

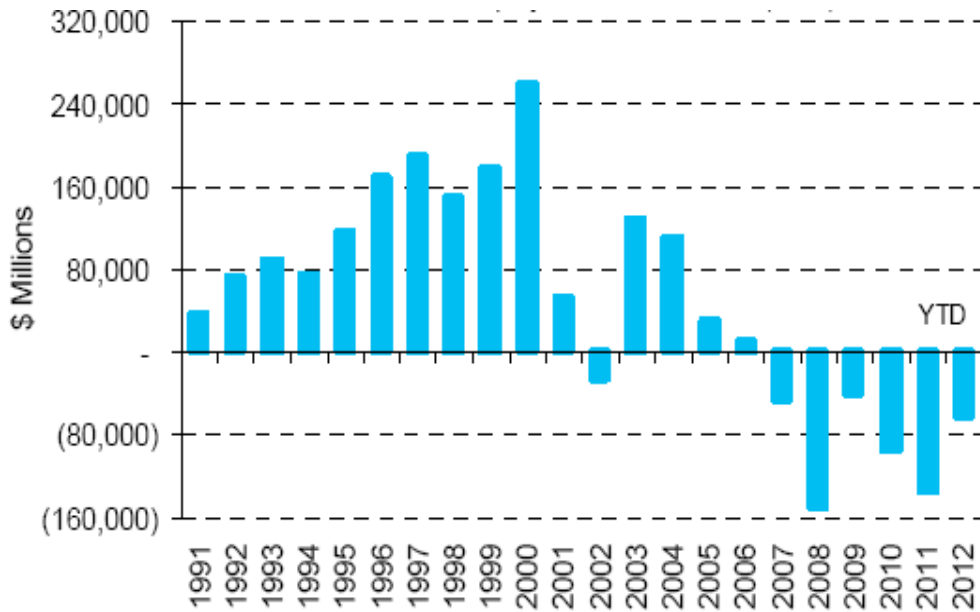
September, 2012

Why we remain positive on the US equities

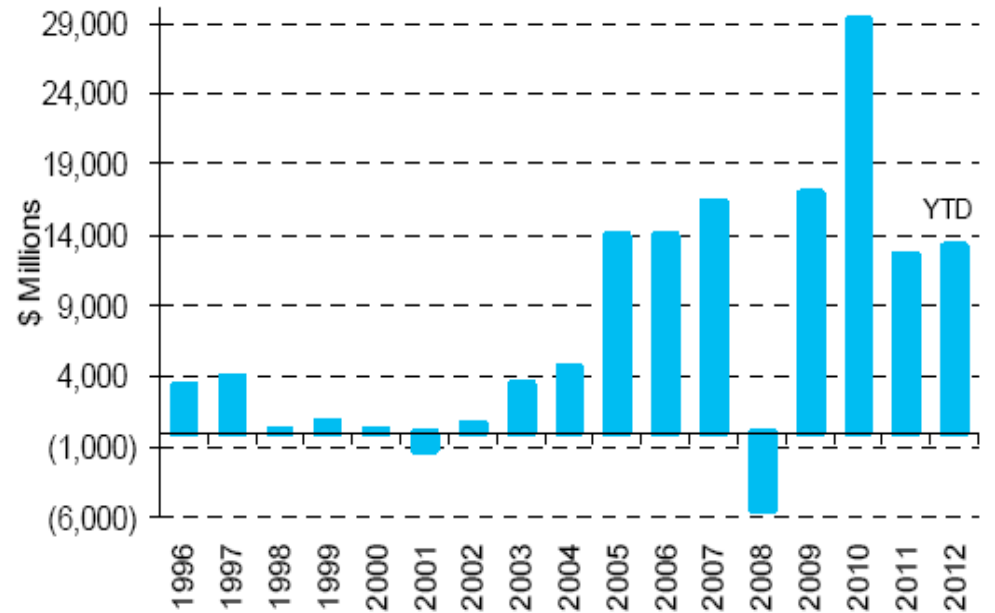
Philippe de Lavalette
Director, Equity Division

For years investors have been selling out of US equities

Annual US Equity Fund Net Inflows (Mil.\$)



Annual Emerging Market Fund Net Inflows (Mil.\$)

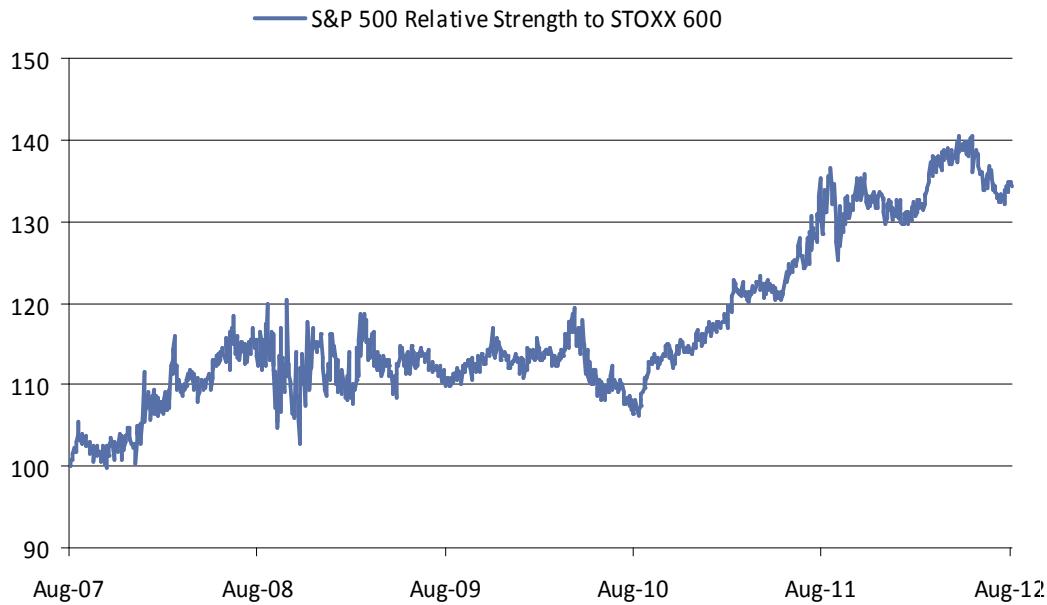


Since 2007, cumulative outflows of - \$520 billion

Since 2007, cumulative inflows of \$81 billion

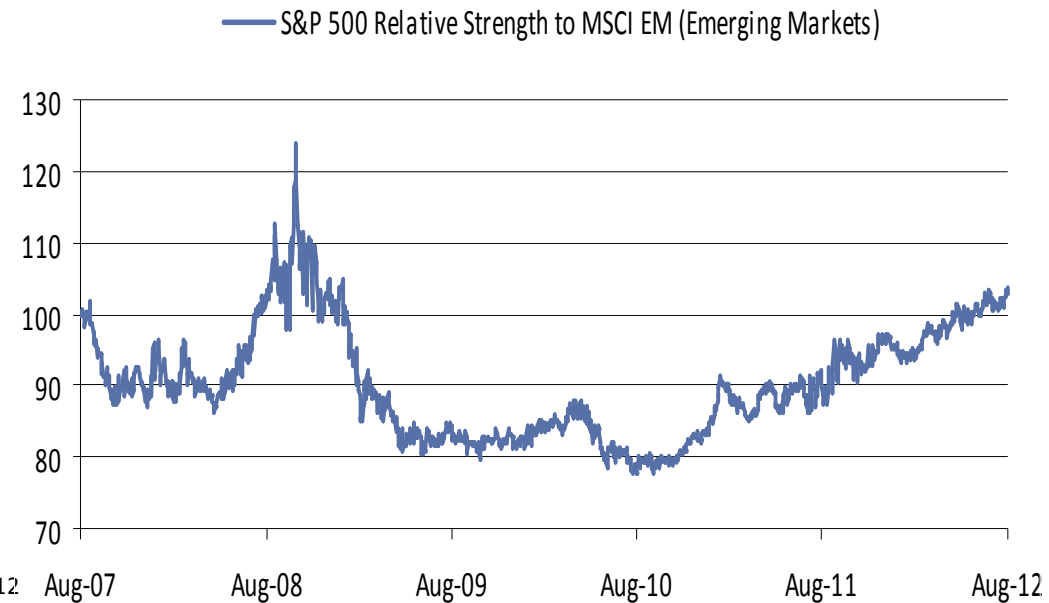
...And yet the US market has outperformed other equity markets

S&P 500 Relative Strength STOXX 600



Since August 2007, +34.75% vs STOXX 600

S&P 500 Relative Strength to MSCI EM (Emerging Markets)

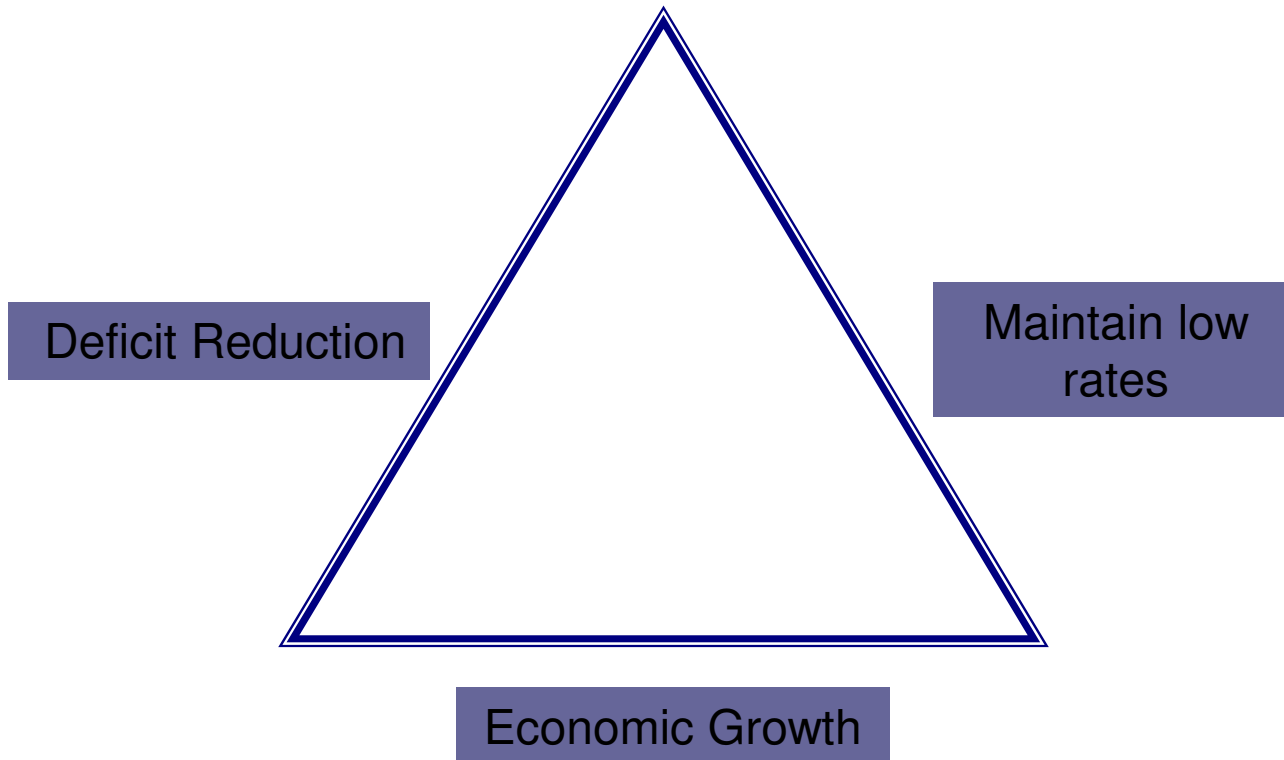


Since August 2009, +22.62% vs MSCI EM

Source : FactSet as at 31/08/2012.

How can the US market continue to outperform?

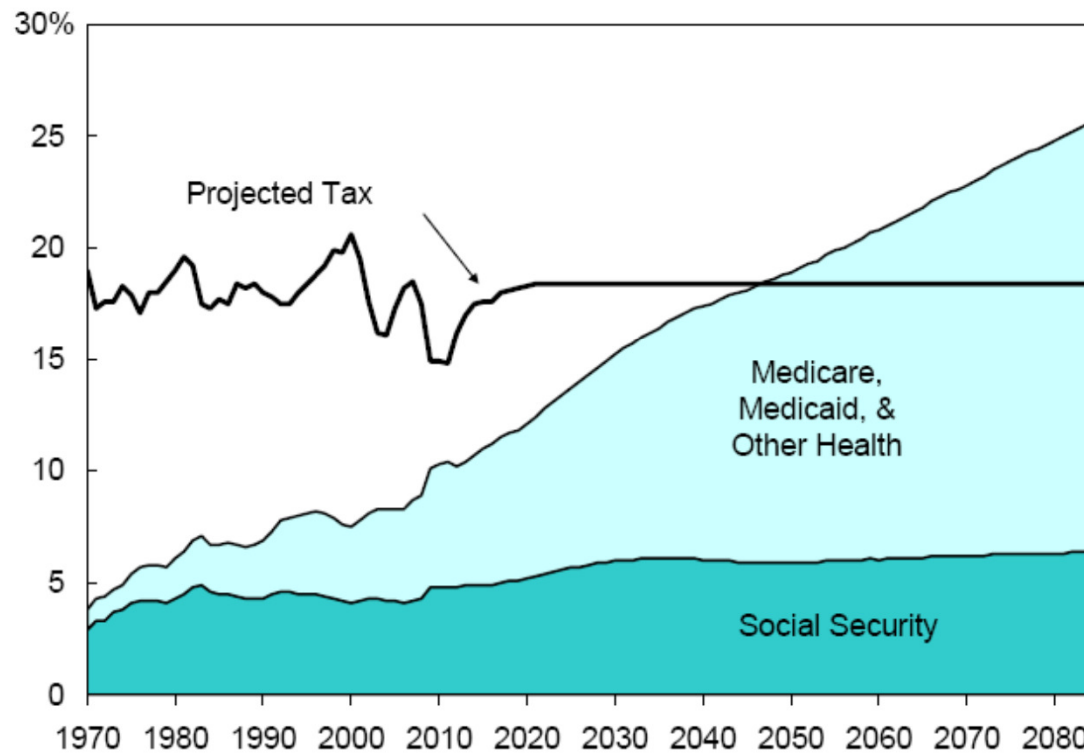
The challenge



The challenge : Reduce the deficit while keeping the economy growing

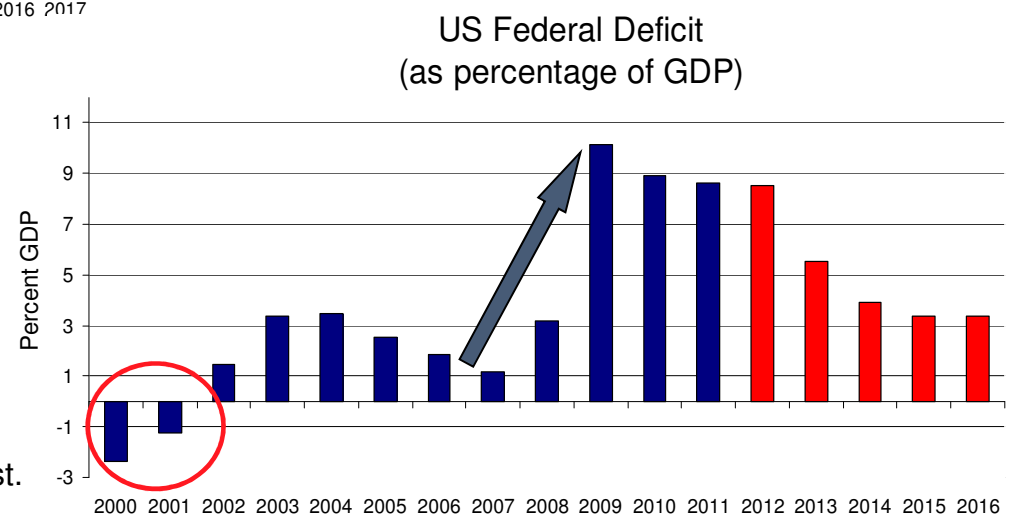
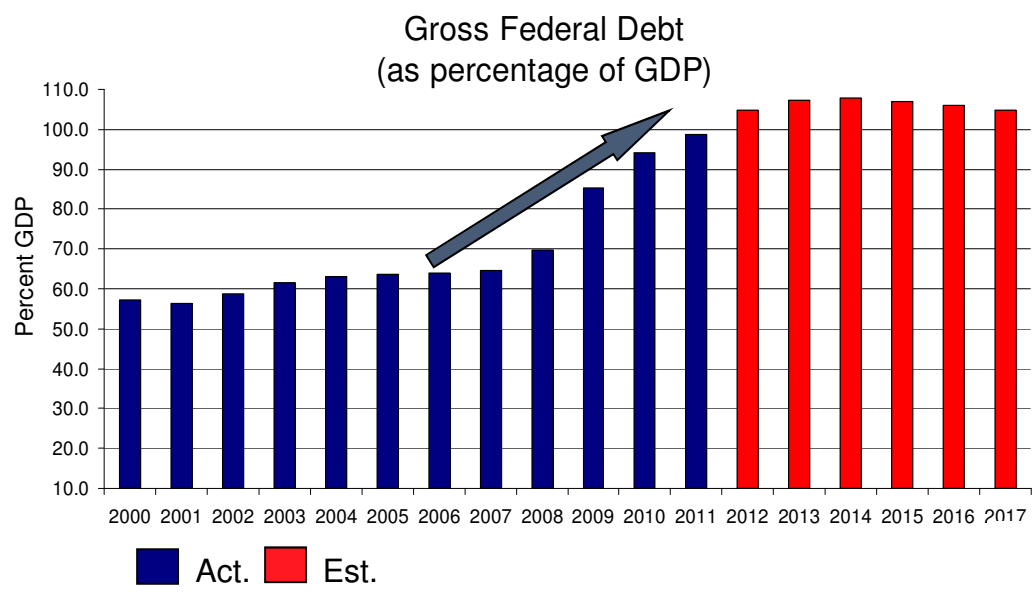
There are long term issues requiring adjustments

Figure 29. Revenues and Primary Spending, By Category, Under CBO's Long-Term Budget Scenario Through 2085 (Alternative Fiscal Scenario)



Source: CBO

But what interests markets is much more short term



Source : US Government website (Budget of the US Government – February 2012)

There are various ways to reduce the deficit

- **Cut Spending**

Difficut and will hurt growth

2012 federal budget

Defense 24%,

Health Care 22%

Pensions 22%.

- **Increase Taxes**

Unpopular and will hurt growth

- **Boost GDP's growth**

Painless and popular

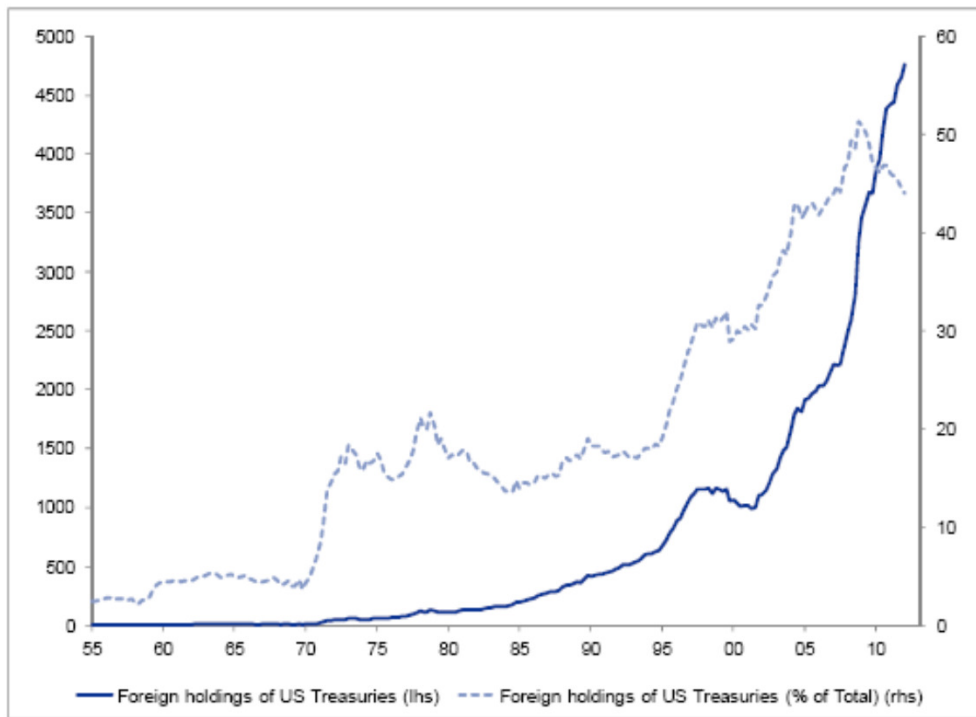
Boosting growth is the path chosen by the US

We believe that all the components are in place for this to work

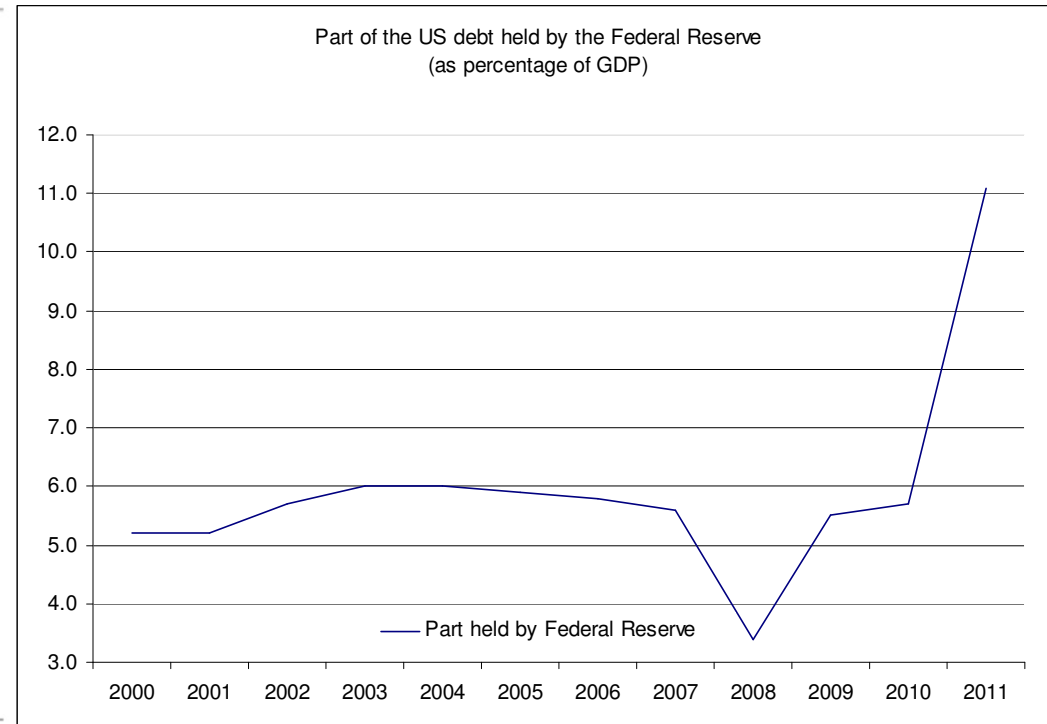
Objective : keep rates low

- Foreign trust and active Fed...

Foreign holdings of US Treasuries; \$bn (lhs), % of Total (rhs)



Source: Haver Analytics, Goldman Sachs Global ECS Research.



Left hand graph sources : Goldman Sachs - August 2012. Right hand graph sources : US Treasury

Objective : keep rates low

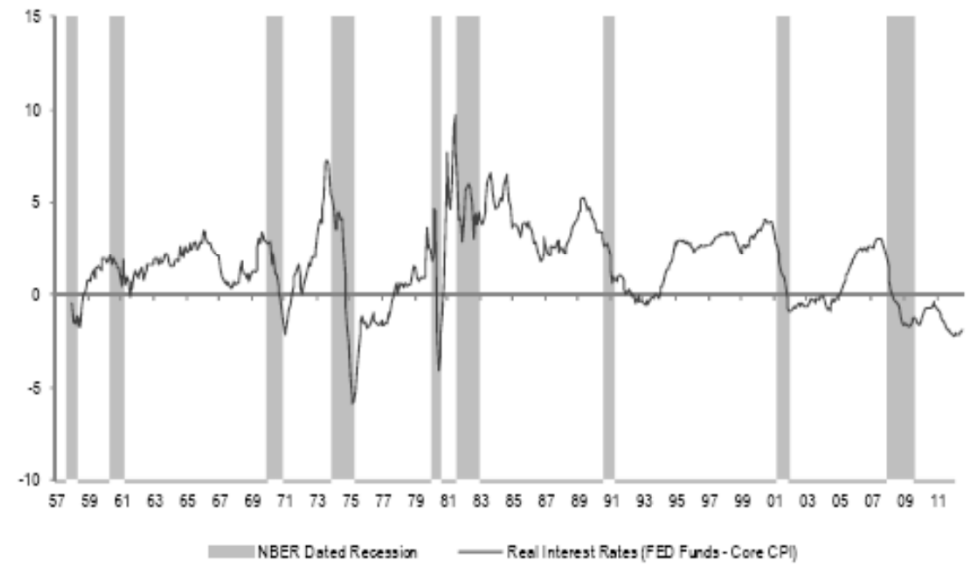
...Means low interest rates

US/UK/German 10Y Government Yields



Source: Datastream

US Real Policy Rates (%) vs Recessions

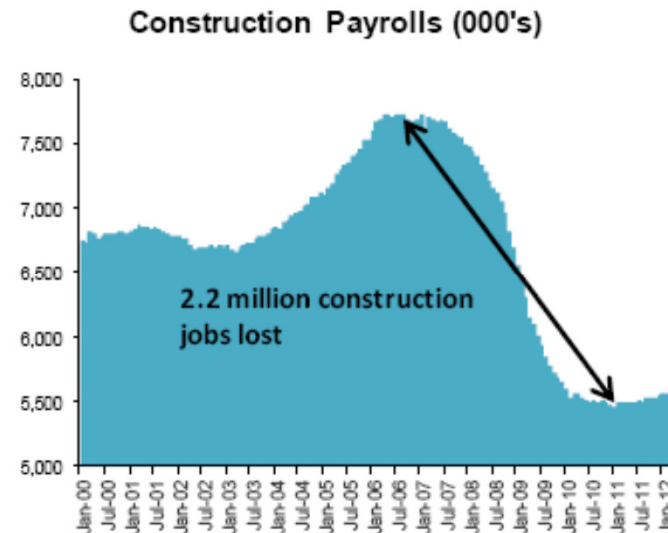
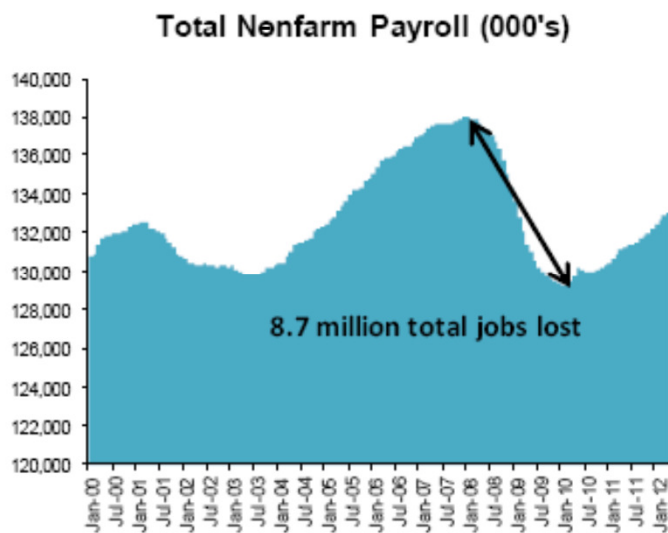


Source: FRA, BEA, Bloomberg

Source : JP Morgan August 2012

Objective : create jobs

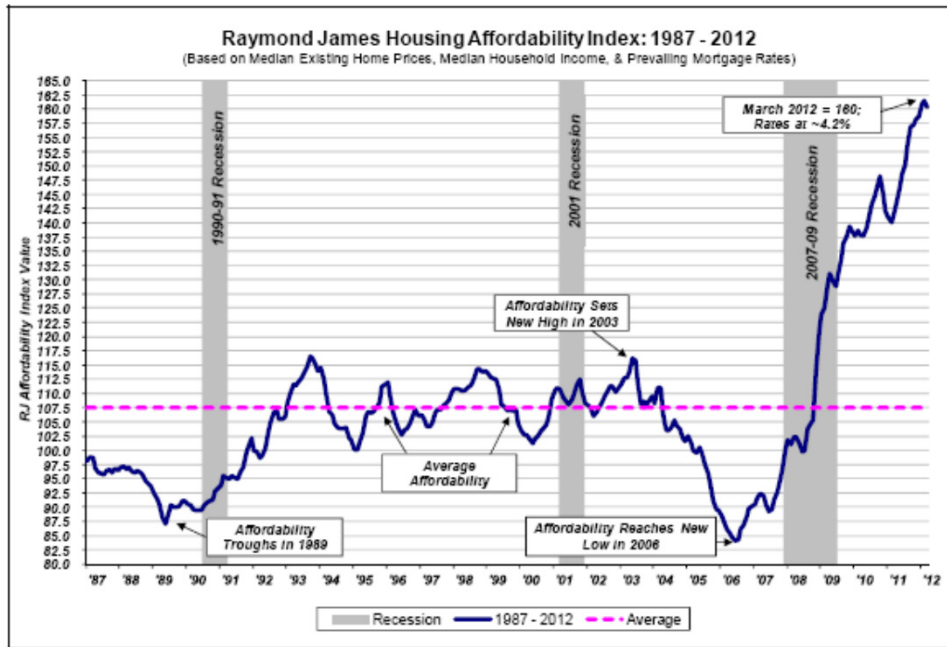
- Construction a big contributor to the current crisis...



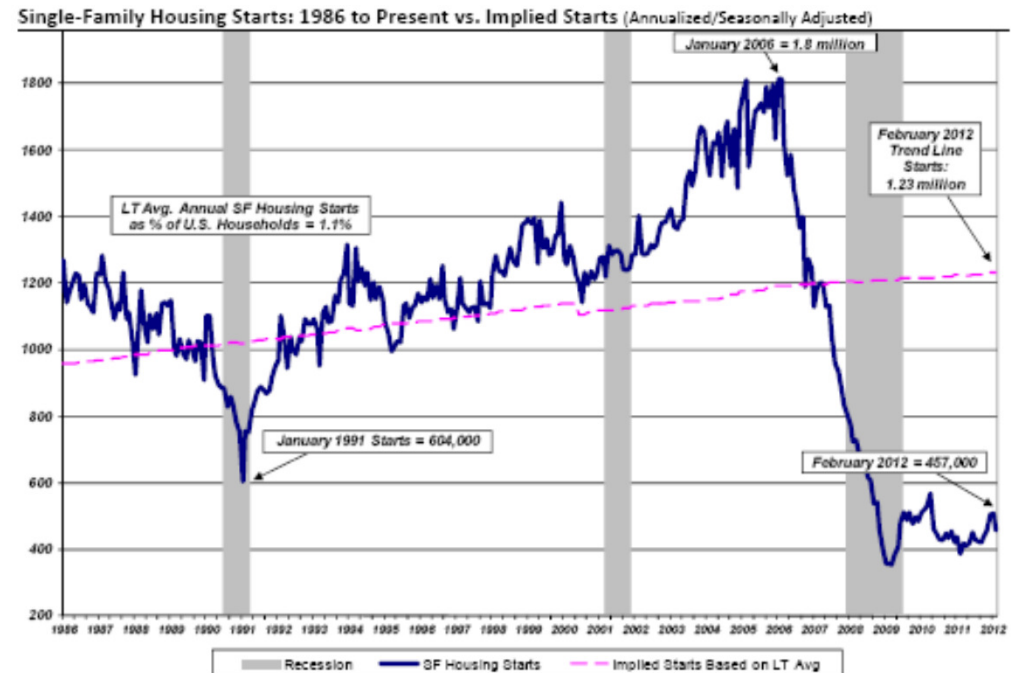
25% of lost jobs were construction related

Objective : create jobs

...Is improving



Source: National Association of Realtors, Federal Housing Finance Board, Mortgage Bankers Association, and Raymond James research. Data as of March 2012.

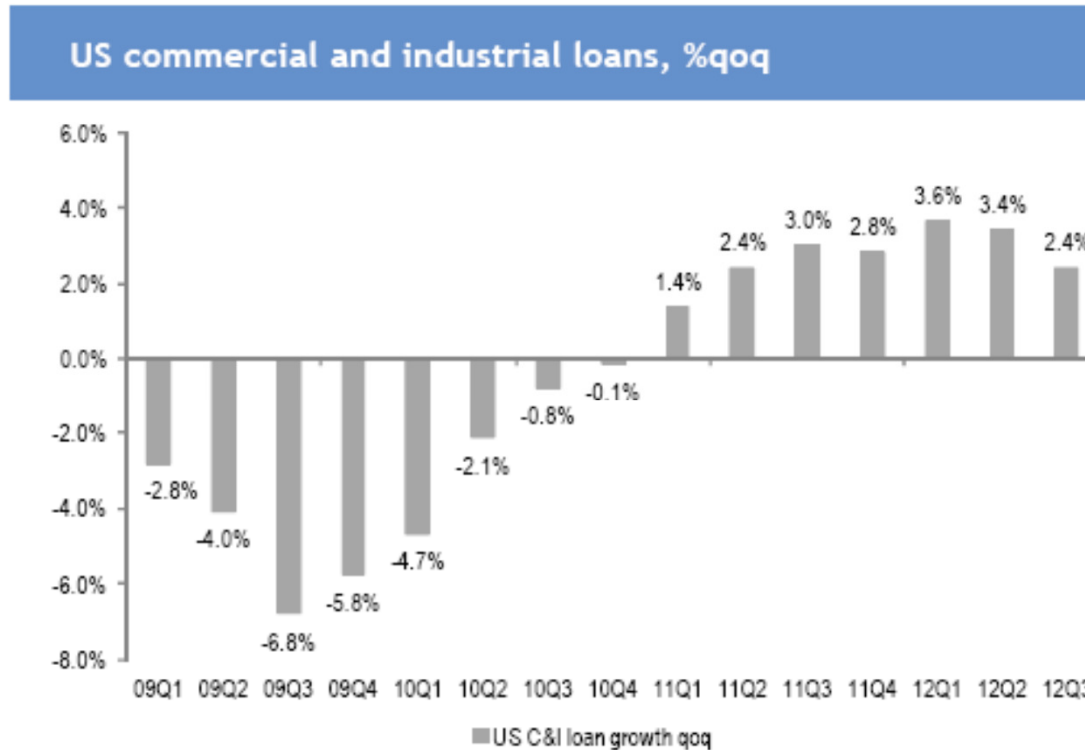


Source: U.S. Census Bureau and Raymond James research. Data as of February 2012.

US residential construction represents only 2.2% of US GDP in July 2012 (vs 6.5% pre crisis)

Objective : keep consumption alive

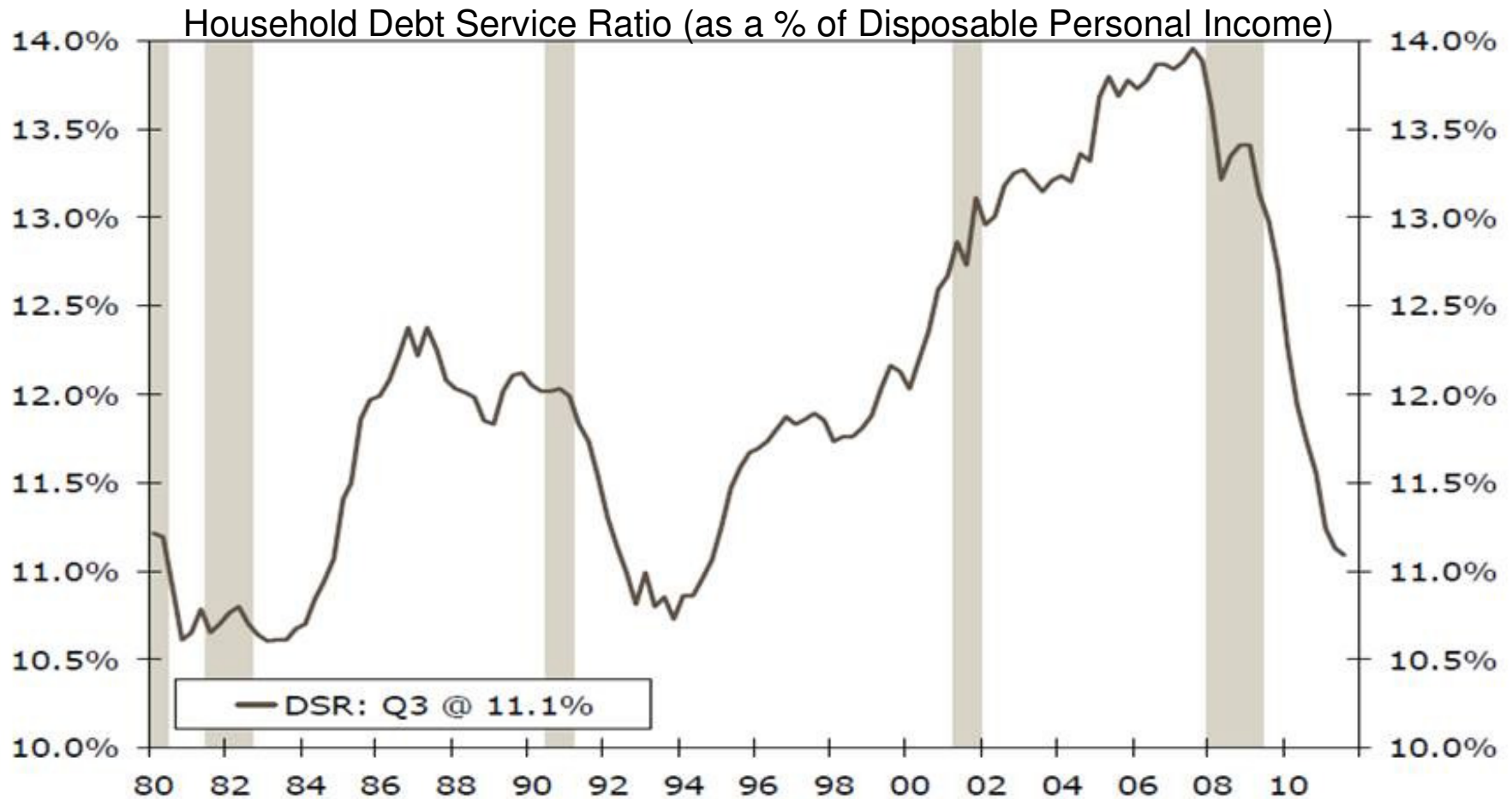
- Banks are once again willing to lend...



Source : JP Morgan Research Center. As at April 2012

Objective : keep consumption alive

..And consumers have some fire power

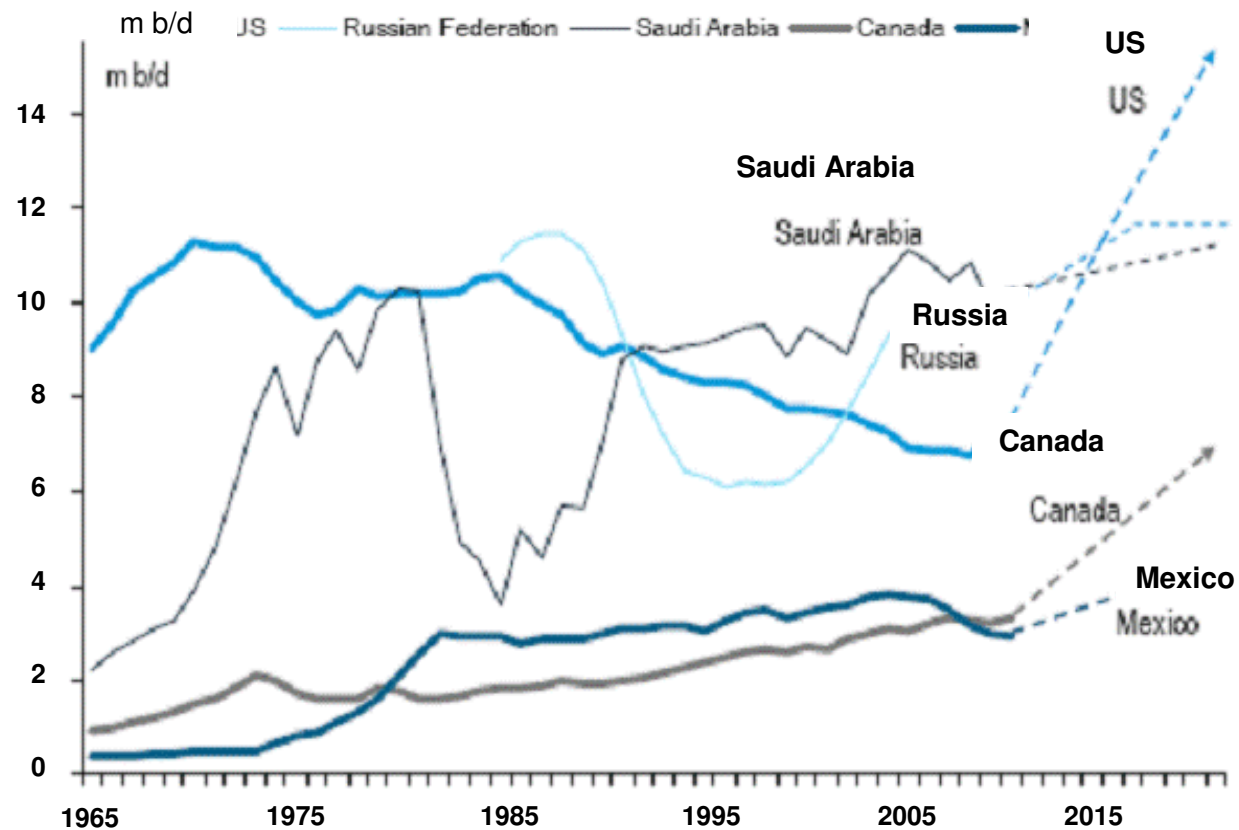


Source: U.S. Census Bureau , Raymond James. As at April 2012.

Innovation : the US Secret Weapon

- Oil a Game changer

US production could overtake Saudi Arabia and Russia this decade



Source: BP, Citi Investment Research and Analysis. As at April 2012.

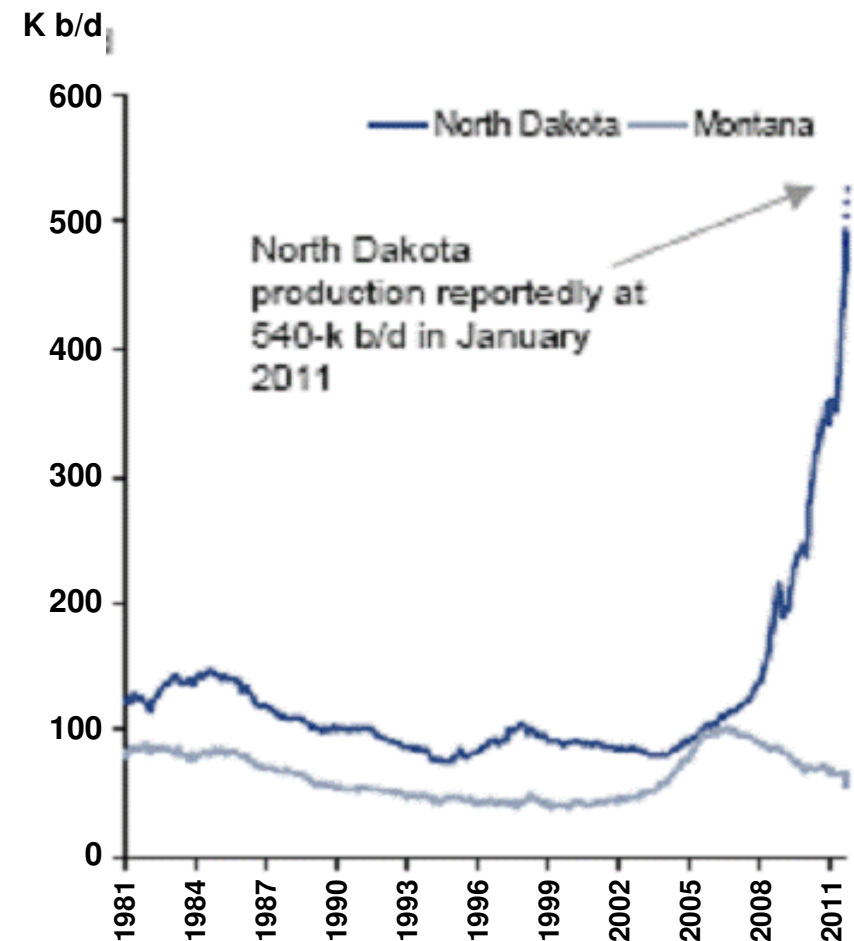
North Dakota shale oil example

■ Booming North Dakota production is a case in point

- As Bakken oil production has surged (up 153-k b/d y-o-y to 510-k b/d in November 2011), economic activity in the state has burgeoned:
 - **State GDP growth was 7.1% in 2010**
 - **As well as drilling and producing jobs, auxiliary employment has also been stimulated (see table below)**
 - **State unemployment was at 2.9%, versus 8.6% nationwide**

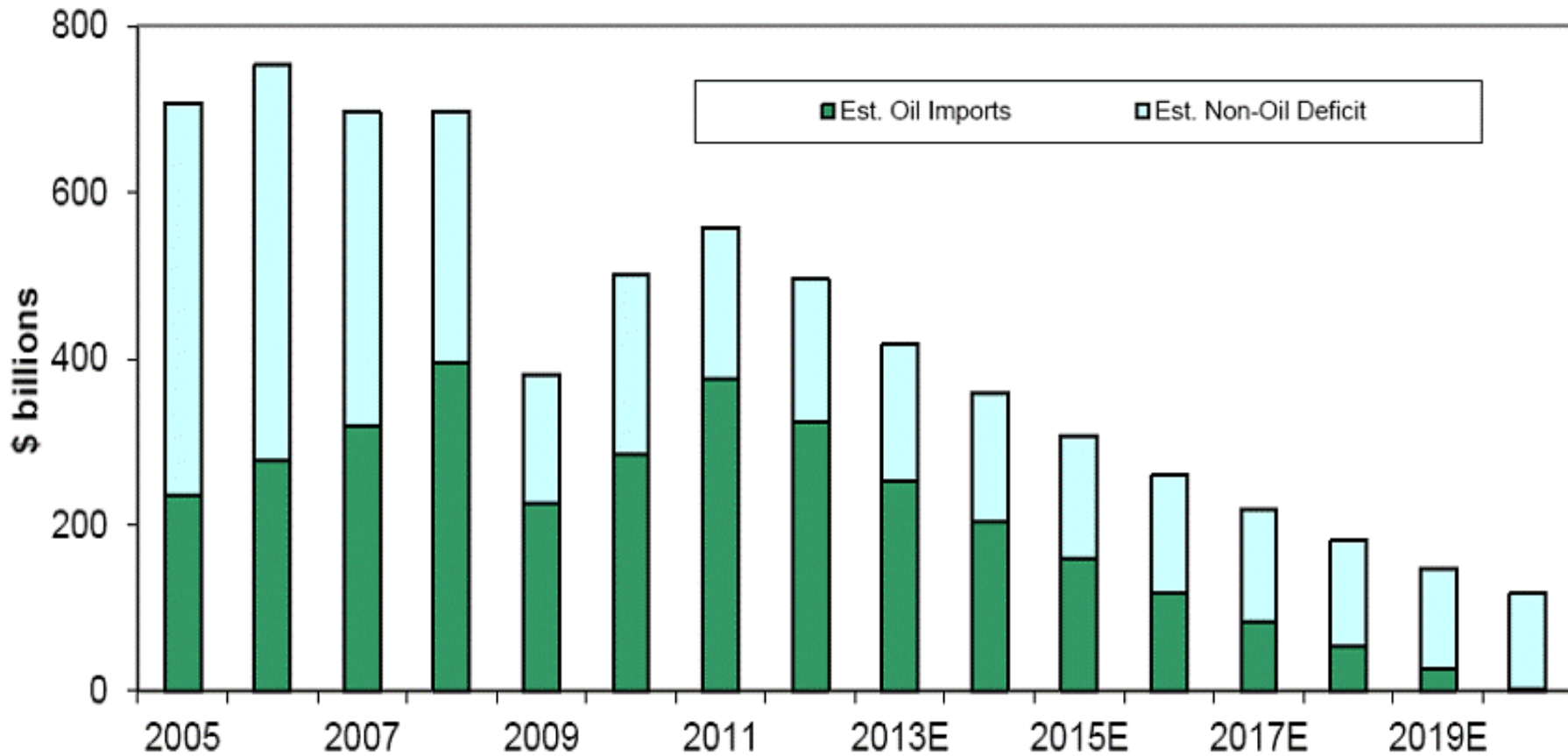
North Dakota increases in total employment over 2011

Sector	Jobs created in 2011
Mining and minerals	4,900
Construction	3,800
Professional and business services	2,600
Transportation, warehousing and utilities	2,100
Retailing	2,000
Other	2,000
Total	17,400



Source: North Dakota State Government, Reuters, CIRA. As at April 2012.

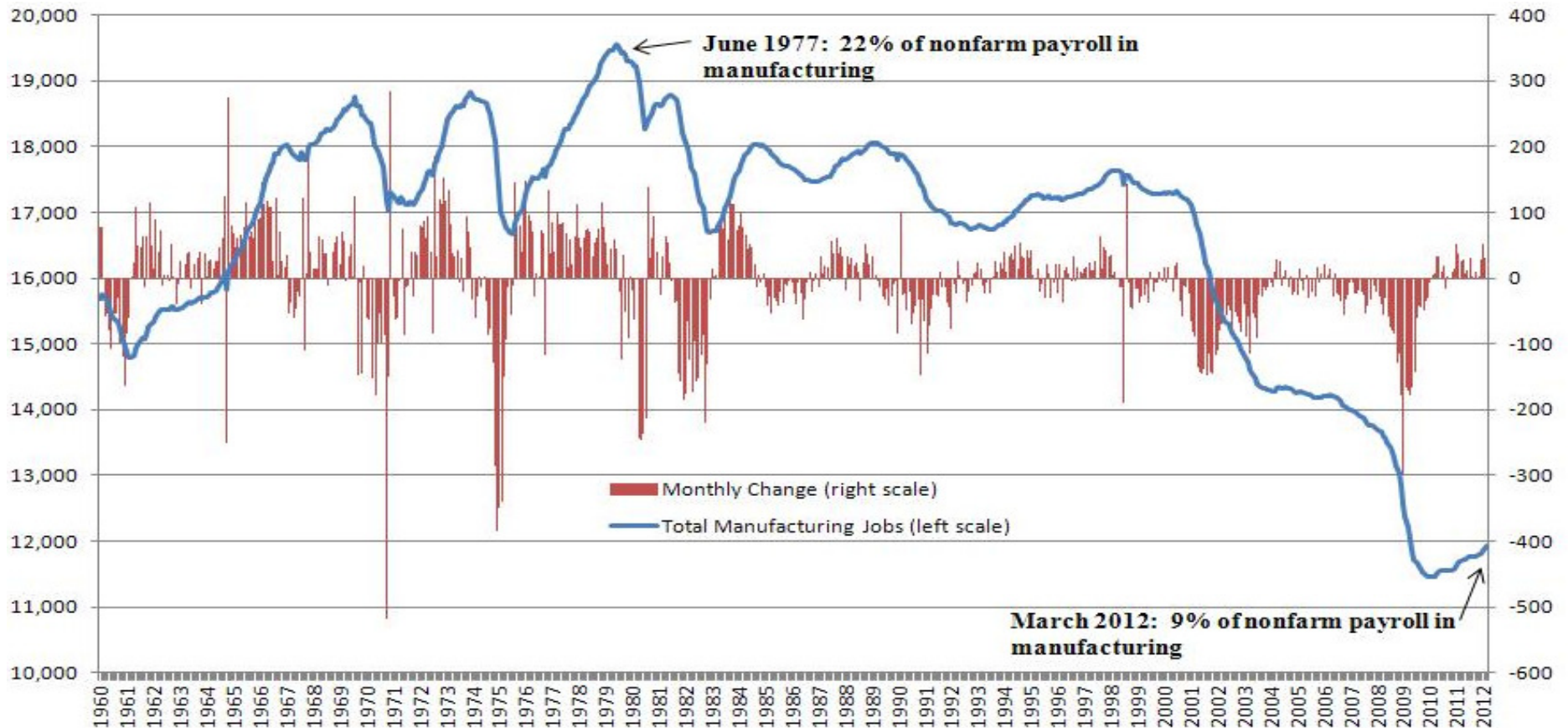
Lower US oil imports contribute to a narrowing trade deficit



Source: EIA, IEA, BEA, RJ estimates. As at April 2012.

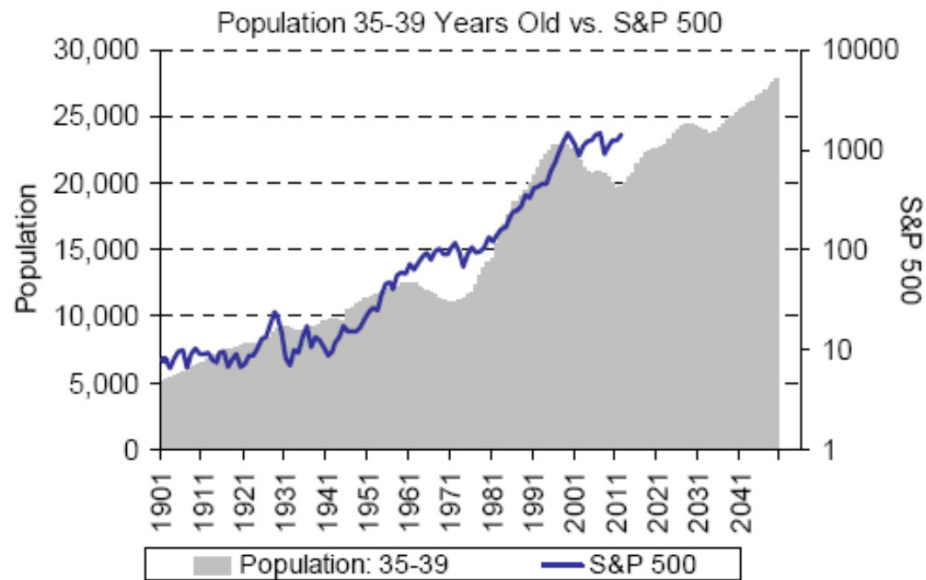
- Oil & Gas : low prices leading to a manufacturing renaissance

US Employment in Manufacturing (thousands)



Source: BLS/Global Macro Monitor. As at May 2012.

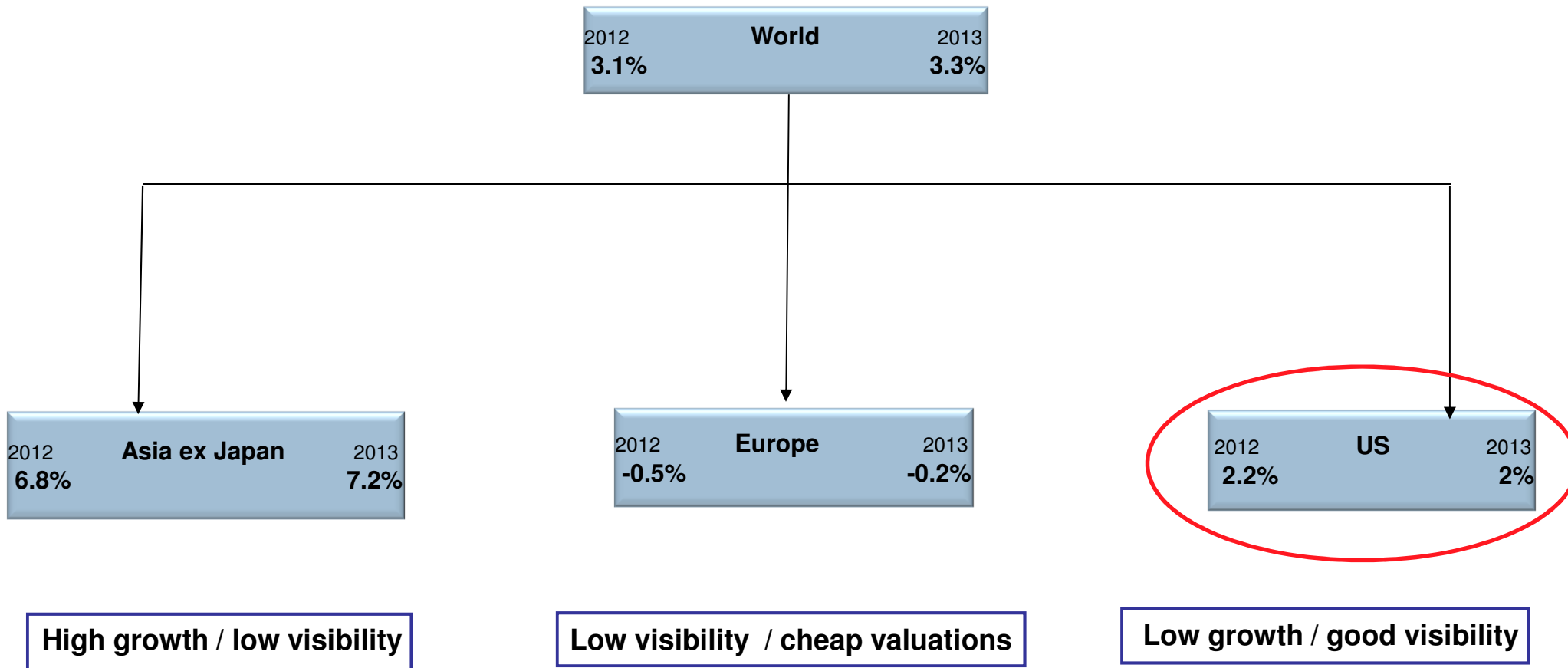
Population expansion is another growth driver



Source: Haver Analytics and Citi Research – US Equity Strategy

Source: Citi Research August 2012

US Growth will be slow but sustainable



Source: AXA IM purchase price parity GDP forecast– September 2012

When it comes to equities

- Prefer growth to value

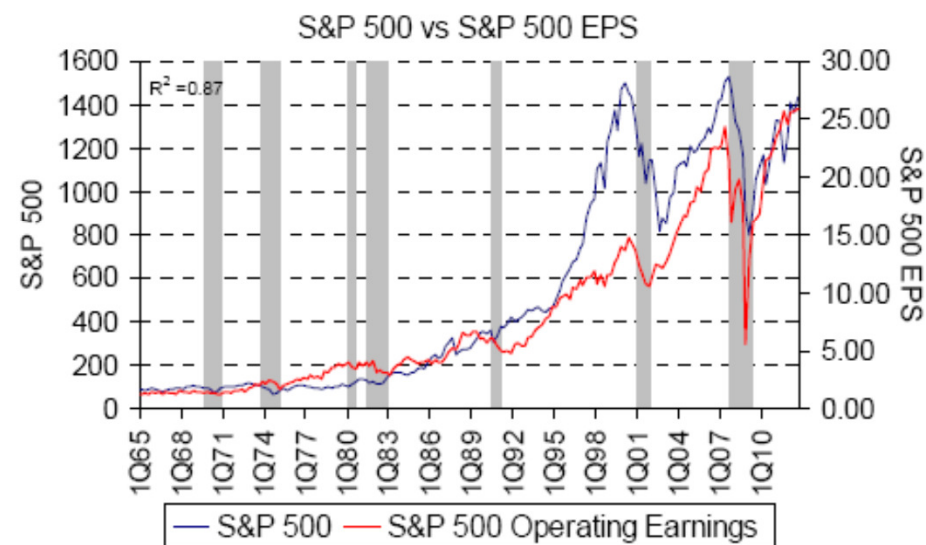
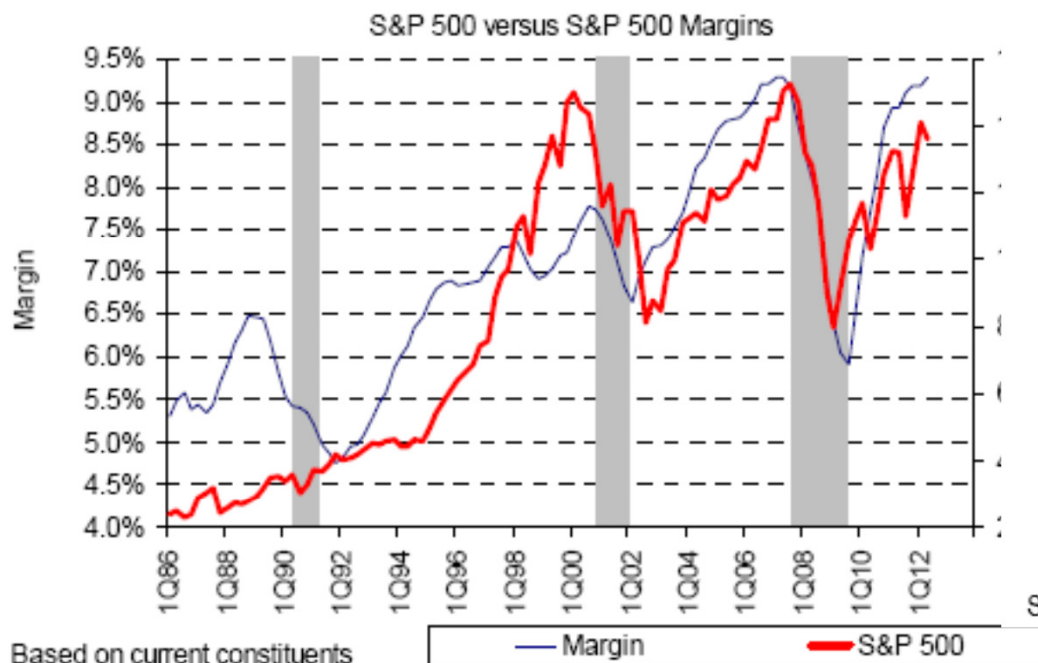
Russell 1000 Growth vs Russell 1000 Value



Source: FactSet as at 30/05/2012.

When it comes to equities

- Margin improvement has been a key driver behind EPS growth



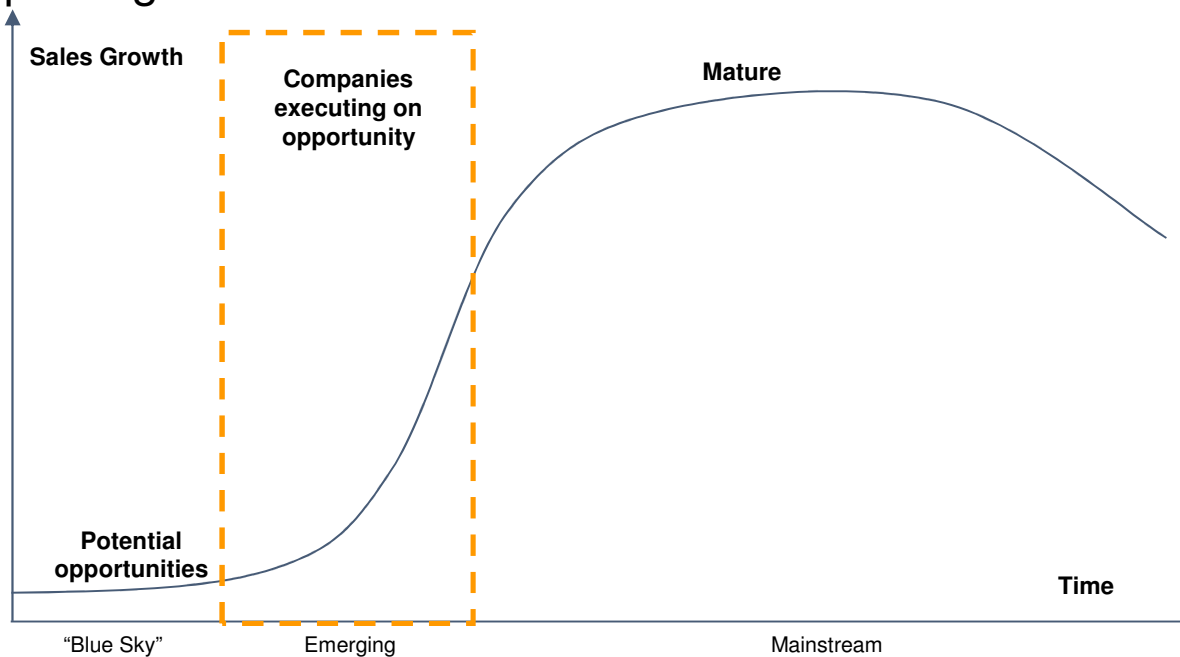
Source: Haver Analytics and Citi Research – US Equity Strategy

Source: FactSet, Haver Analytics and Citi Research – US Equity Strategy

Source: Citi Research August 2012

When it comes to equities

- Focus on top line growth



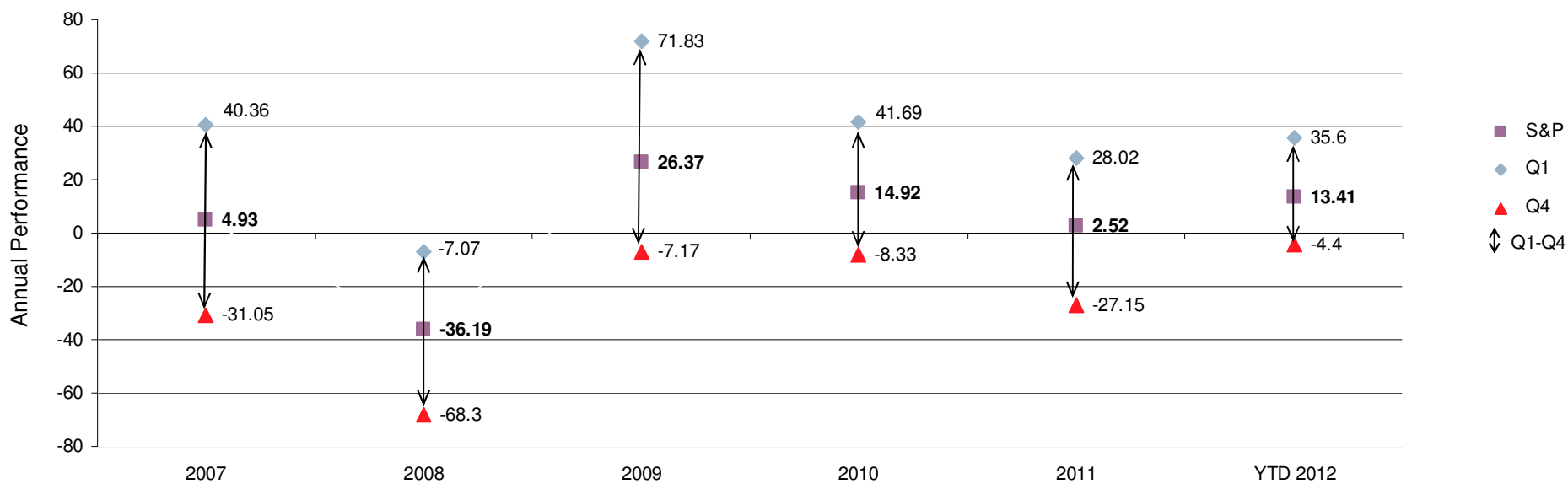
- Focus on **open-ended secular growth stories**
- Seeking **proven businesses with proven management innovators in their sector**
- Key requirement is **top-line / unit volume growth of sales**, not cost-cutting /restructuring

Source: AXA IM for illustration purpose only .

When it comes to equities

- Stock picking is key

Total Return : Winners versus Losers S&P 500



Q1-Q4	71	61	79	50	55	40
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Source : Factset, AXA IM as at 31/08/2012, currency used is USD

Applying our definition of growth to our stock universe

Technology

- ✓ **Salesforce** - Salesforce is a software company specialising in Customer Relationship Management products
 - \$21.8bn market cap
 - **5 year revenue growth of +355%**



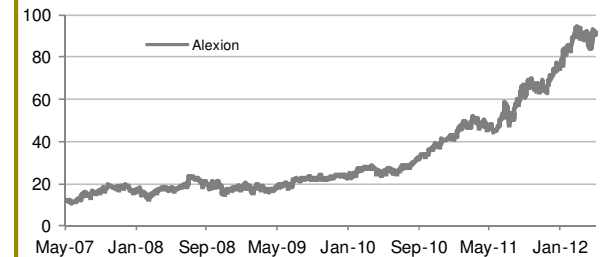
Consumer

- ✓ **Chipotle Mexican Grill** owns and operates quick serve Mexican restaurants
 - \$13bn market cap
 - **5 year revenue growth of +192%**

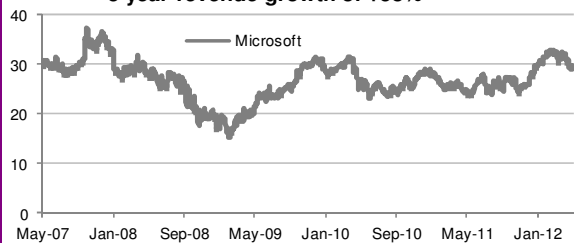


Healthcare

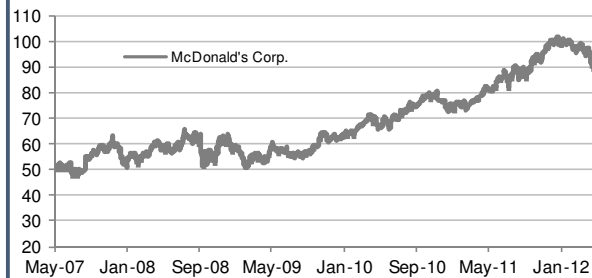
- ✓ **Alexion Pharmaceuticals** is the developer and distributor of a drug used in treating two ultra-rare disorders, and is also involved in other research initiatives sells several drugs in the oncology area
 - \$17.2bn market cap
 - **5 year revenue growth of +48,837%**



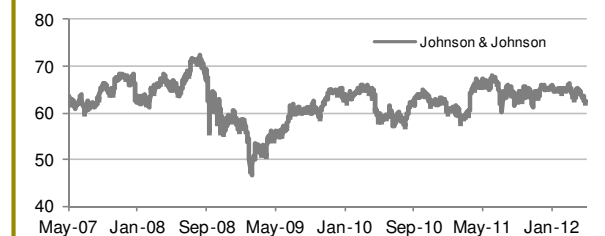
- ✗ **Microsoft** - Microsoft is a multinational providing computing services, developing prominent software suites and manufacturing consumer electronics
 - \$267.1bn market cap
 - **5 year revenue growth of +58%**



- ✗ **McDonald's** operates fast food restaurants
 - \$99bn market cap
 - **5 year revenue growth of +21%**



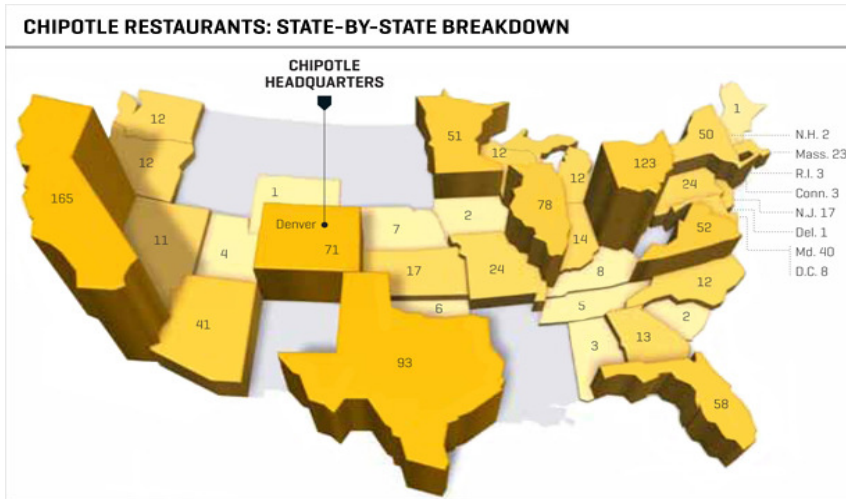
- ✗ **Johnson & Johnson** manufactures a very broad range of medical devices, pharmaceutical and consumer packaged goods, owning numerous household brands
 - \$179bn market cap
 - **5 year revenue growth of +22%**



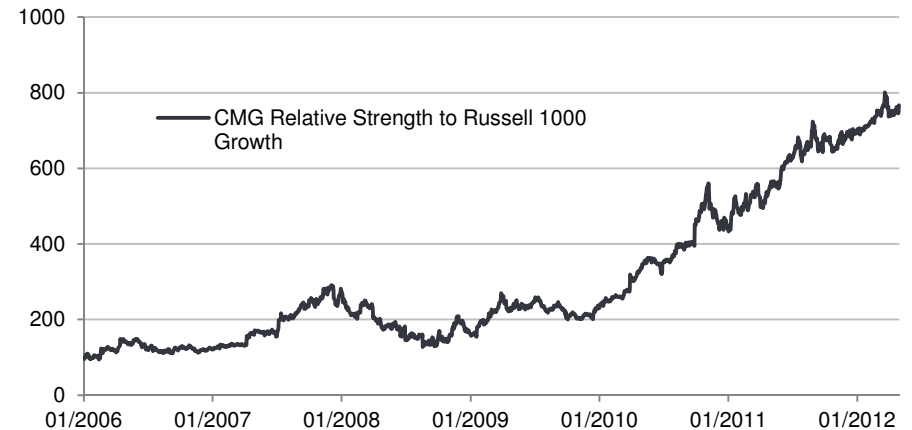
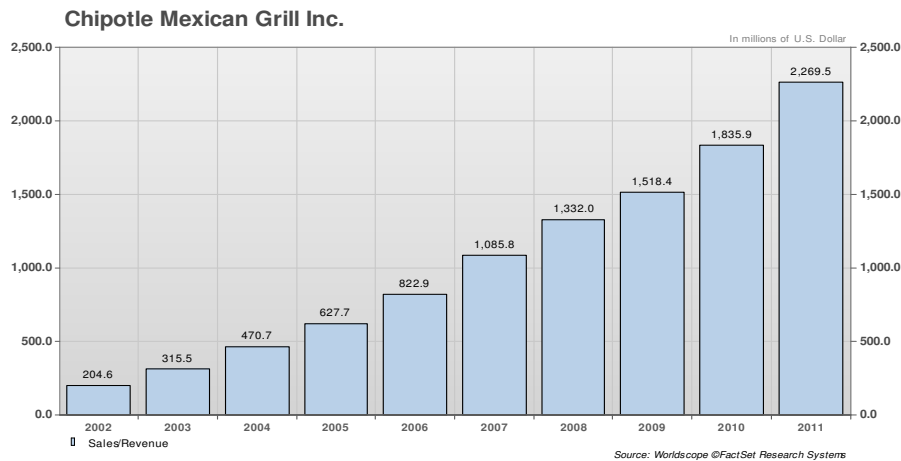
Source: FactSet as at 31/05/2012.



After fast food, the US discovers 'fast casual'



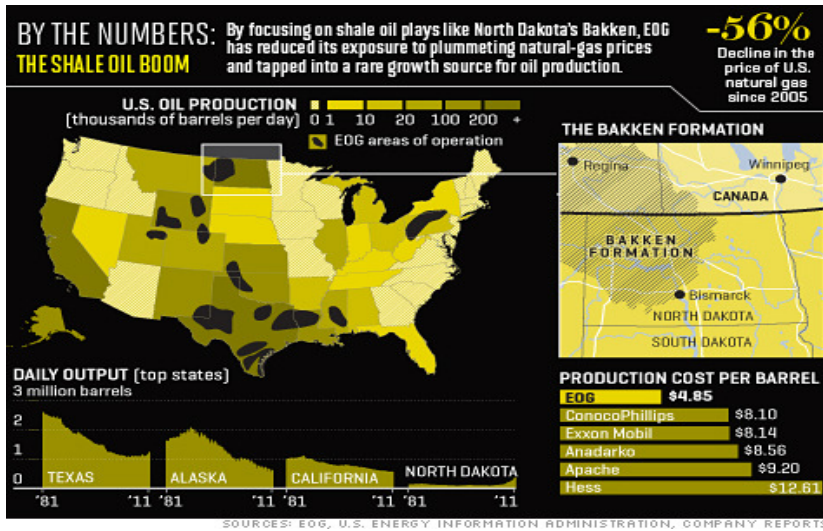
- 1993 : founded by Steve Eells with 16 restaurants (in Colorado)
- 1998 : McDonald's Corporation becomes the biggest investor
- 2006: Over 500 restaurants – McDonald's sells its stake
- 2012 : 1200 restaurants in 41 states with a beginning of international expansion (London, Paris...). 135 new restaurants are opened every year
- 200% increase in revenue over the last 5 years
- Margins of 25-26%, among the highest in the business
- Net profits of \$215m in 2011 – 30,940 employees
- Market cap: \$12.7bn
- Ranked 54 out of 100 in companies of highest growth (Fortune 100)
- +700% outperformance versus Russell 1000 Growth since the company's launch



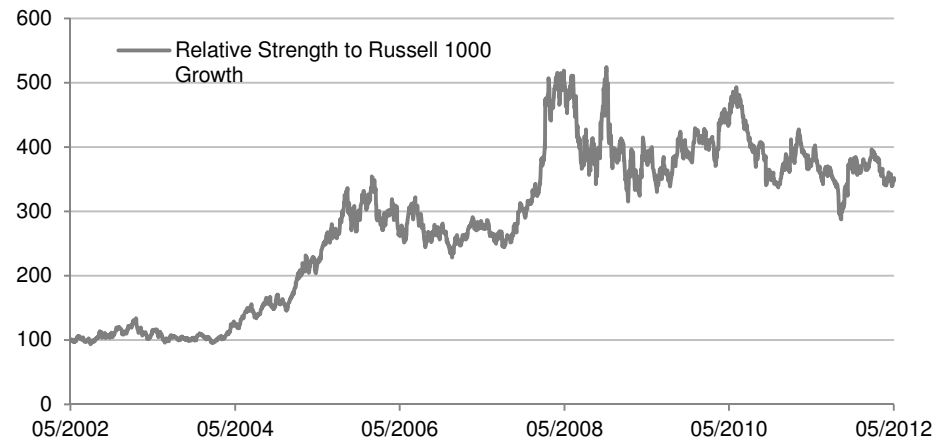
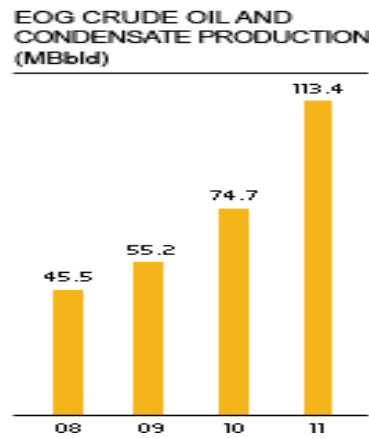
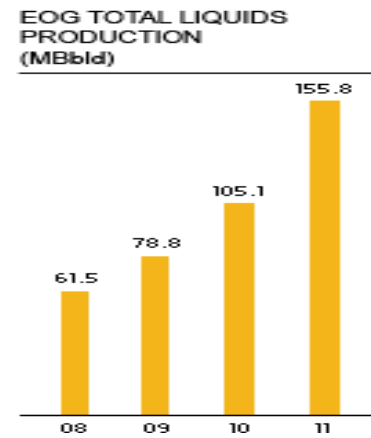
Source: Fortune Magazine, Factset as at 31/05/2012



On-shore shale oil production leader



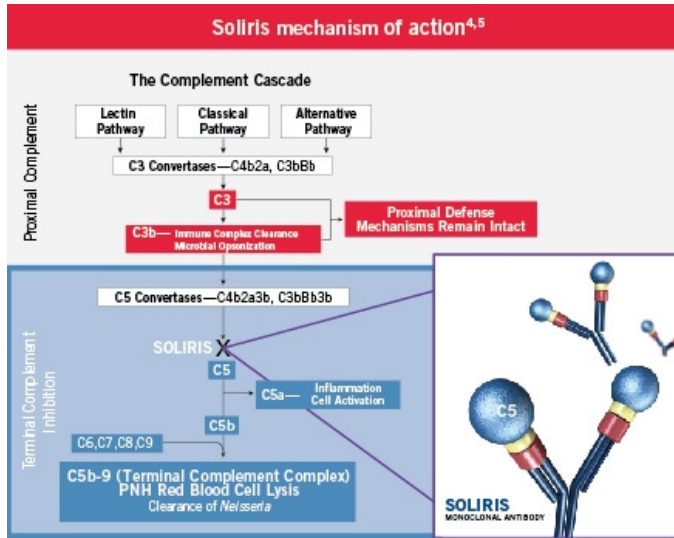
- Originally a company specialized in exploration and production of natural gas only
- Now a diversified group, present in many exploration and quality production basis (Bakken & Eagleford)
- 2,054bn barrels in net hydrocarbon reserves as at 31/12/2011
- 85% of these reserves are on US soil
- A daily production that went from 239,000 barrels a day in 2005 to 423,000 now
- One of the leaders in horizontal drilling techniques associated with the hydraulic fracturation known as fracking – benefits from the advantage of being the first in many oil fields
- One of the most stable companies of the sector with over \$1.6bn in net cash
- 100% revenue growth over the last 5 years
- +350% outperformance vs Russell 1000 Growth over 10 years



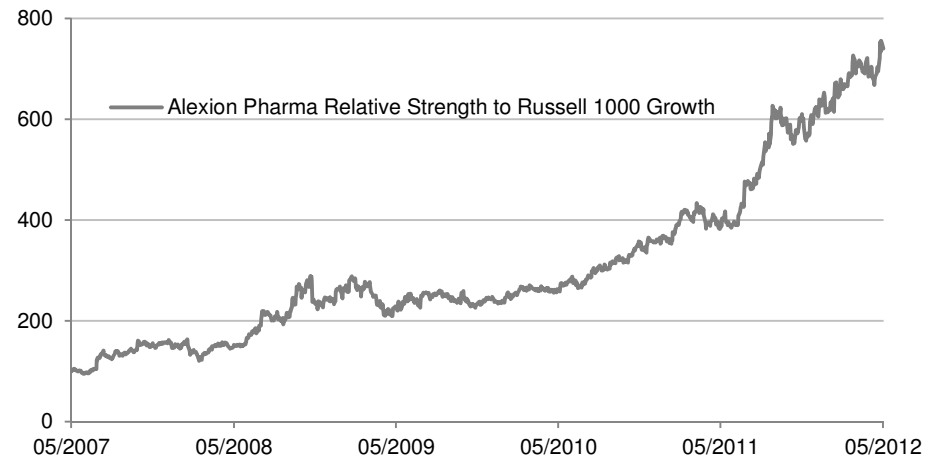
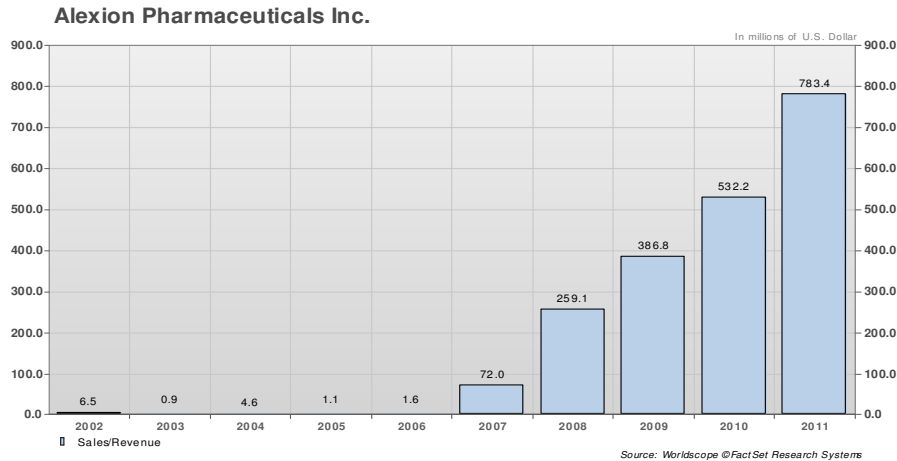
Source: Forbes Magazine, September 2011, Factset as at 31/05/2012



A pioneer in treating rare diseases



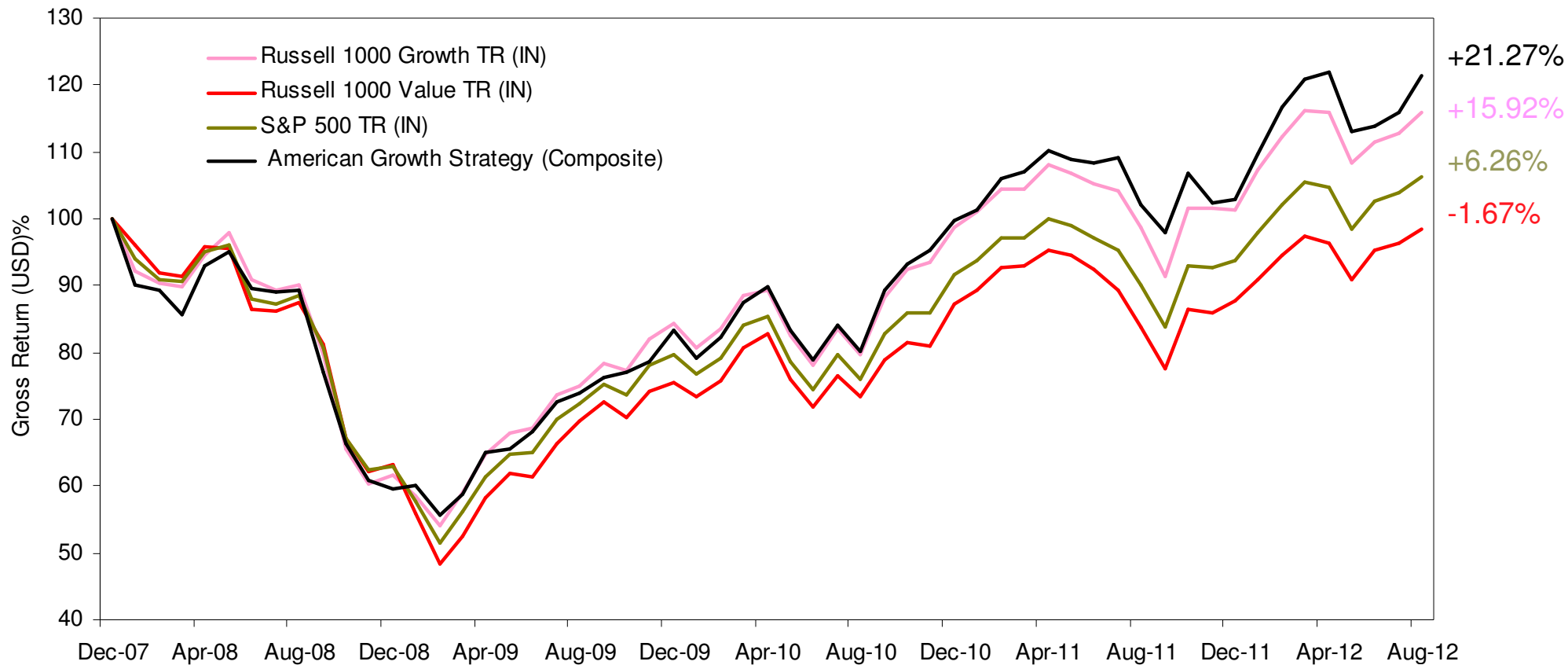
- Biotech company specialized in treating rare disease
- Its featured product Soliris is a treatment for patients diagnosed with Paroxysmal nocturnal hemoglobinuria (PNH), a disease of the blood affecting close to 10,000 patients in the United States
- \$728m revenue in 2011 (\$72m in 2007)
- Market cap: \$17.2bn
- +700% outperformance versus Russell 1000 Growth over 5 years



Source : Alexion Pharmaceuticals :Soliris mechanism of action, February 2010.
Factset: as at 31/05/2012.

When it comes to equities

- Growth style and quality stock picking : a winning combination



Source : Lipper, AXA IM as at 31/08/2012

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