

AXA/Bernstein



- Risks:**
- **Likely to struggle when growth stocks in favour**
 - **High-conviction approach leads to substantial sector/country bets, increasing volatility**
 - **Maximum currency hedging limit of 30.0 percent means over two-thirds of the portfolio can be exposed to currency volatility**

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Morningstar Take

Bernstein's strategy remains one of our most-favoured global equities picks. Competitive edges like the stable team of proven value investors, the disciplined value strategy, and an impressive long-term track record at beating the market give us comfort that solid results should persist. Bernstein's key portfolio and stock decisions are powered by the collective wisdom of the 17-member Group of chief investment officers, directors of research, and senior portfolio managers. Boasting 19 years' average experience and average tenure of 11 years, the Group's supported by an equally-impressive army of over 70 analysts. Bernstein has been relatively successful at hiring, retaining, and developing its staff, a trait intrinsic to the firm's culture, and unlikely to erode away easily. Organised along global sector lines, and hired from the industry they study, Bernstein's analysts conduct rigorous analyses of drivers of company and industry performance, favouring cheaper stocks with longer-term earnings power. They also pinpoint catalysts likely to re-rate a stock. This approach has favoured firms like tech laggard Hewlett-Packard, whose fortunes Bernstein believes will turn around because of catalysts like management change and increases in corporate IT spend. Bernstein's long-term focus – which results in annual turnover of only about 30.0 percent – has over the years seen many contrarian bets come to fruition. In 1999 and 2000, Bernstein shunned the pricier tech, media, and telco sectors, while favouring overlooked energy, materials, and consumer staples stocks, a call that caused a lot of pain initially, but paid off handsomely following the tech wreck. (A similar strategy to this one has beaten the market by an impressive 3.80 percent per annum over the past 10 years, with key value-add coming from stock selection calls.) This style consistency gives us confidence that Bernstein's prepared to stick to its guns, rather than follow market fads, making this strategy a sound core global value pick.

Strategy/Process

Bernstein attempts to exploit the pricing inefficiencies created by investor overreaction and mean reversion of corporate earnings, through a relative value approach. The shop uses a quant return model which is based on measures like price/book, price/earnings, and price momentum to rank stocks relative to both their country and global industry peers. The most attractive (cheapest) 40.0 percent of stocks are then studied intensively by the firm's army of experienced analysts. Organised along global sector lines, these analysts conduct rigorous analyses of the drivers of company and industry performance, generating a five-year cashflow forecast to determine intrinsic value. They also identify catalysts likely to re-rate a stock's valuation. This approach has zeroed on stocks like tech laggard Hewlett-Packard, French carmaker Renault, and Dutch financial group ING Groep. Bernstein's long-term focus has over the years has seen many of the firm's contrarian bets come to fruition. Bernstein steered clear of richly-valued tech and media stocks in 1999 and 2000, for instance, while early detection of cyclical earnings upswings in industrial materials and energy stocks contributed handsomely to results over the last few years. Bernstein's experienced and most senior investors build portfolios of 100 - 140 stocks based on analyst earnings forecasts. Sector or country positions, which are by-products of stock selections, can be quite significant, and contribute to volatility when contrarian bets take longer to pan out.

Flagship Fund: Ws Global Equity - Value Fund

Investment Style 31 May 2005

Value	Blend	Growth			
Pr/Pros	Ern Rto	11.05			
Price/Book	Rto	1.60			
Price/Cf	Rto	5.86			
Lt Ern	Growth	9.68			
Mkt Cap	(\$Mil)	34,285			
Dividend	Yld %	2.73			

Stock Sectors 31 May 2005 %

Information Economy	12.45
Software	1.19
Hardware	5.21
Media	2.52
Telecommunications	3.53
Service Economy	46.30
Healthcare Services	3.48
Consumer Services	6.32
Business Services	2.12
Financial Services	34.38
Manufacturing Economy	41.24
Consumer Goods	9.62
Industrial Materials	17.07
Energy	12.73
Utilities	1.83

Top 10 Stock Holdings 31 May 2005 %

General Electric	2.20
Hewlett-Packard	2.16
Citigroup	2.12
Bank of America	1.85
BP PLC ADR	1.84
Altria Group	1.61
ING Groep	1.58
Renault	1.56
Fannie Mae	1.51
Sumitomo Mitsui Financial Grp	1.49

Top 5 World Regions 31 May 2005 %

North America	49.60
Europe Developed	20.62
Japan	11.02
United Kingdom	8.23
Asia Developed	7.30

Asset Allocation 30 Jun 2005 %

Int'l Equity	97.37
Domestic Equity	0.00
Cash	2.62
Other	0.00

Portfolio Stats

Benchmark: MSCI World ex-Australia
 No. Stocks: 100 - 140
 Max. Weight: Index + 5.0 %
 Min weight: 0
 Expd Track Error %: 4.0 - 6.0
 Expd Turnover %: 30.0

People Stats

Key Decision-Makers:
 Investment Policy Group
 Appointed: N.Ap
 Years Experience: 19.0 (average)
 Team Size: IPG: 17, Research: 72
 Average Years Experience: IPG: 19, Research: 14
 Average Years Tenure: IPG: 11, Research: 7

Hedging Strategy

Bernstein can hedge up to 30.0 percent of the portfolio's currency exposure from the \$A perspective. Any hedging decision is implemented to protect returns from currency fluctuations.

Role in Portfolio

Core. Bernstein's disciplined value, low-turnover approach has produced impressive results over the long term. The strategy also tends to stick with liquid large-cap value companies, and protects capital in falling markets.

People

Portfolio and stock selection decisions are backed by the collective wisdom of the 17-member Investment Policy Group ('IPG'). Comprising chief investment officers, directors of research, and senior portfolio managers, the IPG boasts an average industry experience of 19 years, and average tenure of 11. The IPG's success depends heavily on grassroots research conducted by 72 fundamental and quantitative analysts, charged with generating profitable insights. These analysts undertake fundamental research along global sector lines, and are hired from the industries they cover. Analysts can earn just as much in salary as portfolio managers. Over the years, Bernstein has been very successful at retaining and developing its highly-competitive and talented value investors. As this is intrinsic to the firm's culture, we think it's a real competitive advantage that's difficult to erode easily, and should continue to underpin the house's success.

Performance

AXA's Value Fund was one of the outstanding category performers over the one, two, and three years to 30 June 2005. While the pre-eminence of value-oriented stocks has boosted Bernstein's results over these periods, the long-term track record is equally impressive. A similar strategy to this one – Bernstein Global Value, which began in 1995 – has led the MSCI World Index by 3.80 percent per annum over the past 10 years. The firm's staunch value investing ethic does however mean that this strategy struggles when growth stocks lead the charge. A case in point was 1999 – 2000, when Bernstein fared extremely poorly, thanks to notable underweights in pricey tech, telco, and media stocks. Bernstein's decision to stick to its knitting paid off handsomely in the aftermath of the tech wreck, though. More recently, the house's overweight stakes in energy and industrial commodity stocks, and underweights in tech, medical equipment, and consumer cyclical firms have driven alpha. Stockpicks such as ConocoPhillips (a US energy concern) have been significant contributors. Further, results has also benefitted from bets on emerging markets companies, as well as the partial currency hedging.

Parent

AXA is one of the largest insurers in Europe. Bernstein was acquired in October 2000 by Alliance Capital Management L.P., a New York-listed company. Globally, Bernstein manages about \$US150.0 billion, of which about \$US60.0 billion is in global mandates.

Fees

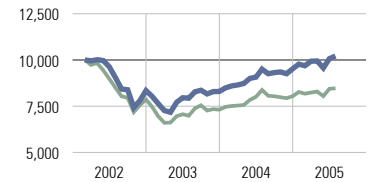
The Wholesale Value Fund's expense ratio checks in at one percent per annum, which is competitive relative to the peer average of 1.21 percent.

Top 5 Funds by Net Assets

	Ticker	Net Assets (\$Mil)	Quartile Rank 3yr	Total Ret 3yr
Ws Global Equity - Value Fund	7589	927.56	■	4.08
Gen-Berns Global Eq Value Fd	7588	41.34	■	2.94
FLS & CS - Bernstein Intl Shr	11661	--	NAv	--

Flagship Fund: Ws Global Equity - Value Fund

Performance 30 Jun 2005 Fund B'Mark
 Growth of \$10,000 **\$10,211**



	1yr	3yr	5yr	7yr
Quartile Rank	■	■	NAv	NAv
Total Ret	7.48	4.08	--	--
Income Ret	1.99	1.90	--	--
Growth Ret	5.49	2.17	--	--
Benchmark	1.07	-0.15	-6.23	-0.34

Performance Analysis 3 yrs to 30 June 2005

Value Add vs B'mark (%)	4.52
Tracking Error	3.95
Information Ratio	1.14

MPT Statistics 30 Jun 2005

	3yr	5yr	7yr
Beta	1.02	--	--
Alpha	4.47	--	--
R Squared	0.91	--	--
Sharpe Ratio	-0.11	--	--

Category Risk Meter (3 Year Std Deviation)

All figures and stats relate to the Flagship Fund, and all performance figures are shown as % / % per annum, net of fees.

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