view is that he can deliver the returns without taking on too much risk. This means he restricts the maximum holding to 3%. By doing this if a company falls 50% then the damage to the portfolio is limited. Where the portfolio is more concentrated it increases this risk.

Much of the work is about analysing what is out there in a very under researched part of the market. This involves meeting 200 to 300 companies a year. This is not only about understanding the companies themselves but also the markets they operate in. One holding is a recruitment company in the IT sector. This is mostly missed by the market and had screen badly. Knowing about company, the change happening and the opportunities provided this as a good investment where others would have missed this.

But Henry added is that you also have to accept that you won't always get it right. It is about reducing that risk and it goes back to the number of holdings. It is also about not chasing poor companies to spike performance. He talked about the likes of Thomas Cook where the shares collapsed to 30p but quickly re-rated to £1.50. As he added you don't have to take unnecessary risk to get good returns from small cap companies. It is about searching and identifying profitable and well managed companies.

This does mean that they can be boring companies but boring doesn't restrict return and Henry believes in the strategy investing his own money in the fund. The fund does invest in AIM shares which is an area Henry has experience and he feels there is some great companies but you need to be selective.

In summary this is a true small cap fund and may able to investors searching for a UK Small Cap Fund. It has the performance to support the strategy but he looks to reduce the risk by ensuring no-one stock dominates the portfolio. Obviously small cap can like any investment fall out of favour and it may not appeal to all investors.

LWM Consultants Ltd

Fund performance

Performance over the last five years (to 31 December 2015):

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-------------|-------------|-------------|-------------|-------------|
| AXA Framlington UK Smaller Companies Fund | -0.89% | 23.64% | 43.20% | 5.78% | 21.88% |
| FTSE Small Cap Ex IT TR | -15.16% | 36.29% | 43.86% | -2.68% | 12.99% |

Performance over 1, 3, 5 years and since launch 27 April 2001:

| | 1 year | 3 years | 5 years | Since Launch |
|--|---------------|----------------|----------------|---------------------|
| AXA Framlington UK Smaller Companies Fund | 21.88% | 84.62% | 126.22% | 375.36% |
| FTSE Small Cap Ex IT TR | 12.99% | 58.18% | 82.91% | 113.60% |

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.

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