Winter 2017

Recommended Funds

Your essential guide to the markets

internaxx

Welcome to the Quarterly Update
Winter 2017

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95% of our list delivered a positive return over the first 3 quarters of 2017.

Over one year, 60% of the recommended funds are in 1st & 2nd quartiles relative to peers.

Inside this issue:

Please note that none of the opinions we provide in this Outlook are a personal recommendation. Therefore, you should ensure that any investment decisions you make are suitable for your personal circumstances.

Long-term performance summary

In terms of the 41 funds on our Recommended Funds list with a five-year track record, only 4 funds have failed to generate a positive return over this time frame. The MSCI World index delivered an impressive return of 73.2% over this five year period which was exceed by 14 funds encompassing a comprehensive range of asset classes.

Over the five-year period to 30th September 2017, **Invesco Global Smaller Companies** led the charge with a return of 106.9%. A five-year investment in an additional two funds would have more than doubled the initial outlay, specifically **BGF World Healthscience** and **Fidelity World**. With regards to other outperformers, European and US funds continue to feature prominently in a group covering many sectors. These funds include **Jupiter European Growth, Schroder ISF EURO Equity, Henderson Horizon Global Technology, Allianz Europe Small Cap Equity, Fidelity American Growth** and **Candriam SRI Equity World**.

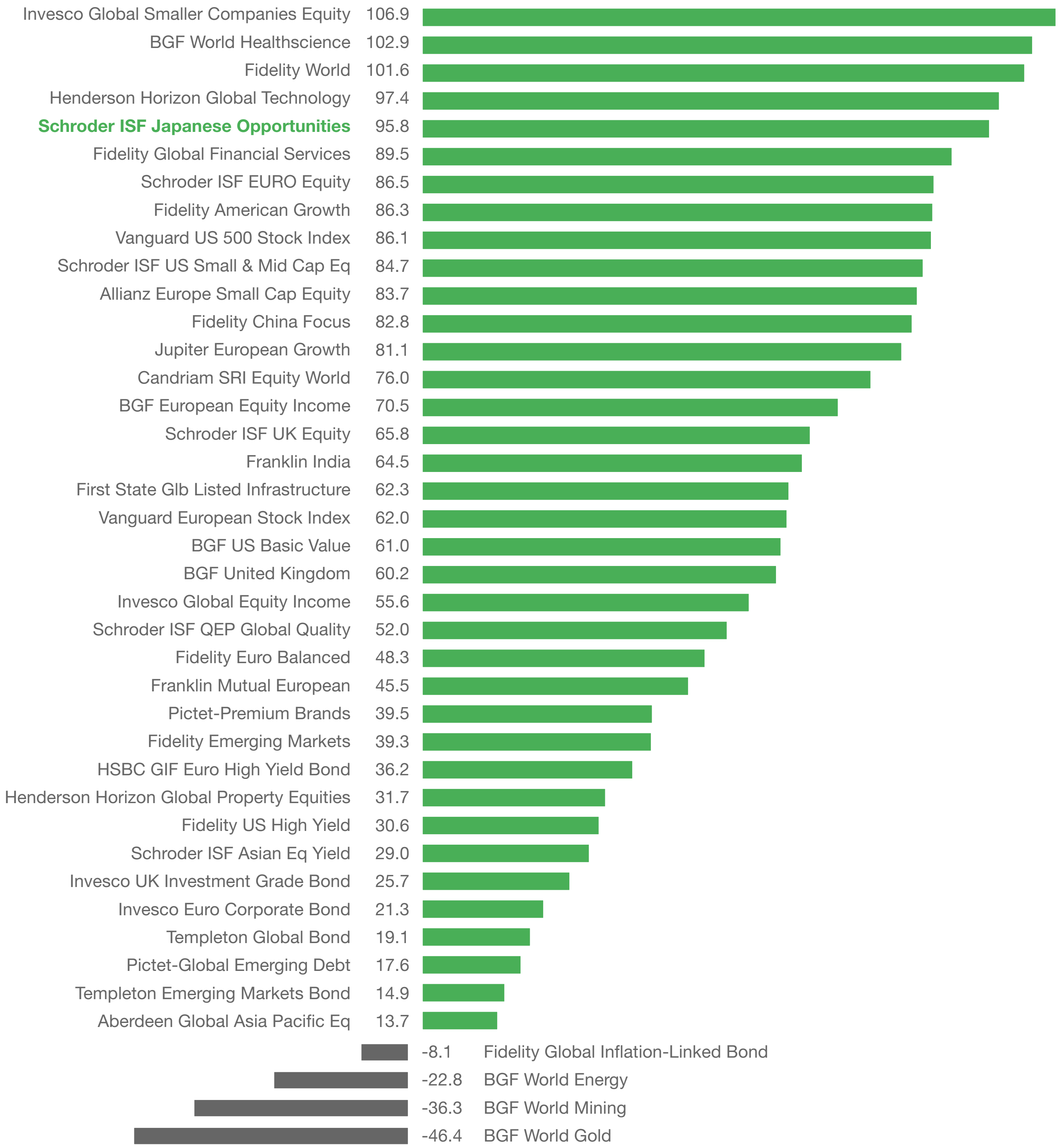
Remaining consistent with previous quarters, global funds continue to reward the long term investor. **Fidelity China Focus** also outperformed the benchmark, reflective of the decades-long, rapid economic expansion of this global powerhouse. Despite GDP growth hitting a 26-year low in 2016, the economy still grew at a very healthy 6.7%. As the Chinese economy continues its transition from manufacturing towards services, Beijing's ambitions of becoming the first global AI superpower will minimise US complacency. Funds focusing on more specialist sectors continue to feature amongst the winners, with healthscience and technology funds beating the benchmark over the five-year period.

BlackRock features prominently at the bottom of the list, with **BGF World Energy** and **BGF World Gold** now joined by **BGF World Mining**. The gold fund leads the losses with a negative five year return of 46.4%, followed by BGF's mining (-36.3%) and energy (-22.8%) offerings. Commodity prices have strengthened to some degree in 2017, with a tightening oil market providing further impetus. However, from a five-year performance perspective, the funds are still suffering from a recently depressed market. The Fed's tightening credit cycle may drive a further uptick in prices as commodity prices traditionally rally when the US enters a hiking phase. Headwinds could come in the form of increased US shale oil output and diminishing demand from China. The US-China trade standoff could provide support to gold if China starts to build its gold reserves. Geopolitical events such as US tensions with North Korea could further erode greenback strength and provide gold with some much-needed tailwinds. The fourth fund in negative territory over the five year term is **Fidelity Global Inflation Linked Bond** (-8.1%).

Global funds continue to reward the long term investor

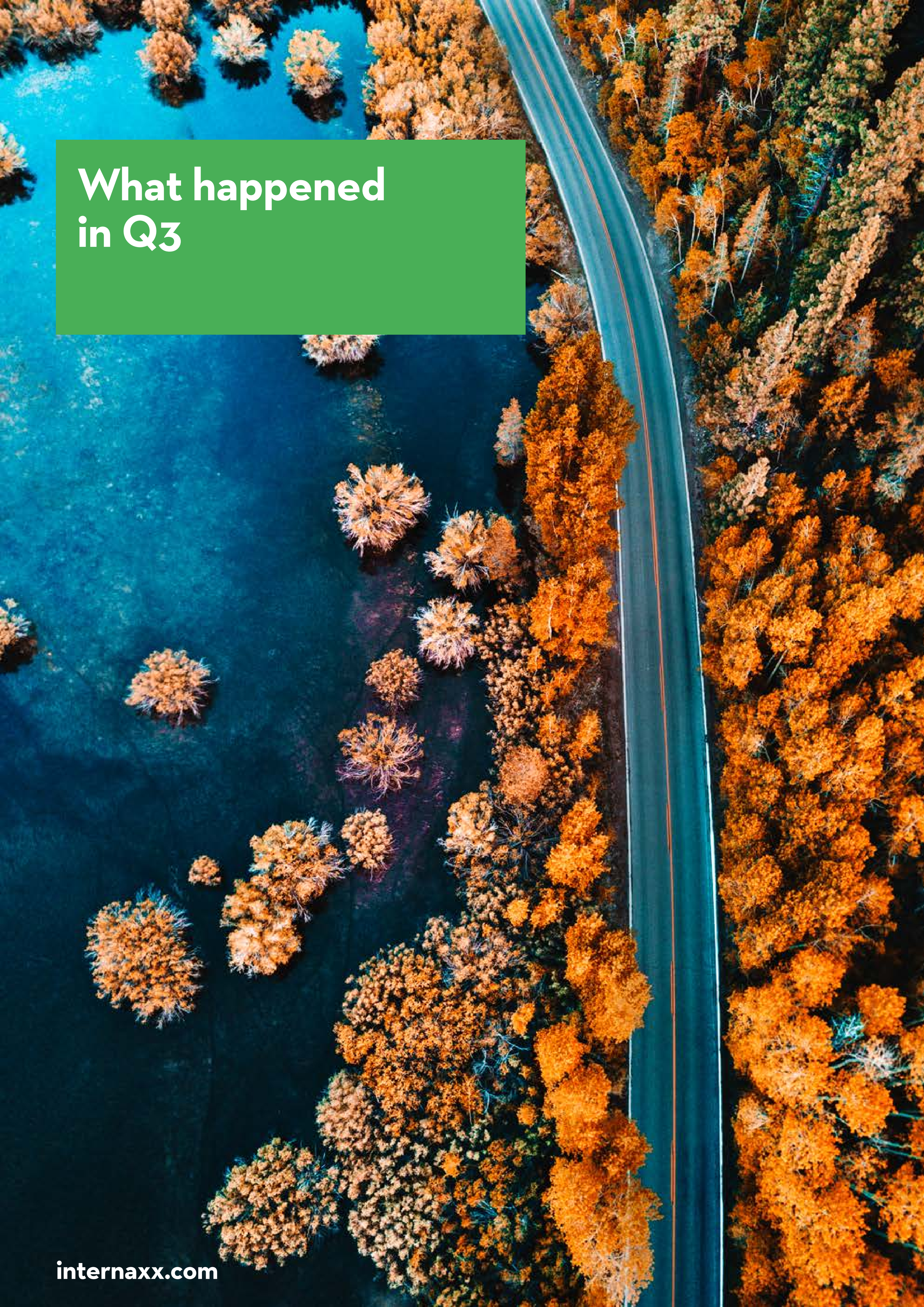
Long-term performance summary

Funds Performance over 5 years



Past performance is not a reliable indicator of future results
Source: Morningstar Direct as at 30th September 2017. Total returns in local currency.

What happened in Q3



What happened in Q3

EQUITY

US

US equities ended Q3 4.5% higher, underperforming the benchmark by 0.5%. The S&P 500 climbed 4% higher over the period, with 6 consecutive monthly gains cementing the longest bull run since 2013. Tech stocks drove the benchmark index to record highs with further tailwinds provided by the energy and materials sectors.

Europe

European equities consolidated their Q2 rally, moving 7.1% higher. The eurozone continues to be bolstered by buoyant GDP growth, a healthy labour market, loose monetary policy and a more positive global macro backdrop. Although the implications of Merkel's unconvincing victory are yet to be fully quantified, Macron's refreshing reform rhetoric provides further impetus to a surging equities market.

The euro ticked upwards against the greenback throughout the quarter, testing 1.20 resistance levels in September. Although the dollar staged a late recovery, the euro still finished Q3 4 cents higher at 1.18. The euro strengthened by 0.5% against the pound over the quarter despite a sterling rally.

UK

The UK market ended the quarter in positive territory despite Brexit headwinds, with the FTSE All Share delivering returns of 5.5% in USD terms. The FSTE 100's inverse correlation with sterling is a well-established Brexit effect, with the blue chip index exhibiting associated volatility over the quarter. After breaking through 7,500 resistance levels in early August, the FSTE 100 struggled and ended the quarter 0.8% higher at 7,372. Stalling profit warnings for banks and bearishness around 2018 miners' earnings dampened upwards momentum.

After touching 1.08 support levels in late August, sterling ticked upwards to test 1.14. Hawkish Bank of England comments and supportive inflation data drove the recovery.

Emerging Markets

EM outperformed over the quarter, strengthening by 7.7%. With the USD weakening by over 9% in trade-weighted terms this year, EM equities have gained a huge tailwind. EM IT equities have outperformed over Q3, gaining momentum from soaring Chinese internet stocks.

Asia Pacific

Asia Pacific equities performed strongly over the period, returning 1% more than the MSCI World Index (5%). A rebound in global trade and more optimism around China has supported the region's upturn.

FIXED INCOME

Fixed income continues to underwhelm with nearly all sub-sectors underperforming the benchmark. A more hawkish outlook on global monetary policy and a higher inflationary backdrop has weighed heavily on the asset class. Global high yield and European IG bonds were the bright spots, delivering returns in excess of 4%.

What happened in Q3

SPECIALIST

Commodities

Oil was the biggest winner in the third quarter, strengthening by over 20%. The volatile commodity enjoyed an upwards correction in Q3, reversing the previous quarter's losses of 9%. Brent Crude hit two-year highs of $59 a barrel in late September, driven by growing demand and geopolitical risk threatening Iraq's exports. Rebalancing continues as a tightening market finally reflects OPEC's efforts to reduce production.

Gold made some gains over the third quarter, delivering 3.5%. Price momentum has suffered from outflows following the Fed's tighter stance on monetary policy. Increased US political tensions with North Korea and greenback weakness provided respite to the beleaguered safe haven asset in September.

Energy

The energy sector also benefited from a tighter oil market, rallying by 9.3%.

Materials

The materials sector was another outperformer, delivering a positive return of 9%. Supportive US manufacturing KEIs and increased risk appetite have been key drivers. Congress approval of the Republican tax plan could see a re-emergence of the Trump Trade and healthier economic growth.

Financials

Financials rewarded investors over Q3 with gains of 5.5%, marginally above the return of the MSCI World Index (5%). US banks recovered some of their 2016 losses when ultra-loose monetary policy was expected to remain in place for much longer. Financials also delivered positive returns in the UK and Europe, with Japanese banks rebounding from the introduction of negative interest rates in early 2017.

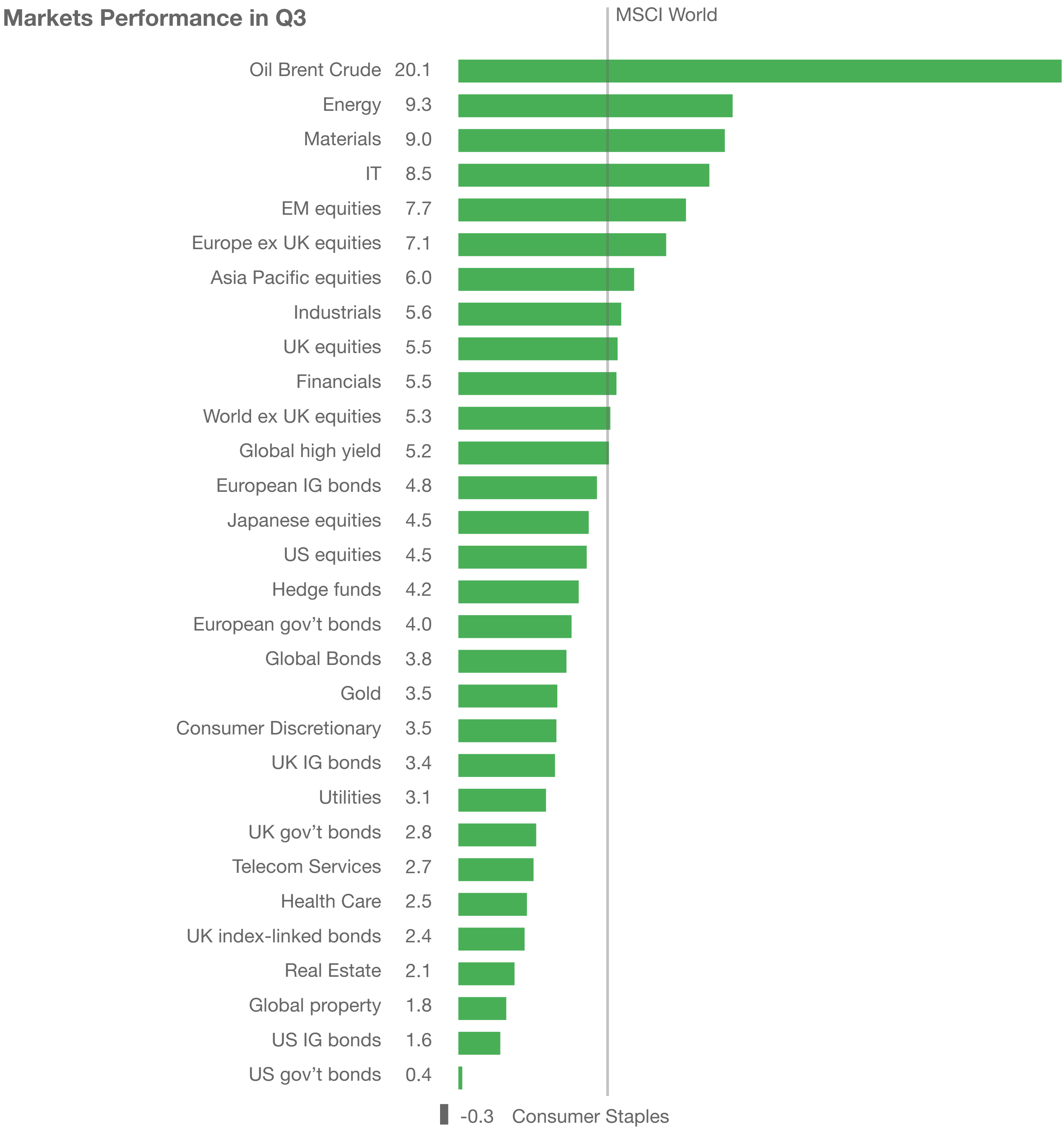
Consumer Staples

Consumer staples led the losses over Q3, weakening by 0.3%. The defensive sector is in transition, with growing competitive pressures driven by market globalisation and the widening reach of Amazon. Despite being overbought, growing investor bearishness is weighing heavily on some household names.

Real estate

Real estate and global property were amongst the biggest laggards, despite both sectors making slight gains in dollar terms. Globally, Chinese outflows have hit the sector hard as Beijing flexes its regulatory muscles.

What happened in Q3



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Source: Morningstar Direct as at 30th September 2017. Total returns in USD.

Highest & lowest returning funds

Over 90% of the funds on our Recommended List were in positive territory over the quarter with only 3 funds delivering a negative return.

The best performing fund over the quarter was **BGF World Mining**, the only recommendation to deliver a double-digit return over the period (14.7%). With 70% of its asset base invested in mining and metal companies, the fund has benefited from the rebound in commodity prices, rising corporate profits and the associated increase in dividend payouts. The fund has major exposure to UK blue chip mining stocks, with 4 of the top 10 holdings FTSE 100 constituents.

Fidelity Emerging Markets strengthened by 9.4%, securing second spot in the table. With a long term capital appreciation objective, the fund invests predominantly in countries characterised by significant economic growth. The fund is overweight in both Technology and Financial Services which represent approximately 50% of the fund's overall asset allocation. Both these sectors exceeded the benchmark's return over the quarter, with the fund gaining further from the strong performance of EM equities (7.7%). The fund has significant exposure to Asia Pacific, with 6 of the top 10 holdings coming from this region. Asia Pacific equities outperformed the benchmark by 1% over the quarter.

An additional 3 funds strengthened by over 8%, specifically **Fidelity China Focus, BGF World Energy** and **Henderson Horizon Global Technology**. The energy sector has enjoyed renewed momentum from a rebalancing oil market and tech is booming. As of the end of October, over 90% of S&P 500 tech companies with published Q3 results have exceeded EPS (earnings per share) estimates. The other funds to outperform the benchmark were **Invesco Global Smaller Companies, Fidelity American Growth** and **Invesco Global Equity Income**, all rewarding the investor with gains exceeding 5%.

Templeton Global Bond was the biggest laggard over the quarter, weakening by 2.1%. Higher inflation and rising interest rates weigh heavily on the fixed income sector. As a global reflationary backdrop gains momentum, the Fed's days of ultra-accommodative monetary policy are clearly over. The UK is expected to take its first tentative steps towards a tightening phase imminently and the market is pricing in a November rate hike. The sector as a whole continues to disappoint, with **Invesco UK Investment Grade Bond, Invesco Euro Corporate Bond** and **HSBC GIF Euro High Yield Bond** all failing to break the 1% return barrier over the period. Only **Templeton Emerging Markets Bond** delivered some semblance of a return over Q3 (2.9%) but still trailed the benchmark by over 2%.

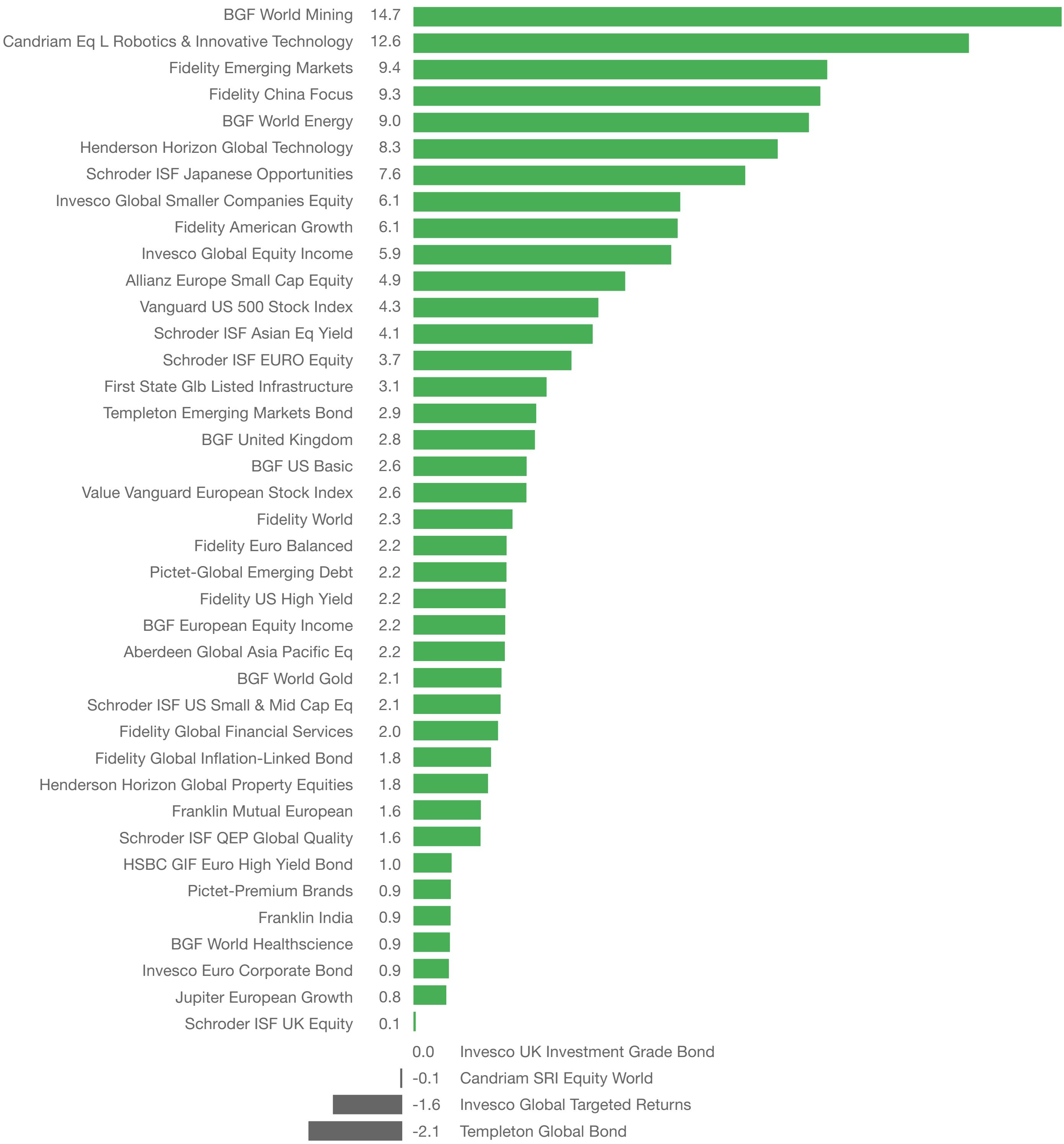
The other funds to make up the bottom 3 were **Invesco Global Targeted Return** (-1.6%) and **Candriam SRI Equity World** (-0.1%). Despite losing ground in Q3, a three year investment in the Invesco fund would have returned over 8%. Although it was flat over the quarter, the Candriam fund has delivered positive returns in 6 of the last 7 calendar years and remains on course for a similar outcome in 2017.

After being firmly rooted at the bottom of the table in Q2, **BGF World Gold's** quarterly return of 2.1% offered investors some respite. Increased geopolitical tensions and dollar weakness provided some upwards momentum for the precious metal in September.

Over 90% of the funds were in positive territory over the quarter

Highest & lowest returning funds

Funds Performance in Q3



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Source: Morningstar Direct as at 30th September 2017. Total returns in local currency.

What funds are you buying?

Jupiter European Growth and **Vanguard European Stock Index** were the most bought funds in terms of net subscriptions in the third quarter. European equity funds have been very popular among investors this year receiving high inflows as the economy continues to recover. **First State Global Listed Infrastructure fund** was on the third place. The fund invests in the shares of companies that are involved in infrastructure around the world with the aim to provide income and capital growth for investors. The managers believe that global infrastructure offer good diversification benefits versus global equities and other assets and provide a good hedge against inflation. Other funds which saw high net purchases over the quarter include **Vanguard US 500 Stock Index, Invesco UK Investment Grade Bond, Henderson Global Technology, Schroder UK Equity, HSBC Euro High Yield, Schroder EURO Equity** and **Fidelity Emerging Markets funds**.

In terms of number of trades, once again the most bought fund was **Vanguard US 500 Stock Index.** The second most popular fund was **Franklin India**. The fund is run by very experienced manager Sukumar Rajah, who invest in high-quality companies that can achieve sustainable growth over time. The fund is one of the strong choices for Indian equity exposure.

Top Traded Funds
Net Buy and Sell trades

1	Vanguard US 500 Stock Index
2	Franklin India
3	Vanguard European Stock Index
4	Jupiter Global Fund European Growth
5	BlackRock Global Funds World Healthscience
6	Fidelity Funds Emerging Markets
7	Schroder ISF UK Equity
8	Henderson Horizon Fund Global Property Equities
9	First State Global Listed Infrastructure
10	Henderson Horizon Fund Global Technology

Top Traded Funds
Net subscriptions

1	Jupiter Global Fund European Growth
2	Vanguard European Stock Index
3	First State Global Listed Infrastructure
4	Vanguard US 500 Stock Index
5	Invesco Funds UK Investment Grade Bond
6	Henderson Horizon Fund Global Technology
7	Schroder ISF UK Equity
8	HSBC GIF Euro High Yield Bond
9	Schroder ISF Euro Equity
10	Fidelity Funds Emerging Markets

Changes to the Recommended Funds list

Morningstar Rating Changes

Franklin Mutual European
Downgraded from Silver to Bronze

Bronze

The fund manager Philippe Brugère-Trélat, who has successfully managed this strategy since 2005, will retire and step down from the fund on May 1, 2018. Katrina Dudley, who has been the fund's official co-manager since 2007, will take over and provide continuity. She is well-versed in Mutual Series' management style, having joined the firm in 2002. Therefore, no changes are expected to the fund's distinctive value-driven approach. Starting from January 2018, Mandana Hormozi will co-manage the fund with Dudley. Their collaboration is untested but Hormozi has also been with the firm for more than 10 years. The duo is well positioned to succeed in their roles, given the good long-term track record of the strategy and the backing they receive from the well-resourced and experienced team at Franklin Mutual Series. However, the pending retirement of Brugère-Trélat should be given due consideration. Consequently, a Morningstar Analyst Rating of Bronze best reflects the current view on the fund.

Vanguard US 500 Stock Index
Newly rated as Gold

Gold

This fund tracks the S&P 500, a market-cap weighted US large-cap equity index. The fund's fee of 0.06% is one of the lowest amongst all S&P 500 index funds and ETFs. A soundly constructed and reasonably representative portfolio leave the fund well-positioned to continue its trend of producing superior risk-adjusted returns relative to its peers over the long haul, and underpins its Morningstar Analyst Rating of Gold.

Fund additions

Schroder ISF Japanese Opportunities

Risk Rating	Morningstar Analyst Rating	YTD Return	5Y Return	Ongoing Charge	Performance Fee
5	Bronze	21.4%	95.8%	1.85%	0%

The fund seeks to provide investors with capital growth by investing in all cap Japanese companies with undervalued long-term earnings growth. It is managed by the well-respected Ken Maeda, ably supported by an experienced analyst team. The fund manager focuses on valuation and prefers companies that can achieve long-term earnings growth and sustain a strong balance sheet, given the long-term investment horizon. He looks for contrarian opportunities in turn-around situations where companies can improve returns from depressed levels. The fund adopts a disciplined investment process, driven by the bottom up fundamental research undertaken by Schroders' locally-based analysts and Ken Maeda. Stocks are broadly classified into three categories: stable growth, overlooked quality, and recovery stocks. Since a mandate change in April 2012, increased flexibility allows investment across all market-cap tiers but the fund has maintained a significant overweighting in small-cap stocks in recent years. The fund has delivered excellent returns since it changed its strategy, outperforming its benchmark TOPIX Index and its peers.

Why buy this fund?

Japan is the world's third-largest economy and home to some impressive equity market performances this year, with the Nikkei hitting 21-year highs. Despite disappointing economic growth, the Japanese stock market still offers plenty of opportunities for investors. Following an extension of monetary easing by the Bank of Japan, economic growth is picking up and Abenomics reforms are encouraging companies to prioritise shareholders with share buybacks, dividend increases and M&A activity. The Schroder ISF Japanese Opportunities fund is well-positioned to benefit from this favourable environment and offers investors a core all-cap Japanese equity exposure.

Fund additions

Candriam Equities L Robotics & Innovative Technology

Risk Rating	Morningstar Analyst Rating	YTD Return	5Y Return	Ongoing Charge	Performance Fee
5	-	22.4%	-	1.80%	0%

The fund's objective is to enable investors to benefit from the structural growth of robotics, automation and innovative technology such as AI, virtual reality, and smart factories. The fund is managed by the highly experienced Johan Van der Biest, managing the Technology Equity process since its inception in May 1997. This process was put in place as a Belgian-registered fund in 1997 and was re-defined as Robotics and Innovative Technology in December 2016, with the Luxembourg-registered fund launched in March 2017. The investment process is a bottom-up fundamental equity selection of companies which offer disruptive technologies. The manager has constructed a high-conviction portfolio of 30 to 50 equities, using a Sharpe optimization process to balance expected returns and risk without a set benchmark.

Why buy this fund?

According to Van der Biest, the fund is well positioned to tap into Moore's Law, which predicts technological growth will continue at an exponential rate of expansion as we enter the 'Fourth Industrial Revolution'. Key themes include Big Data, cloud computing, virtual reality, 5G technology, the Internet of Things, advanced robotics and programmatic advertising.

Recommended Funds - Winter 2017

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		Fund	Risk Rating	Morningstar Analyst Rating	Morningstar Star Rating	YTD Return	5Y Return
EQUITY							
Global	**Growth**	Fidelity Funds World	5	/	★★★★	5.3%	101.6%
	Income	Invesco Funds Global Equity Income	5	/	★★★	17.7%	55.6%
	Blend	Schroder ISF QEP Global Quality	5	Bronze	★★★	10.6%	52.0%
	Small Cap	Invesco Funds Global Smaller Companies Equity	5	/	★★★★	21.3%	106.9%
US	**Growth**	Fidelity Funds American Growth	5	Neutral	★★	16.0%	86.3%
	Value	BlackRock Global Funds US Basic Value	5	Neutral	★★	1.0%	61.0%
	Blend	Vanguard US 500 Stock Index	5	/	★★★★	13.5%	86.1%
	Small Cap	Schroder ISF US Small & Mid Cap Equity	5	Silver	★★★★	8.3%	84.7%
Europe	**Growth**	Schroder ISF Euro Equity	5	Silver	★★★★★	15.3%	86.5%
	Growth	Jupiter Global Fund European Growth	5	Gold	★★★★	15.8%	81.1%
	Value	Franklin Mutual European	5	Silver	★★★	6.0%	45.5%
	Income	BlackRock Global Funds European Equity Income	5	Bronze	★★★★★	10.1%	70.5%
	Blend	Vanguard European Stock Index	5	/	★★★★	9.7%	62.0%
	Small Cap	Allianz Europe Small Cap Equity	5	Bronze	★★	13.3%	83.7%
UK	**Blend**	Schroder ISF UK Equity	5	/	★★★	5.4%	65.8%
	Blend	BlackRock Global Funds United Kingdom	5	Bronze	★★★	9.4%	60.2%
Asia	**Growth**	Aberdeen Global Asia Pacific Equity	5	Bronze	★★★	24.3%	13.7%
	Income	Schroder ISF Asian Equity Yield	5	Silver	★★★★	21.7%	29.0%
Japan	**Blend**	Schroder ISF Japanese Opportunities **NEW**	5	Bronze	/	21.4%	95.8%
Emerging Markets	**Growth**	Fidelity Funds Emerging Markets	5	Bronze	★★★★	32.9%	39.3%
	Growth	Franklin India	6	Silver	★★★★	24.0%	64.5%
	Value	Fidelity Funds China Focus	6	Bronze	★★★★★	32.0%	82.8%
FIXED INCOME							
Global	**Global Bond**	Templeton Global Bond	5	Silver	★★★★	-7.2%	19.1%
	Inflation Linked	Fidelity Funds Global Inflation-linked Bond	4	Bronze	★★	11.2%	14.9%
USD	**High Yield**	Fidelity Funds US High Yield	4	Bronze	★★★★	6.3%	17.6%
EUR	**Corporate Bond**	Invesco Funds Euro Corporate Bond	3	Neutral	★★★★	4.7%	-8.1%
	High Yield	HSBC GIF Euro High Yield Bond	3	Silver	★★★★	7.0%	30.6%
UK	**Investment Grade**	Invesco Funds UK Investment Grade Bond	3	Silver	★★★	2.7%	21.3%
Emerging Markets		Templeton Emerging Markets Bond	3	Silver	★★★	4.2%	36.2%
		Pictet Global Emerging Debt	4	/	★★★★	1.0%	25.7%
SPECIALIST							
Property	**Indirect**	Henderson Horizon Global Property Equities	5	/	★★★	8.7%	31.7%
Sector	**Technology**	Henderson Horizon Global Technology	5	Neutral	★★★★	32.6%	97.4%
		Candriam Equities L Robotics & Innovative Technology **NEW**	5	/	/	22.4%	/
	Financial	Fidelity Funds Global Financial Services	6	Bronze	★★★★	4.3%	89.5%
	Energy	BlackRock Global Funds World Energy	6	Bronze	★★	-7.3%	-22.8%
	Healthcare	BlackRock Global Funds World Healthscience	5	/	★★★★★	18.9%	102.9%
	Luxury Brands	Pictet Premium Brands	5	Bronze	★★	11.3%	39.3%
	Infrastructure	First State Global Listed Infrastructure	5	Bronze	★★★★	16.9%	62.3%
	Natural Resources	BlackRock Global Funds World Mining	7	Silver	★★	17.1%	-36.3%
	Gold	BlackRock Global Funds World Gold	7	Gold	★★★★	3.1%	-46.4%
	Ethical	Candriam SRI Equity World	5	/	★★★	0.2%	76.0%
Multi Asset		Fidelity Funds Euro Balanced	4	Bronze	★★★★	7.2%	48.3%
		Invesco Funds Global Targeted Returns	3	/	-	0.2%	/

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