Investment Strategies

Regional Equity Strategies

Australian Equities Portfolio Managers
Crispin Murray, Peter Davidson, Julia Forrest, John Foundas, Paul Hannan, Darron Mitchell, Brenton Saunders, Rajinder Singh, Jim Taylor, Andrew Waddington and Noel Webster

Australian Equities
Investment Review

The 2017 Financial Year was a very successful year for our Australian equities portfolios, managed by one of the largest and most experienced Australian equities teams in the market.

What were the key influences in 2017?

During the 2017 Financial Year the team delivered strong outperformance across the board, with almost every strategy beating its respective benchmark over the 12 months to the end of September (before fees).

This strong result saw 80 percent of our flagship strategies achieve returns in the top quartile of their respective peer groups over the year, with the BT Wholesale Focus Australian Share Fund, our concentrated strategy, finishing over 8 percent ahead of its benchmark (before fees).

There were several drivers of this strong performance. A number of key overweight positions delivered strong gains and made notable contributions, including some of our non-consensus holdings such as Qantas, Metcash, and Nine Entertainment. These stocks illustrate the stock-level factors, which can be exploited when the market gives up on a sector that is facing disruptive challenges. Our positions within resources have also worked well over the year.

In addition, we have benefited from avoiding many high growth names, particularly in the health care, technology, and telecommunications sectors. These have been among the market's more popular stocks in an environment of falling bond yields and many of them reached valuations which we believed were unsupported by fundamentals which left them vulnerable to a de-rating. This proved to be the case for several of these stocks, which saw sharp falls on generally quite mild earnings disappointments.

How are the portfolios positioned?

Our portfolios are positioned to take advantage of our insight at the company level. The declining influence of some recent thematic market drivers, coupled with an unprecedented level of disruption from new technologies, competition, policy and regulation, is driving significant divergence in performance between stocks and sectors, despite a relatively muted performance from the market overall.

Our portfolios are designed through leveraging our diverse range of investment expertise, ideas and positions. We continue to see opportunities in resources, supported by reasonable commodity prices and greater discipline in capital expenditure and costs. We believe that the market's periodic shifts in sentiment towards major industries (including retail and banks) continue to throw up opportunities in specific stocks. We also like several companies that are relatively protected from disruptive forces due to business models that are hard to replicate, as well as companies that are providing disruption in their own right.

We remain underweight bond-sensitive stocks (both defensive and growth) but less so than in the past, given our view that bond yields are unlikely to rise as fast as many expect.

What is the outlook for 2018?

We believe Australian equities will remain in a low return environment for the year ahead, notwithstanding the recent emergence of some positive economic tailwinds. The market's valuation is above its historical average, but can remain supported by low interest rates and the spread between dividend and bond yields. Liquidity remains reasonably supportive, but could present a risk if we see significant tightening from central banks.

A small pick-up in corporate capital expenditure and a strengthening pipeline of infrastructure projects provides some broad economic tailwinds. However earnings growth outside of resource stocks remains relatively muted which underpins our view that we are moving into a low return environment.

It does, however, remain a good market for active management. Waning thematic drivers and the significant degree of disruption increases the importance of a company's management and strategy in navigating a challenging environment and in driving ultimate stock performance. We believe our strategy of employing a large team to maximise coverage and gain deep insight at a company level is well positioned to drive returns for our investors.

UK Equities Portfolio Managers

UK Equity Income: Clive Beagles and James Lowen

UK Dynamic: Alex Savvides and Tom Matthews

UK Opportunities: Rachel Reutter, Michael Urich and Todd King

UK Growth: Mark Costar and Vishal Bhatia

UK Equities
Investment Review

How has the political landscape affected the UK equity market over the last year?

It has been a turbulent year for UK politics, in large part due to the widely unexpected outcome to June's general election, which saw the Conservative Government lose its parliamentary majority. The inconclusive result created further political and economic uncertainty in the UK and has exacerbated the negative effect on investors' perceptions of and demand for UK-exposed assets.

Brexit negotiations finally began in earnest after the triggering of Article 50 of the Treaty on European Union towards the end of March. This marked the most significant step yet in the changing economic and political relationship between the UK and the rest of Europe. The road is unsurprisingly proving to be long and winding and shrouded in uncertainty. However, sterling's weakness has led to a rapid and substantial improvement in the UK's terms of trade, acting as an important safety valve for the UK economy and helping to give a significant boost to the manufacturing sector. However, business and consumer confidence remains fragile and economic growth has slowed.

Political volatility has not hampered returns from the UK stock market over the past 12 months. Substantial double-digit returns were achieved in the basic materials, financials, oil and gas and industrials sectors, with utilities, telecoms and healthcare being the only sectors generating negative returns. Large-cap, overseas-earning constituents of the FTSE 100 Index were early major beneficiaries of sterling's marked devaluation in the wake of 2016's Brexit vote, but the mid and small-cap areas of the market outperformed large caps over the year.

Where are the opportunities for UK equity portfolios?

Our four UK equities strategies are each managed by a different team, which apply distinct approaches to investing.

The UK Dynamic strategy seeks opportunities in mispriced or undervalued companies that are making positive changes to transform their businesses, usually either in the form of new management teams, new business strategies, or both. Recent examples of new additions to the portfolio include global industrial supplies company Xaar, financial information company Euromoney and property business St Modwen Properties. All three companies now have new management teams, which are implementing new, exciting strategies.

Our UK Equity Income strategy continues to find value in companies with UK domestic economy exposure, particularly in the construction/house building sector, which currently accounts for roughly 10 percent of the overall portfolio. It is well-flagged that not enough homes are being built in Britain while the recent Grenfell Tower tragedy has placed the quality of Britain's social housing in the spotlight. Elsewhere, the strategy is also currently overweight in the financial, industrial and commodity-related sectors. We also see plenty of value in small-cap stocks, with the portfolio currently having one of its highest ever allocations to small caps.

Our UK Growth strategy has a clear portfolio theme of backing innovative companies investing in disruptive technologies. A good example of where changes are rapidly happening is in the area of digital advertising. To harness its undoubted potential, the industry needs greater accountability and credibility, which is an area exploited by one of our portfolio holdings, Ebiquity, as the world's largest media auditing company.Another clear structural growth opportunity is presented by cyber security, which has led to our large technology overweight position in NCC Group, a world leader in this field.

The fourth UK equity strategy, UK Opportunities, has long been concerned by the artificial inflation of asset prices by central bank policies, including quantitative easing and emergency-level interest rates, which have been in place since the early months of the Global Financial Crisis. A focus on absolute rather than relative valuations has led us to hold a large cash balance in recent years, rather than risk our clients' capital by investing in overvalued stocks at or near what we believe may prove to be the top of the current market cycle.

Regional Equity Strategies

European Equities Portfolio Managers

Select Values / European Concentrated Value:
Robrecht Wouters and Luis Fañanas

Continental European:
Paul Wild and Gael Colcombet

European Equities
Investment Review

What have been the main challenges facing European equity markets?

Political risk was at the forefront of investors' minds after the shock Brexit vote in June 2016 and President Trump's widely unexpected victory in November. However, the reality proved to be more benign, with the stock market's preferred political candidates carrying the day in a raft of closely-watched elections and political challenges being mostly overcome, assuaging worries over the possible break up of Europe.

In March, Dutch Prime Minster Mark Rutte's Liberal party succeeded in the country's general election, heading off the challenge from Geert Wilders' anti-EU, anti-immigration Freedom party. Later, in France, Emmanuel Macron became the new president, defeating anti-EU Marine Le Pen by a larger margin than expected, while his newly-formed party, En Marche!, subsequently obtained an absolute majority in the French parliamentary elections.

Attention then switched to the German general election in late September 2017. This passed off as expected, with Chancellor Merkel returned to power after the CDU/CSU secured the largest share of the vote. However, at 33 percent it was their lowest showing since 1953 and necessitates the formation of the so-called Jamaica coalition with the Green Party and FDP. The anti-immigration, anti-EU AfD party came third with 13 percent of the vote. At the margin, this is seen as taming Chancellor Merkel's well-articulated pro-European stance given greater divergences at home.

The sole political setback was the Italian referendum on constitutional reform in December. However, as previously seen in 2016, the negative result was taken surprisingly well by the markets.

Adding to the positive mood in Europe over the 12-month period was clear evidence of the continent's improving economic performance, reflected in solid growth numbers, a buoyant consumer and an improving employment picture.

Given increased economic momentum, the question now arises as to how the European Central Bank (ECB) will ease back on the monetary throttle. Some indications came in September when President Draghi essentially confirmed the likelihood of an October decision to implement further tapering in the ECB's quantitative easing programme.

How did the European equity strategies perform over the year?

In strong-performing European equity markets, our Continental European (CEU) and sister strategies of European Select Values (ESV) and European Concentrated Value (a more recently-launched large cap, concentrated version of ESV) finished behind their respective benchmarks.

Good stock picking in ESV, particularly within healthcare, was cancelled out by the strategy's structural lack of exposure to the top-performing financials sector, as well as holding defensive put options. In markets that are again hovering around all-time highs, we believe it is more important than ever to be valuation-disciplined, especially since improving economic conditions and ultra-loose monetary policies will not co-exist forever. Meanwhile, our existing investments within the ESV strategy offer significant aggregate upside potential, which helps us to be patient and opportunistic.

CEU was also hindered by an underweight financials stance earlier in the period plus holding a small amount of cash. Stock picking was also a minor headwind, with constructive selection in financials and industrials undone by weakness in our consumer discretionary and materials names.

Over the past few months, we have increased European domestic exposure within the CEU strategy, in particular European banks, whilst being underweight healthcare and consumer staples. We believe there is far more valuation and earnings support for the more reflationary sectors given the macro backdrop.

Europe continues to normalise in terms of politics, growth and profit-cycle recovery. Our European equity strategies are well placed to capitalise upon the expected continuation of these positive trends.

Asian Equities
Portfolio Managers

Asia ex-Japan:
Samir Mehta and Cho Yu Kooi

Japan:
Scott McGlashan and Ruth Nash

Asian Equities
Investment Review

What is the Japan team's view on 'Abenomics' and the upcoming Japanese general election?

We have always maintained our faith in 'Abenomics' despite its many critics, so it was gratifying to see an upbeat verdict from the International Monetary Fund (IMF) in June this year. In contrast with last year's verdict, the IMF declared Prime Minister Abe's inflationary measures a 'success' after Japan enjoyed its longest sustained run of growth in more than a decade.

Mr Abe returned from a recent trip to the US to announce a snap general election. Given that the present government could have continued until December 2018 before having to go to the polls, he clearly sees an opportunity to consolidate his grip on power. The Governor of Tokyo, Ms Koike, immediately announced that she was forming the Party of Hope. Although the new party initially gathered momentum rapidly, its chances may be damaged by the charismatic Koike's decision not to run, leaving her party without a candidate for prime minister. Meanwhile, her arrival dealt the final blow to the opposition Democratic Party, which disbanded. The upshot is that the ruling LDP seems most likely to be returned to power, albeit with a somewhat reduced majority.

The third longest serving prime minister in post-war Japan has a number of critics among the ranks of foreign investors, but we are happy to bang the drum for Abenomics and would welcome another Abe administration. A review of the Abenomics scorecard explains our positive disposition. Since coming to power in late December 2012, his much-needed expansionary policies and reforms have led to tangible achievements across the financial and real economy, with highlights including a 91 percent gain in the Topix Index, a 123 percent surge in corporate earnings, a 78 percent rise in dividends per share, a 34 percent fall in the unemployment rate, a 9 percent jump in housing starts and a 29 percent fall in the value of the yen against the US dollar in an economy full of world-leading exporting companies.

Recent statistics portray the Japanese economy in robust health with a tightening labour market and inflation growing modestly. Although the second-quarter GDP number was revised down slightly, this is actually a recovery being driven by domestic demand. The Bank of Japan's quarterly Tankan survey suggested companies are in an optimistic frame of mind and planning to increase capital expenditure. Despite this abundance of good news, Japanese equity valuations are close to historic lows, with foreigners continuing to be underweight. As investors, we think it is difficult to conceive of a more positive backdrop.

Was it a good year for JOHCM's Asian equity strategies?

It was an excellent year for Asian equities and a relatively tough one for our two Asia ex-Japan strategies (Asia ex-Japan and Asia ex-Japan Small and Mid Cap). On 8 November 2016, the US election result drove the US dollar higher and all Asian currencies fell with a large macro move in interest rates. On the same day, Indian Prime Minister Modi's abrupt decision to demonetise large denomination bank notes caused widescale disruption for both Indian citizens and businesses. Both of our Asian ex-Japan strategies had a significant and longstanding overweight in India and our Indian holdings were badly affected, although trading rebounded swiftly. Our overweight stances in Indonesia also dragged on returns as concerns rose over a religious feud surrounding Jakarta's Governor which culminated in him losing his bid for re-election and being served with a two-year prison sentence. Investors were also disappointed by the sluggish economic recovery and the slow pace of government infrastructure spending. However, we remain patient and continue to stay the course.

Our core holdings, which have quality, sustainable, long term growth hallmarks, remain largely the same and we retain our conviction in their long term prospects. The long-term track records of our Asia ex-Japan strategies remain excellent, with both OEIC sub-funds ranked first quartile in their peer group since their launch.

Regional Equity Strategies

US Equities
Portfolio Managers
Arun Daniel, Thorsten Becker and Vince Rivers

US Equities
Investment Review

We manage the US Small and Mid Cap Equity (SMID) strategy from JOHCM's Boston office. The investment philosophy centres on the belief that sector-based investing is the optimal way to identify long term winners, with important advantages in return and risk.

Where are the opportunities for US equities?

We have identified some key beneficiaries of Trump's policies at the sector level, particularly within defence and infrastructure. These stocks were among the prime beneficiaries of Donald Trump's election, as many expected the administration to increase spending on the country's decaying roads, bridges and related projects. The 2017 Infrastructure Report Card, released by the American Society of Civil Engineers, awarded the country a grade of D+, clearly indicating room for further improvement.

Although the so-called 'Trump trade' subsided early on in 2017, the topic has remained on President Trump's agenda. Among our related holdings in this segment are Terex, a Connecticut-based manufacturer of construction and transportation equipment, Jacobs Engineering, a Texas-based provider of construction services, and Martin Marietta Materials, a North Carolina supplier of construction materials, including granite, gravel and cement.

President Trump has also been a vocal advocate of greater defence spending, with additional support from the House and Senate Armed Services committees. More recently, concerns have centred on North Korea, which conducted several missile tests in July and August 2017, sparking widespread international condemnation. Rhetoric has been heating up in the region, with countries like the US, Russia and China contributing to the conversation.

In addition to worries about conventional warfare, scrutiny has been mounting on the recent proliferation of cyberattacks. For instance, computers from Ukraine to the US were hit by ransomware attacks in late June, while another ransomware attack targeted governments, hospitals and companies in Europe in May. In that vein, the portfolio holds Booz Allen Hamilton, a Virginia-based government cybersecurity consultant. Although it is technically not in the industrials sector, we view this information technology name as a compelling play on defence.

How did the US SMID strategy perform in the 2017 Financial Year?

Strong stock selection across a number of sectors led the strategy to outperform meaningfully over the period. Leading the way were the portfolio's industrials holdings, with the above-mentioned Terex being the clear stock winner. The construction equipment manufacturer has a solid backlog and a promising turnaround plan that is currently under way. Staying with the sector, Old Dominion Freight and HD Supply also made notable positive contributions. The consumer staples and telecommunications sectors were also happy hunting grounds, with Cogent Communications' share price buoyed by results in the September quarter as the company delivered a solid quarterly earnings report and Moody's lifted its ratings outlook to positive. Elsewhere, the share price of health care provider Centene benefited after plans were announced to offer coverage in areas without other Affordable Care Act options.

The only material performance headwind originated in the information technology sector, where stock selection impeded performance. Here, travel technology company Sabre was the standout individual laggard. Its share price sold off after it reported mixed fourth quarter results and a disappointing full year forecast that reset expectations.

What is your current investment outlook?

Despite some setbacks on health care reform, we still expect US policies on taxation, regulation and infrastructure spending to change. However, we may not see the resulting positive impact on corporate earnings estimates or stock prices until 2018, regardless of what Congress is able to enact in the remainder of 2017. Yet, US consumer sentiment remains high and the market has proved to be remarkably resilient.

Financial conditions are still constructive, and credit is not yet a major concern. Bank results are highly sensitive to potentially faster US growth (through potential tax reform and infrastructure spending), normalising interest rates and valuations that remain low relative to history and earnings potential.

Global and International Equities

JOHCM Global and International Equities Portfolio Managers

Global Opportunities:
Jasmeet Munday, Ben Leyland and Robert Lancastle

Global/International Select/Global Sharia:
Christopher Lees and Nudgem Richyal

International Small Cap:
Robert Cresci and Justin MacGregor

JOHCM Global and International Equities
Investment Review

Our Global Opportunities team believes that investors need to follow strategies that have the avoidance of capital destruction at their heart.

What individual opportunities are there in global stock markets?

Our Singapore-based JOHCM Global Select team recently established new positions in two interesting idiosyncratic Japanese stocks. The first, Renesas Electronics, is a leading global semiconductor company that experienced difficulties after the global financial crisis but is now growing again after successfully restructuring under the Japanese-style Chapter 11 provisions. The second is a company called PeptiDream, a unique patented drug discovery platform that combines man-made and natural amino acids, creating trillions of potential peptide combinations for potential new drugs. The company earns milestones and royalties from every product that emerges from its platform, which is now licensed to most leading pharmaceutical companies. For example, Kyorin in Japan and Merck in the USA have identified peptides that meet their respective targeted applications, with the promise of many more milestone payments to come, not to mention massive royalties on the drugs if they eventually reach the market.

Our London-based JOHCM Global Opportunities team are actively looking to diversify the portfolio away from fully valued growth companies into shorter duration assets with less growth potential, but solid cash flows and good yields. Uniti and Rio Tinto are both recent purchases and good examples of this. Elsewhere, the offline retail sector looks increasingly interesting as the market is unwilling or unable to look beyond the threat of online competition, which is undoubtedly real but will affect some more than others. Those companies with high barriers to entry and a service-based proposition, with the ability to evolve with the times, are likely to survive and thrive.

What is your current outlook for worldwide markets?

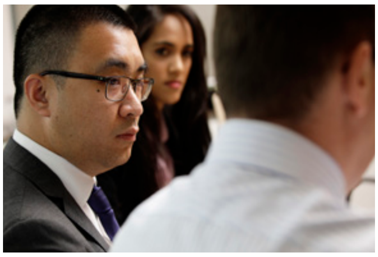
Our Global Select team sees the market rotating between three main scenarios and has sought to position the portfolio accordingly. Scenario one is a continuation of trends seen so far in 2017 of a narrow, technology-led bull market. Scenario two is a change in market leadership to more economically sensitive stocks such as commodities. Finally, scenario three is a bull market correction at best, or a bear market at worst. As a result, the team has been letting cash levels drift up to around 10 percent to provide more ammunition to buy any dips if and when any market sell-off occurs.

With stock markets hitting record highs in recent weeks, our Global Opportunities team believes investors should be wary of complacency, as valuations across many areas of global stock markets currently afford little room for error. Unlike in previous market highs, like the dotcom bubble, the problem for equity investors now is not the distortion of stock market indices by a single, extremely overvalued and consequently oversized sector. The current problem is that valuations are elevated across the board, in 'quality' and 'value' segments of the market as well as 'growth'. Unlike in 1999, there is currently no obvious area of the market offering genuine value.

Our Global Opportunities team believes that investors need to follow strategies which have the avoidance of capital destruction at their heart, while maintaining the flexibility to judiciously back the best investments where the risk and reward balance is clearly positive. To that end, it is worthwhile recalling Warren Buffett's top two rules of investing: 'number one, never lose money; number two, repeat number one'.

Global and International Equities

BTIM Global Equities Portfolio Managers
Ashley Pittard, Sue Scott and Paul Gyenge



BTIM Global Equities
Investment Review

The team manages the BT Concentrated Global Share Fund, launched in August 2016. Our focus is on identifying industry leading companies that we believe are undervalued in the near term and offer long term capital growth.

How is the portfolio positioned?

Our active investment approach is founded upon fundamental bottom-up company research and analysis. We seek to invest in outstanding companies that we assess to be the global leaders in their industry. While we recognise that at any time a large majority of these companies will be fairly priced, we believe there are always opportunities to take advantage of pricing anomalies. We therefore focus our research effort on identifying those anomalies.

Our concentrated portfolio of 35 to 55 companies is constructed from our chosen investment universe, based on the principles of high conviction and diversification of economic risk. As such the make-up of the portfolio is likely to be markedly different from the benchmark.

During the 2017 Financial Year, the team has undertaken research into a diverse range of industries, including technology, healthcare, asset management, media, stock exchanges and aerospace. The research led us to identifying a number of strong investment opportunities for our clients.

What were the key influences in 2017?

Pleasingly, the first year's track record has been strong, with our portfolio, outperforming its benchmark, the MSCI World ex Australian Total Return Index, by 3.5 percent (before fees).

Contributions to performance came from a diverse range of industry sectors, which in our view validates the importance of active stock selection. Our shareholdings in CSX Transportation, Boeing and Caixa Bank, are examples of companies that performed strongly during the year.

Over the past few years investors with broad stock market exposure have enjoyed strong investment performance. This performance has been sustained by persistently low interest rates and quantitative easing, resulting in broad market valuations that are above long term averages.

Going forward, we believe the tailwinds for equity markets of low interest rates and quantitative easing will be reversed. In such an environment, indiscriminate broad market exposure is unlikely to yield the same returns. Therefore, we believe this environment calls for an investment philosophy where stocks are carefully selected through intensive research and active assessment of a company's long term strategy and management's ability to implement it.

What is the outlook for 2018?

We see a normalisation of rates as inevitable, however we do not anticipate global interest rates increasing rapidly. This is likely to see swathes of the market unable to sustain their current lofty valuations.

Nonetheless, valuations in some parts of the market look attractive. The companies we hold in the portfolio are ones we consider to be industry leaders, have strong management teams, a sustainable, long term business strategy and whose shares were bought below what we calculate as their replacement value. Sometimes these businesses will take time to revert to their intrinsic value, however our view is that the industry leaders we are investing in are building sustainable businesses that will ultimately reward shareholders for their patience.

We particularly seek opportunities to invest when the tide of news flow and sentiment is unreasonably against a company, this requires us to be disciplined in selecting when to buy and sell.

The year ahead will see us building out our presence in the market, through progressively broadening our distribution.

JOHCM Global Emerging Markets Portfolio Managers

Global Emerging Markets:
Emery Brewer, Ivo St. Kovachev, Stephen Lew and Ladislav Sabo

Global Emerging Markets Opportunities:
Ada Chan, James Syme and Paul Wimborne

JOHCM Emerging Markets Equities

Investment Review

Our Global Emerging Markets Opportunities portfolios make investments in emerging markets based on views at the country level.

What are the different investment approaches of the JOHCM emerging markets portfolios?

We have three emerging market equity strategies, with two of these having distinctly contrasting investment approaches. Our London-based Global Emerging Markets Opportunities (GEMO) team believes investment in emerging markets goes right or wrong at the country level. Accordingly, the team follows a predominantly top-down approach, meaning country selection forms the basis of portfolio construction.

In contrast, our Prague-based Global Emerging Markets (GEM) team favours a bottom-up stock picking approach centred on earnings momentum, typically generating outperformance through stock views rather than country or sector selection. The team analyses individual companies, focusing on growth and on businesses that have the potential to develop world-class products or become industry leaders in local markets.

In 2014, the GEM team launched a small cap version of the all-cap strategy. This has enjoyed marked investment success, powered by highly positive stock picking. The 2017 Financial Year saw the strategy's encouraging start continue with robust security selection in China contributing to significant outperformance, compared to its benchmark over the 12 month period.

Where are the investment opportunities in emerging markets?

The GEMO team is particularly positive on India. Central bank policies have brought down inflation and the government is expected to provide financial support for the economy ahead of the 2019 election. In addition, the team considers Prime Minister Modi's administration to be the most pro-reform government in any emerging market right now, and view some of the policies (e.g. tax reform, infrastructure investment and improvement) as providing a direct and visible uplift to economic growth.

Elsewhere, the team also likes the attractively-valued South Korean market, seeking exposure to a cyclical uplift to economic growth in the country, with non-commodity exports being a key driver. High household indebtedness remains a drag on domestic demand growth, but adding to the bull case is the fact that the Korean Government has substantial policy options, both fiscal and monetary. The Korean won seems likely to continue to depreciate against the currencies of key trading partners, as easier monetary policy reduces interest rates at a time when Japan, in particular, is struggling with currency strength. The team is also positive on the prospects for change in the corporate governance environment.

In contrast, the GEMO team is more bearish on China, having long felt that the credit stimulus applied to the Chinese economy in mid-2015 would have negative side effects and would ultimately prove to be unsustainable. The very rapid increase in private-sector credit/GDP poses substantial risks to equity holders in the financial system. The team expects Chinese economic growth to slow as stimulus is withdrawn and view the crackdown on shadow banking as creating further growth risks to the downside. From an investment perspective, apart from banks, Chinese equities are not particularly attractively valued, and the team prefers to be positioned elsewhere, most notably in India, South Korea and Taiwan.

For the GEM strategy, opportunities within the technology sector have been plentiful. In the portfolio, top performers include Sunny Optical, a Hong Kong-listed lens-maker which supplies smartphone manufacturers with camera lenses. As competition increases amongst high-end smartphone manufacturers and developments into dual-lens cameras take place, Sunny Optical has enjoyed significant demand increases and the share price has reflected this.

Income & Fixed Interest Portfolio Managers
Vimal Gor, George Bishay, Justin Davey, Steve Campbell, Peter Farac, Tim Hext, Robin Lu and Amy Xie Patrick

Income & Fixed Interest
Investment Review

The Income & Fixed Interest portfolios include a range of investment strategies covering Australian and international bonds, unconstrained absolute return, as well as income-orientated solutions and cash funds.

What are the distinctive features of the Income & Fixed Interest portfolios?

One of the most significant differentiators of our team's flagship strategies is its defensive positioning, founded on our solid fundamental research approach. Our investment style is true-to-label defensive fixed interest, with bond funds that are designed to complement the performance of riskier assets, such as equities. This means they are poised to perform well during periods of market stress and high volatility, acting as an insurance component of a broader investment portfolio.

Our experienced team has a rigorous investment process, supported by in-depth macroeconomic and quantitative research.

To support our ongoing growth momentum, over time we have steadily expanded the team. Early in 2017 we hired two senior portfolio managers, Tim Hext and Amy Xie Patrick, to extend and complement the team's skills and experience. Since joining the team, Tim and Amy have made valuable contributions to the development of our process, trade ideas and portfolio implementation.

What were the highlights in 2017?

During the financial year, the continuing growth of our flagship strategies was underpinned by strong client endorsement, supported by outperformance across our income, credit and cash strategies.

Flagship strategies continued to attract new fund inflows, highlighting that our differentiated approach is resonating with clients.

Our BT Wholesale Fixed Interest Fund has steadily grown to over $850 million and our flagship income solution, the BT Wholesale Monthly Income Plus Fund, has grown to almost $700 million, including a new mandate on one of Australia's largest platforms.

The last 12-18 months have seen markets accepting more risk despite growing geo-political concerns and increasing leverage in companies and households. This means that a defensive position is warranted more than ever.

Our clients understand how important our approach is for their portfolios, which is why we continue to be shortlisted for inclusion in new investment portfolios.

What is the outlook for 2018?

We believe the market environment is transitioning in line with the end of accommodative central bank policies. As a result, we are seeing market volatility increase and this should progressively result in more accurate pricing of risks. This will negatively impact risk assets that we believe are priced to perfection, including high yield credit, parts of emerging market debt and certain parts of equity markets.

We will soon be launching a new dedicated long volatility strategy for clients looking for a liquid alternatives strategy that can provide risk protection whilst still delivering a positive return in normal market conditions. This is an extension of the process we currently utilise in our alpha strategies, although this product's structure will feature a systemic and multi asset approach. We are seeing strong client interest and we believe this will continue to help our boutique differentiate itself in this competitive market.

We believe our investment process and philosophy will continue delivering and meeting client expectations in this increasingly volatile environment.

Multi Asset Investments Portfolio Managers
Michael Blayney, Stuart Eliot and Alan Polley

BTIM Multi Asset Investments

Investment Review

BTIM's Multi Asset Investments team delivers whole-of-portfolio strategies and solutions, bringing together the multi asset investment capabilities from across the Group, combined with strategies provided by our close external partners.

How do you construct portfolios?

The team's investment philosophy is to provide clients with truly diversified portfolio solutions with optimal asset allocation, enhanced returns and reduced risk.

In constructing a diversified portfolio, we combine assets that maximise the probability of meeting client investment objectives, applying our investment insights to reduce portfolio volatility and improve the consistency of investment outcomes.

We strongly believe in the importance of diversification in all aspects of the modern diversified fund, across time horizons, asset classes and factors, and in enhancing returns through harnessing active management.

In addition to delivering best-in-class investment strategies from across the BTIM Group, our key value add to clients is continual research to improve the risk-adjusted returns of our strategies.

The BTIM Multi Asset team is highly experienced and well-resourced to deliver a range of investment solutions to suit different market segments.

The strength of the team lies within our disciplined approach to asset allocation, our ability to gain insights from our experienced investors and our strategic partners across all asset classes, both locally and globally. This has led to superior risk-adjusted returns for our clients.

What were the highlights in 2017?

The active performance of our funds was strong during the past year, with solid results over three and five year periods. This highlights the strength and consistency of our process, with all of our key drivers contributing to active returns.

Importantly, we delivered these returns with modest downside risk, providing a much needed buffer when the markets were experiencing negative returns.

The contribution from active management to total return was significant and continues to reflect our view that, as we head into a world of lower returns from traditional assets classes, the percentage that active management can contribute to the total pie is getting larger.

The flows to our new Wholesale Plus series continued to gain momentum with net inflows of over $165 million during the year. We hope to continue this strong momentum into 2018 and beyond.

The team expanded with the addition of two very experienced multi asset investment professionals.

Michael Blayney was appointed as Head of Multi Asset Investments in August 2017, bringing over 21 years' industry experience. The team is benefiting from his extensive experience in asset allocation and, in particular, managing real return strategies.

In February 2017, Alan Polley joined the team. With over 16 years' experience, his skills are being utilised in portfolio construction and in enhancing our alternatives strategies to further improve their risk-adjusted returns.

What is the outlook for 2018?

Heading into 2018, the team will be focussed on delivering enhancements to existing alternatives strategies and launching new investment solutions.

We believe that these strategies will become essential for investors looking to diversify their return sources, whilst still seeking high returns.

We continue to have a strong belief that market returns will be lower over the next ten years than they have been in the previous ten years.

In this environment, we believe it is important to focus on increasing the active return drivers within the strategies in traditional markets via active management, as well as from non-traditional markets via alternative risk premia and other enhancements.