Quarterly Commentaries

Q4 - 2016

EXCEL FUNDS

The Authority | in Emerging Markets™

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Market Synopsis

The last quarter of 2016 was eventful, marked with important central bank meetings and political occurrences in both the developed ("DM") and emerging ("EM") markets.

The fourth quarter of 2016 can be divided into two distinct periods: Pre-U.S. Presidential election and post-election. Prior to the U.S. election, EM equities were outperforming U.S. and world equities because of compelling valuations and stronger growth expectations. With the surprising victory by Donald Trump, U.S. and global equity markets initially sold off before U.S. markets rallied as investors focused on the "pro-growth" message of his election night speech. From November 8th to the end of 2016, U.S. equities and the U.S. dollar staged a strong rally driven predominantly by cyclical industrials and financials and global investors rotated back into the U.S. from other geographies. Excel Investment Counsel Inc. (the "Portfolio Manager"), the portfolio manager to the Excel EM Blue Chip Balanced Fund (the "Fund"), shares the view of an improving U.S. economic outlook and believes that the equity market and the USD have priced in too optimistic of an outlook.

The bond market was impacted by several meaningful central bank policy shifts. In the Eurozone, the European Central Bank surprised markets by announcing reduction of the monthly bond purchases program while extending the deadline. Despite a slight tightening of monetary policy, German bund yields fell. The pace of Eurozone growth remained reasonably strong, assisted by strong manufacturing numbers from Germany and France. In the U.S., the Federal Reserve raised rates by 25 basis points to 50 basis points, citing an accelerating economic growth and expectations of reduced unemployment rates. In addition, it signaled that the pace of rate hikes could quicken, although economists remained split on how this increased pace would look in terms of timing. In EM, there was also policy divergence. The BanRep in Colombia and Central Bank of Mexico both surprised markets by unexpectedly cutting rates (first cut after more than 3% of tightening since mid-2015) and by hiking its policy rate by 0.5%. Other key central bank meetings were less impactful, with both the Central Bank of Turkey and the Central Bank of Russia leaving their policy rates on hold, when at the same time, Russia and Turkey worked together on a ceasefire resolution in Syria.

Current Positioning and Outlook

The Fund is invested in the Excel High Income Fund and Excel Emerging Markets Fund (the "Underlying Funds") that provided exposure to emerging market fixed income and emerging market equities, respectively.

In December, EM bonds generally enjoyed a rebound, as the initial shock of the Trump election victory and worries of the impact his policies in November faded. EM currencies, such as the Brazilian real and the Russian Ruble, performed well. However, Asian currencies linked to China performed poorly due to ongoing uncertainty about the kind of trade relationship the U.S. and China will likely have on the back of a Trump presidency.

Amundi S.A. and Amundi Canada Inc. (collectively, "Amundi"), the Excel High Income Fund's Sub-Advisers, remain overweight EM hard currency debt as at year end. The fundamental and technical metrics for EM countries debt assets have improved, especially hard currency EM bonds. The intra-EM asset allocation remains unchanged. In December, Amundi did not make any significant changes to the Excel High Income Fund's portfolio but instead reinvested part of the cash raised immediately post-U.S. elections and reduced its underweight on Poland and Turkey. On the FX side, the Fund remains short EM currencies versus USD but increased its long positions in the Russian ruble and the Indonesian Rupiah. The Fund increased in parallel the short position on the Korean won and initiated a long Turkish lira vs. the South African rand. Amundi remain mindful on new developments and will actively position accordingly.

Regionally, the Fund's equity overweight in Brazil, Peru and Russia, as well as an underweight in China, contributed to performance. Conversely, the Fund's overweight position in Indonesia and Philippines detracted from performance. The strongest sector contributors were technology and financials. The main sectors that detracted from performance were utilities and consumer staples. Individual stocks contributing to performance included Suzano Papel (Brazilian pulp & paper producer), Lukoil OAO (Russian oil producer), Sberbank (Russia's largest bank) and Ternium (Latin American steel producer). Individual holdings that detracted from performance included LG Household and Health (Korean household and beauty products company), Korea Electric Power (Korea's largest utility) and AIA Group (Asia's largest life insurance).

Looking forward, the Portfolio Manager continues to expect stronger growth in EM countries versus developed countries, led by acceleration in India, improving outlooks in Latin America and Russia. There is also a renewed commitment to pursuing economic and structural reforms in many EM countries such as India, Brazil, Peru, Argentina and Saudi Arabia to achieve a more sustainable economic growth trajectory.

Market Synopsis

During the fourth quarter of 2016, the MSCI India Index was down 5.7% and interest rates on the 10-year government benchmark bond fell approximately 30 basis points to 6.5%. The Indian markets remained under pressure amid concerns of the impact of the demonetization of high value notes (INR 500 & INR 1000). The purpose of demonetization was to encourage and increase the use of digital payment mechanisms, eliminate black money and formalize the tax process in anticipation of the impending GST reform. Both the demonetization and GST (which is expected to rollout in second half of fiscal year 2018) should be immensely beneficial to India's economic growth in the long run as they will widen the tax net, increase tax compliance, increase banking related service and allow more businesses to be move into organized segments.

During the fourth quarter of 2016, energy, information technology and utilities sectors outperformed, while healthcare, materials and financials sectors underperformed. The market reversed some of the losses in the last week on expectations of an accommodative policy from the government.

Despite falling by roughly 125 basis points in 2016, current macro-economic conditions suggest that there may be some more room to lower rates.

Current Position and Outlook

Post U.S. elections, outflows have stemmed from emerging markets to developed markets. In the case of India, demonetization coincided with the unexpected U.S. presidential election results. The combination of these two events contributed to short-term underperformance of the Indian market.

Over two months have passed since Prime Minister Modi eliminated the old high-denomination currency notes. The resulting liquidity crunches impacted consumption related demand and the Excel India Balanced Fund's (the "Fund") sub-adviser, Aditya Birla Sun Life Asset Management Company Pte. Ltd. (the "Sub-Adviser") believes this will continue for the next 2-3 quarters, causing a slowdown in economic growth in the near term.

Based on their dependence on cash transactions and overall operating leverage, different sectors will be impacted in varying proportions. Among the Nifty companies, companies in sectors such as IT, pharma, oil and gas and power (43% of the index by weight) should not be impacted. Companies in fast-moving consumer goods, autos and financials (53% of the index) may be impacted for less than two quarters, while companies in cement and paints (4% of the index) may see an impact for more than two quarters. Some export oriented sectors and B2B segments are not affected at all.

At the end of the fourth quarter, the duration for the fixed income component of the Fund was 4.4 years versus the benchmark, which was at 5.4 years. Although the Fund's portfolio benefited from having a relative shorter duration, the Sub-Adviser believes it will be beneficial to increase the Fund's portfolio duration in the coming months.

The Indian equity markets are in a consolidation phase due to the above-mentioned reforms. The Sub-Adviser believes that the next six months will be a good time to increase exposure to India. In the next 2-3 quarters, macro data and company results will be awash but will stabilize during the second quarter, as earnings recover. The Sub-Adviser maintains a constructive view on Indian equities. Over the medium and long run, demonetisation and the GST reform are positive developments that will assist India's tax to GDP ratio and as such provide a large funding source for the government to spend on infrastructure developments. The Sub-Adviser believes that 2017 will see lower bond yields and fixed deposit rates, falling real estate and gold prices. Valuations are reasonable and the base for sustained earnings growth is being set up.

Market Synopsis

During the quarter ending December 31, 2016, the Excel Billionaire Leaders Fund, Series A (the "Fund") returned -1.1%, in Canadian dollar terms. This compares to 4.6% for the MSCI World Index.

The fourth quarter was dominated by the build-up to the presidential election and subsequent victory of Donald Trump and the Republicans, wining both the Senate and the Congress. Trump's plans to cut taxes, boost infrastructure spending and reduce regulations were seen as positive for domestic growth. The market reached new highs as it looked past the possible negative implications of the new government, including the risk of a rise in protectionist trade policies. The sharp increase in the U.S. equity market was driven primarily by financials and industrials while technology and consumer staples were the main laggards. In December, the Federal Open Market Committee raised interest rates for the first time in over a year and signaled that there will be potentially two to three increases in 2017.

Eurozone equities were stronger over the quarter and the period was marked by a rotation away from the more defensive sectors and towards value areas of the market that are beneficiaries of rising bond yields. This rotation picked up momentum after the U.S. presidential election victory for Donald Trump in November. On the international political front, Italy saw a change of prime minister with Matteo Renzi resigning, after losing a referendum on constitutional change. In Spain, Mariano Rajoy was elected for a second term as prime minister after ten months of deadlock following inconclusive elections. The European Central Bank extended its quantitative easing programme to December, 2017 but cut monthly bond purchases to €60 billion.

The fourth quarter started off on a negative note for the British Pound as it fell sharply in early October following the Prime Minister's rhetoric concerning a "hard Brexit" at the Conservative Party conference. It did however subsequently recoup some of its losses after the Bank of England upgraded UK growth projections and the High Court ruled parliamentary approval was required to start the EU exit process.

The overall rise in the Japanese equity markets during the quarter where partially offset by sharp drops in the Japanese yen in November and December. Asia ex Japan equities and emerging markets in general fell in the last quarter of 2016, as US Treasury yields rose sharply because of Donald Trump's surprise victory and in light of increased expectations of a faster U.S. interest rate hikes.

Market Outlook

As at the end of the quarter, the Fund is overweighed in consumer discretionary, energy, and information technology and underweighted in consumer staples, industrials, real estate, telecom, and utilities.

The global upswing looks set to run into 2017 as ongoing economic improvement is bolstered by proactive fiscal policies and accommodating monetary policy. The three key unknowns going into 2017, all of which will have an impact on global markets, are the:

- First hundred days for the new U.S. President;
- Key elections in France, Germany and the Netherlands; and
- The shift from monetary to fiscal policies in the U.S. and Europe.

Donald Trump won the U.S. Presidential election based on a platform of "America first" which could have significant global ramifications. Currently, President Trump's policy proposals lack detail and unfortunately clarity will only emerge in the coming months as he establishes his relationship with the Republican controlled Congress. Trump's policy proposals of higher tariffs on trade, curbing illegal immigration, increased federal stimulus and tax cuts for corporations and the wealthy, are likely to provide a quick short-term boost to the U.S. economy. How these policies will influence the global economy could range from moderate to severe depending on the whether Congress can rein in Trump's campaign rhetoric.

The Eurozone's growth should be moderate, as supportive monetary policy, an improving labor market and a less austere fiscal stances fuel economic momentum. However, there will continue to be heightened political risks in the Eurozone as the rising support for populist parties in 2016 in the UK and Italian referendums is projected onto key Presidential and lower house elections in France, Germany and the Netherlands. A possible victory for populist parties such as the pro "Fraxit" National Front in France would represent a major disruption for Eurozone financial markets. Victory for the establishment parties in these countries will provide a more stable political atmosphere, but any misstep could result in major disruption to financial markets, not just in Europe but on a global basis.

On the interest rate front, it is anticipated that the U.S. Federal Reserve is likely to pursue a somewhat dovish tightening cycle during 2017 potentially raising rates once if not twice. Outside of the U.S., additional monetary stimulus will possibly be implemented as the European Central Bank and Bank of Japan add to the quantitative easing implemented in 2016.

Market Synopsis

During the quarter ending December 31, 2016, the Excel Blue Chip Equity Fund, Series A (the "Fund") returned -.52%, in Canadian dollar terms. This compares to 4.6% for the MSCI World Index.

The fourth quarter was dominated by the build-up to the presidential election and subsequent victory of Donald Trump and the Republicans, wining both the Senate and the Congress. Trump's plans to cut taxes, boost infrastructure spending and reduce regulations were seen as positive for domestic growth. The market reached new highs as it looked past the possible negative implications of the new government, including the risk of a rise in protectionist trade policies. The sharp increase in the U.S. equity market was driven primarily by financials and industrials while technology and consumer staples were the main laggards. In December, the Federal Open Market Committee raised interest rates for the first time in over a year and signaled that there will be potentially two to three increases in 2017.

Eurozone equities were stronger over the quarter and the period was marked by a rotation away from the more defensive sectors and towards value areas of the market that are beneficiaries of rising bond yields. This rotation picked up momentum after the U.S. presidential election victory for Donald Trump in November. On the international political front, Italy saw a change of prime minister with Matteo Renzi resigning, after losing a referendum on constitutional change. In Spain, Mariano Rajoy was elected for a second term as prime minister after ten months of deadlock following inconclusive elections. The European Central Bank extended its quantitative easing programme to December, 2017 but cut monthly bond purchases to €60 billion.

The fourth quarter started off on a negative note for the British Pound as it fell sharply in early October following the Prime Minister's rhetoric concerning a "hard Brexit" at the Conservative Party conference. It did however subsequently recoup some of its losses after the Bank of England upgraded UK growth projections and the High Court ruled parliamentary approval was required to start the EU exit process.

The overall rise in the Japanese equity markets during the quarter where partially offset by sharp drops in the Japanese yen in November and December. Asia ex Japan equities and emerging markets in general fell in the last quarter of 2016, as US Treasury yields rose sharply because of Donald Trump's surprise victory and in light of increased expectations of a faster U.S. interest rate hikes.

Market Outlook

As at the end of the quarter, the Fund is overweighed in consumer discretionary, energy, and information technology and underweighted in consumer staples, industrials, real estate, telecom, and utilities.

The global upswing looks set to run into 2017 as ongoing economic improvement is bolstered by proactive fiscal policies and accommodating monetary policy. The three key unknowns going into 2017, all of which will have an impact on global markets, are the:

- First hundred days for the new U.S. President;
- Key elections in France, Germany and the Netherlands; and
- The shift from monetary to fiscal policies in the U.S. and Europe.

Donald Trump won the U.S. Presidential election based on a platform of "America first" which could have significant global ramifications. Currently, President Trump's policy proposals lack detail and unfortunately clarity will only emerge in the coming months as he establishes his relationship with the Republican controlled Congress. Trump's policy proposals of higher tariffs on trade, curbing illegal immigration, increased federal stimulus and tax cuts for corporations and the wealthy, are likely to provide a quick short-term boost to the U.S. economy. How these policies will influence the global economy could range from moderate to severe depending on the whether Congress can rein in Trump's campaign rhetoric.

The Eurozone's growth should be moderate, as supportive monetary policy, an improving labor market and a less austere fiscal stances fuel economic momentum. However, there will continue to be heightened political risks in the Eurozone as the rising support for populist parties in 2016 in the UK and Italian referendums is projected onto key Presidential and lower house elections in France, Germany and the Netherlands. A possible victory for populist parties such as the pro "Fraxit" National Front in France would represent a major disruption for Eurozone financial markets. Victory for the establishment parties in these countries will provide a more stable political atmosphere, but any misstep could result in major disruption to financial markets, not just in Europe but on a global basis.

On the interest rate front, it is anticipated that the U.S. Federal Reserve is likely to pursue a somewhat dovish tightening cycle during 2017 potentially raising rates once if not twice. Outside of the U.S., additional monetary stimulus will possibly be implemented as the European Central Bank and Bank of Japan add to the quantitative easing implemented in 2016.

Market Synopsis

The last quarter of 2016 was eventful with important central bank meetings and impactful political events in the developed markets ("DM") and emerging markets ("EM"). In the U.S., the global market was initially shocked by Donald Trump's victory in the presidential race. As investors focused on the pro-growth promises in Trump's victory speech, bond markets declined on higher inflation expectations and U.S. equity markets rallied on stronger earnings growth expectations. During the quarter, the U.S. Federal Reserve raised rates by 25 basis points to 50 basis points, citing an accelerating economic growth and expectations of reduced unemployment rates. In addition, it signaled that the pace of rate hikes could quicken, although economists remained split on how this increased pace would look in terms of timing. The U.S. economy remained resilient, with recent economic data indicating that the U.S. is firmly within expansionary territory, albeit below expectations.

In the Eurozone, the European Central Bank surprised markets by announcing reduction of the monthly bond purchases program while extending the deadline. Despite a slight tightening of monetary policy, German bund yields fell. The Austrian presidential election went against the recent populist vote and the Italian December referendum resulted in an overwhelming "no" vote against approving a constitutional law that would amend the powers of the Italian parliament. This was consistent with the polls hence markets largely shrugged off the results as they instead started to focus again on the Italian banking sector. The pace of Eurozone growth remained reasonably strong, assisted by strong manufacturing numbers from Germany and France.

In EM, there was also monetary policy divergence reflecting diverging economic fundamentals. The BanRep in Colombia and Central Bank of Mexico both surprised markets by unexpectedly cutting rates (first cut after more than 3% of tightening since mid-2015) and by hiking its policy rate by 0.5%. Other key central bank meetings were less impactful, with both the Central Bank of Turkey and the Central Bank of Russia leaving their policy rates on hold, while concurrently working together on a ceasefire resolution in Syria.

Current Positioning and Outlook

EM bonds rebounded in December, as the initial shock of the Trump election victory and worries of the inflationary impact of his policies faded. EM currencies such as the Brazilian real and the Russian Ruble performed well. However, Asian currencies linked to China performed poorly due to ongoing uncertainty about the kind of trade relationship the U.S. and China will likely have on the back of a Trump presidency.

The Excel High Income Fund's (the "Fund") sub-advisers, Amundi S.A. and Amundi Canada Inc. (the "Sub-Adviser") remain overweight EM hard currency debt as at year end. The fundamental and technical metrics for EM countries debt assets have improved, especially hard currency EM bonds. The intra-EM asset allocation remains unchanged.

In December, the Sub-Adviser did not make any significant changes to the Fund's portfolio. The Sub-Adviser reinvested part of the cash raised immediately post the U.S. elections and reduced its underweight positions in Poland and Turkey. On the FX side, the Fund remains short EM currencies versus USD but increased its long positions in the Russian ruble and the Indonesian Rupiah. The Fund increased in parallel the short position on the Korean won and initiated a long Turkish lira vs. the South African rand. The Sub-Adviser remain mindful of new developments and will be positioned accordingly.

Market Synopsis

During the fourth quarter of 2016, the MSCI India Index was down 5.7%. The Indian markets remained under pressure amid concerns of the impact of the demonetization of high value notes (INR 500 & INR 1000). The purpose of demonetization was to encourage and increase the use of digital payment mechanisms, eliminate black money and formalize the tax process in anticipation of the impending GST reform. Both the demonetization and GST (which is expected to rollout in second half of fiscal year 2018) should be immensely beneficial to India's economic growth in the long run as they will widen the tax net, increase tax compliance, increase banking related service and allow more businesses to be move into organized segments.

On the flows front, for calendar year 2016, foreign institutional investors bought USD 3 billion worth of Indian equities and USD 6.6 billion of mutual funds.

During the fourth quarter of 2016, energy, information technology and utilities sectors outperformed, while healthcare, materials and financials sectors underperformed. The market reversed some of the losses in the last week on expectations of an accommodative policy from the government.

Current Position and Outlook

During the quarter, sector allocation contributed negatively to performance, while stock selection within the consumer discretionary and materials sector contributed positively. Overweight in Vedanta Ltd. (a base metal miner), underweight in Asian Paints Ltd., and HDFC Bank contributed positively, while overweight in Divi's Laboratories Ltd. (a pharmaceutical) , and Dalmia Bharat Ltd. (a cement and power holding company) contributed negatively to the Fund's performance.

Post U.S. elections, outflows have stemmed from emerging markets to developed markets. In the case of India, demonetization coincided with the unexpected U.S. presidential election results. The combination of these two events contributed to short-term underperformance of the Indian market.

Over two months have passed since Prime Minister Modi eliminated the old high-denomination currency notes. The resulting liquidity crunches impacted consumption related demand and the Excel India Fund's (the "Fund") sub-advisers, Birla Sun Life Asset Management Company Ltd. (the "Sub-Adviser") believes this will continue for next 2-3 quarters, causing a slowdown in economic growth in the near term.

Based on their dependence on cash transactions and overall operating leverage, different sectors will be impacted in varying proportions. Among the Nifty companies, companies in sectors such as IT, pharma, oil and gas and power (43% of the index by weight) should not be impacted, companies in fast-moving consumer goods, autos and financials (53% of the index) may be impacted for less than two quarters, while companies in cement and paints (4% of the index) may see an impact for more than two quarters. Some export oriented sectors and B2B segments are not affected at all.

The Indian markets are in a consolidation phase due to the above-mentioned reforms. The Sub-Adviser believes that the next six months will be a good time to increase exposure to India. In the next 2-3 quarters, macro data and company results will be awash but will stabilize during the second quarter, as earnings recover. The Sub-Adviser maintains a constructive view on Indian equities. Over the medium and long run, demonetisation and the GST reform are positive developments that will assist India's tax to GDP ratio and as such provide a large funding source for the government to spend on infrastructure developments. The Sub-Adviser believes that 2017 will see lower bond yields and fixed deposit rates, falling real estate and gold prices. Valuations are reasonable and the base for sustained earnings growth is being set up.

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Current Position and Outlook

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The Indian markets are in a consolidation phase due to the above-mentioned reforms. The Sub-Adviser believes that the next six months will be a good time to increase exposure to India. In the next 2-3 quarters, macro data and company results will be awash but will stabilize during the second quarter, as earnings recover. The Sub-Adviser maintains a constructive view on Indian equities. Over the medium and long run, demonetisation and the GST reform are positive developments that will assist India's tax to GDP ratio and as such provide a large funding source for the government to spend on infrastructure developments. The Sub-Adviser believes that 2017 will see lower bond yields and fixed deposit rates, falling real estate and gold prices. Valuations are reasonable and the base for sustained earnings growth is being set up.

Market Synopsis

During the fourth quarter of 2016, the MSCI China index was down 4.7%. In November, the unexpected result of the U.S. presidential election increased market volatility. "Old economy" sectors such as capital goods, infrastructure and industrial outperformed the market, while sectors such as technology, new energy and utilities underperformed. In December, the impact of President-Elect Trump continued to reverberate, with the U.S. dollar strengthening and global capital flowing into the U.S from the broader emerging markets. We also saw the energy sector outperform, as a result of the OPEC deal with its members and Russia. The Excel China Fund (the "Fund") outperformed the MSCI China Index, in Canadian dollar terms, -3.9% versus -4.7% over the quarter.

Current Position and Outlook

The Fund's sub-adviser, China Asset Management Company Limited (the "Sub-Adviser") anticipates that in 2017, the overall market will be range-bounded. Once inflation picks up, the People's Bank of China will likely shift their priority towards risk control from economic growth. Therefore, massive economic stimulus is unlikely. Both retail and institutional investors will continue to increase allocation into equities, making Hong Kong listed companies attractive as they currently trade at a discount to the mainland.

The Sub-Adviser believes that the "turn-around sector" story and individual stock picks will be major factors in contributing to positive return in 2017. The Sub-Adviser is actively seeking sectors and stocks that have faced headwinds in 2016 but could resume or accelerate earnings growth in 2017. President-Elect Trump will play a large role in the future positioning of the Fund. However, presently, there are limited indications on potential impacts of his upcoming presidency on current holdings. The likely beneficiaries of the upcoming Trump administration are industrial and commodity related companies, as the future U.S. government will likely embark on massive infrastructure spending, and the potential reversal of the U.S. unwillingness to join the Asian Infrastructure Investment Bank ("AIIB"). The AIIB is led by China and aims to improve the infrastructure in developing countries. The potential infrastructure spending can lead to a reflationary environment. Due to currency depreciation, Chinese exporters have outperformed during past the two years, however this trend might reverse. The Sub-Adviser will seek companies benefiting from infrastructure spending and will underweight the Fund's position in export oriented companies.

Market Synopsis

During the fourth quarter of 2016, the MSCI India Index and the MSCI China index were down 5.7% and 4.7%, respectively. The Excel Chindia Fund (the "Fund") was also down 5.3% during the same period. In November, the unexpected result of the U.S. presidential election increased market volatility. In December, the impact of then President-Elect Trump continued to reverberate, with the U.S. dollar strengthening and global capital flowing into the U.S from the various emerging market regions.

The Indian markets remained under pressure amid concerns of the impact of the demonetization of high value notes (INR 500 & INR 1000). The purpose of demonetization was to encourage and increase the use of digital payment mechanisms, eliminate black money and formalize the tax process in anticipation of the impending GST reform. Both the demonetization and GST (which is expected to rollout in second half of fiscal year 2018) is expected to benefit India's economic growth in the long run as they will widen the tax net, increase tax compliance, increase banking related service and allow more businesses to be move into organized segments.

Current Position and Outlook

The Excel Chindia Fund is currently invested into two underlying funds, the Excel China Fund and the Excel India Fund.

The Excel China Fund's sub-adviser, China Asset Management Company Limited ("China AMC") anticipates that in 2017, the overall Chinese equity market will be range-bounded. Once inflation picks up, the People's Bank of China will likely shift their priority towards risk control from economic growth. Therefore, massive economic stimulus is unlikely. Both retail and institutional investors will continue to increase allocation into equities, making Hong Kong listed companies attractive as they currently trade at a discount to the mainland.

China AMC believes that in China the "turn-around sector" story and individual stock picks will be major factors in contributing to positive return in 2017. China AMC is actively seeking sectors and stocks that have faced headwinds in 2016 but could resume or accelerate earnings growth in 2017. President Trump will play a large role in the future positioning of the Excel China Fund. However, presently, there are limited indications on potential impacts of his upcoming presidency on current holdings. The likely beneficiaries of the Trump administration are industrial and commodity related companies, as the U.S. government will likely embark on massive infrastructure spending, and the potential reversal of the U.S. unwillingness to join the Asian Infrastructure Investment Bank ("AIIB"). The AIIB is led by China and aims to improve the infrastructure in developing countries. The potential infrastructure spending can lead to a reflationary environment. Due to currency depreciation, Chinese exporters have outperformed during past the two years, however this trend might reverse. China AMC will seek companies benefiting from infrastructure spending and will underweight the Fund's position in export oriented companies.

Over two months have passed since Indian Prime Minister Modi eliminated the old high-denomination currency notes. The resulting liquidity crunches impacted consumption related demand and the Excel India Fund's sub-adviser, Birla Sun Life Asset Management Company Ltd. ("Birla"), believes this will continue for next 2-3 quarters, causing a slowdown in economic growth in the near term.

The Indian markets are in a consolidation phase due to the above-mentioned reforms. Birla believes that the next six months will be a good time to increase exposure to India. In the next 2-3 quarters, macro data and company results will be awash but will stabilize during the second quarter, as earnings recover. Birla maintains a constructive view on Indian equities. Over the medium and long run, demonetisation and the GST reform are positive developments that will assist India's tax to GDP ratio and as such provide a large funding source for the government to spend on infrastructure developments. Birla believes that 2017 will see lower bond yields and fixed deposit rates, falling real estate and gold prices. Valuations are reasonable and the base for sustained earnings growth is being set up.

The Fund's asset allocation to the Excel China Fund and Excel India Fund remain unchanged at approximately 40% and 60%, respectively.

Market Synopsis

For the fourth quarter of 2016, Latin America outperformed compared to its emerging market peers.

In the last three months of 2016, Brazil stayed the course of austerity by implementing key fiscal reforms, as Latin America's largest economy continued to work its way out of a deep recession. Major reforms included:

- The establishment of a cap on government spending; and
- A new social security bill which raised the minimum retirement age from 58 to 65 and requires a person to work for a full 49 years before being able to claim benefits.

The Excel Latin America Fund's (the "Fund") sub-adviser, Itaú USA Asset Management Inc. (the "Sub-Adviser") believes that these and other reforms that will be enacted in the upcoming year are likely to make 2017 a turning point for Brazil. Inflation in Brazil has fallen more than anticipated. In 2016, the Broad Consumer Price Index (IPCA) slid to less than 6.5%, which is the ceiling of Brazil's inflation targeting regime. This gives the central bank room to cut interest rates more aggressively which will serve as a tailwind for growth as well as the equity market. However, Brazil's economy is still on the mend with soft employment data, a lack of credit, and constrained domestic consumption, which has historically been one of the primary drivers of the growth.

Current Positioning and Outlook

Looking into the new year, Brazil remains a turnaround story, buoyed by structural reforms and looser monetary policy, both of which held true in 2016 and gave strength to the performance of both Brazilian equities and bonds. Brazilian stocks were the best performing Latin American stocks in 2016, even after gains, in USD terms. The first half of 2017 will be closely watched, as the overall legislative picture is expected to take greater shape. Brazil is the largest overweight in the Fund's portfolio and remains a high conviction idea with a focus on banks, energy, selective industrials and utilities.

In Mexico, we saw a larger-than-expected 50 basis points hike in interest rates by the Mexican central bank (Banxico). The rationale for the move was to combat the slide of the peso, which continued to come under pressure following the election of Donald Trump in the U.S. The move also serves to pre-empt unwanted inflation, which should remain in range (or below 4%) for the short-term but medium-term risks abound if the peso continues to depreciate at its current pace. While there is value in the peso, at these levels, many uncertainties remain around Mexico. The Sub-Adviser expects more hawkish activity by the Mexican Central Bank in 2017. With very limited details available about how Trump's policies regarding Mexico will be implemented, the Sub-Adviser expects to be highly selective on the Fund's positioning in this market. Currently, the Fund's portfolio is underweight Mexico and decreasing exposure to interest rate sensitive stocks, but adding to names that benefit from a stronger U.S. dollar such as airport companies.

Chile, the third-highest country allocation in the Fund's portfolio, is in a mode of expansion, exhibiting well-behaved inflation and stable currency movements, all of which are positives for equity prices. Expectations of reflation in the U.S. (and globally) have supported higher copper prices, which is a core component of the Chilean economy. While higher short-term copper prices have been a boon for the Chilean peso, the Sub-Adviser is cautious on the sustainability of this trade. The overall 2017 outlook for Chile, is a sanguine one, where the Sub-Adviser expects to finally decrease a long-time underweight positioning in Chile, and will do so gradually in a strict and selective "bottom up" approach. Presidential elections at the end of 2017 will be at the forefront as we approach the fourth quarter.

The Sub-Adviser sees improvements in Colombia on the structural and political fronts but remains underweight due to minimal growth and investment activity. The largest exposure at this time in Colombia is to the cement industry. In Peru, the Sub-Adviser is generally positive, with a large exposure to the banking sector, which stands to benefit when domestic demand starts to pick up further.

Market Synopsis

The last quarter of 2016 was eventful with important central bank meetings and impactful political events in both developed ("DM") and emerging ("EM") markets. The fourth quarter of 2016 can be divided into two distinct periods: pre-U.S. presidential elections, that took place on November 8th, and post-Presidential elections. Prior to the elections, EM equities were outperforming their U.S. and global counterparts because of compelling valuations and stronger growth expectations. With the surprise win by Donald Trump, U.S. and global equity markets initially sold off before U.S. markets rallied as investors focused on the "pro-growth" message of his victory speech. From November 8th to the end of 2016, U.S. equities and the USD staged a strong rally driven predominantly by cyclical industrials and financials and global investors rotated back into the U.S. from other geographies. While Excel Investment Counsel Inc., the Excel Emerging Markets Fund's (the "Fund") portfolio manager (the "Portfolio Manager"), shares the view of an improving U.S. economic outlook, we believe that the equity market and the USD have priced in too optimistic of an outlook.

In the Eurozone, the European Central Bank surprised markets by announcing a reduction of monthly bond purchases, in its asset buying program, while also extending the deadline. Despite a slight tightening of its monetary policy, German bund yields fell. The pace of Eurozone growth remained reasonably strong, assisted by strong manufacturing numbers from Germany and France. In the U.S., the Federal Reserve raised rates by 25 basis points to 50 basis points, citing an accelerating economic growth and expectations of reduced unemployment rates. In EM, there was also policy divergence. The BanRep in Colombia and Central Bank of Mexico both surprised markets by respectively cutting rates (first cut after more than 3% of tightening since mid-2015) and hiking policy rates by 0.5%. Other key central bank meetings were less impactful, with both the Central Bank of Turkey and the Current Positioning and Outlook

Current Positioning and Outlook

As at December 31, 2016, the Fund's overweight in Brazil, Peru and Russia, as well as an underweight in China, contributed to its performance. Conversely, the Fund's overweight position in Indonesia and Philippines detracted from performance. The strongest sector contributors were technology and financials. The main sectors that detracted from performance were utilities and consumer staples.

Individual stocks contributing to performance included Suzano Papel (Brazilian pulp & paper producer), Lukoil OAO (Russian oil producer), Sberbank (Russia's largest bank) and Ternium (Latin American steel producer). Individual holdings that detracted from performance included LG Household and Health (Korean household and beauty products company), Korea Electric Power (Korea's largest utility) and AIA Group (Asia's largest life insurance).

Looking forward, the Portfolio Manager continues to expect stronger growth in EM countries versus DM countries, led by acceleration in India, improving outlooks in Latin America and Russia. There is also a renewed commitment to pursuing economic and structural reforms in many EM countries such as India, Brazil, Peru, Argentina and Saudi Arabia to achieve a more sustainable economic growth trajectory. Central Bank of Russia leaving their policy rates on hold.