Talents Newsletter

AXA Framlington
An AXA Investment Managers Expertise

09 January 2012

Dear Friends, Investors and Colleagues,

2011 was a tough year and 2012 could be another volatile one given the various negative scenarios that abound. One scenario is that the Japanese and most European governments including France, Italy and Spain default on their debt, with a domino effect on most banks. This can happen if interest rates stay high, or in other words, if investors don't trust these governments anymore. Trust is mostly psychological and can be influenced by media and political decisions. Let's not forget that it's illegal for an insurance company to sell fire protection on another person's house but it is possible in finance to buy a protection and make a fortune if a government defaults on its debt. A few large investors from the US and the UK bought large amounts of credit default swaps and are active in sharing their views with journalists. The question is: Will they hold their positions until the actual default or will they reverse their bets as the street panics?

We don't believe that if the above scenario became a reality, that it would put an end to our companies. They will continue to produce goods and services even if governments and banks fail. So if you can stand the volatility, you should keep investments in tangible assets such as gold, books, houses, factories or stocks like those in the fund.

Please find below our monthly comment for each fund.

We will be pleased to answer any questions you may have and remain interested in receiving your views about entrepreneurs. You can reach us at talents@axa-im.com

Yours sincerely,

Charles and Nils

AXA WF Framlington Talents (Global Equity – F share)

Charles Firmin-Didot, fund manager; Nils Meinefeld co-manager

AXA WF Framlington Talents was down 1.5% in December while the MSCI World Index was up 3.6%. Over the course of the year 2011 the fund was down 15.6% while the MSCI World Index was down 2.4% (1). The fund's Morningstar category Global small & mid cap dropped 15.9% over the year.

What initially seemed to be a good year - the fund outperformed the markets until mid 2011 – turned out for the worse in the second half of the year. On a macro level, this was at least partly due to the negative sentiment surrounding the sovereign debt crises that of which seemed to spread almost globally, as well as concerns about slower economic growth.

Our large exposure to Europe and the underweight in North America did not help as the Euro lost vs. the Dollar over the course of the year and US equities outperformed European ones. Another negative impact was our exposure to small and mid caps (even though it has been reduced in the last year) and our exposure to Emerging Market stocks, particularly in privately-owned Chinese companies that declined sharply.

On company level, our worst performance contributors were Emerging Market names, i.e. Suntech Power (Zheng Rong Shi) and Chaoda Modern (Kwok Ho) in China, Indian UB Holdings and Russian United Rusal (Oleg Deripaska). Among the top contributors were HBI (Robert Zolade), Aker (Kjell Inge Rokke) and Acciona (Jose Manuel Entrecanales).

Most of the portfolio is invested in companies that in our opinion can create value regardless of economic growth in the developed world: 35% of the portfolio is invested in holding companies of flexible entrepreneurs who know how to grow in tough economic environments by building new businesses and playing the cycle well (Odet, Aker, Immsi). 5% is invested in "new growth companies" that mostly depend on the success of their new ventures rather than on the overall economic environment (Tanzanian, Aker Bio, Soitec…), 17% in emerging markets companies and 43% in established growth companies (such as Dell).

Our portfolio is invested 48% in Europe, 28% in North America, 7% in Japan, 10% in Asia ex Japan, and 7% in other countries. We continue to be fully committed and keep our personal assets invested in the fund, as we believe that the entrepreneurs we choose will create value by reacting fast, using arising opportunities and being more creative. (2)

Our top 6 holdings as of 30/12/2011:
Vincent Bolloré | French | Financière de l'Odet | 9%
Masayoshi Son | Japanese | Softbank | 5%
Roberto Colaninno | Italian | Immsi | 4%
Michael Dell | American | Dell | 4%
Emilio Botin | Spanish | Banco Santander | 4%
Andre Hoffmann | Swiss | Aker | 4%

You will find a short description of our 6 largest holdings for this month on the next page.

AXA WF Framlington Talents 6 largest holdings:

Financière de l'Odet (9% of our portfolio): is Vincent Bolloré's holding company. Its main divisions are transports and logistics, energy distribution and batteries, plantation and media. Other investments include Mediobanca. Their electric batteries technology enabled them to win the Paris Autolib business: 1740 cars with 1098 stations should be delivered by June 2012. The battery technology aims at taking a market share in the promising electricity storage market.

Softbank (5% of our portfolio): Founded by Masayoshi Son, is well positioned to become Asia's Google. It controls Yahoo! Japan, a 30% stake in Alibaba and 40% in Renren, China's Facebook. Softbank Mobile is Japan's fastest growing mobile phone company. Alibaba group was valued 36 billion US$ in a private transaction early November.

Immsi (4% of our portfolio): Immsi (3% of our portfolio), Roberto Colaninno's holding company, controls Piaggio, has interesting real estate assets in Rome and Sardegna and a 7% stake in the new Alitalia.

Dell (4% of our portfolio): Founder Michael Dell came back as CEO 5 years ago. As he has demonstrated a talent to transform ideas into empires, is still young, and has no conflict of interest, we trust him. Today's transformation is impressive: quarterly profits are up from around $300 million to $800 million.

Banco Santander (4% of our portfolio): Has been turned into the largest European bank in market cap by Emilio Botin. The company has used the financial turmoil over the last few years to expand their business thanks to their more sustainable business model.

Roche (4% of our portfolio): Swiss Andre Hoffmann's healthcare company. The company is active in providing pharmaceutical and diagnostic products. I diagnostics, the company is the market leader and provides products in the field of blood glucose monitoring amongst others.

AXA WF Framlington Emerging Markets Talents (F share)

« Formerly known as AXA WF Talents BRICK »

Charles Firmin-Didot, fund manager; Nils Meinefeld back-up

In December, AXA WF Framlington Emerging Markets Talents was up 0.7% while the MSCI EM Index was up 2.4%. Over the course of the year the fund was down 37.7% while the MSCI EM Index was down 15.7%. (1)

It was a very tough year for our fund for several reasons:

On a macro scale, Global Emerging Markets' equities underperformed the developed markets by around 13%. Partly, as a result, EM equity funds suffered net outflows of around USD 40bn in 2011, the second worst year ever. Also fears concerning the global sovereign debts crisis had an impact on performance.

Our fund's underperformance vs. the MSCI EM Index is due to:

- Our small market capitalisation bias (the MSCI EM Small Cap Index underperformed the MSCI EM Index by around 9%);
- The terrible impact accounting scandals had on Chinese privately owned companies;
- Poor performance of alternative energy companies versus more defensive Government owned oil companies;
- On a stock specific level, our performance was hit hardest by a "negative" top 5 including Chaoda Modern's slump followed by another Chinese name: Suntech Power. The three other biggest performance laggards were Indian companies UB Holdings, Bilcare and Suzlon.

As we have indicated in previous letters, after Guillaume's departure in August Charles returned as the fund's lead manager. We re-positioned most of the portfolio towards the best entrepreneurs in each sector, often large companies and not necessarily the cheapest. Our portfolio became more liquid and we aim to be close to sector neutral and within each sector have similar weights for each entrepreneur. The median market cap of the fund has increased by around 50% and the number of companies in the portfolio has decreased from more than 100 to 70 as of end 2011.

We recently added Samsung Electronics (Kun-Hee Lee), Tencent Holdings (Ma Huateng) and Reliance Industries (Mukesh Ambani) to the portfolio. In future you can expect a portfolio with liquid companies, mostly mid or large caps, and which will still include our strong convictions in smaller market cap companies.

We maintain a diversified portfolio: 25% invested in China, 16% in India, 16% in other Asian countries (mostly South Korea, Malaysia, Indonesia, the Philippines, Taiwan, and Vietnam), 25% in Latin America (mostly Brazil, Mexico, Chile, Argentina, and Colombia), 8% in Africa (South Africa), 2% in Turkey, 6% in Russia, 2% in Israel. We remain confident that AXA WF Framlington Emerging Markets Talents' stocks have great potential.(2)

Our top 6 holdings as of 30/12/2011:

Roberto de Sousa Aranha Setubal | Brazilian | Itausa | 4%
Bon-Moo Koo | South Korean | LG Corp | 4%
Kwok Ho | Chinese | Chaoda Modern Agriculture | 3%
Vladimir Evtushenkov | Russe | Sistema JSCF| 3%
Benjamín Steinbruch | Brazilian | CIA Siderurgica| 3%
Phuthuma Nhleko| South African | MTN Group | 3%

Examples of entrepreneurs? Check www.axa-im-talents.com

(1) Performances are calculated with dividends, net of withholding taxes and management fees, in €, F share, as of 30/12/2011. The figures provided relate to past months or years and past performance is not a reliable indicator as to future performance. Investors should be aware that the price of shares and the income from them may go down as well as up and is not guaranteed. All data and performance information into the document have not been yet certified by the Fund's auditors.

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The tax treatment relating to the holding, acquisition or disposal of shares in the fund depend on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors.

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Please check the countries of registration with the asset manager, or on the web site www.axa-im.com, where a fund registration map is available."

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