



WAVERTON

INVESTMENT MANAGEMENT

SOUTHEAST ASIAN FUND

THE WORLD ECONOMY AT AN INFLECTION POINT

Outlook – Optimistic, but not a typical cycle

If we were in a typical cycle there would be many reasons to be optimistic about markets in Asia: deflationary forces are subsiding; there's evidence of a global cyclical recovery; fears about China are fading; strong expected US growth should drive Asian exports and provide an added tailwind for the market. One could argue that emerging Asia is more connected and integrated in the global economy than ever and politics in the region are no more volatile than normal. One would conclude that we are well on track for a synchronised global recovery.

However this cycle may be far from "typical": the recovery could be scuppered by the rise of protectionism signalling the end of a 40 year trend of globalisation; trade wars could ensue causing inflationary forces to overshoot; central bankers will find themselves behind the curve; interest rates would rise sharply causing pain for the emerging world. Southeast Asian markets would not be immune.

Without wanting to add to the reams of commentary on President Trump our base case is that protectionism would cause inflation and higher US interest rates, and his Administration is unlikely to inflict such damage on the US economy voluntarily. Furthermore the idea that complicated supply chains of garments and electronics made in Asia bound for the US can be simply moved onshore is questionable. In our view a more likely scenario is a series of token gestures he can tweet to his "base" and that pragmatism will then prevail.

Positioning and Portfolio Activity – Continue to focus on Reasonable Prices and undervalued midcaps

Turning to our portfolio our response to these quite different potential scenarios has been to continue to avoid overvalued companies and those that have achieved high ROE through excessive leverage. We believe that the emphasis on the RP (Reasonable Prices) aspect of our investment approach is crucial at a time of such uncertainty.

We question the notion of an "expensive defensive" stock believing that when something is "expensive" it can no longer be looked as "defensive" as it could easily de-rate should capital leave the region quickly. As a result we remain underweight consumer staples stocks in Indonesia and Philippines and healthcare stocks in Thailand.

Instead we concentrate on undervalued midcaps and favour developing rather than developed nations with two notable overweights in Vietnam and Philippines. We favour local banks e.g. Military Commercial Bank (MBB^(sic)) and Philippine National Bank (PNB) who command strong franchises in their respective countries. Both MBB and PNB operate traditional banking models in rapidly growing markets with underpenetrated financial services and favourable demography. This is in sharp contrast to the larger more complex Singaporean banks, which make-up a large portion of our index and have performed well recently on the expectation of higher interest rates. However we continue to avoid them as the saturation of banking services in Singapore has forced them to grow their loan exposure in China.

Finally in the second half of 2016 we invested in three telco stocks in Philippines, Thailand and Indonesia which have very strong cashflow and operate in countries where smartphone penetration is growing rapidly. Competitive pressure is high but this is fully discounted in the share prices as are the demanding capex requirements. Regulatory frameworks lead to high barriers to entry which make them very attractive business franchises, we were able to buy them on earnings multiples of 10-15x.

Brook Tellwright - 24th January 2017

PERFORMANCE

Returns to 31st December 2016 (%)	1 year	3 years	5 years	Since Inception*
Southeast Asian Fund (I USD)	12.7	3.3	26.9	27.1
MSCI South East Asia Index USD	6.0	-8.3	7.1	4.7
Morningstar Peer Group	4.6	-8.2	8.5	3.5
Quartile Ranking	1	1	1	1

*Fund Inception 1st March 2011

Standardised Performance (%)					
1 year to	31st Dec 2016	31st Dec 2015	31st Dec 2014	31st Dec 2013	31st Dec 2012
Southeast Asian Fund (I USD)	12.7	-17.2	10.7	-0.5	23.5

Figures shown net of fees, total return. Performance is calculated on a NAV to NAV basis.

Past performance is no guide to future performance. The value of holdings may fall as well as rise. You may not get back your initial investment. Capital security is not guaranteed. 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.
Source: Waverton / Morningstar. As at 31st December 2016.

TEAM BIOGRAPHIES



BROOK TELLWRIGHT

BROOK TELLWRIGHT - FUND MANAGER

Brook joined Waverton in April 2016 as manager of the Southeast Asian Fund, a vehicle he has managed since inception in March 2011. Between 2005 & 2010 he co-managed the Ton Poh Emerging Thailand Fund at Ton Poh Capital. Brook was at Cazenove & Co between 1984 and 2002 where he managed both the Emerging Markets Desk and the North American funds 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).



DOUGLAS BARNETT

DOUGLAS BARNETT - ANALYST

Doug joined Waverton in April 2016 as an analyst on the Asian team based in Asia. Prior to joining 2CG Senhouse, now part of Waverton, Doug was as an analyst at PXP Asset Management Vietnam. Between 2009 and 2012 Doug was an analyst at Deutsche Bank and prior to that at De Putron Fund Management. He graduated with a Chemistry degree from the University of Edinburgh in 2009, holds the Investment Management Certificate and the Chartered Alternative Investment Analyst Designation (CAIA).



WILLIAM HANBURY

WILLIAM HANBURY - FUND MANAGER

William joined Waverton in November 2013 and manages the Waverton Asia Pacific Fund. Prior to joining Waverton he was a director at Active Capital Management, a quantitative trading specialist. He graduated with a Masters Degree in Economics from Edinburgh University in 2006 and has a broad experience of financial markets having worked in equity analysis, derivative structuring and trading.

FUND DETAILS

Fund	Waverton Southeast Asian Fund
Benchmark	MSCI AC ASEAN NR Index
Peer Group	Morningstar ASEAN Equity
Structure	SICAV
Domicile	Luxembourg
ISIN	I USD: LU1060842033
AMC	I USD: 0.75%
Ongoing Charge	I USD: 2.01%
Performance Fee	10%
Dealing	Weekly
ACD	Casa4 Funds SA Luxembourg

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The opinions expressed are based on current market conditions and are subject to change. The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security.

These Funds 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. The value of holdings may fall as well as rise, capital security is not guaranteed.

For more information please refer to the Fund's Prospectus and KIIDs. The Prospectus and the KIIDs are available from Waverton's website and the Authorised Corporate Director (ACD)