PROFESSIONAL ADVISERS ONLY

BARINGS

Baring Dynamic Asset Allocation Fund

Quarterly Investment Review

Q3 2017

Contents

DAA FUND QUARTERLY VIDEO

On a quarterly basis we distribute an investor video. This is an opportunity for investors to hear the Fund Managers review the last quarter's performance, as well as hear their thoughts for the coming months. The video is available on our website: http://www.barings.com/videos/video-baring-dynamic-asset-allocation-fund-q3-update

www.barings.com

Summary

Performance In GBP Terms (%) - Periods To 30 September 2017

Portfolio Value (GBP)	
30 June 2017	1,702,496,749
30 September 2017	1,743,475,492

Inception: 16 January 2007

Source: Barings, performance figures are shown net of fees and net of mid to bid adjustments (where applied) on a NAV per share basis with gross income reinvested, Class I GBP

Periods over 1 year are annualised

Performance Comparison: Sterling LIBOR +4%

Past performance is no indication of current or future performance.

Key Themes

Summary

Equity markets continued to move upwards in the third quarter. The fund returned 1.8%, net of fees and expenses, ahead of the performance comparator. In addition the fund has successfully delivered positive returns, outperforming the performance comparator over 1, 3, and 5 years and since its inception.

Market review

In the third quarter of 2017, equities continued their strong run. Positive data continued to be the main driver of equity markets, particularly in China where the economy continues to defy the sceptics. This led to strong gains for emerging markets. The UK stock market was a relative lowlight, less due to Brexit concerns and more due to the strength of the pound.

Other economically sensitive assets such as high yield and property continued to do well for similar reasons, despite some scares including major tensions from the Korean peninsula. These scares propelled gold to new highs for the year. Bond markets fared less well as the strong economic data continues to call into question the current ultra low yield levels seen around the world

Performance

European, global, and Japanese equity markets were the top three contributors of the quarter. Here, sizeable allocations combined with strong performances provided good returns for the fund.

Hard currency emerging bonds have performed well, even as treasury markets have backed up in yield. This reinforces our conviction that the spreads on these bonds compensate more than adequately for the likely pace of tightening by the Fed. Local currency debt has fared less, although the issues here are more about the strength of the pound against local currencies rather than anything more systemic.

While the pound did indeed strengthen by 3.5% in the quarter, losses on foreign currencies have been minimised by hedging much of our foreign currency exposure and keeping sterling exposure high. This is in line with our view that as Brexit talks progress the pound would ultimately strengthen from the lows seen earlier in 2017.

Investment strategy

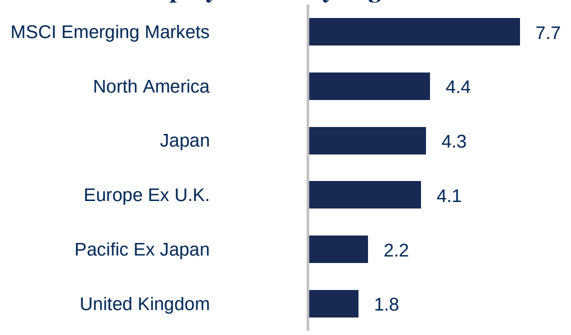
After building up a cash buffer from the disposal of assets such as government bonds earlier in the year, we used the tensions around North Korea to add to our equity exposure. We remain positive on Japan and Europe. Meanwhile, in fixed income, we continue to rotate from high yield towards emerging debt where valuations are at attractive levels. We remain constructive on the outlook for markets and retain a portfolio which is geared towards a positive economic backdrop.

Market Returns - In Local Terms (%) - Q3 2017

Asset Type

Source: FTSE, Citigroup, MSCI, HFRI, Barings (returns assume income is reinvested).

Equity Indices By Region

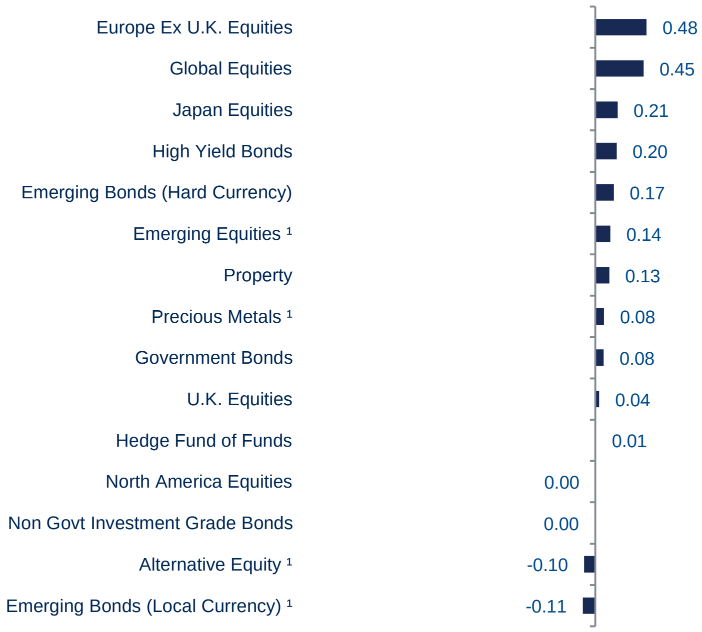


Source: MSCI, Barings (returns assume income is reinvested).

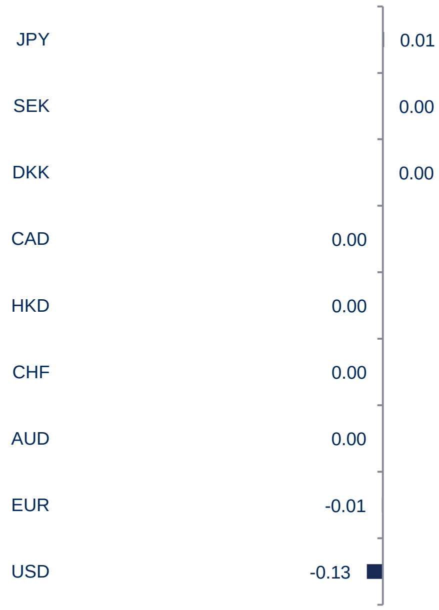
Performance - Q3 2017

Contributions to Performance

Contributions From Local Market Exposure



Contributions From FX Exposure



Source: Barings, gross of fees.

¹ Assets and underlying currencies

Performance Summary

The top three contributors over the quarter were:

1) European Equities. We have two main themes within Europe. Firstly, the strength of the Eurozone recovery will disproportionately benefit small and mid cap stocks. This theme worked well over the quarter. The second theme is our longstanding view that European, particularly German, real estate could produce decent returns in a negative interest rate environment. Unfortunately the returns on real estate were disappointing due to fears of interest rate hikes in Europe weighing on the stocks, but nevertheless we remain committed to this theme.

2) Global equities. This includes some of our thematic allocations including electric vehicles which have done very well, producing strong returns.

3) Japanese equities. Over the last 12 months we have reengaged with Japanese equities. Like Europe, there is scepticism on the recovery in Japan. This has led to an inexpensive stock market with good growth characteristics. Our allocation splits into Japanese banks and growth stocks. The Japanese banks are another manifestation of our view that interest rates will drift up, as these stock will benefit from higher rates, particularly in the US. It also provides a great diversifier to the fund.

The three worst contributors were

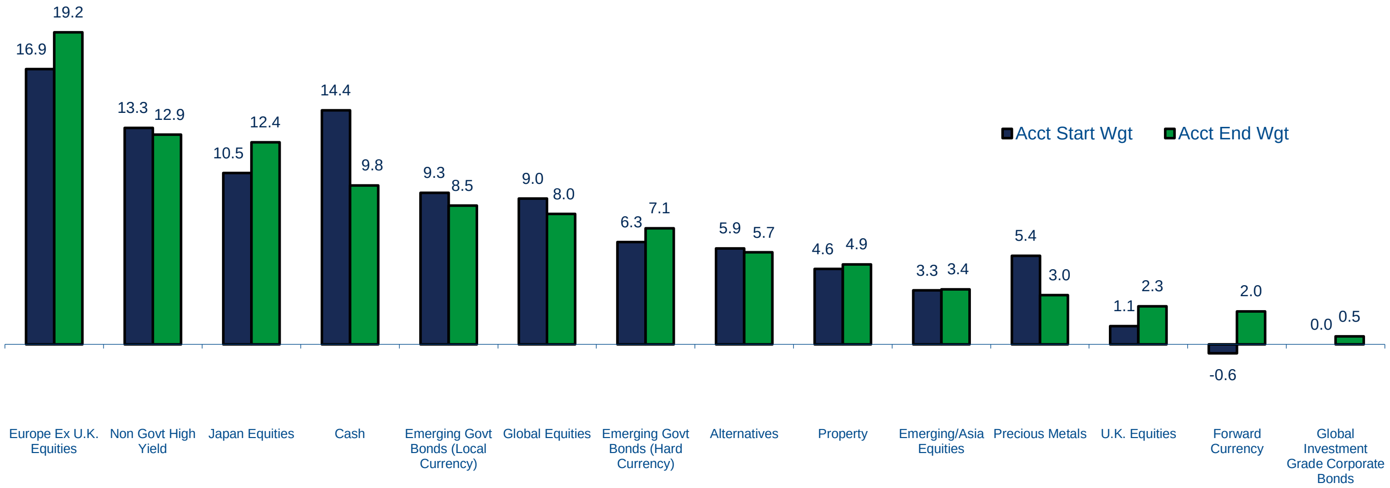
1) Small US dollar exposure. Since the first quarter of the year we have kept our dollar weights very small as we felt the market was overly pessimistic about the likelihood of even an unfavourable Brexit deal. However with sterling gaining 3.5% in the quarter, even our small positions produced a loss.

2) Emerging bonds. The strength in Sterling also impacted the Emerging bonds returns.

3) Alternative equity. Over the last year this has been one of our strongest performing allocations. However this quarter some of the investment trusts in which we invest gave back some of their gains. We still believe that the return potential of this allocation could be significant.

Investment Strategy

Major Portfolio Positions - 30 June 2017 & 30 September 2017 (%)



The 'Cash' weight, where applicable, may include cash on deposit, cash funds, short dated T-Bills (or equivalent), FFX, income receivable and initial margin, variation margin and cash backing deposits. Futures are allocated on an economic exposure basis.

Top 10 Holdings - 30 September 2017

Name	Weight (%)	Region / Asset Type
Baring European Opportunities Fund	6.3	Europe Ex U.K. Equities
AXA US Short Duration High Yield	4.6	HY US Non Govt Bonds
Nomura Topix Banks ETF	4.5	Japan Equities
Baillie Gifford Japanese Fund	4.5	Japan Equities
US TIPS 3.375% 15Apr2032	4.3	US Index Linked
Babson US Core High Yield Fund	3.7	HY US Non Govt Bonds
Mexico 10% 05Dec2024	3.1	Mexico Govt Bonds
Source Physical Markets Gold Notes	2.7	Precious Metals
Mini MSCI Emerging Future Dec2017	2.6	Emerging Markets
Turkey(Republic Of) 11% Feb2020	2.5	Emerging Govt Bonds

The main changes this quarter were:

1) Increased the allocation to our preferred markets of Japan and Europe, taking advantage of some of the summer volatility

2) Decreased our precious metals exposure as these allocations have provided great returns for the fund and if global bond yields rise, gold is likely to underperform. We have retained some exposure for portfolio diversification.

3) Reduction in cash as we increased our allocation to equities.

Fund Risk and Return Characteristics

Source: Barings

Investment Outlook

There are two major themes that are likely to drive markets over the next year, and one 'wild card' that could have unpredictable results.

Strong synchronised growth to continue - focused in developed markets

After years of subpar growth, many people are still reluctant to believe the strength of the global economic picture. The US, Europe and Japan are all growing at very healthy rates, yet it seems that many still haven't understood the magnitude nor the likely longevity of this economic picture.

The most obvious example here is Europe where we still encounter scepticism about the ability of Europe to do anything more than muddle through. Consensus forecasts still show the Eurozone growing slower in 2018 compared to 2017 even as most economic indicators today show an acceleration in activity. The forecasters are simply treating the acceleration as a 'one-off'.

We would argue that the 'one-off' was the Eurozone crisis of 2011-14, where Europe had two, or in some countries three, recessions in a five year period. In our opinion, this terrible period for the continent has been over-cooked into a narrative that Eurozone growth will forever prove elusive and transitory.

Our economic analysis has shown that for at least the last two years intra-European growth has been strengthening rapidly and shows little sign of slowing. In our portfolio, this has led to a sizable allocation towards European mid-caps which benefit from this economic picture without being as reliant as large caps on the sentiment .

The story of disbelieved growth is similar in Japan. While many have given up on Prime Minister Abe's economic initiatives, we have been more impressed by the ability of Japanese firms to grow in the face of both a strong yen and a weak reform agenda. In fact, Japanese earnings continue to outperform wider equity markets despite what has until now been an unfavourable backdrop. With our view that US bond yields will rise and thus the yen likely to fall, what was a headwind will turn into a tailwind. This should prove the key to unlocking some value in the Japanese markets. We therefore have increased our allocation to Japanese equities.

Of course, the Japanese election may provide a few surprises, not least the likelihood that the Party of Hope led by the charismatic governor of Tokyo, Yuriko Koike, could replace the Democratic Party of Japan as the main opposition. We do however expect Prime Minister Abe to retain power and, more importantly, that the highly supportive Bank of Japan's monetary policy will remain unaltered. Should this prove the case, Japan, like Europe, should reward investors prepared to look through beyond the 'stalling Abenomics' consensus view.

The recent disinflationary dynamics will abate

One of the key surprises in 2017 has been the continuation of the disinflationary trends even as the global economic picture has improved.

There are many secular reasons for this such as globalisation, the threat of offshoring, technological changes, and changing demographics. But on top of this secular picture, recently the cyclical picture has also been supressed by weak commodities, not only oil, and sectoral specifics such as price wars in telecoms. The convergence of these factors led to US CPI missing expectations for five consecutive months

The strength of these factors will ebb significantly over the next year. Over the last few months US gasoline prices have moved from -3% year on year to +8%, while after temporary blips food prices are back to growing at 6% year on year and housing rents continue to grind upwards. Combined, this will put some pressure on headline CPI at the very least. This is all in the context of US unemployment at 4.4% - even tighter than the peak of 2007.

If this wasn't enough, the recent natural disasters in the US are likely to create an abrupt supply and demand shock in the South East of the US. Supply of good and services will be limited due to capacity cut backs. At the same time the demand for repairs and reconstruction will soar. The same dynamics were seen in 2005 when inflation picked up quite notably in the months following the devastation of hurricane Katrina.

While the secular changes mean that inflation is unlikely to get much out of hand, the extreme disinflation environment of the last few years will come to an end. Similarly, while the above analysis focuses on the US, the fast pace of the recovery in Europe means an end to the disinflationary dynamics in Europe too. Political developments in Germany after the recent election are likely to force this new dynamic to be recognised by even by the ECB.

This will all make for a stark change in fortunes for owners of traditional G7 government bonds. We have therefore decreased our allocation to zero due to these reasons.

The wild card of Asia: China, tariffs and North Korea

The big risks to this outlook emanate from Asia. So far China continues to confound the sceptics. The gravitational pull of lower growth, especially as credit conditions dry up, has thus far been avoided. But this will be harder to achieve if we are right about the direction of global bond yields. China has been a big beneficiary of the low interest rate environment as debt has been easier to roll over. Rising bond yields could change this. Our debt analysis suggests that while Europe and the US have the capacity to absorb 50-100bps of yield increases without economic impact, China would struggle with a similar shock.

Other wild cards also disfavour Asia. Trump's clear intention is to increase tariffs, with China being the easiest target due to the lack of two way trade. In our view, this is a scenario that Trump is trying to engineer. Finally it goes without saying that a US conflict with North Korea could change everything. So far it has been a case of jaw-jaw rather than war-war. We hope it does not escalate.

Conclusion

For now we remain content to engage with equities and risk assets. The disbelief in a positive economics background is good and should directly help equities, particularly in Europe and Japan as they surprise on the upside. An unfavourable outlook for bond markets means we have been using areas like precious metals for diversification. The risks stem from Asia, and for this reason we keep exposure to emerging equities low. More generally, there is no need to be overly pessimistic, but equally after 9 years of bull market we need to remain vigilant to the market cycle, most notably with higher levels of cash than we might normally have.

Account Management Information

Investment Objective

The Fund aims to achieve an absolute return of 4% in excess of cash based on the 3 month LIBOR. There can be no guarantee that the investment objective of the Fund will be achieved.
We believe over the long term this objective is consistent with equity-like returns. We aim to deliver this return within 70% of equity risk.

Other Information

Please note that the portfolio contributions and returns shown at the bottom of page 1 and on page 2 are based on data sourced from Barings performance and accounting systems and are shown gross of fees and charges. This differs from the official NAV per unit based performance shown at the top of page 1 which is shown net of fees and charges. The allocation and performance data sourced from Barings is based on the last published closing price or last traded price where available, and is without any adjustment for swing pricing considerations. Where the portfolio contains illiquid/unquoted securities these have been valued in accordance with the Barings Pricing Policy.

Baring Asset Management Limited Board (October 2017)

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Chairman, Non-Executive Director

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Julian Swayne
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IMPORTANT INFORMATION

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Baring Dynamic Asset Allocation Fund is a sub-fund of Baring Alpha Funds Plc, a self-managed umbrella type investment company with segregated liability between sub-funds.

Baring Asset Management Limited has been appointed as the Investment Manager of the Funds of Baring Alpha Funds Plc.

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This document may include forward looking statements which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward looking statements. Actual results could differ materially from those anticipated in the forward looking statements.

Compensation arrangements under the Financial Services and Markets Act 2000 of the United Kingdom will not be available in respect of any offshore fund. Shares in the Fund are not available in any jurisdiction in which the offer or sale would be prohibited; in particular the Fund may not be sold directly or indirectly in the US or to a US person. Subscriptions will only be received and shares issued on the basis of the current Prospectus.

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Baring Asset Management Limited

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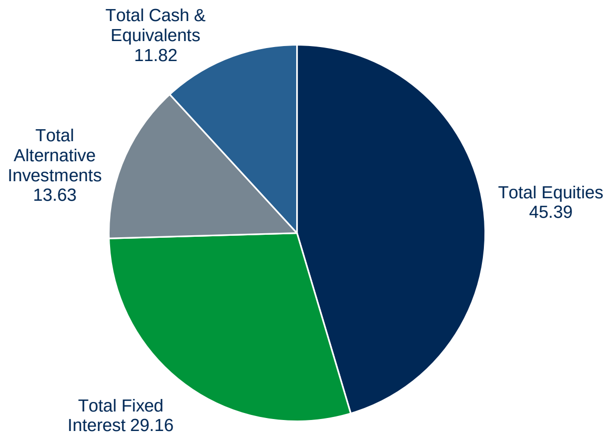
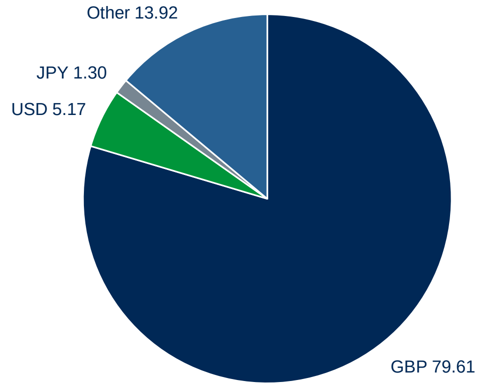
Detailed Asset Allocation

Asset Type	Portfolio Positions As At (%)				
	30/09/2016	31/12/2016	31/03/2017	30/06/2017	30/09/2017
Total Equities	**35.01**	**44.26**	**41.89**	**40.90**	**45.39**
Developed Equities	28.33	39.42	37.82	37.57	41.99
UK Equities	4.67	2.01	0.60	1.13	2.35
Overseas Developed Equities	**23.66**	**37.40**	**37.22**	**36.44**	**39.65**
North America	0.32	1.09			
Japan	7.22	6.32	8.94	10.54	12.44
Europe Ex UK	10.81	21.31	17.98	16.93	19.19
Asia Pacific Ex Japan	0.17				
Global Equity Funds	5.14	8.68	10.31	8.98	8.02
Emerging Equities	**6.68**	**4.84**	**4.07**	**3.33**	**3.40**
Emerging Asia Equities	0.31	0.33	0.98	0.05	0.06
Global Emerging Pooled	6.37	4.52	3.09	3.27	3.33
Total Fixed Interest	**42.80**	**35.97**	**34.85**	**29.26**	**29.16**
Developed Govt Bonds	0.42	2.27	0.94		
Overseas Developed Govt Bonds	**0.42**	**2.27**	**0.94**		
USA Govt Bonds		2.27	0.94		
Euro Govt Bonds	0.42				
Emerging Govt Bonds	**11.20**	**10.79**	**11.80**	**15.62**	**15.68**
Emerging Govt Bonds (Hard Currency)	4.67	4.78	5.26	6.30	7.15
Emerging Govt Bonds (Local Currency)	6.52	6.01	6.54	9.32	8.53
Index Linked	**8.70**	**7.51**	**6.74**	**0.32**	**0.07**
US Index Linked	8.70	7.51	6.74	0.32	0.07
Corporate & Convertibles	**22.47**	**15.40**	**15.36**	**13.32**	**13.41**
Investment Grade Non Govt					**0.50**
GBP Inv Grade Non Govt Bonds					0.50
High Yield Sub Inv Grade	**22.47**	**15.40**	**15.36**	**13.32**	**12.91**
US High Yield Non Govt Bonds	22.47	15.40	15.36	13.32	12.91
Euro High Yield Non Govt Bonds					
Total Alternative Investments	**11.79**	**15.40**	**17.72**	**16.01**	**13.63**
Property	4.22	4.44	4.61	4.65	4.92
Hedge Funds	3.43	3.73	3.21	0.85	0.73
Gold		2.01	4.31	5.45	3.04
Alternative Equity	4.91	5.23	5.59	5.07	4.93
Portfolio Insurance	-0.77				
Total Cash & Equivalents	**10.40**	**4.36**	**5.54**	**13.84**	**11.82**
Currency Forward Contracts	-1.39	-1.27	-0.61	-0.55	2.04
Cash	11.79	5.63	6.15	14.39	9.78
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Asset Exposure as at 30 September 2017



Active Currency Exposures as at 30 September 2017



A look through of 3rd party pooled vehicles has not been applied to this analysis

Source : Barings