



RBC Funds (Lux) – Asia ex-Japan Equity Fund – Second Quarter 2017 Commentary

In the second quarter of 2017, the Fund returned 9.1%* outperforming its benchmark, the MSCI AC Asia ex-Japan Net Index (USD), which returned 8.3%.

Asian markets extended their rally in Q2, outperforming global and emerging markets as credit-led economic growth in China, and optimism surrounding the U.S. economy drove the reflation trade higher. Strong returns were generated given a positive economic and political backdrop, with Indonesia's ratings upgrade from S&P, a new president in South Korea, and China easing monetary conditions by injecting liquidity into the system. Solid economic data in the U.S. and fading concerns of a detrimental trade policy should continue to boost investor sentiment in Asia.

The best performing markets were China, Korea and Taiwan. India also performed well as the market believes the negative impact of demonetization has proved to be short lived. The Information Technology sector contributed as internet and hardware component companies delivered impressive earnings growth while Energy and Materials trailed benchmarks. SK Hynix, the second largest overweight position, helped deliver exceptionally strong returns for the period. Shares rallied with improving profits outlook as a result of strong pricing power and robust demand for memory chips. Tencent contributed positively to returns delivering exceptionally strong quarterly results driven by strength in its core gaming business.

Among the detractors was Samsung Electronics, a position the Fund is in the process of exiting. We continue to favour SK Hynix over Samsung with a view that the former's memory chip pure-play exposure and less demanding valuation will drive future relative outperformance.

We are cautious on markets as we have seen macro conditions in the region gradually softening. Upcoming macro data may be disappointing, commodity prices are softening and geopolitical risks in the region are an issue with North Korea's missile testing.

* Net of fees and expenses for the O share class

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