

Market comments

October was another supportive month for credit spreads, with our Merrill Lynch generic index tightening by 19bps, an acceleration of the trend experienced over the past few months. Swap spread were rangy, whilst government rates were supportive on the front end of the curve, and the monthly absolute return for the asset class was 1.05%, a slight uptick from last month, leaving the cumulative returns year to date at an impressive 11%.

Performance was more homogeneous across segments than in September, with both core and periphery credit tightening, whilst periphery credit did clearly outperform, tightening by 44bps for the corporates and 29bps for the financials, compared to 15bps and 21bps for the respective core segments. Similarly, subordinated financials did outperform the index during the month, tightening by 57bps, whilst financial senior paper lagged, tightening by a slower 12bps. The coercive subordinated to senior exchange announced by Intesa San Paolo, together with the removal of call options on its outstanding Lower Tier 2 at the very end of the month cooled off the rally, impacting the whole capital structure, but was not sufficient to derail the market performance.

Markets were focussing on Spain, waiting to get answers on the outstanding questions as to when the country would apply for support within the ESM and as to what would be the decisions from rating agencies. Spain disappointed on the first point, not showing sufficient resolve towards a plan, in spite of a on-going weak macro-economic news, whilst S&P surprised negatively with a two notch downgrade to BBB- with a negative outlook, and Moody's surprised very positively on the other hand, affirming the country's rating at Baa3, with a negative outlook. This was sufficient to appease markets, which simply wanted to get clarity from agencies, whatever the outcome. The Spanish sovereign curve has been quite resilient as well, as a result of the underlying threat of buying from the ECB, which in turns puts limited pressure on Rajoy to apply for aid, whilst our expectations would be that the market patience could grow thin if no package is approved by the very beginning of next year. In the meantime, Greece was also in the news in a desperate attempt to keep the support from the Troika. The banking union project took a step back, with Germany working on reducing its scope and delaying its implementation.

The primary market took a pause, with about €14bn of corporate issuance, less than half of the September level, whilst financial issuance almost equalled September at €10bn, including a €750m 3-year senior deal for Banco Espírito Santo, ending a 30 month absence for Portuguese banks, after BCP printed last a deal in our markets in March 2010. EDP had reopened the market for Portuguese issuers a few weeks ago, followed by Brisa and Portugal Telecom, another sign of normalisation of our markets. The other theme for this month issuance was again the importance of periphery, accounting for close to 50% of the volumes issued in our markets, compared to about 25% in September. In general, the corporate issuance has been better received than the financial one, as corporate deals have outperformed financial ones on the break.

We are now about half way into the earnings season, entering the busiest week on that front just as we print, and the picture is one of discrepancies, but overall resilience of credit metrics. One can clearly feel the impact of the current slowdown on the outlooks, but overall the absolute increase of earnings stands at solid double digit levels, supported by a favourable comparison with 3Q11 for the banking sector. There is an element of cyclical in the dispersion, but not only. Pernod can still register an organic growth in earnings thanks to its Asian footprint, whilst Saint Gobain suffers from its focus on Western Europe, in spite of support from its North American business as a result of the improvement in the

housing market. Strategic choices are key as well, and typically one can also contrast a BMW with its 14% sales and EBIT increase, supported by its robust Asian, UK and German sales - and Peugeot with over 8% of earnings contraction with its US, UK and emerging growth not sufficient to offset its depressing track record in Europe, as a result of its weak product mix. On the financials side, we are early in the reporting cycle with investment banks, Scandinavian and Spanish names having started to report so far. Profitability is taking a hit from challenging capital markets and on-going asset quality deterioration in Spain, but the impact on metrics is definitely contained as all major banks are reporting stronger capital ratios. Restructuration is taking place and is bending the whole business risk of the sector to a lower level, supportive for bondholders

Evolution of cash and synthetic indices

	28/09/2012	31/10/2012	Last Month Delta
ER00	158	139	-19
HE00 - High Yield	619	578	-41
EN00 - Corporate	125	108	-17
EBXS - Financial Senior	121	109	-12
EBSU - Financial Sub	493	436	-57
Euro Periphery Financial	403	374	-29
Euro Core Financial	166	145	-21
Euro Periphery Non-Financial	267	223	-44
Euro Core Non-Financial	99	84	-15
iTraxx Main	137	130	-7
iTraxx Financial Senior	206	176	-30
iTraxx Financial Sub	344	308	-37

Source: Bloomberg, as at 31/10/2012

Evolution of cash indices



Source: Bloomberg, as at 31/10/2012

Outperformers/Underperformers IG sectors

ASW Move	28/09/12	31/10/12	Total Variation
Tier 1	771	634	-137
Insurance JSUB	743	669	-74
Insurance SUB	450	406	-44
Lower Tier 2	408	366	-42
ER00 Index	158	139	-19
Technology	115	104	-11
Banking Senior	122	111	-11
Real Estate	136	126	-10
Healthcare	42	34	-8

Source: Bloomberg, as at 31/10/2012

Fund activity and performance

Our funds have remained tilted towards convergence trades, including both periphery to core and subordinated to senior convergence, and this has been quite profitable over the month, even if the trend has not been linear, but the volatility has been way lower than prior to the summer game-changing plan.

Typically, our overweights on Telefonica, Gas Natural, SNAM, Iberdrola and Atlantia did contribute to our outperformance, as did our calls on Gecina and Glencore and our subordinated calls on CNP, Axa, Generali and Swiss Life, as well as UK, Dutch and French banks. We used the primary market to add on peripheral names when it was offering additional premium, as well as on some of the rare new issues that came in the financial subordinated space, in particular the Allianz 30NC10.

We have used the opportunity to add carry and performance with our High Yield buckets, when allowed by our process, with Short Duration making full use of its budget at 5%, and Credit Plus hovering also around 15% along the month in High Yield positions, whilst we have started to take profit by the end of the month, on Portugal Telecom and EDP in particular, as well as on our indices overlays.

We have also reduced slightly our overall positioning on the financial senior bucket, as its attractiveness has reduced compared to the overall pure corporate universe. The premium compared to the corporate sector had peaked at 96bps a year ago, and has now fully normalized.

Portfolio Characteristics

	AWF Euro Credit Plus		AWF Euro Credit IG		AWF Euro Short Duration	
	Portfolio	Performance indicator*	Portfolio	Performance indicator*	Portfolio	Performance indicator*
NAV MEUR	434	-	377	-	1 280	-
Rating	BBB+	A-	BBB+	A-	BBB+	A-
Mod. Dur.	3,6	3,8	3,1	3,2	1,7	1,8
Spread Dur.	4,1	3,8	3,7	3,2	2,0	1,8
Yield TC	3,02%	2,19%	2,35%	2,01%	1,86%	1,61%
High Yield	3,94%				1,92%	

* EMU Corporate 1-10 Years for AWF Euro Credit Plus / EMU Corporates 1-7 Years for AWF Euro Credit IG / EMU Corporates 1-3 Years for AWF Euro Credit Short Duration

Source: Axa IM, as at 31/10/2012

Funds Performance

	YTD: 31/12/2011 - 31/10/2012			Since Inception ⁽¹⁾		
	Gross Performance	Performance Indicator*	Delta	Gross Performance	Performance Indicator*	Delta
AWF Euro Credit Plus I Share Class	13,37%	10,73%	+2,64%	116,59%	90,50%	+26,09%
Redex Share Class	10,76%	-				
AWF Euro Credit IG I Share Class	11,48%	9,51%	+1,97%	37,03%	30,80%	+6,23%
Redex Share Class	9,33%	-				
AWF Euro Credit Short Duration I Share Class	6,87%	6,16%	+0,71%	16,08%	14,75%	+1,33%

(1) Since 06/10/1999 for AWF Euro Credit Plus / Since 31/07/2008 for AWF Euro Credit IG / Since Strategy Change 31/07/2009 for AWF Euro Credit Short Duration

* EMU Corporate 1-10 Years for AWF Euro Credit Plus / EMU Corporates 1-7 Years for AWF Euro Credit IG / EMU Corporates 1-3 Years for AWF Euro Credit Short Duration

Performance indicator is given as a basis for comparison only. The fund has no benchmark. The figures provided relate to previous months or years and past performance is not a reliable indicator as to future performance*

Overweight/Underweight by Sector

	AWF Euro Credit Plus	AWF Euro Credit IG	AWF Euro Short Duration
	Active %	Active %	Active %
Financial Senior	-0,63%	0,44%	0,54%
Financial Sub	2,86%	1,06%	3,02%
Banking LT2	-0,09%	0,21%	-0,51%
Banking T1 / UT2	1,94%	0,41%	0,74%
Insurance SUB	1,02%	0,45%	2,79%
Cyclical	-4,33%	-5,04%	-6,67%
Non-Cyclical	-4,45%	-2,12%	0,11%

Source: Axa IM, as at 31/10/2012

Country Exposure

	AWF Euro Credit Plus	AWF Euro Credit IG	AWF Euro Credit Short Duration
Country	Active Weight	Active Weight	Active Weight
Portugal	0,00%	0,00%	0,00%
Ireland	0,60%	0,41%	-0,08%
Italy	3,40%	2,97%	3,26%
Greece	0,00%	0,00%	0,00%
Spain	2,42%	1,91%	2,57%
France	9,01%	4,33%	2,69%

Source: Axa IM, as at 31/10/2012

Outlook

Whilst China and the US have shown signs of improvement over the past few weeks, European economies are stagnating, whilst the structural changes emerging are slow to translate into any upward potential, whilst austerity and deleveraging are still acting as strong headwinds.

With Obama re-elected, Democrats holding the Senate, and Republicans retaining the House, both houses return to session next week and the sole focus of attention will be the fiscal cliff, the \$600bn of tax increases and spending cuts due to begin in January. The key item of division between the parties is whether to allow taxes on the highest earners (above \$250,000) to rise: Obama has said they should, the Republicans are implacably opposed arguing it will stifle job creation and entrepreneurship.

Whether Congress will be able to reach an agreement preventing the US from falling off the fiscal cliff remains an open question. The most likely – but far from certain – outcome is a deal in December that prevents most, but not all, of the gamut tax increases from taking place and defers the spending cuts. But only a few months' time can be bought; soon, most likely in February the US government will reach the debt limit, as it did in summer 2011 [Chart below]. A more comprehensive deal to tackle the fiscal cliff is likely to be sought as part of the process for the raising of the debt limit. In the background lurk the ratings agencies who have indicated that an inability by politicians to compromise is a threat to the rating of the US government.

Turning back to Europe, the recent ECB lending survey displays a further tightening of credit standards, quite a disappointment when one thinks of the very supportive policy set up orchestrated by the European authorities on that front. The capital markets are playing their role on that front instead, providing very attractive all in financing costs for corporates, a clear difference to the context in which the previous slowdown took place in 2008, where the liquidity constraints imposed by the banking system did accelerate the global slowdown. In addition, the credit metrics today are also way stronger than where they stood at the beginning of that same previous slowdown. The other side effect of that conservatism from banks is that it remains supportive for us from a bondholder perspective. This has been evidenced in the decision of UBS to restructure its fixed income business, Goldman Sachs questioning about its commodities business, Danske Bank substantial capital increase and the renewed issuance of loss-absorbing capital, both Lower Tier 2 and Contingent capital, all these strengthening the position of bondholders, whilst the behaviour of capital securities has been made clearer to all investors in light of recent call experiences.

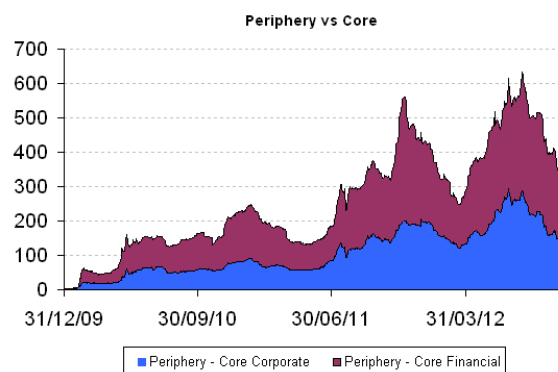
Sentiment is rather stable, having absorbed quite easily some disappointment on Spain progress towards a support plan and on the delays on the banking union, as well as its reduced scope. Patience may grow thinner on that front, but at that stage the ECB dissuasive weapon is still effective in not translating that pressure into markets. One can envisage different ways forward on that front, the route of the market pressure or the one of the political pressure. So far, the ECB has chosen the second one, on questioning the eligibility of some Spanish collateral, and our take is that this route would be the most favourable to our asset class volatility in the coming weeks.

Valuations are less attractive, but still commensurate with current and expected fundamentals, expressed both per unit or leverage for the corporates and per unit of capital for the banking sector. The periphery and subordinated premiums have contracted, but they are still elevated, and the success of the recent spate of periphery deals in our markets supports that analysis.

The balance between demand and supply is still supportive as market participants have added progressively to the asset class and are not yet at too extreme levels, whilst we would not expect to reach the high points of 2011. In that respect, we feel the financial sector is one where positions have been added most rapidly hence this supports our decision to lighten up on the financial senior bucket. We have also observed that most market participants have added very selectively on the peripheral issuers and that we are consequently far from over-crowded positions on that front. This supports our view that the volatility on that bucket is unlikely to rise substantially on that segment, whose technicals should remain quite balanced.

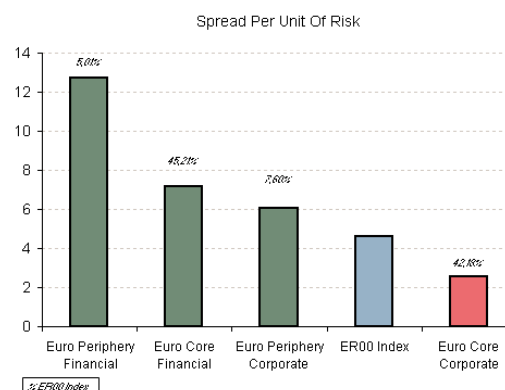
The current yields in the credit market are also commensurate for the level of growth and inflation we are expecting over the next few quarters, as well as the historical volatility of that asset class, evidenced at different points in the current cycle. As we indicated in our last perspective, the high level of spread as a percentage of yield in the current context was likely to mean further outperformance of credit, and this is what has materialized over the past month, and what is likely to continue.

Periphery vs Core



Source: Bloomberg, as at 31/10/2012

Spread per unit of risk (ASW / Duration*Rating)



Source: Bloomberg, as at 31/10/2012

Main characteristics

AXA WF Euro Credit Short Duration

Main characteristics

- Performance objective:
Short - to medium-term income and capital growth
- Recommended investment horizon: Minimum 18 months
- Investment zone: Essentially OECD
- Investment universe: Minimum two thirds corporate and government bonds denominated in euro

Share classes	A	E	I
Investor type	All	All	Institutionals
ISIN code C (EUR)	LU0251861766	LU02518622135	LU0227127643
ISIN code D (EUR)	LU0251861913	-	LU0227127728
Minimum initial subscription	None	None	5 000 000
Minimum subsequent subscription	None	None	1 000 000
Minimum holding - SICAV	None	None	None
Minimum holding - Sub-Fund	None	None	1 000 000
Maximum fixed management fees	0.65%	0.65%+0.40% ⁽²⁾	0.25%
Real fixed management fees	0.65%	0.65%+0.40% ⁽²⁾	0.25%
Maximum entry fee	3%	None	None
Maximum redemption fee	None	None	None

⁽²⁾ Distribution fees of 0.40%

Risk statement

Risk profile*

A B C D

- Risk of capital loss but limited to invested capital

Main specific risks**: Derivatives risk and leverage

Volatility scale*

1 2 3 4 5 6 7 8 9 10

Euro Credit Investment Grade

The fund's position on the volatility scale is linked to its investment universe and its performance objective

* Risk Profile: FBF grid, source: AXA IM Paris.
Volatility Scale: source and grid: AXA IM Paris
** Please refer to the prospectus for the comprehensive statements of risks.

AXA WF Euro Credit IG

Main characteristics

- Performance objective:
Mix of income and capital growth measured in euros
- Recommended investment horizon: Minimum 2 years
- Investment zone: Essentially OECD
- Investment universe: Minimum two thirds investment grade corporate and government bonds denominated in euros

Share classes	A	E	F	I	A Redex	F Redex	I Redex
Investor type	All	All	Institutionals	Institutionals	All	Institutionals	Institutionals
ISIN code C (EUR)	LU0361820812	LU0361831018	LU0361838963	LU0361845232	LU0503838814	LU0503838905	LU0503839036
ISIN code D (EUR)	-	-	-	LU0397279513	-	-	-
Minimum initial subscription	None	None	500 000	5 000 000	None	500 000	5 000 000
Minimum subsequent subscription	None	None	10 000	1 000 000	None	10 000	1 000 000
Minimum holding - SICAV	None	None	500 000	None	None	500 000	None
Minimum holding - Sub-Fund	None	None	10 000	1 000 000	None	10 000	1 000 000
Maximum fixed management fees	0.75%	0.75%+0.50% ⁽²⁾	0.50%	0.30%	0.75%+0.05% ⁽²⁾	0.50%+0.05% ⁽²⁾	0.30%+0.05% ⁽²⁾
Real fixed management fees	0.75%	0.75%+0.50% ⁽²⁾	0.50%	0.30%	0.75%+0.05% ⁽²⁾	0.50%+0.05% ⁽²⁾	0.30%+0.05% ⁽²⁾
Maximum entry fee	3%	None	2%	None	3%	2%	None
Maximum redemption fee	None	None	None	None	None	None	None

⁽²⁾ Financial fees linked to Redex activity of 0.05% - ⁽²⁾ Distribution fees of 0.50%

Risk statement

Risk profile*

A B C D

- Risk of capital loss but limited to invested capital

Main specific risks**: Derivatives risk and leverage, Redex share class risk factor relating to interest rate.

Volatility scale*

1 2 3 4 5 6 7 8 9 10

Euro Credit Investment Grade

The fund's position on the volatility scale is linked to its investment universe and its performance objective

AXA WF Euro Credit Plus

Main characteristics

- Performance objective:
Mix of income and capital growth measured in euros
- Recommended investment horizon: Minimum 3 years
- Investment zone: Essentially OECD
- Investment universe: Minimum two thirds corporate and government bonds denominated in euros. Maximum of 30% of the fund's net assets in sub-investment grade bonds

Share classes	A	E	F	I	A Redex	F Redex	I Redex
Investor type	All	All	Institutionals	Institutionals	All	Institutionals	Institutionals
ISIN code C (EUR)	LU0164100710	LU0189846529	LU0164100983	LU0164637923	LU0503838574	LU0503838657	LU0503838731
ISIN code D (EUR)	LU0164100801	-	LU0164101015	-	-	-	-
Minimum initial subscription	None	None	500 000	5 000 000	None	500 000	5 000 000
Minimum subsequent subscription	None	None	10 000	1 000 000	None	10 000	1 000 000
Minimum holding - SICAV	None	None	500 000	None	None	500 000	None
Minimum holding - Sub-Fund	None	None	10 000	1 000 000	None	10 000	1 000 000
Maximum fixed management fees	0.90%	0.90%+0.50% ⁽²⁾	0.50%	0.35%	0.90%+0.05% ⁽²⁾	0.50%+0.05% ⁽²⁾	0.35%+0.05% ⁽²⁾
Real fixed management fees	0.90%	0.90%+0.50% ⁽²⁾	0.50%	0.35%	0.90%+0.05% ⁽²⁾	0.50%+0.05% ⁽²⁾	0.35%+0.05% ⁽²⁾
Maximum entry fee	3%	None	2%	None	3%	2%	None
Maximum redemption fee	None	None	None	None	None	None	None

⁽²⁾ Financial fees linked to Redex activity of 0.05% - ⁽²⁾ Distribution fees of 0.50%

Risk statement

Risk profile*

A B C D

- Risk of capital loss but limited to invested capital

Main specific risks**: Risk linked to high yield debt securities; derivatives risk and leverage, Redex share class risk factor relating to interest rate.

Volatility scale*

1 2 3 4 5 6 7 8 9 10

Euro Credit Investment Grade and High Yield

The fund's position on the volatility scale is linked to its investment universe and its performance objective

Practical information**AWF Euro Credit Short Duration/ AXA WF Euro Credit IG/ AXA WF Euro Credit Plus**

Legal form: Sub-funds of AXA World Funds, a Luxembourg-based SICAV*

Reference currency: EUR

Type of share: Capitalisation and Distribution

Valuation: Daily

Subscription/Redemption: Forward price, daily (D) before 3:00 pm (CET)

Settlement: D+4 working days

Management company: AXA Funds Management SA**

Investment manager: AXA Investment Managers Paris

Custodian: State Street Bank Luxembourg

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