

SHINING A LIGHT ON THE..... AXA Framlington UK Sustainable Fund

AT A GLANCE

Investment 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 Manager believes will provide above-average returns. The Fund invests at least 80% of its investment in shares in large and medium-sized companies.

Inception Date	31 December 1992
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000P7MS

Management	
Manager Name	Start Date
Nigel Yates	22 January 2021
Chris St John	1 January 2021

FUND PERFORMANCE

Performance from 1st January 2016 to 30th November 2021:

	2016	2017	2018	2019	2020	2021
AXA Framlington UK Sustainable Equity Fund	9.63%	8.97%	-8.63%	30.60%	-2.49%	9.73%
FTSE AllSh TR	16.75%	13.10%	-9.47%	19.17%	-9.82%	13.04%

Performance over 12 months, 3 years, 5 years and since fund manager inception:

	1 year	3 years	5 years	Since lead fund manager inception
AXA Framlington UK Sustainable Equity Fund	16.67%	33.63%	44.62%	8.24%
FTSE AllSh TR	17.40%	16.92%	30.61%	9.17%

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.

Tracking Error	Information Ratio	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
6.40	0.74	-	110.41	88.74	55.56	0.95	4.89	Mid Blend /

Volatility Measurements	
3-Yr Std Dev (volatility)	16.26%
3-Yr Mean Return (average)	10.15%

Investment Style Details	
Giant	14.99%
Large	29.48%
Medium	31.32%
Small	20.22%
Micro	3.27%

Top 5 Holdings – 55 Equity Holdings		
AstraZeneca PLC	Healthcare	5.40%
Diageo PLC	Consumer Defensive	3.97%
Experian PLC	Industrials	3.50%
GlaxoSmithKline Plc	Healthcare	3.32%
Prudential PLC	Financial Services	3.31%

Top 5 Sectors	
Industrials	22.93%
Financial Services	15.81%
Healthcare	15.49%
Technology	13.30%
Consumer Cyclical	9.08%

UPDATE....

The strategy was switched to a sustainable mandate about 3 years ago. The fund manager who oversaw the switch retired and Nigel Yates took this over as the lead manager.

Nigel manages the Ethical Strategy and therefore this seems a perfect fit. He previously managed a UK Fund for NFU Mutual and managed a Pension Fund. Although ESG and Sustainability were not part of the strategy at NFU, he did develop his own ESG framework. When he took on this fund there were some changes to reflect his approach.

This covers three central themes – people, planet, and progress. Engagement is a key part of the strategy and transition to being a better company. He explained that no company is perfect, and it is about working with them to see that change happen.

We talked about examples where a company did amazing work with child labour in India, but the social pillar within the company hadn't been thought through, especially around staff turnover. Another company had a really progressive outreach programme in the areas they work, and a real focus on staff moral etc, but they didn't have good board diversity and no independent whistle blower policy.

We spent time talking about BP and this is a company they do invest in. They believe there is a ground swell from the bottom up and senior management are doing things to make change happen. They have targets to reduce oil output and they can see the business moving more into a consultancy role in the future. Whether we feel oil is right or not in a sustainable fund, Nigel would argue that this falls in the transition element and therefore should be included.

Companies like BP need to be part of the transition, and therefore engaging and ensuring they are doing the right things is important. As they move away from oil to a new model, this should benefit investors. I asked what would happen if BP didn't continue in the positive trajectory and Nigel explained that they would have no hesitation in selling the stock.

This led onto a discussion about engagement. AXA are a European Company and ESG is important to the business, especially as Europe is much further down the road than the UK and US. The Clean Economy Fund launched three years ago is their flagship strategy in Europe and this is now available in the UK. When this strategy was re-launched, they didn't want a satellite fund. They took an existing fund and changed the focus. Although other funds offered by AXA are not sustainable, there are ideas that Nigel shares with the wider UK team and some of these do come into the other funds.

It is not just about engagement internally but also the fact that AXA and AXA IM have a dedicated engagement team. They speak to senior executives at firms to drive change. Ultimately if change doesn't happen, then they will either vote against the company, or disinvest. We talked about whether all companies change, and Nigel explained that some companies you cannot change, and therefore something fundamental must happen that forces the board to change direction. They only want to invest in those companies that are willing to change and are on the right path to do so.

Nigel is clearly passionate about what he does. He wants to invest in the right companies for right reasons, and if he gets this correct then he can generate strong returns for investors. If a business has a good culture and environment, then it has a loyal workforce, and this is a powerful benefit which adds value to a business. Where the staff is poorly motivated, and turnover is high, then fundamentally it will damage the company over time.

All of this comes down to the PPP approach – people, planet, and progress. The fund split is:

People – healthcare / care provision (16%), financial resilience (17%), entertainment and wellbeing (14%)

Planet – clean energy (8%), resource and energy efficiency (8%), sustainable infrastructure (12%), low carbon transportation (3%)

Progress – connecting people (6%), security and safety (5%), technology enablers (10%)

This provides diversification across sectors and companies.

The fund excludes tobacco, white phosphorus weapons producers, low ESG quality, violations of international norms and standards, severe controversies, and severe human rights violations.

In summary, when the fund was first muted to us we were cynical as to whether this was being done for the right reasons. At the helm is clearly a manager who believes in developing a fund that contains high quality ESG leaders, but at the same time investors need to understand that this will include those companies that are transitioning, like BP. Holding oil is not bad if the trajectory for change is clear and the company sticks to this. The wider AXA group is very much behind this and engagement with other members of the team is opening opportunities on both sides. We still think this is early days for the fund and would be happy to add to the watchlist and wait to see how this develops overtime.

The source of information in this note has been provided by AXA and is correct as of December 2021. 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 decide based on these notes we cannot take responsibility for this, and you should carry out your own research before deciding. We would also recommend that you receive advice before following up on any decision.