

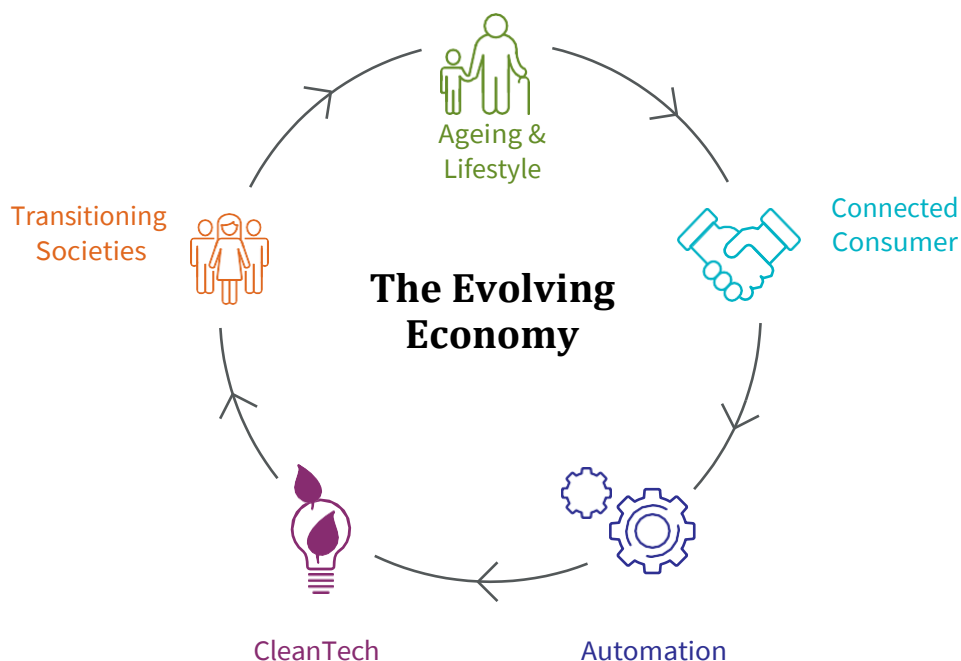
Framlington Equities

Thematic equities in focus

Markets rotated, not our themes' growth drivers

After a strong year 2020, we entered 2021 with investors focused on the recovery of the global economy and the roll-out of COVID-19 vaccines. Despite regional variations in the pace of vaccinations, the global equity market rose on optimism around the prospect for an economic recovery and associated consumer spending. Lower growth, more value-centric sectors led the way after lagging in recent years, while we saw some profit-taking in growth areas such as cleantech which performed extremely well at the end of 2020/beginning of 2021. Macro considerations in the quarter, most notably the ongoing rally in bond yields globally and rising oil price, also supported the rotation into traditional areas such as banks and oil companies. This context was unfavorable to most companies exposed to our main global themes, as strong earnings and revenue growth potential were not rewarded by the market in the first quarter.

However, while market rotation impacted the short-term performance of our five themes, this has not altered the demographic and technological drivers supporting their superior growth potential over the medium to long term.



Our **Connected Consumer** theme was somewhat impacted during this quarter. This was not due to our underlying companies' fundamentals having been altered, but mainly because investors targeted strong-performing areas of 2020 for profit-taking purposes. Indeed, many companies belonging to this theme have seen a strong level of demand in - and adoption of - their products and services in 2020, resulting in exceptional returns for many of them. However, even if investors took profits in this area during the quarter, it's worth considering that the level of e-commerce adoption remains low globally - and consumption patterns developed during the pandemic have likely caused an

acceleration in this trend in 2021 and beyond. We have also witnessed a high level of corporate activity in this area of the market including a large number of M&As and IPOs – ultimately reinforcing our view that this is a dynamic and evolving trend.

Within **Automation**, we saw some weakness in the semiconductor sector during the period due to component shortages, particularly in the Automotive sector – there have been reports of automotive facilities seeing temporary shutdowns due to the lack of available components. In addition, the winter storms in the southern states of the US seen in February impacted production at some of the biggest facilities in Texas, which contributed to these shortages. Finally, investor concerns around rising inflation and higher interest rates have also contributed to the volatility of the market and have, in turn, put further pressure on the semiconductor space. We take a longer-term view on the sector and see supply/demand becoming more balanced over the coming quarters - and the strong demand continuing, due to an improvement in automotive sales as well as a healthy environment for consumer electronics. Interestingly, we believe the component shortages add some additional pricing power to the semiconductor companies, which should help support profit margins.

Our **Ageing & Lifestyle** theme benefited from tailwinds associated with the Silver Spending category, mainly due to a strong demand for recreational and leisure as consumers seek activities less impacted by social distancing measures. Given the improved vitality of older generations, it is unsurprising to see people traveling and experiencing what they didn't have time to do during their working lives. Royal Caribbean Cruises is an example of a company that plays into this theme. Demand for cruises was outstripping supply prior to the COVID-19 pandemic and, as investors foresee an end to the worst of the pandemic, the share price has rebounded strongly, up more than 40% (source: Bloomberg) in February alone. Conversely, we saw some weakness in holdings that are exposed to elective surgery, such as orthopedics-related interventions. With the continued pressure on healthcare systems globally as a result of COVID-19, certain surgical procedures continue to be cancelled and deferred. We continue to believe that many surgical names are well positioned for a recovery in the second part of 2021 as the worldwide spread of COVID-19 slows and procedure volumes increase.

Within our **CleanTech** theme, we have seen many green energy names doubling or more their share prices in 2020, which also explains large profit-taking in this area so far in 2021. However, we have hit an inflection point for the global energy transition; for instance, a study from IHS Markit published in January 2021 said that the combined capacity of wind and solar energy installed globally would surpass the amount attributed to natural gas in 2023, and the capacity for coal in 2024. The energy transition is happening, and it has powerful tailwinds behind it. Awareness of the impact of pollution is being increasingly driven by governments, consumers and corporates. There is strong regulatory support across the EU (Green Deal), US (Biden's administration) and even China (carbon neutral commitment by 2060). Simultaneously, consumers are changing their consumption habits at a faster pace, while companies are investing massively in new clean technologies to avoid the rising cost of taxes and penalties from emissions.

Within the **Transitioning Societies** theme, we have not particularly seen the anticipated recovery of consumption – especially in China – as we saw clearer indications from the government of a move towards a tightening bias in monetary policy. A secondary impact on the Chinese markets came from the further disclosures of a likely greater regulatory oversight over a range of industries, especially in 'new economy' sectors such as e-commerce, online education and fintech. The combination of these factors saw weakness in China and dragging down the emerging markets overall. Nonetheless, we remain optimistic on the strength of the middle-class emergence and their underlying consumption appetite.

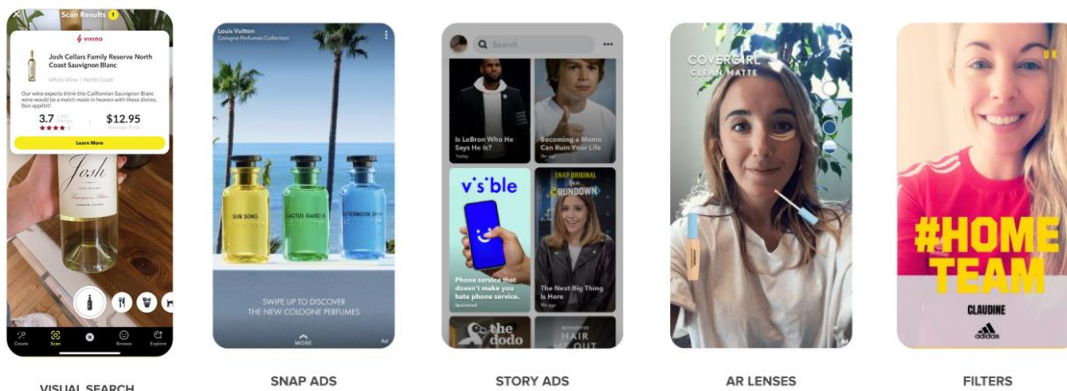
It is possible that we will continue to see short-term market rotations from time to time. As long-term investors, we are not trying to time the market as these rotations are often unpredictable and dependent on factors entirely out of our control. Instead, our approach remains to evaluate the business fundamentals of our companies, their underlying growth drivers and assess any changes. The last company reporting season has been encouraging in that respect and we have seen many companies delivering solid quarterly results, beating earnings and/or revenue expectations. However, those positive results were typically not rewarded by the market due to the current uncertain macro context (COVID-19, rising interest rate, inflation noise, etc.). This combination of strong earnings growth and declining share prices have ultimately created some more interesting valuation opportunities in our favoured themes.

Read on to discover more recent insights within the Evolving Economy...

Connected Consumer theme

Snap Inc., Camera company

Snap Inc. is the parent company of flagship product Snapchat, a camera application that helps people to communicate through short videos and images. The application leverages on a huge community, with on average 280 million¹ daily active users and over 5 billion¹ “snaps” created every day. The company benefits from a very high level of penetration in developed markets, while it is making incremental progress in emerging countries (such as India). Beyond its large, engaged and growing audience, the company is poised to benefit from the increasing consumption growth of the Millennials and Gen Z. Together, it is estimated that these generations have over \$1 trillion in direct spending power¹. Such potential is undeniably attracting many global brands so they can directly reach consumers and sell their products.



Using Snap with short and impactful video formats is becoming the new advertisers paradigm to catch any attention

1: Snap April 2021 Investor Presentation.

Picture: Snap investor presentation. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

Automation theme

FANUC, Robot manufacturer

Fanuc is a Japanese manufacturer of factory automation systems, equipment and robots. Products are focused around Computerised Numerically Controlled machines (CNCs), servo motors and industrial robots. Fanuc is one of the “big 4” robot manufacturers alongside Yaskawa, ABB and Kuka (bought in 2016 by the Chinese conglomerate Midea). Its strong robotics business is becoming increasingly broad and diverse both in terms of end markets served and geographic expansion. Historically, the opportunity has been focused on the automotive and aerospace sectors but, with greater levels of technology and sensing capabilities, new end markets are developing.



FANUC industrial robots working collaboratively with human (co-bots).



Picture: FANUC's Corporate Profile Booklet, March 2021. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

Ageing & Lifestyle theme

Columbia Sportswear, apparel and footwear specialist

Columbia Sportswear is an apparel and footwear specialist for outdoor and active lifestyle. While the company is particularly known under the “Columbia” brand, its franchise encompasses other names such as Mountain Hardwear, Sorel or Prana. The company features responsible practices while constantly creating innovative and enduring products that empower people. Consumers’ desire for outdoor activities while maintaining social distancing requirements has driven strong demand for Columbia products over the past couple of months.



Outdoors technical equipments have seen an increasing demand from consumer since the pandemic

Picture: Columbia Sportswear Company, Investor Presentation, April 2021. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

CleanTech theme

NextEra Energy, electric power company

NextEra Energy is one of the world’s largest generator of wind and solar power. Through its subsidiaries, NextEra Energy generates clean, emissions-free electricity from several power plants in Florida, New Hampshire and Wisconsin, US. NextEra Energy is committed to a strategy of continued leadership in clean energy and has a strong pipeline of energy infrastructure projects in the US, with plans to invest between \$50-55bn until the end of 2022.



NextEra renewable wind energy

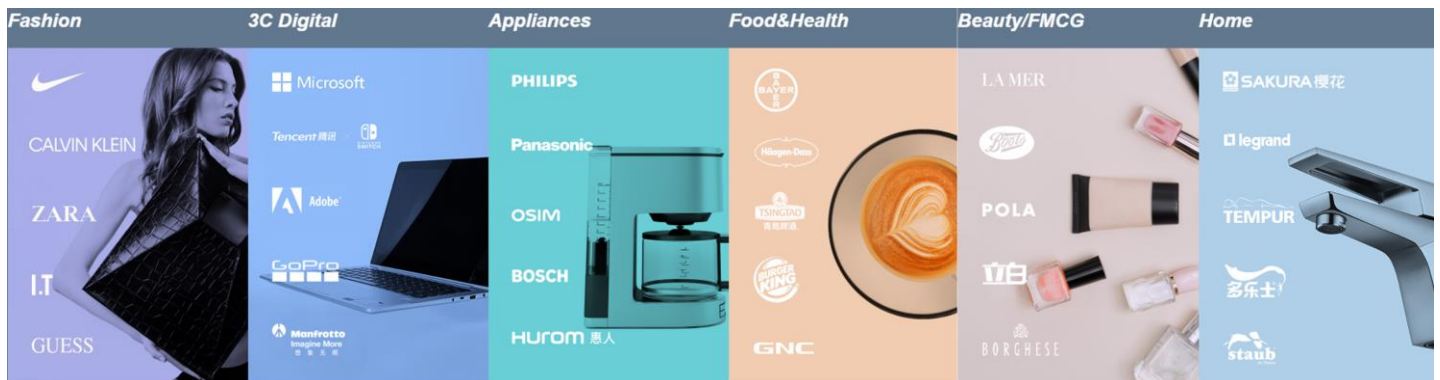
1: Nexteraenergy.com, company profile.

Picture: NextEra Energy website. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

Transitioning Societies theme

Baozun, e-commerce solutions

Baozun is a leading provider of e-commerce solutions in China. Its integrated ecommerce solutions service areas such as IT solutions, store operations, digital marketing, customer services, warehousing, and fulfilment. Its offering is essentially focused on e-commerce Business Process Outsourcing (BPO). The company has over 260¹ brand partners across a wide range of categories, including Philips, Microsoft, Haagen-Dazs or Nike's online business in China from end to end. Baozun achieved record results in 2020, with the pandemic and the consumer behavior shift from offline to online channels. Furthermore, the company is well-positioned to benefit from the increasing emerging middle-class consumption, especially with the potential to capitalise on expanding e-commerce opportunities in China.



Baozun partnering with top international brands

1: Baozun Releases 2020 Chairman Letter, April 2021

Picture: Baozun website. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

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