Quarterly Commentaries

Q1 - 2017

EXCEL FUNDS

The Authority | in Emerging Markets™

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MARKET SYNOPSIS

During the first quarter of 2017, the MSCI India Index was up 16.1% in Canadian dollar terms, led by positive sentiment from Indian Prime Minister Modi and his Bharatiya Janata Party's "BJP" clean sweep in several major state elections and robust foreign investment inflows. In addition, progress on the passage of GST Bill has been encouraging.

The much-awaited election outcome in 5 Indian states was a positive surprise to the markets. In Uttar Pradesh, India's most populous state with 204 million people, the BJP repeated its 2014 vote share and won nearly 80% of the seats. BJP's impressive victory in the Uttarakhand state was much better than exit polls had predicted. The verdict was split in the Goa and Manipur states, which are micro states and less relevant in the national discourse. In the small state of Punjab, BJP and their alliance partner lost as expected. By forming alliances, the BJP has been able to establish itself as a principal political party. With the general elections set for 2019, these major state election wins will likely to put the BJP in a strong position.

The outcome of the five state elections validates the assertion that India's citizens are increasingly voting for economic development and better governance over entitlements and identity politics. This reinforces the importance of good governance as a political imperative in getting re-elected. This not only reinforces the people's support for the government's demonetisation program, it also might encourage the government to intensify economic reform efforts, step-up rural spending and strengthen its resolve to address key spending issues like non-performing loans, power infrastructure, etc. over the next two years leading up to the general elections in 2019.

Over the quarter foreign institutional investors "FII" were net buyers of Indian Equities. FII inflows were approximately $6.2 USD billion, which represents the highest first quarter inflows for the last five years. Domestic mutual funds also continued to be net buyers of Indian equities (1.4 USD billion), the eighth consecutive month of net buying.

Industrials and financials were the best performing sectors while telecoms and healthcare were the major underperformers. Year to date, the mid-cap and small-cap index outperformed the large cap index.

CURRENT POSITION AND OUTLOOK

As earnings season sets in the market will be focused on company results. Over the long-run, structural growth drivers will continue to ensure that India remains the fastest growing major economy, amid robust macro-economic fundamentals. Demonetization and the implementation of GST will increase tax compliance, widen the tax net and help India fund its aggressive infrastructure programs while maintaining a fiscally responsible balance sheet. Birla Sun Life Asset Management Company Ltd. (the "Sub-Adviser")'s approach towards investing in stocks with better earnings visibility helped the Fund to smoothly navigate market volatility over the last 3 months. The Sub-Adviser will continue to manage the fund with agility and with a clear focus on early identification of investment opportunities. While Indian market valuations are slightly higher than historic average, they are likely to sustain these relatively higher multiples due to lower risk premium from political stability, continuity of economic reforms, and expected earnings growth recovery. The Sub-Adviser remain constructive on the markets considering the expected earnings growth recovery in fiscal year 2018 (March 31, 2017 – March 31, 2018) and continue to adopt a selective approach towards stock selection in the Fund.

The Sub Adviser continue to like domestic cyclical sectors such as financials, infrastructure, industrials and consumer discretionary as valuations are reasonable and sustained earnings growth are likely to take place and manifest.

MARKET SYNOPSIS

During the first quarter of 2017, political developments continued to drive market performance and sentiment. Positive global economic data continued to help support a positive investment backdrop for most risk assets. In addition, the incredibly low level of volatility throughout markets has remained a major theme. Over the first quarter the benchmark volatility index, VIX, experienced its lowest averages since the fourth quarter of 2006. In Europe, the European Central Bank "ECB" kept its policy unchanged as the bank's president Mario Draghi slowly built the ground for a gradual exit from their current ultra-loose monetary policy. Political risks remained high, but faded slightly as the Eurosceptic party performed poorly during the Netherland elections. In the US, as widely expected, the Federal Open Market Committee "FOMC" raised the federal funds rate by 25 basis points in March and on March 29th the United Kingdom triggered Article 50, thereby launching the 2-year Brexit negotiation process.

The two key external drivers for the emerging markets "EM" performance during the quarter was the 'dovish' commentary around the March Fed hike and reversal of the Trump trade. Although, the March Fed hike was close to 100% priced in by the time it was delivered the market had also partially priced in an upward revision in the number of hikes for 2017 and 2018. When the Fed minutes did not meet these expectations, the USD weakened and US Treasuries rallied. During the quarter, President Trump faced yet another setback to his campaign promises as he failed to 'replace' Obamacare. His healthcare reform faced stiff opposition from not only the Democrats but also within his own party. This served as a reminder of the checks and balances within the US political system that serve to prevent the President from forcing through campaign promises. There were also very little events during the month to suggest further move toward a protectionist agenda towards either China or Mexico.

Earlier in March, concerns regarding oil prices resurfaced as Brent Crude dropped 10% following increased production from US shale. EM's resilient reaction to the fall in oil prices, however, was indicative of lower sensitivity to commodity prices than was the case in 2014 and 2015. A reaffirmation by OPEC of its commitment to the deal announced in November and the market's perception of the deal's extension beyond six months, helped to maintain oil prices above $50 per barrel. The Excel High Income Fund's (the "Fund") sub-advisers, Amundi S.A. and Amundi Canada Inc. (the "Sub-Adviser") continue to believe that oil prices are likely to remain sandwiched between an OPEC floor and a shale ceiling.

CURRENT POSITIONING AND OUTLOOK

The first quarter represented a solid quarter for EM debt assets, particularly for local debt, which was up 6.5% in USD terms using the JP Morgan GBI-EM Global Diversified Composite Index. In comparison, Hard currency debt was up 3.9% in USD term using the JP Morgan EMBI Global Composite Index.

EM hard currency debt remains the Sub-Adviser's highest conviction in the EM debt space. They believe that given current fundamentals spreads are wider than they should be. As such the Fund maintained an overweight position on hard currency debt versus local bond of approximately 59% versus 41%

The Fund's positioning within the hard currency space has remained largely stable, with overweight in Brazil, Argentina, Russia and Indonesia. The Fund also has an overweight on Mexico, driven by the Sub-Adviser's constructive view on the country, with regards to both current account rebalancing as well as a benign outcome to the trade talks with the US. The bulk of the overweight on the Mexican hard currency side comes via EUR-denominated PEMEX debt which the Sub Adviser finds very attractive in terms of valuation, both against the USD curve in PEMEX as well as versus Mexican sovereign debt. PEMEX is an oil and gas company which is 100% owned by the government of Mexico.

On the local debt side, Brazil remains the Sub-Adviser's strongest and highest conviction overweight, where they see significant disinflation, both in headline and in inflation expectations. The Sub-Adviser believes that the Brazilian central bank will be able to credibly cut rates aggressively, to well below 10%. A key trigger for further yield tightening would come from a possible downward adjustment of the inflation target, from 4.5% currently to possibly 4%. Elsewhere, the Sub-Adviser has added to its position in peso-denominated PEMEX bonds. Lastly, on EM FX, the biggest overweighs are in high carry commodity currencies – namely the Mexican peso, Brazilian real and Russian rubble. These have been funded by a strong underweight in low yielding Asian currencies.

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CURRENT POSITION AND OUTLOOK

During the quarter, both sector allocation and stock selection contributed positively to the Fund. Overweight in materials and underweight in information technology contribute positively, while overweight in health care and consumer staples contributed negatively. Overweight in Yes Bank, underweight in Tata Consultancy contributed positively, while underweight in HDFC Bank and Reliance Industries contributed negatively.

As earnings season sets in the market will be focused on company results. Over the long-run, structural growth drivers will continue to ensure that India remains the fastest growing major economy, amid robust macro-economic fundamentals. Demonetization and the implementation of GST will increase tax compliance, widen the tax net and help India fund its aggressive infrastructure programs while maintaining a fiscally responsible balance sheet. Birla Sun Life Asset Management Company Ltd. (the "Sub-Adviser")'s approach towards investing in stocks with better earnings visibility helped the Fund to smoothly navigate market volatility over the last 3 months. The Sub-Adviser will continue to manage the fund with agility and with a clear focus on early identification of investment opportunities. While Indian market valuations are slightly higher than historic average, they are likely to sustain these relatively higher multiples due to lower risk premium from political stability, continuity of economic reforms, and expected earnings growth recovery. The Sub-Adviser remain constructive on the markets considering the expected earnings growth recovery in fiscal year 2018 (March 31, 2017 – March 31, 2018) and continue to adopt a selective approach towards stock selection in the Fund.

The Sub Adviser continue to like domestic cyclical sectors such as financials, infrastructure, industrials and consumer discretionary as valuations are reasonable and sustained earnings growth are likely to take place and manifest.

MARKET SYNOPSIS

Since the third quarter of 2016, China's key economic indicators such as GDP growth, PMI, and CPI data have beaten market expectations. Consumption, especially luxury consumption picked up noticeably towards the end of 2016. Macau gaming, luxury cars, luxury watches, alcohol (expensive Chinese liquors), and jewelry have shown robust sales volume growth. There are two reasons for the positive consumption trend: first, the wealth effect from the recovery of the "old economy"; and second, the marginal loosening of anti-corruption policy. Since the middle of 2016 the liquidity flowing through the economy as well as companies' willingness to invest has increased. The Chinese central government has shown strong resolve in delivering the supply-side reforms to eliminate excessive production capacity and reduce tier 3 and tier 4 city housing inventory.

On the monetary side, since the end of 2016, domestic market rates have spiked upward. Continued liquidity tightening is expected during 2017, but at slower pace so that economic growth momentum is maintained. Given relatively stable monetary policy and mounting foreign reserve pressure, the Chinese yuan (RMB) is unlikely to experience large fluctuations.

The MSCI China Index bottomed towards the end of 2016 when global capital fled from emerging market equity into the US, and then rebounded strongly during the first quarter of 2017. Mainland capital continued to flow to the Hong Kong stock market through the Shanghai-Hong Kong Connect mechanism with close to 65 billion USD in flows since November 2014. China Asset Management Company Limited (the "Sub-Adviser") believes this trend will continue for the foreseeable future. More recently, there has been a revival in global fund inflows.

MARKET OUTLOOK

The Sub-Adviser believes that in 2017, manufacturing investment could grow by as much as 10% to 15%, a significant improvement after three years of decline. The Sub-Adviser also anticipate that capital investment in 2017 will likely exceeded 2016 levels for most provinces. The Sub-Adviser believes that the recovery in manufacturing investment will permeate high value add industries such as auto and technology and mid-stream industries like papermaking and chemical. Export and import data have also been promising. Nominal GDP growth rate could possibly reach 10% in the second and third quarter of 2017, thereby boosting corporate earnings.

Historically the H-share market (Hong Kong) has tended to outperform the A-share market (Shanghai) during earnings recovery cycles. The Sub-Adviser believes that global investors have yet to fully recognize the magnitude of the current recovery, as prominent sell-side participants have just recently upgraded the Chinese equity market to a buy. Although the H-share market has performed well, many companies are still trading at deep discounts compared with the A-share market.

The Sub-Adviser is optimistic about the H-share market and believes that the following two major investment themes will drive the equity markets for the remainder of 2017:

1) Undervalued companies focused on luxury consumption items and/or from general economic recovery should outperform. The luxury consumption sector includes jewelry businesses, luxury car dealers, luxury car manufacturers and Macau gaming companies.

2) Real estate companies with promising sales volume in tier-3 and tier-4 cities should also do very well. If the real estate market continues to beat expectations, the Sub-Adviser will also re-evaluate the positive complementary growth effect on auto, and the overall appliances industry.

MARKET SYNOPSIS

The Portfolio is constructed based on an asset allocation framework that allocates to the two Underlying Funds, each representing distinct asset class opportunities, and with unique risk and return expectations. At March 31, 2017, the Fund had an asset mix of 62.3% Excel India Fund and 37.3% Excel China Fund with the remainder in cash & equivalent. The allocation of the portfolio to these various categories remained relatively consistent during the quarter.

In India, demonetisation resulted in earnings downgrades in the near term and for fiscal year 2017 (April 2016 – March 2017) earnings growth should only be reduced 8-9% which is meaningfully lower than previous estimates of 14-15%. However, fiscal year 2018 (April 2017 – March 2018) earnings growth are estimated to rebound and should come in at approximately 18%. Excel Investment Counsel Inc. (the "Portfolio Adviser") believes the impact on various sectors will vary depending on the level of cash transactions and operating leverage across the sector. The impact on demand to be short lived and demand to bounce back as the cash crunch normalises with post remonetisation from the Reserve Bank of India (RBI).

In China, consumption, especially luxury consumption picked up noticeably towards the end of 2016. Macau gaming, luxury cars, luxury watches, alcohol (expensive Chinese liquors), and jewelry showed robust sales volume growth. There are two reasons for the positive consumption trend: first, the wealth effect from the recovery of the "old economy"; and second, the marginal loosening of anti-corruption policies. Since the middle of 2016 the liquidity flowing through the economy as well as companies' willingness to invest has increased. The Chinese central government has shown strong resolve in delivering the supply-side reforms to eliminate excessive production capacity and reduce tier 3 and tier 4 city housing inventory. On the monetary side, since the end of 2016, domestic market rates have spiked upward. Continued liquidity tightening is expected during 2017, but at slower pace so that economic growth momentum is maintained. Given relatively stable monetary policy and mounting foreign reserve pressure, the Chinese yuan (RMB) is unlikely to experience large fluctuations.

CURRENT POSITION AND OUTLOOK

In India, the GST Bill is expected to be rolled out nationwide this July. The GST implementation will simplify the current complex tax structure and more importantly, unify India into a single common marketplace. The Portfolio Adviser expects the formal economy to benefit and gain market share from the cash economy which in turn will be a positive for publicly listed companies. The Portfolio Adviser believes both demonetization and the GST Bill are immensely beneficial to India over the long-run. The "tax net" will widen, tax compliance will improve, banking services will be more widely accessible, and more businesses will move into the organized sector. The Portfolio Adviser believes the paradigm in India has shifted. Economic Development is not only an economic necessity, but a political one as elections have recently and will continue to be won and lost based on economic development. Indian citizens are increasingly voting for economic development and governance rather than for entitlements and identity.

Since the third quarter of 2016, China's key economic indicators such as GDP growth, PMI, and CPI data have beaten market expectations. The Portfolio Adviser believes that in 2017, manufacturing investment could grow by as much as 10% to 15%, a significant growth after three years of decline and capital investment will likely exceeded 2016 levels for most provinces (?). The Portfolio Adviser feels that the recovery in manufacturing investment will permeate high value add industries such as auto and technology and mid-stream industries like papermaking and chemical. Export and import data have also been promising. Nominal GDP growth rate could possibly reach 10% in the second and third quarter of 2017, thereby boosting corporate earnings.

Historically the H-share market (Hong Kong) has tended to out perform the A-share market (Shanghai) during earnings recovery cycles. The Portfolio-Adviser believes that global investors have yet to fully recognize the magnitude of the current recovery, as prominent sell-side participants have just recently upgraded the Chinese equity market to a buy. Although the H-share market has performed well, many companies are still trading at deep discounts compared with the A-share market.

China and India are now undoubtedly the growth driver of the world economy. The Portfolio Adviser believes that the two countries are well positioned for long-term secular growth and the Fund will benefit over the long-term.

MARKET SYNOPSIS

The first quarter of 2017 was a continuation of the strong performance at the end of 2016. Commodity prices rallied in anticipation of a global reflationary environment and improved global macroeconomic outlook. The Organization of the Petroleum Exporting Countries (OPEC), along with non-member Russia agreed in late 2016 to an oil production quota, triggering a rally in oil prices from the mid USD40s to the mid USD50s. However, by the end of March 2017, higher than anticipated production from US shale producers combined with slightly weaker than anticipated demand caused oil prices to retreat into the low USD50s. In our opinion, oil prices around USD50 is a reasonable price level that benefits both commodity producers and consumers.

The United States Federal Reserve (Fed) increased interest rates by another 25 basis points in March 2017. We expect further rate hikes towards the second half of 2017 as US economic data and the employment outlook continues to improve. A hawkish People's Bank of China has also gradually been tightening monetary conditions. Conversely, the European Central Bank continues its easing monetary policy as inflation continues to fall below the 2% target. Overall, however, there is a tightening bias globally which has been reflected in steeper yield curves.

There were several significant and positive developments in EM. In India, the resounding election victory in the most populous state of Uttar Pradesh was a vote of confidence for Prime Minister Modi's aggressive reform agenda. Modi's party winning a majority in 4 of the 5 state elections in March is also expected to result in an increase in Modi's representation in the Upper House, which will help in passing further major reforms. The landmark GST plan is now on course to be implemented in July 2017. This simplifies India's complex tax code and the resulting productivity enhancement is expected to add to GDP growth once fully implemented. The short-term liquidity crunch from the "demonetization" program announced in November 2016 proved to be short-lived. Instead, demonetization resulted in approximately 15 trillion rupees deposited into the banking system. The resulting decline in cost of deposits for the banks in turn allowed the banks to reduce lending rates. India continues to be our largest country overweight.

The Portfolio Adviser also remains overweight Brazil as the new President Michel Temers focuses on necessary fiscal reforms. The Portfolio Adviser expects further rate cuts, which will reduce corporate cost of capital and benefit earnings further. Corporate confidence has also improved significantly in recent months with plans for increased investments and capital spending, which will contribute to a further recovery in economic growth.

The Chinese economy grew at 6.9% in the first quarter of 2017, a slight acceleration from five consecutive quarters of 6.7-6.8% growth. The government continues its gradual reform and capacity rationalization in several industries dominated by State Owned Entities ("SOE") such as steel, cement and iron ore. We have added companies that would benefit from such reforms however, we continue to prefer "New China" growth sectors such as healthcare, education and technology that will benefit from the ongoing rebalancing of the economy and secular drivers such as an aging population and automation.

CURRENT POSITIONING AND OUTLOOK

The Fund's overweight in India, Brazil and Argentina contributed to performance while underweight positions in Korea, Turkey, Mexico and Taiwan detracted.

Individual stocks contributing to performance included TAL Education, Yes Bank Ltd, Samsung Electronics, Tencent Holdings, HDFC Bank and BGF Retail. Individual holdings that detracted from performance included Matahari Department Store, Lukoil PJSC, Korea Aerospace and Suzano Papel.

Looking forward, we continue to be focused on businesses that are benefiting from the economic acceleration in India, improving outlooks in Latin America and Russia. We are also positive on countries where there is 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 first quarter of 2017, political developments continued to drive market performance and sentiment. Positive global economic data continued to help support a positive investment backdrop for most risk assets. In addition, the incredibly low level of volatility throughout markets has remained a major theme. Over the first quarter the benchmark volatility index, VIX, experienced its lowest averages since the fourth quarter of 2006. In Europe, the European Central Bank "ECB" kept its policy unchanged as the bank's president Mario Draghi slowly built the ground for a gradual exit from their current ultra-loose monetary policy. Political risks remained high, but faded slightly as the Eurosceptic party performed poorly during the Netherland elections. In the US, as widely expected, the Federal Open Market Committee "FOMC" raised the federal funds rate by 25 basis points in March and on March 29th the United Kingdom triggered Article 50, thereby launching the 2-year Brexit negotiation process.

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There were several significant and positive developments in India. The resounding election victory in the most populous state of Uttar Pradesh was a vote of confidence for Prime Minister Modi's aggressive reform agenda. Modi's party winning a majority in 4 of the 5 state elections in March is also expected to result in an increase in Modi's representation in the Upper House, which will help in passing further major reforms. The landmark GST plan is now on course to be implemented in July 2017. This simplifies India's complex tax code and the resulting productivity enhancement is expected to add to GDP growth once fully implemented. The short-term liquidity crunch from the "demonetization" program announced in November 2016 proved to be short-lived. Instead, demonetization resulted in approximately 15 trillion rupees deposited into the banking system. The resulting decline in cost of deposits for the banks in turn allowed the banks to reduce lending rates. India continues to be our largest country overweight.

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CURRENT POSITIONING AND OUTLOOK

The current weight in equity is approximately 34% and fixed income is 63%.

Within fixed income, the Fund's positioning within the hard currency space has remained largely stable, with overweight in Brazil, Argentina, Russia and Indonesia. The Fund also has an overweight on Mexico, driven by the Sub-Adviser's constructive view on the country, with regards to both current account rebalancing as well as a benign outcome to the trade talks with the US. The bulk of the overweight on the Mexican hard currency side comes via EUR-denominated PEMEX debt which the Sub Adviser finds very attractive in terms of valuation, both against the USD curve in PEMEX as well as versus Mexican sovereign debt. PEMEX is an oil and gas company which is 100% owned by the government of Mexico.

On the local debt side, Brazil remains the Sub-Adviser's strongest and highest conviction overweight, where they see significant disinflation, both in headline and in inflation expectations. The Sub-Adviser believes that the Brazilian central bank will be able to credibly cut rates aggressively, to well below 10%. A key trigger for further yield tightening would come from a possible downward adjustment of the inflation target, from 4.5% currently to possibly 4%. Elsewhere, the Sub-Adviser has added to its position in peso-denominated PEMEX bonds. Lastly, on EM FX, the biggest overweighs are in high carry commodity currencies – namely the Mexican peso, Brazilian real and Russian rubble. These have been funded by a strong underweight in low yielding Asian currencies.

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.

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CURRENT POSITION AND OUTLOOK

EQUITIES

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FIXED INCOME

The Fund continues to target stable carry. At the end of March, the Fund was underweight duration at 3.7 years versus the benchmark CRISIL Composite Bond Fund Index at 5.3 years. The Fund continues to earn a higher carry of 7.8% versus the benchmark of 7.39%.

Monetary policy turned from accommodative to neutral in February 2017. This resulted in a 40 to 70 basis points rise in the yield curve across different maturity points. The Fund's lower duration benefited investors.

Global conditions for bonds are not that favourable despite the domestic environment being conducive to lower rates. The tone and incremental bias of the Reserve Bank of India (RBI) means they might deviate from one policy to another depending on domestic data and global headwinds /tailwinds. However, the Sub-Adviser's analysis suggests that the RBI is likely to plot a dovish narrative over the next few quarters as incremental data is aligned to their forecasts. In addition, this is necessary over the short term with sweeping reforms being planned by the central government such as unifying the Indian markets via GST, widening the tax net, and improving tax compliance through a variety of measures starting with demonetisation.

While the Sub-Adviser's long-term assessment stays intact, they have positioned the Fund to better hedge against the volatility as the market aligns to the new framework adopted by the RBI. Such volatility in debt markets has historically provided a good opportunity to generate performance and the Sub-Adviser would be cognizant to such risk-reward scenarios as they emerge.