



BNY MELLON

## QUARTERLY INVESTMENT REPORT

PREPARED FOR PROFESSIONAL CLIENTS AND, IN SWITZERLAND QUALIFIED INVESTORS // AS AT 31 MARCH 2017

# NEWTON ASIAN INCOME FUND

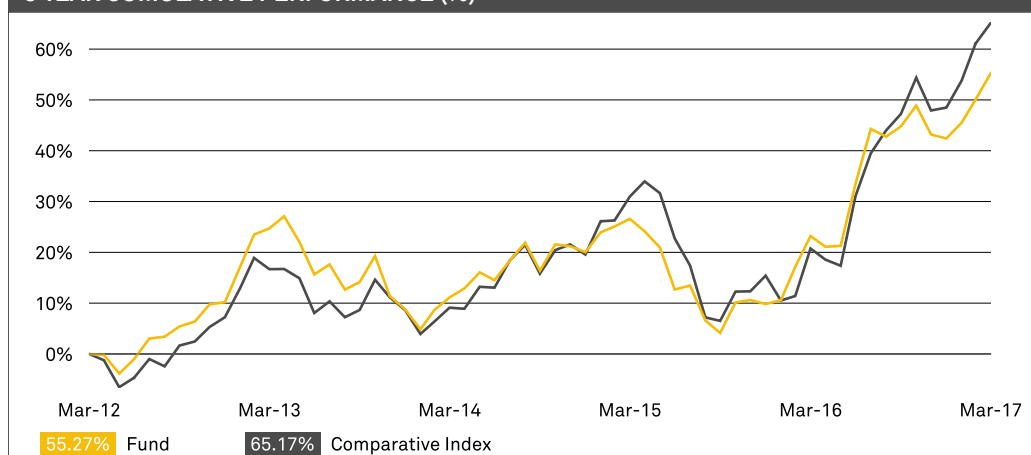
## PERFORMANCE DISCLOSURE

Past performance is not a guide to future performance. The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed. For a full list of risks applicable to this fund, please refer to the Prospectus.

## QUARTERLY HIGHLIGHTS

- Performance: The Fund generated a strongly positive return but underperformed its comparative index.
- Activity: We initiated positions in Venture Corporation and Telekom Indonesia.
- Outlook & Strategy: The relative appeal of Asian markets compared to developed markets continues to be favourable, as global investors face uncertainties in Europe and the US.

## 5 YEAR CUMULATIVE PERFORMANCE (%)



## PERFORMANCE SUMMARY (%)

					Annualised		
	1M	3M	YTD	1YR	2YR	3YR	5YR
Sterling Income	3.49	9.03	9.03	26.03	10.74	11.78	9.19
Comparative Index	2.55	11.23	11.23	36.79	12.28	14.81	10.55
Sector	3.24	11.57	11.57	35.41	11.90	14.42	10.29
No. of funds in sector	106	106	106	106	102	99	78
Quartile Sterling Income	2	4	4	4	4	4	4

Source for all performance: Lipper as at 31 March 2017. Fund Performance Sterling Income Shares calculated as total return, including reinvested income net of UK tax and charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

## INVESTMENT MANAGER

**NEWTON**  
Investment Management

Newton Investment Management: Newton pursues a distinctive global thematic investment approach and provides added value from extensive proprietary research.

## FUND RATINGS



Source & Copyright: Morningstar and Morningstar OBSR ratings © 2017 Morningstar. All Rights Reserved. Ratings are collected on the first business day of the month.

## PERFORMANCE COMMENTARY

Global equity markets had a strong start to the year, with Asia ex Japan markets taking the lead in a robust fashion as they rebounded from the sell-off following Donald Trump's victory in the US presidential election.

### COMPANIES SUCH AS INDIABULLS HOUSING FINANCE DROVE THE STRONG PERFORMANCE WITH RELATIVE UNDERPERFORMANCE DUE TO THE ABSENCE OF STOCKS THAT DO NOT MEET OUR YIELD CRITERIA

Fears surrounding the inauguration of President Donald Trump steadily withdrew as the quarter progressed, with rationality seeming to gain a foothold in regards to future policy direction on a number of important issues. The border-adjustment tax proposed by a few House Republicans in December has so far failed to gain traction and, similarly, the few comments by the US administration on the renegotiation of the North American Free Trade Agreement (NAFTA) have been less revolutionary than initially feared.

Currencies in the region rebounded to varying degrees in relation to their trade exposure with the US. As a result of the broadly flat US Treasury yields over the quarter, improving global activity and exports, the US dollar depreciated slightly, providing additional support for Asian equities.

Meanwhile, indicators of improving economic activity have retained their momentum, most visibly seen in rising purchasing managers' indices (PMIs) and in business and consumer confidence throughout much of the developed and, indeed, the emerging world. Significantly, the pickup in China's economic activity that was seen in the fourth quarter of 2016 has continued this year, with industrial production growth accelerating alongside a quick resumption of residential-home sales growth. This occurred alongside a resurgence in China imports over the past several months, which has boosted international industrial commodity prices.

India, beset in the fourth quarter by the suddenly announced demonetisation, has already shown signs of recovering growth momentum, as evidenced by the rebound in manufacturing and services PMIs. Australia has, unsurprisingly, benefited from improved terms of trade and the spillover to the domestic economy. This was shown in broadly positive macroeconomic data.

Lastly, it is worth noting the political developments in South Korea, where the president was impeached and arrested. However, this did not prevent the market performing well, supported by strong foreign inflows.

Against this backdrop, the Fund generated a strongly positive return but underperformed its comparative index. We were encouraged by the Fund's strong absolute performance since it was achieved despite its more defensive, lower-risk profile and, notably, despite large voids in certain major index constituents, which were prime beneficiaries of exchange-traded fund inflows to the region.

The Fund's performance was driven by underlying fundamental strength in companies such as Indiabulls Housing Finance, AGL Energy, Catcher Technology, Transurban and Sydney Airport.

Indiabulls Housing Finance generated a solid set of results in January. The company is well positioned to benefit from the long-term growth prospects for India's mortgage-financing market, given improved mortgage affordability and government support for the segment. Elsewhere, shares in Australia's AGL Energy continued to surge on consensus earnings upgrades driven by curtailments in thermal power supply generation. As a vertically

integrated utility company, AGL stands to benefit from the long-term shifts in Australia's electricity markets.

In Taiwan, shares in Catcher Technology, a manufacturer of metal casings for smartphones, rallied after the company generated much better-than-expected results thanks to robust margins and gains in market share. The company's anticipated participation in Apple's iPhone 8 was a further boost. In Australia, results from Transurban once more demonstrated its capability to generate strong cash flows from its superior network of toll roads in eastern Australia. Finally, shares in Sydney Airport rebounded after similarly robust results, with international-passenger-traffic growth remaining firm.

The relative underperformance of the Fund over the quarter largely occurred in January, driven by a lack of exposure to 'reflation trade' beneficiaries such as banks and commodities. Our disciplined process and deliberate decision not to chase this trade was vindicated as the Fund's avoidance of companies such as China Construction Bank and BHP Billiton were positive contributors over the quarter as a whole.

By sector, telecommunications and financials were the greatest detractors from performance. Within telecommunications, the Fund's holding in Telstra of Australia suffered after the company reported results that missed consensus expectations owing to increased competition and regulatory one-offs. Within the financials sector, the Fund was hindered by its preference for real-estate investment trusts (REITs) over traditional banking stocks. Compared to banks, REITs have a very different interest-rate sensitivity, tending to diminish in near-term appeal in the face of rising government bond yields. However, over the longer term, REITs can offer the prospect of steady but growing rental streams, in contrast to pure 'bond proxies'. The Fund's REITs, including Link REIT, Pavilion REIT and Scentre Group, underperformed over the quarter.

The Fund's avoidance of large parts of the index such as Tencent and Samsung Electronics once again counted towards relative underperformance. The Fund cannot hold these stocks on account of its strict yield criteria, which assures a level of consistency across the entire portfolio, resulting in better risk-versus-reward characteristics in the Fund.

## ACTIVITY REVIEW

We initiated a small position in Venture Corporation during the quarter. It is an original design-manufacturing and electronic-manufacturing services company that specialises in high-end enterprise manufacturing. It specialises in a high mix of customised products that are less price-competitive and less prone to margin erosion, as it operates in a semi-captive market.

## WE BOUGHT IN ELECTRONIC MANUFACTURING COMPANY VENTURE CORPORATION AND TELECOM INDONESIA

We also added a new holding in Telekom Indonesia. Mobile revenue growth in Indonesia continues to outpace other mobile markets given strong demand for mobile data services combined with subscriber growth. As the largest operator within fixed line and mobile, Telekom Indonesia is a prime beneficiary, with a robust balance sheet and solid cash-flow generation.

We reduced the Fund's Australian exposure slightly during the quarter with the sale of wealth manager AMP given its deteriorating operating trends. With the valuation looking quite full and with some caution on the outlook, we also trimmed utility AGL Energy after the share-price rally. We took advantage of good performance to moderate the position in packaging company Orora and put the proceeds into its peer Amcor instead.

We reduced the holding in Thailand's Tesco Lotus Retail Growth Freehold and Leasehold Property Fund given the limited prospects for dividend growth. We also moderated New Zealand's Meridian Energy as we see valuations becoming fuller.

Elsewhere, we made reductions to Singapore Telecommunications given increased competitive pressures in some of its key markets and to the Fund's Taiwanese technology companies TSMC and Pegatron.

## INVESTMENT STRATEGY AND OUTLOOK

The relative appeal of Asian markets compared to developed markets continues to be favourable as global investors face the challenges of policy friction in the US while upcoming elections in Europe present uncertainty. Absent any material action from President Donald Trump's protectionist agenda, we believe that Asian markets continue to present structural growth opportunities, supported by still-attractive valuations.

### WE HAVE A POSTIVE VIEW ON ASIA-PACIFIC MARKETS BUT ARE WARY OF THE SUSTAINABILITY OF CHINA'S CYCLICAL UPSWING AND CREDIT EXCESSES

However, the outlook for Asian, as well as global, equity markets very much hinges on the sustainability of China's cyclical upswing as well as the country's ability to manage its credit excesses while balancing growth. We are uncertain as to how persistent this recent pickup will be, given the heavy influence of commodity prices, which in turn have been much influenced by Chinese policy. We believe that the inherent risks in the Chinese economy are controllable for now given the government's apparent handle on capital outflows and willingness to support the infrastructure and property-construction sectors. We also note that concerns over renminbi depreciation have eased, in part owing to the US dollar's reversal, and have encouraged domestic investment in assets such as property.

Looking further out, China has already started to tighten policy at the margin, as policy makers' attention shifts back to risks surrounding unconstrained credit growth. With our 'debt burden' and 'population dynamics' themes in the back of our minds, we continue to seek out attractively valued companies that we believe have a good chance of growing sustainably, irrespective of the macroeconomic environment. In this context, we think the good quality, defensive growth characteristics of the Fund should see investors through a variety of market conditions.

The Asia-Pacific ex Japan region has coped well with the rising-yield environment in the US (notably at the short end of the curve) thanks to the absence of rising US-dollar pressure and improved internal and external balances in many key economies (such as India and Indonesia) over the past three years. We continue to believe that further rate hikes in the US will be well spaced, which further supports our positive view on Asia-Pacific markets.

TOP 10 HOLDINGS (%)	
	Fund
Taiwan Semiconductor Manufacturing	5.9
Transurban Group	4.9
Link Real Estate Inv Trust	4.7
Telstra Corp Ltd	4.5
Insurance Australia Group Ltd	4.5
Sands China Ltd	4.5
Sydney Airport	4.2
Spark New Zealand Limited	4.0
Amcort Ltd	3.9
Taiwan Mobile Co	3.6

INDUSTRIAL ALLOCATION (%)		
	Fund	Comp. Index
Industrials	19.8	11.5
Utilities	9.5	3.5
Basic Materials	0.0	6.9
Oil & Gas	1.3	5.1
Health Care	0.0	3.4
Technology	7.0	11.2
Consumer Services	5.2	5.6
Consumer Goods	2.7	13.0
Financials	32.3	35.5
Telecommunications	20.1	4.3
Cash	2.2	0.0

GEOGRAPHICAL ALLOCATION (%)		
	Fund	Comp. Index
Australia	34.77	21.66
Hong Kong	15.99	10.55
Taiwan	12.99	11.31
Singapore	11.08	3.75
New Zealand	8.68	0.67
Thailand	4.02	2.85
South Korea	3.29	13.94
India	2.47	9.63
Cash	2.23	0.00
Philippines	1.95	1.11
Malaysia	1.93	2.68
Indonesia	0.32	2.16
China	0.29	19.60
Pakistan	0.00	0.09

QUARTERLY ATTRIBUTION BY INDUSTRY					
	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Industrials	13.29	12.06	0.23	0.06	0.29
Utilities	13.45	9.82	0.36	-0.10	0.26
Basic Materials	0.00	9.82	0.00	0.09	0.09
Oil & Gas	9.48	10.13	-0.01	0.04	0.04
Health Care	0.00	12.58	0.00	-0.04	-0.04
Technology	10.96	11.58	-0.04	-0.01	-0.05
Consumer Services	8.14	11.17	-0.13	0.00	-0.13
Consumer Goods	16.54	13.83	0.07	-0.24	-0.17
Financials	8.97	10.96	-0.61	0.01	-0.59
Telecommunication	7.00	6.89	0.02	-0.63	-0.61
Cash	-	0.00	-0.96	-0.06	-1.03

QUARTERLY ATTRIBUTION BY GEOGRAPHY - TOP 5 CONTRIBUTORS					
	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Taiwan	13.63	10.67	0.34	-0.01	0.34
China	2.28	9.73	-0.02	0.26	0.24
Thailand	14.68	7.88	0.25	-0.04	0.22
India	47.25	16.97	0.48	-0.36	0.11
Indonesia	-0.10	6.03	-0.01	0.11	0.10

QUARTERLY ATTRIBUTION BY GEOGRAPHY - TOP 5 DETRACTORS					
	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Cash	-	0.00	-0.96	-0.06	-1.03
South Korea	8.86	15.39	-0.19	-0.38	-0.57
Hong Kong	7.70	11.27	-0.50	0.01	-0.50
Australia	9.02	9.78	-0.24	-0.18	-0.41
New Zealand	7.55	2.72	0.44	-0.72	-0.28

Source: BNY Mellon Investment Management EMEA Limited  
Portfolio holdings are subject to change, for information only and are not investment recommendations.

## INVESTMENT OBJECTIVE

To achieve income together with long-term capital growth predominantly through investments in securities in the Asia Pacific ex. Japan (including Australia and New Zealand) region.

## GENERAL INFORMATION

Total net assets (million)	£ 1,940.61
Historic yield (%)	4.14
Comparative Index	FTSE AW Asia Pacific ex Japan TR
IA Sector	Asia Pacific Ex Japan
Lipper sector	Lipper Global - Equity Asia Pac Ex Jap
Fund type	ICVC
Fund domicile	UK
Fund manager	Zoe Kan
Alternate	Caroline Keen/Rob Marshall-Lee
Base currency	GBP
Currencies available	GBP, EUR, USD
Fund launch	30 Nov 2005
Distribution dates	28 Feb, 31 May, 31 Aug, 30 Nov

## DEALING

09:00 to 17:00 each business day  
Valuation point: 12:00 London time

## STERLING INCOME SHARES SHARE CLASS DETAILS

Inception date	30 Nov 2005
Min. initial investment	£ 1,000
Ongoing charge	1.65%
Annual mgmt charge	1.50%
ISIN	GB00B0MY6Z69
Bloomberg	NEWANII
Sedol	B0MY6Z6
Registered for sale in:	AT, BE, CL, DE, FR, LU, NL, ES, CH, GB

## TO LEARN MORE ABOUT THIS FUND PLEASE CONTACT US:



08085 660 000  
+44 (0)20 7163 2367



brokersupport@bnymellon.com  
internationalsales@bnymellon.com



www.bnymellon.co.uk  
www.bnymellonim.com

Source: BNY Mellon Investment Management EMEA Limited

Any views and opinions are those of the investment manager, unless otherwise noted.

## IMPORTANT INFORMATION

**For Professional Clients only. This is a financial promotion and is not investment advice. Before subscribing, investors should read the most recent Prospectus, financial reports and KIID for each fund in which they want to invest. Go to [www.bnymellonim.co.uk](http://www.bnymellonim.co.uk).** To help continually improve our service and in the interest of security, we may monitor and/or record your telephone calls with us. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and its subsidiaries. Investments should not be regarded as short-term and should normally be held for at least five years. The Fund is a sub-fund of BNY Mellon Investment Funds, an open-ended investment company with variable capital (ICVC) with limited liability between sub-funds. Incorporated in England and Wales: registered number IC27. The Authorised Corporate Director (ACD) is BNY Mellon Fund Managers Limited (BNY MFM), incorporated in England and Wales: No. 1998251. Registered address: BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Authorised and regulated by the Financial Conduct Authority. BNYMIM EMEA, BNY MFM, and any other BNY Mellon entity mentioned are all ultimately owned by The Bank of New York Mellon Corporation. Issued in UK by BNYMIM EMEA, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority.

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