



WAVERTON
INVESTMENT MANAGEMENT

SOUTHEAST ASIAN FUND I USD ACC

FUND FACTSHEET - AS AT 30 SEPTEMBER 2018

OBJECTIVES

FUND AIM

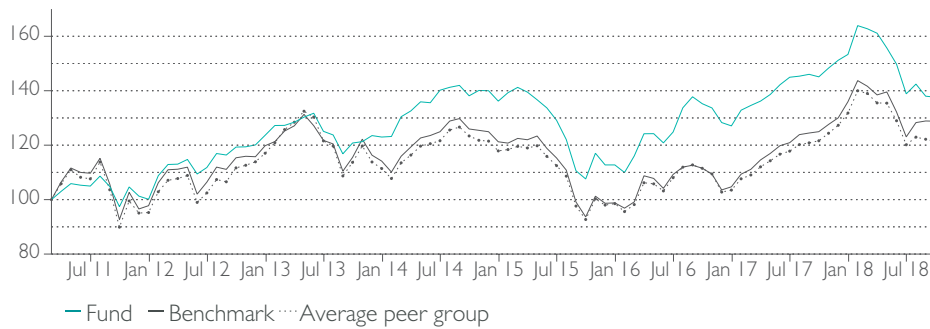
The investment objective is to generate capital growth by investing in a concentrated portfolio of no more than 30 listed Southeast Asian equities

INVESTMENT STYLE

The Fund seeks to construct concentrated portfolios from the bottom up, unconstrained by the composition of the index. The managers seek to make a small number of long-term investments, primarily in growing companies, with strong management and operating in favourable business environments.

PERFORMANCE

PERFORMANCE SINCE INCEPTION



Risk Warning: Past performance is no guide to future performance. The value of holdings may fall as well as rise and investors may not get back their initial investment.

Important information: Performance displayed is for the I Share Class. Performance is calculated on a NAV to NAV basis and does not take into account any initial fees. Performance is displayed net of fees and assumes income is reinvested.

Period	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Inception Mar 11
Portfolio (%)	-0.3	-0.9	-10.2	-5.1	27.9	13.9	37.6
Benchmark (%)	-0.1	4.7	-5.3	3.1	37.5	11.5	26.8
Morningstar Peer Group (%)	-0.3	1.0	-8.1	-0.9	27.8	6.0	17.6
Quartile	3	4	4	4	3	2	1

DISCRETE CALENDAR YEAR PERFORMANCE

Period	2017	2016	2015	2014	2013
Fund (%)	20.7	12.7	-17.2	10.7	-0.5
Benchmark (%)	29.9	6.0	-18.5	6.2	-4.7

STANDARDISED PERFORMANCE

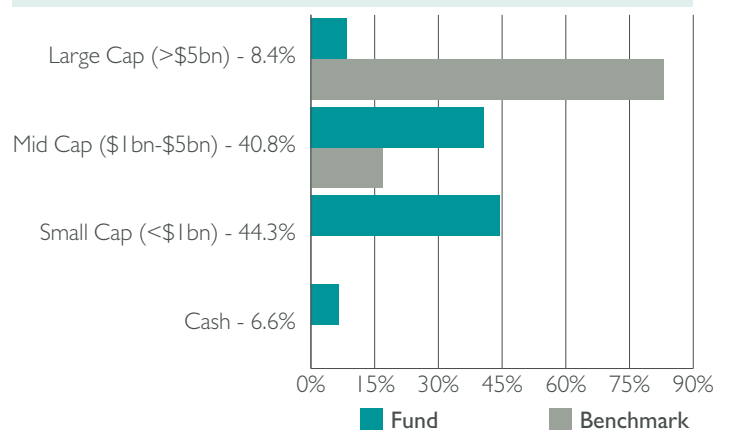
Period 1 year to	30/09/2018	30/09/2017	30/09/2016	30/09/2015	30/09/2014
Fund (%)	-5.1	7.3	25.7	-22.1	14.4

PORTFOLIO SUMMARY

TOP 10 HOLDINGS

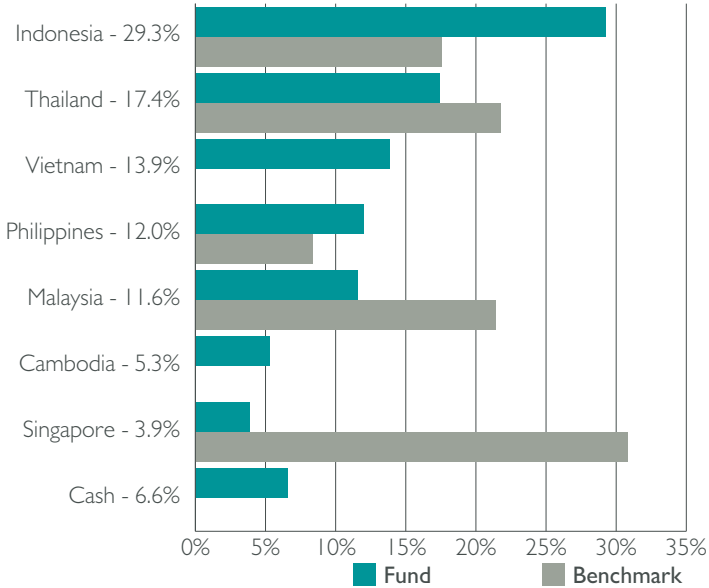
Silverlake Axis Ltd	6.9%
Petro Vietnam Drilling & Well Services VND10,000	5.7%
NagaCorp Ltd.	5.3%
Siam City Cement Public Co., Ltd.	5.3%
Hana Microelectronics Public Co., Ltd.	5.2%
Astra Agro Lestari IDR500	4.9%
PT Blue Bird Tbk	4.8%
Jardine Cycle & Carriage SG\$1	4.7%
Alliance Financial MYR1	4.7%
Bank Tabungan Pensiunan Nasional	4.5%
Total	52.1%

MARKET CAP

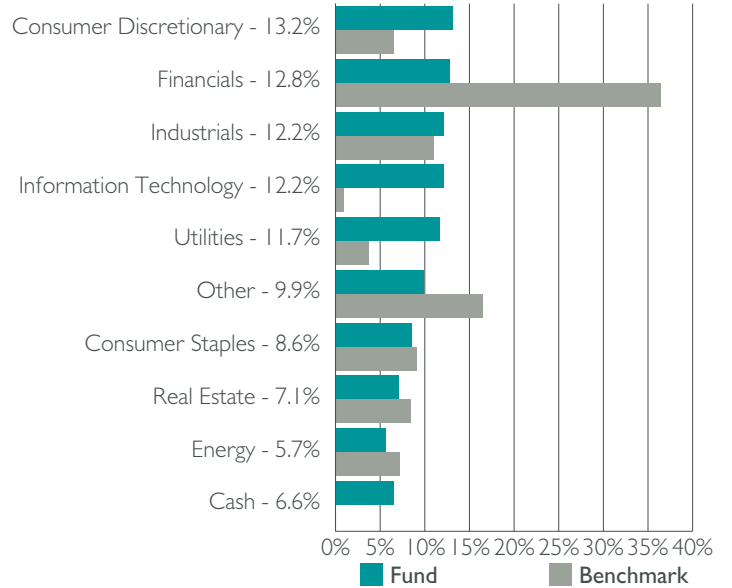


PORTFOLIO SUMMARY - CONTINUED

COUNTRY



SECTOR



SIGNIFICANT PORTFOLIO ACTIVITY

Purchase

Month

Sale

No changes

Jul - Sep 2018

No changes

MARKET REVIEW

After several months of protracted misery for investors in Southeast Asia, and indeed in all emerging markets, the torment eased a little in the third quarter, although there were still significant disparities apparent when returns are broken down by country, sector and market capitalisation. Thailand and Vietnam delivered positive returns of 10.1% and 5.6% respectively in local currency terms, whilst Indonesia and the Philippines remained volatile, and small and mid-cap stocks continued to underperform across the region. The concerns that have weighed on emerging markets since January have not gone away. Trade wars and the normalisation of US monetary policy remain overriding concerns, but short-term pressures have eased, largely because the US dollar moved sideways during Q3. This followed its strong advance on a trade-weighted basis in the first half of the year, which, as usual, had EM investors running for shelter. Of course, given the combination of continued strong growth and monetary tightening in the US, it is possible that the dollar is biding its time and preparing its next assault. It is also possible that markets may be starting to look ahead to 2019, when the impact of the US fiscal stimulus is likely to ease and monetary policy there may begin to re-converge with the rest of the world.

PERFORMANCE REVIEW

The fund declined by 0.9% for the quarter, against a rise of 4.7% in the benchmark MSCI ASEAN total return index. The main causes of this underperformance were the fund's overweight positions in small and mid-cap stocks in Indonesia and the Philippines. In both countries, the MSCI small cap indices declined by 5.4% for the quarter. Market sentiment turned decisively against small cap stocks across the region during the quarter, but especially in markets that are viewed as a currency risk. As a result, valuations have fallen to levels that are at a significant discount to large cap stocks; with many of the fund's holdings on prospective PE ratios below 10x and yields above 4%. Furthermore, our companies have strong balance sheets that mitigate against the risk that the market associates with small caps.

STOCK EXAMPLE

The fund's largest holding is in a Malaysian IT software and services company, Silverlake Axis, which provides core banking, payment and retail solutions to major banks, financial services companies and retailers in Asia.

Silverlake's market position in Southeast Asia is strong, with 8 of the largest 20 banks using the company's integrated banking solutions software. The company is highly profitable; an asset light business with net margins consistently above 20%, return on equity north of 15% and net cash on its balance sheet. Barriers to entry to new competitors in the region are high; the company has never lost a major bank from its SIBS platform. The recurring maintenance and enhancement business is an increasing part of revenues. In the last two years however, banks have deferred capex spending on IT, which has impacted Silverlake's highest margin software licensing business. With regional banks facing increasing challenges from Fintech, we anticipate that IT capex will recover, as banks resume investing in their online banking products. The company's order backlog and pipeline of new business are strong, and we think the outlook for the next twelve months is promising, with the potential for positive market surprises.

OUTLOOK

Two Southeast Asian markets that are currently giving cause for concern, and where the fund is overweight, are Indonesia and the Philippines. The central banks of both countries have been forced to raise rates sharply this year to defend their currencies, which are widely perceived to be vulnerable to external pressure because of widening current account deficits. In the Philippines, a 25bp rise in September came on top of 125bp since May, bringing the benchmark rate to 4.5%. In Indonesia, cumulative rises this year have been exactly the same, and the benchmark rate is already higher at 5.75%. In both countries, this is creating uncertainty for businesses and investors. Beyond that basic similarity however, the two economies are at very different points in the cycle. As we wrote last month, Indonesia's central bank has been pre-emptive and real rates are high. With subdued credit growth and low inflation, the main risk is of stifling the recovery at an early stage in the cycle. The Philippines, in contrast, has been in an extended period of strong GDP growth, which is now moving towards its seventh year. In reality, the Philippines economy became overheated sometime around late 2017 or early 2018. The current account deficit has been widening, reflecting strong domestic demand, whilst inflationary pressures have been rising. Headline inflation hit 6.7% in September, well above the official 2-4% target range.

The central bank in Manila, the BSP, has been surprisingly slow to respond; presumably held back by the fear of precipitating an early end to the expansion, but also by some not-so-subtle, strong-arm pressure from President Duterte. The weakening of the peso forced them to begin raising rates in Q2, but unlike Indonesia, where real rates are the highest in Asia, the Philippines central bank is behind the curve, with real rates still negative. Given that further rate rises appear probable (especially in the event of renewed dollar strength) the short-term outlook for the Philippine's market is uncertain. Against this however, the recent overheating in the economy is still manageable, as long as neither an overly cautious central bank, nor higher oil prices, are permitted to cause headline inflation to spill over into core inflation. The country's underlying economic fundamentals remain strong. The current account deficit is low, at 0.5% of GDP for 2018E, as is the fiscal deficit at 3.0% of GDP, despite greatly increased infrastructure investment under the Duterte administration. Two of the most important drivers of the Philippines economy are remittances from overseas workers and foreign direct investment, including BPO or business process outsourcing. Both are likely to receive a boost from the weak currency. In summary, further rate rises may be required in the Philippines in the short term, both to slow inflation and to support the currency, but the longer-term outlook gives us less cause for concern.

Against this background, it is unsurprising that the market has de-rated, falling by 20% from its late-January peak. Foreign selling has been high this year, reversing the net new investment of 2017, and the market valuation has declined to around 17x prospective 2018 earnings. This is not by any means compellingly cheap, reflecting the fact that earnings expectations have held up well at around 10% growth for 2018, but it is a significant de-rating since January. At that time, the prospective market PE was in the low 20s. In the short term, we believe that the fund's Philippines holdings have solid defensive qualities. Manila Water is a utility with a stable growth outlook, and the valuations of all three investments are significantly below the broader market averages. More importantly however, the fund's holdings in the Philippines are positioned to benefit over the longer-term from the growth of the domestic economy. We expect the fund's bank, Philippine National, to gain from the emergence of a new middle class in the country, and the opening up of the market for financial services among a currently "underbanked" population. Less than 40% of Philippine households currently have a bank account. Finally, Aboitiz Power is a vertically integrated power generator, the largest in the Philippines with 13% of the country's total capacity, spread across coal, oil, hydro, geothermal and solar power. We view the stock as an inexpensive defensive, with good long-term growth prospects and a prospective dividend yield in excess of 4%.

BIOGRAPHIES

BROOK TELLWRIGHT

Brook has managed the Southeast Asian Fund since its inception in 2011 and came to Waverton upon the acquisition of 2CG Senhouse which he co-founded in 2010. Prior to this he co-managed the Ton Poh Emerging Thailand Fund at Ton Poh Capital which he had co-founded in 2004. Brook was at Cazenove & Co between 1984 and 2002 leading both the Emerging Markets Desk and the North American Desk during his time there. He has an Economics degree from Queen Mary College, University of London (1984) and a Masters in Asian History from the School of Oriental and African Studies, University of London (2004).

TEAM



Brook Tellwright

RICHARD HARDING

Richard joined Waverton in September 2018 as Head of Asian Equity Research. He is based in the Bangkok research office and works closely with Brook Tellwright and Will Hanbury on the Southeast Asian and Asia Pacific long only equity investment strategies. Prior to joining Richard was Head Of Asian Equities in Singapore for Maybank Kim Eng (2005-2018), during which time he collaborated strongly with Waverton identifying interesting opportunities across Asia. Richard was Head of Asian Equity Sales for Nomura, HSBC Swiss Bank and Barings Securities between 1989-2005. The first decade of his career was spent as a Global Bond and Equity fund manager for Den Norske Creditbank (1986-1989) and as a Japanese Warrant Trader for Hoare Govett (1981-1985). Richard read Economics at Bath University in 1980, holds four London Stock Exchange exams and has Modules IA and 6A from the Institute of Banking and Finance Singapore.



Richard Harding

HOON VALYASEVI

Hoon joined Waverton in June 2017 as an analyst for the Waverton Southeast Asian Fund. Previously he worked in the Business Development department of Thailand's state-owned energy corporation, PTT Public Company Limited. Hoon graduated from Imperial College, London with a Masters in Chemical Engineering (MEng) in 2014. He is currently studying for a Masters in Financial Investment and Risk Management (MSc) at the National Institute of Development Administration of Thailand, and his CFA examinations.



Chaiyarit 'Hoon' Valyasevi

FUND DETAILS

FUND FACTS

Launch Date	1st March 2011
Morningstar Category	ASEAN Equity
Benchmark	MSCI AC ASEAN NR Index
Fund Size	\$25.7m
No. of Holdings	21
Domicile	Luxembourg
Sedol	BP4W4Z9
Bloomberg Code	SHAEAFALX
Fund Type	SICAV
Base Currency	USD
Other Currencies	None
Ex Dividend Dates	N/A

RISK STATISTICS

3Y Annualised

	FUND	AVERAGE PEER GROUP
Fund Volatility (%)	12.4	12.0
Index Volatility (%)	12.2	-
Sharpe Ratio	0.6	0.6
Information Ratio	-0.4	-0.6
Tracking Error	6.3	4.4
Alpha (%)	-1.3	-1.6
Beta	0.9	0.9
Active Share (% - Current)	99.3	-

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I USD Acc	LU1060842033	1,000,000 USD	0.80%	ACC	829.871	N/A	1.31%
I USD Inc	LU1206605195	1,000,000 USD	0.80%	INC	1376.326	N/A	1.33%
R USD Lead	LU1060841571	100,000 USD	1.25%	ACC	938.641	N/A	1.85%

CONTACT DETAILS

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Risk Warning: Past performance is no guide to future performance. The value of holdings may fall as well as rise. All financial investments involve an element of risk. The level of income from the investment may fluctuate in value. Currency movements may also affect the value of the investment. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. The above is a guide only and should not be considered as advice or a solicitation to buy or an offer to sell a security. The Fund may invest assets in Emerging Market Countries. The risks involved in investments in Emerging Market Countries are likely to exceed the risks of investment in more mature markets.

For full details of investment risks please refer to the Prospectus. A copy of the full prospectus and the KIID is available from Waverton Investment Management or ACD, Casa4 Funds. Waverton Investment Management is authorised and regulated by the Financial Conduct Authority.

Sources: Waverton, Morningstar.

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