



2016's

BEST FUNDS

Looking back at 2016, what were the hidden gems of the funds world that exceeded your expectations? As the new year draws near, how do you expect the market to evolve, and which funds do you think are well placed to capitalise?

we do find compelling opportunities in specific countries, we remain very selective. EMs are too heterogeneous to go long the entire asset class.



SVEN ROERING
TENZING PACIFIC MANAGEMENT
VIETNAM

In 2016, the standout fund we have allocated to has to be the **Natixis | Loomis Sayles Multisector Income** fund. The fund allocates mainly to bonds, primarily a diversified pool of sovereigns (both emerging and developed), with the option of holding a small number of equity positions, which have provided the additional upside. The fund has provided low volatility returns (just over 10% YTD), and generated satisfactory alpha.

Going into 2017, we believe the US economy will remain resilient, provided that the Fed continues to be 'low and slow' in terms of rate hikes. There is a possibility that US markets could correct due to various externalities and the realisation that many equities are overvalued.

We believe oil prices will remain range-bound, possibly creeping up to \$70 by year end. We believe the value of the GBP will increase, as Britain's leadership clarifies how it will proceed with its exit from the European Union.



RON LEE
WEALTH MANAGEMENT ALLIANCE
SINGAPORE

We looked at underweighting duration and sought yields, but were not too comfortable going that far down the quality curve in the current fixed income landscape in order to achieve it.

Instead, we invested in a trade finance fund, which met our expectations. It remained uncorrelated to risk assets, fulfilled our target yield return and maintained its average duration to less than 60 days.

In the year ahead, the street is expecting global inflation to pick up, and there is a tilt toward EM over DM for its asset allocation. I'm a little puzzled by this, as we would expect DM to be less volatile in a rising rate/inflation environment.

Although headline inflation does point to a (slight) pick-up, and markets (both bonds and equities) are hovering at multi-year highs now, it is prudent that we remain vigilant of potential corrections. We also expect spreads, especially in the HY segment, to widen.

We are weary of perps with calls in coming months that may extend and not be called back for 'economic reasons'.



AMAN DHINGRA
UBP
SINGAPORE

Strategies we liked in 2016 included an east-coast macro manager who had the ability to invest into both EMs and developed markets (DMs), allowing diversification away from the crowded DM space.

We also favoured a Stockholm-based manager who was one of the few commodity trading advisers able to deliver a strong first-quarter performance and then held onto it for the rest of the year.

We also liked a market leading Asian high yield offering that was able to keep broadly in line with the market in a strong rally despite its structural defensiveness.

2017 appears to promise more of the same,



MAXIME PACAN
CIC BANQUE PRIVEE
SINGAPORE

This year, it has been easier to generate performance for our clients than in 2015, when most asset classes dropped in value.

A fund that surprised us was **BL Equities Japan**, which ranks in the top decile year-to-date and in the top 5% of Japanese equity funds over a three-year period. Manager Steve Glod favours reasonably priced quality stocks, with a mid-cap bias. Nothing revolutionary, but the implementation of his investment philosophy has been very consistent.

Another hidden gem is **Cigogne M&A Ucits**, which invests in announced M&A deals after thorough due diligence. The fund has a Sharpe ratio of 1.8 (and a Sortino of 3.32!) and is up 6% in USD this year. We like the stable and experienced team as well as the fund's decorrelation from traditional asset classes.

It will be difficult to find value in 2017. Cash and fixed income do not yield much, while quality stocks are trading at a premium versus their more cyclical counterparts.

Hence, we will continue to promote uncorrelated funds.

We did not buy into the recent outperformance of emerging markets (EMs) as a whole. While

as valuations and liquidity push in different directions. Against this backdrop and assuming that markets continue moving sideways, the skills of active managers will continue to be tested. Managers who execute trading-oriented long-only strategies may be tested with market timing and cash management.

The Ucits alternatives space may potentially grow richer as more offshore strategies are replicated and asset allocators seek new solutions. Asia is also likely to see the trend of fixed maturity plans continuing as more asset managers and distributors jump on the bandwagon. A correction in the market is likely to engender this opportunity.

Floating rate returns will likely come into focus especially for the more leveraged set of clients who typically borrow short term and who may want to hedge out interest rate risk.

Private equity may garner more interest as alternative sources are increasingly needed to generate diversified yield.



EDDIE LEE
ABN AMRO
HONG KONG

Looking back at 2016, we have seen investors reducing exposure to the eurozone and diversifying internationally.

Effective diversification can be found in EM bonds, which offer an attractive yield compared with US Treasury bonds, especially against the background of a substantial increase in negative bond yield globally.

In 2017, I expect circumstances in EMs to remain favourable for both equities and bonds for a few reasons.

First, the current monetary policy of the US Federal Reserve is supportive of a stable US dollar and this adds to the financial stability in the Asian region.

Second, investors expect commodity prices to rise further. Combined with increased demand, this should improve profitability of corporations and end the four-year period of declining producer prices.

Furthermore, emerging market economies are expected to benefit from structural reforms. Finally, emerging market central banks have sufficient means to stimulate the economy.



BELLE LIANG
HANG SENG PRIVATE BANK
HONG KONG

The performance of Asia balanced portfolios far exceeded our expectations this year.

Asian assets have experienced a decent run. The Fed has left rates unchanged since December 2015 and this provided a supportive backdrop for the positive performance of Asian equities and Asian fixed income.

The Asia ex-Japan region is less affected by Brexit risks, and this has resulted in decent fund inflows.

Overall, the stabilisation in China's growth and attractive valuations are compelling arguments for investors' interest in Asia-based assets.

After the government began introducing tightening measures in late-September 2016, there was some cooling off in China's property market in October.

Going forward, we expect runaway property prices to continue posing challenges to China's loose monetary policy.

Government efforts to manage asset price surges to avoid economic and financial risks could potentially result in further deleveraging and credit tightening.

In addition, Donald Trump's victory in the US presidential election is likely to cause considerable volatility in higher-risk assets next year.

VERDICT



Ishika Mookerjee, Citywire

In the last Buyers' Market of the year, there's one message that stands out: emerging markets continue to be a hotly debated investment pick, even as fund selectors find returns in other asset classes.

Belle Liang of Hang Seng Private Bank saw Asia-focused portfolios far exceed expectations in 2016 and Eddie Lee of ABN Amro believes EMs will remain favourable for equities and bonds in 2017 for a number of reasons.

On the other hand, Maxime Pacan of CIC Banque Privee didn't buy into the outperformance of EMs this year. Instead, he is continuing to promote uncorrelated funds as we approach the next year.

Ron Lee of Wealth Management Alliance is watching for a pick-up in global inflation and is therefore considering developed markets, which tend to be less volatile in a rising rate environment.

Sven Roering of Tenzing Pacific Management believes the US economy will remain resilient so long as the US Federal Reserve continues to hike rates slowly and gradually.

Aman Dhingra of UBP sees a trend of fixed maturity plans and floating rate investments coming to Asia next year. Globally, he believes liquid alternatives and private equity will also attract attention.

The search for yield looks set to continue as fund selectors look to various sources to cater to client needs.

**All comments except Hang Seng Private Bank's were made before the US presidential election on 8 November*

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