Global Credit Perspective

01/10/2012

Why Global Credit?

Credit markets offer worldwide opportunities, where systemic and specific risks cohabit. *AXA WF Global Credit Bonds* combines a mix of top-down and bottom-up approaches, provided by an asset manager with extensive global reach and local market expertise – leading to performance that is superior to the simple addition of separate, local portfolio results.

Economic & market comments

September was an excellent month for the main credit markets. Bond indices tightened, saluting constructive European steps (notably the ECB's pari passu OMT and forward supervisory powers). The reduction in peripheral government bond spreads and the further tightening of credit spreads reflected the market's view that the extreme scenario of a Euro break-up was significantly less likely in the wake of the ECB's actions. The good mood in markets was also fuelled by the decision of the US Federal Reserve to extend quantitative easing through $40bn per month of purchases of mortgage backed securities. In addition, the Bank of Japan also extended its asset purchase programme, but fighting against JPY strength was probably the key trigger for them. These monetary policy actions should eventually boost global growth. However, at the moment, the macro environment remains weak. Deleveraging is an interesting topic, in terms of forecasting credit market relative moods and moves. There are several signs of deleveraging being over in the US, for households, banks and corporates. Total loan supply and demand are now growing. The substitution effect targeted by the Fed through its QE operations (low rates => equity purchase => wealth effect => confidence => spending) seems to have some consistency. Is money multiplier starting to work? But US still have a higher deficit as % of GDP than GIIPS! Whether fiscal cliff will soon be twisting the Government's arm (and working against growth stimulus…) is yet to be seen.
In the US the ISM manufacturing index rose slightly above 50 in September but has languished at levels indicating very little expansion of manufacturing output since the middle of Q2. Euro Area indicators of manufacturing were even weaker with the EU PMI index at just 46.1 in September and the region's unemployment rate also edging up further to 11.4%. Canada is showing some signs of fatigue. Housing correction (+ mortgage regulation tightening), strong CAD, public debt… The export and investment outlook is anticipated to improve heading into next year. After advancing by 1.8% in 2012, the pace of Canadian real GDP growth will likely head back a bit above 2% in 2013 and 2014. The Japanese Tankan survey for Q3 also weakened, adding to the view that the global manufacturing sector has lost all momentum since earlier this year. Most current economic data for China confirm this. Maturing recoveries across emerging markets will hinder their ability to sustain robust economic growth in the face of continued sub-par performances among advanced economies. Asian corporates react to slower growth by turning more conservative. Australia's mining boom has probably reached its peak, an RBA interest cut was an illustration of more sluggish growth expectations, going forward. Credit markets nevertheless exhibited bullish risk on over September.

Traders' comments

Spreads are tight (at their post-crisis tightest, but with still some room versus 5 year backwards). As heavy supply met investors' needs, euro bond market did not perform as much as other main credit markets, both in terms of spreads and total return (see table page 2). But the iTRAXX main remained first of class, catching most of fast money bullish bets. Japan weakness (macro, sentiment) was reflected in widening bond & index spreads, along with steel, shippers and auto makers' earning revisions.

US Credit

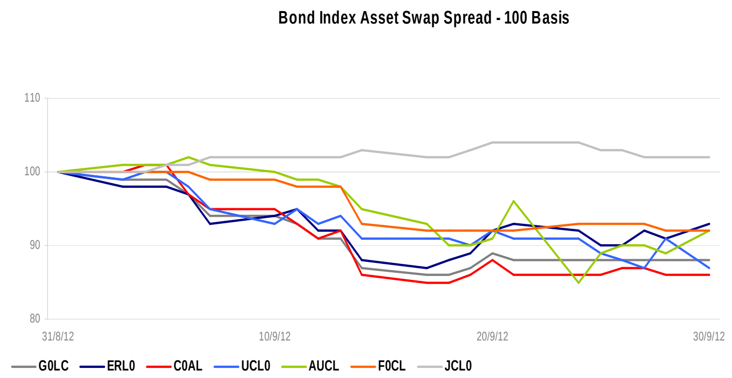
The US Investment Grade corporate sector spreads tightened in September. The Barclays Capital US Corporate Index was 16 basis points (bps) tighter on the month, and outperformed duration matched Treasuries by 117bps. The US Corporate Index has generated 604bps of excess returns YTD. September was a robust month in the Investment Grade primary market; pricing approximately $126bn of gross supply to 172 issues, and 122 separate credits. Industrial supply continued to outpace financial supply. Books were on average 4.2X oversubscribed. October forecasts are calling for the pace of announcements to slow from September, as we enter into third quarter earnings season and subsequent blackout periods. In the secondary market, volumes picked up significantly. Insurance companies have a seemingly insatiable demand for higher quality industrials.

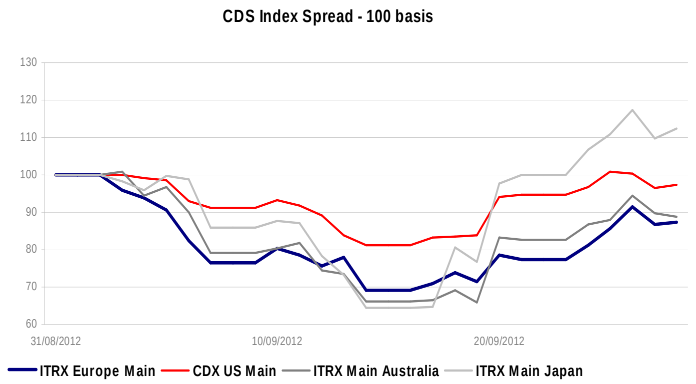
Euro & GBP Credit

In Europe, themain focus this month has been the primary market with 73 new issues and more than 50bln € issued. As usual, the most active sectors have been the financials senior and utilities with few peripherals names coming to the market. Books were 4X oversubscribed, on average.
The other main point is that it was the roll period for CDS indices. Liquidity on the secondary market is still pretty weak but better than during the summer time. Peripheral corporates and financials are the outperformers this month. The sterling credit market continued in decent fettle during September despite the somewhat volatile backdrop in indices. It still feels like there is too much cash sitting around chasing too few bonds. Primary wise there were a number of issuers launched for a total of around £5.75bn Peripherals, in general, remain pretty volatile, In the absence of any meaningful supply we can expect the grind tighter to continue in £ credit but there were certainly signs of a more two way market towards month end.

Evolution of Global credit cash and synthetic indices

31/08/2012	Global Index	USD Credit	EUR Credit	GBP Credit	AUD Credit	CAD Credit	JPY Credit
28/09/2012	G0LC Currency hedged	C0AL	ERL0	UCL0	AUCL	F0CL	JCL0
Duration	5.9	6.8	4.2	8.3	2.9	4.7	3.2
Rating	A2	A2	A2	A2	Aa2	A1	A1
Yield To Maturity	2.7	2.8	2.4	4.1	4.2	2.6	0.5
Total Face Value ($MM)	5 851 887	3 175 237	1 752 246	526 990	46 976	195 294	166 548
Average Face Value	1 010	982	1 209	773	796	864	1 061
ASW	166	168	155	234	130	101	28
Bond ASW Move	-12	-14	-9	-9	-11	-8	2
Total Return	0.76%	0.78%	0.67%	1.04%	1.30%	0.83%	0.03%
CDS Spread		99	137		159		224
CDS Market Spread Move		-3	-13		-11		12
Equity Market TR Perf	2.41%	2.58%	0.79%	0.72%	1.64%	3.50%	0.79%
	MSCI World	*S&P 500*	*Eurostoxx 50*	*FTSE 100*	*ASX 200*	*TSX*	*Topix*





Source : AXA IM / Bloomberg

Bonds :
Bond credit spreads tightened by around 10bps on average over the month, with the exception of Japan which slightly widened by 2bps.

CDS :
The Euro outperformed US, Australia and Japan.
The Japanese index has been the main underperformer, alongside Japanese bonds

Fund activity, performance and positioning

	Activity	Performance	Positioning
USD credit (c57%)	We invested cash flows in September mainly into the financial sector and primary market. New positions purchased included Agrium, Capital One Financial, JPMorgan Chase, Penske Truck Leasing, Tyco Flow Control, Watson Pharmaceuticals, and WellPoint. Credits sold or called were Baxter International, General Electric Cap Corp, and Xerox.	In September the US portion of the fund performed in line with the performance indicator as credit spreads continued to grind tighter across most sectors of the corporate market. Positive security selection in industrials outweighed the slight drag from financials.	The US holdings remain aligned with our strategic recommended positioning including a continued overweight to the financial institutions sector. Within the broad industrial sector, the US remains overweight the real estate sector which trades at relatively wide spread levels and underweight several of the more defensive sectors which trade at tighter spread levels including consumer non-cyclical, healthcare and utilities. Given our relatively constructive outlook for the US economy and the current technical backdrop of the US corporate credit market, the US portion of the fund remains overweight to the lower rated triple-B portion of the market.

Euro credit (c30%)	We started the month with a bullish view on the € credit market, reassured by M Draghi's comments on a potential purchase on the secondary market to stabilize the euro area. In that context we have implemented our view by reinforcing our positioning on the financial sector both insurance and banks, mainly on the subordinated bucket. We have also reinforced our long positioning via CDS index.	In term of performance, the month has been positive, reflecting our bullish positioning on the financial sector.	We have finished the month of September overweight on credit, especially on the financial sector as well as via CDS index (Crossover).
GBP credit (c7%)	Having raised cash levels towards the end of the summer this was put to work in new issues as the sterling credit market opened up again for its seasonal round of fund raising. We increased exposure to bank debt and some peripheral corporate debt as valuations meant finding cheap bonds was hard to do in core sterling credit markets.	September proved to be a strong month for sterling investment grade although the spread tightening ran out of steam as risk markets began to wobble mid month. This was replaced by a rally in government bonds which, in the absence of significant credit spread widening, meant returns were attractive for the month.	We have added credit risk to the fund during the course of September although finding attractive spreads on investment grade credit is proving harder to do after such a good year of returns.
Other credit (c6%)	The CAD portfolio remains well diversified and close to the benchmark's sector allocation. No investments were made in either the AUD nor JPY bond markets in the global credit portfolio, as Japan and Australia continue to offer more value in CDS than in cash.	The CAD portfolio benefited from the credit rally in Canada thanks to the increase in the duration bucket at the end of August. Voluntary non-investment in weak Japan bonds was a good choice again this month. The Australian performance did not come from the cash but through the CDS index.	Sentiment and technicals are very supportive of Canadian credit markets. Domestic and Maples attract strong interest. We intend to keep on selecting attractive, liquid bonds in the CAD allocation, but will probably stay away from the expensive AUD cash market and very expensive, and weak, Japanese IG universe
Overlay	We reversed the short position on Australia and decided to move long. The long Japan/short Asia trade was cut in the middle of the month as bad macro news coming from Japan has been seen as a catalyst for a widening of the Itraxx Japan. At the end of the month, all the overlay exposures have been cut to zero, to take profit.	The overlay contribution to performance was almost neutral during the month. The carry on the US index proved to be the main source of performance.	European October summits should create some volatility on the European index while the fiscal cliff and elections will probably not spare US markets. Steady Asia emerging is a tempting carry trade for next month, while we expect weakness in Japan to go on, being already much priced in the iTRAXX JAP.

Fund characteristics

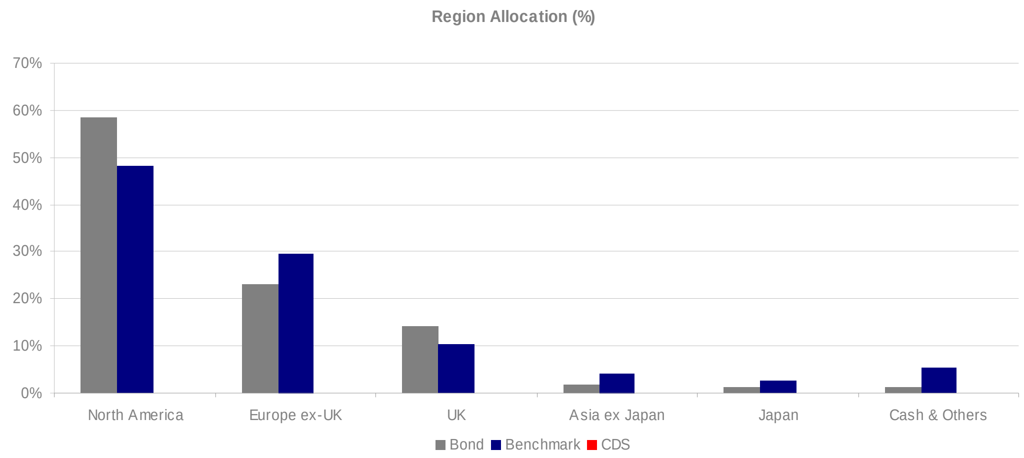
Key Figures	Portfolio	Benchmark	Relative
Net Asset Value	98 778 643		
Duration	5.35	5.61	-0.26
Spread duration	5.41	5.61	-0.20
Yield	3.40%	2.86%	0.54%
Spread to Libor	222	165	57
Rating	BBB+	BBB+	

- The Fund performance indicator is 100% BoA Merrill Lynch Global Large Cap Corporate Index
- FX risk is hedged

Source: AXA IM, as at30/09/2012 - NB : AXA WF Global Credit Bonds does not have a reference index / benchmark. The Fund performance indicator, the BoA Merrill Lynch Global Large Cap Corporate Index, is given as a basis for comparison only.

Fund active exposures

Allocation by region



The global bond portfolio is overweight the US and UK and underweight European and Asian markets.
All the CDS strategic overlay has been reduced to 0 at the end of the month, to cash in profits.

Sector active exposures

Sector	USD	EUR	CAD	JPY	AUD	Total
Automotive	0.01	-0.01				0.00
Banking	0.04	0.06	-0.01	-0.05	-0.01	0.03
Basic Industry	-0.05	0.02				-0.03
Capital Goods	-0.02	-0.02				-0.04
Consumer Cyclical	0.03			-0.01		0.02
Consumer Non-Cyclical	-0.14	-0.02				-0.16
Energy	0.03	0.02				0.05
Financial Services	0.03	-0.01	0.01			0.03
Healthcare	-0.03	-0.02	-0.01			-0.06
Insurance	0.02	0.04	-0.01			0.05
Media	-0.05	0.01	-0.01			-0.05
Real Estate	0.06	0.01				0.07
Services	0.03		0.01			0.04
Technology & Electronics	-0.06					-0.06
Telecommunications	-0.02			-0.01		-0.03
Utility	-0.02	0.03	0.01			0.02
Total	-0.14	0.11	-0.01	-0.07	-0.01	-0.12

The USD bond portfolio has a cautious profile, while the euro one is long credit. Other currency allocations are more neutral, versus their respective performance indicators. *GBP mutual fund is not included.*

Source: AXA IM, as at 30/09/2012

Fund performance & performance indicator

Gross Total Performance (30/09/12)	1 year	YTD 2012	3 months	1 month
AXA WF Global Credit Bonds (I USD share)	**11.77**	**10.29**	**4.45**	**1.08**
BoA Merrill Lynch Global Large Cap Corporate Index	11.35	9.48	4.15	0.77

NB : Sept performance is distorsed upwards by c20bp as a subscription occured on last day. Will reversely negatively impact Octb performance.

The Fund is ranked first quartile in its Morningstar category (Global Bonds - launch to date)

Source: Bloomberg, Morningstar & AXA IM as at 30/09/2012.
NB : AXA WF Global Credit Bonds does not have a reference index / benchmark. The Fund performance indicator, the BoA Merrill Lynch Global Large Cap Corporate Index, is given as a basis for comparison only.
The references to league tables and awards are not an indicator of the future places in league tables or awards. Information contained in this document may be updated from time to time. Information contained herein may vary from previous or future published versions of this document.

Outlook

The risk-on environment cannot be a straight line, given short term uncertainty (see Spain bailout request, Greece aid, Geopolitical risks), medium term uncertainty (see China lending risk/political transition, US politics/fiscal cliff) as well as longer term structural issues (Global growth, Europe debt crisis, European elections, market regulation framework etc etc...

Despite the disappointing ISM index, the US has the most potential to deliver better economic data in the near term.The major uncertainty in the outlook is the election and how the “fiscal cliff” will be dealt with. This appears to be holding back the corporate sector from taking decisions on capital investment and employment.

Despite the confidence inspired by European authorities’ decisions and the path of their implementation being well mapped out, some obstacles are also on the way on this side of the Atlantic. Rajoy’s dilly dally is bringing some doubt, and a post-regional election request may eventually disappoint.

Globally, the outlook for 2013 is not that encouraging from the macro point of view. Fiscal austerity in major developed economies will hold back a resumption in world trade growth. If European policy makers can make further strides in dealing with the debt crisis there will be some improvement in confidence but still aggregate spending will be weak. On the plus side, weak inflationary pressures will allow central banks to continue to follow very supportive policies for an extended period of time. This will provide a solid anchor for interest rate expectations and credit spreads.

All in all, we are pretty confident about Global Credit evolution over the coming months, with the exception of Japan. Sentiment and technicals will prevail over growth flat lines, while total return and Sharpe ratio of the asset class is, and will remain, hard to beat.

Investment information

Institutional Shareclass (I)	Redex Institutional Shareclass (I)	Retail Shareclass (A)
Currencies available: USD, EUR, CHF, GBP	Currencies available: EUR	Currencies available : USD, EUR, CHF

The Fund is registered in Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands , Spain and Switzerland.

There are Capitalisation & Distribution shareclasses available

PRACTICAL INFORMATION

Share classes		I	I Redex
Investor type		For institutional investors only	For institutional investors only
ISIN code (Capitalisation)	EUR (H)	LU0607694519	LU0606375045
	USD	LU0447313635	-
	GBP (H)	LU0753923381	-
Minimum initial subscription		5 000 000	5 000 000
Minimum subsequent subscription		1 000 000	1 000 000
Minimum holding - Company		None	None
Minimum holding - Sub-Fund		1 000 000	1 000 000
Maximum fixed management fees		1,00%	1,00% + 0.05% (1)
Real fixed management fees		0,45%	0,45% + 0.05 % (1)
Maximum entry fee		None	None
Maximum redemption fee		None	None

Please refer to the prospectus for a description of other available share classes
(H) This share is protected against exchange rate fluctuations (at least 95% hedged) between the fund's reference currency and that of the share class
(1) Maximum annual fees linked to reduction of duration exposure of the Redex share class

MAIN CHARACTERISTICS

Legal Form	Sub-fund of AXA World Funds*, a Luxembourg-based SICAV
Reference Currency	USD
Type of Share	Capitalisation
Valuation	Daily
Subscription/Redemption	Forward price, daily (D) before 3:00 pm (CET)
Settlement	D+4 working days
Investment Objective	Achieve a mix of income and capital growth by investing in fixed and floating rate securities
Investment Horizon	Minimum 3 years
Investment Zone	Global
Investment Universe	Transferable debt securities denominated in any freely convertible currencies issued by OECD governments and other investment grade corporations or institutions and mortgages and asset backed securities
Management company	AXA Funds Management SA**
Investment manager	AXA Investment Managers Paris
Custodian	State Street Bank Luxembourg SA

* AXA WORLD FUNDS's registered office is 49, avenue J.F Kennedy L-1885 Luxembourg. The Company is registered under the number B. 63.116 at the "Registre de Commerce et des Sociétés" The Company is a Luxembourg SICAV UCITS III approved by the CSSF.
** AXA Funds Management, a société anonyme organized under the laws of Luxembourg with the Luxembourg Register Number B 32223RC, and whose registered office is located at 49, Avenue J.F. Kennedy L-1885 Luxembourg.

RISK AND REWARD PROFILE

Lower risk — Higher risk
Potentially lower reward — Potentially higher reward

1	2	3	4	5	6	7

The risk category is calculated using historical performance data and may not be a reliable indicator of the Sub-Fund's future risk profile. The risk category shown is not guaranteed and may shift over time. The lowest category does not mean risk free.

The capital of the Sub-Fund is not guaranteed. The Sub-Fund is invested in financial markets and uses techniques and instruments which are subject to some levels of variation, which may result in gains or losses. Additional risks: credit risk, liquidity risk, counterparty risk, impact of any techniques such as derivatives

Please refer to the full Prospectus, to sections entitled 'General Risk Considerations' and 'Special Risk Considerations' for detailed statements of risks.

Redex share class risk factor relating to interest rate.
Interest rate risk involves the risk that, when interest rates increase along the curve, as the market value of fixed-income securities tends to decline; as a result the Net Asset Value of standard shares tends to decrease. Conversely, when interest rates decline along the curve, the market value of fixed-income securities tends to increase, as a result, the Net Asset Value of the standard Shares tend to increase. Long-term fixed-income securities will normally have more price volatility because of this risk than short-term securities. The aim of the listed derivatives overlay strategy implemented at the Redex Share Class level is to reduce the exposure to interest rates parallel shifts along the curves. Therefore, the impact of interest rates parallel shifts on the Redex Share Net Asset Value tends to be reduced compared to the impact of such move on the standard Shares. When interest rates increase, as the market value of fixed-income securities tends to decline, the market value of the overlay strategy tends to increase; as a result the impact of the interest rates increase on the value of the Redex Shares tends to be more limited. Conversely, when interest rates decline, the market value of fixed-income securities tends to increase, and the market value of the overlay strategy tends to decrease as a result the impact of the interest rates decrease on the value of the Redex Shares tends to be more limited.

Disclaimer:

This Fund is registered for public distribution in Luxembourg. Please check the countries of registration with the investment manager, or on the web site, www.axa-im-funds.com, where a fund registration map is available.

AXA Investment Managers (AXA IM) and/or its affiliates may receive, or pay, fees or rebates in relation to the mutual fund or investment vehicle.

Past performance does not guarantee future results. Investors should be aware that the price of units/shares and the income from them may go down as well as up and is not guaranteed. In the case where the currency of investment is different from the Fund's reference currency the gains are capable of varying considerably due to the fluctuations of the exchange rate.

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