Aston Funds

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ASTON/Pictet International (N: APINX) (I: APCTX)

Fund Quarterly Commentary

3rd Quarter 2014

From the post-2008 crisis highs seen mid-year, international equity markets declined during the third quarter. For the U.S. investor, most of this decline was explained by the relative strength of the US dollar rather than local market weakness. The strong dollar was a function largely of weak data in Europe (giving rise to speculation of further European Central Bank quantitative easing) and rising expectations that the U.S. Federal Reserve would move to start tightening monetary policy in the near future. In dollar terms, the Fund's MSCI EAFE Index benchmark fell 5.9% during the period.

In local currency terms, Europe was the weakest of the major regions (in that returns were marginally positive in euros), and the euro suffered the greatest weakness versus the dollar. Although tensions between Russia and Ukraine eased towards the end of the quarter with a ceasefire, economic data in continental Europe was broadly disappointing, leaving the Euro-bloc teetering on the edge of both recession and deflation. German data was particularly weak relative to expectations, the French government of Francois Hollande began to fall apart, and the Italian economy slipped back into recession. In protest to its involvement in Ukraine the U.S. and Europe imposed financial and energy sanctions on Russia, to which Russia responded with an embargo on food imports from the U.S., EU and other countries. These restrictions remain in place and have had a negative effect in Russia, but also in European countries for which the trade was material.

The exception to the weakness was the UK, where the benefits of the government's austerity program have led to growth levels that may well prompt the Bank of England down the same policy tightening path as likely in the U.S. The 'no' vote on Scottish independence in September added to the positive sentiment.

Japan was the strongest of the major regions, with currency weakness largely offset by a strong performance from export sectors benefitting from that weakness. Another positive was the commitment from Prime Minister Shinzo Abe to speed up public pension fund reform, a promise that helped the market shrug off news that the government plans to go ahead with the second stage of its consumption tax increase next year.

The Asia ex-Japan region performed marginally better than Europe in posting modest gains in local terms. What prevented further progress were continued concerns relating to the Chinese economy and the general malaise relating to excess supply in the Energy and Materials sectors, particularly in Australia.

On a sector level, Healthcare and Technology were the best performing areas, albeit by only producing close to flat returns. The defensive nature of companies and on-going excitement about potential corporate transactions boosted Healthcare, while better-than-expected second quarter results buoyed tech. On the flipside, Energy and Materials were the weakest sectors.

Russian Exposure

The Fund underperformed the benchmark during the quarter. Regionally, stock selection within Europe was the main detractor (particularly in the Financials, Consumer Staples, and Healthcare sectors), though picks in Japan and the Pacific ex-Japan region were also weak.

Two of the biggest individual detractors were companies with meaningful exposure to Russia or areas of strong Russian influence, namely Austria's Raiffeisen Bank International and Danish brewer Carlsberg. Raiffeisen has operations across multiple countries in central and Eastern Europe, and direct exposure to Ukraine and Russia. Carlsberg has significant exposure to the growing Russian beer market. We continue to monitor developments in the region closely.

Given its retail and commercial banking exposure to Eastern Europe, Austrian bank Erste Group was another significant detractor after issuing a profit warning for 2014 relating particularly to the group's operations in Hungary. In July, the Hungarian government finally passed legislation requiring banks that profited from mortgage activity prior to the 2008 financial crisis to compensate customers for the inflated margins they made on the loans. It declared its intent to force banks to share the cost of converting all outstanding foreign currency loans to Hungarian Forints at pre-crisis exchange rates. As a large player in the Hungarian market, Erste will be affected. But it is a one-off hit that should be covered by loan loss provisions that merely delays the realization of our long-term investment case rather than changing it. For this lost "time value" we have reduced our intrinsic value target, which still remains significantly above the stock's current price, and used the weakness to add further to the position.

Telecom Boost

Stock selection was positive within the Telecom sector mainly due to the strong performances of cable/cellular operators Jazztel (Spain) and PCCW (Hong Kong). Jazztel rose sharply on the announcement of a takeover bid by rival Orange. The move constitutes the 'best case scenario' for our investment thesis, and broadly completes the more obvious steps to consolidation in the Spanish telecoms sector. The same process of consolidation is occurring in Hong Kong with PCCW, under the same rationale (larger companies capable of bundling multiple services with better pricing discipline). At the end of the second quarter, PCCW announced the acquisition of cellular rival CSL. The stock rose sharply on the news, and continued to appreciate through the third quarter as investors digested the implications.

Nokia was another strong performer in the Telecom space following the release of its second quarter earnings report in July that was better than market expectations. This was driven by better-than-expected sales for its Networks division in China and the rest of Asia and points to a stronger margin position in 2014 from which to grow in 2015. This trend underpins one pillar of our investment thesis. The other—capitalizing on the value of its portfolio of cellular technology patents—we think should start to gain momentum over the coming months as current arbitration between Samsung and Microsoft over cellular royalty payments suggests a higher net payment to Nokia by Samsung than is currently in valuations. We see little credit being given to the value of the patents portfolio, which suggests further attractive upside.

Elsewhere, Sony rose strongly as well after announcing that PS4 games console sales have topped 10 million since launch —comfortably outstripping Microsoft's new Xbox. The company also announced plans to restructure its cell phone division to address low profitability areas of its range and the signing of new contracts with major U.S. carriers to offer Sony smartphones. This news underpins two pillars of our investment case for Sony, and raises our conviction in that broader case. We added to the Fund's position during the quarter.

Portfolio Positioning

With international equities still close to 10-year valuation highs, the Fund retained the cautious stance it has maintained since inception—a tilt in favor of stocks with high visibility to their cash flow growth and, importantly, the potential for downside protection. A by-product of this posture has been increased positions in Healthcare and Consumer Staples, and reduced exposure to Financials. From a regional point of view, this has led to a significant underweight in Europe and increased overweight positions in Japan and Asia ex-Japan. Recent market sell offs, particularly in Europe however, have created opportunities to either initiate or add to holdings with strong business models at attractive prices. As a result, the European underweight lessoned somewhat during the quarter.

Seven new names were added to the portfolio during the third quarter, including Healthscope, Lixil, and Samsung Electronics. Australian healthcare firm Healthscope operates 44 hospitals and provides pathology services in Australia, New Zealand and Southeast Asia (25% of revenues). In Australia, the private hospital sector plays a key role in healthcare supply. While only accounting for one-third of total beds, it accounts for more than two-thirds of elective surgeries and more than 40% of admissions. Sector fundamentals are set to improve over time with a rapidly aging population, an increasing propensity to spend on private healthcare (Australia currently lags other developed markets), and strong government policy incentives (largely tax breaks) to buy private health insurance. We believe the initial public offering (IPO) price for the stock was conservative in assuming no growth from the pipeline and no future margin improvement. With the risk/reward equation skewed to the upside, we participated in the IPO to establish a holding in the Fund.

Lixil is a group formed in 2011 by the merger of five of Japan's largest residential and commercial construction materials companies.

It specializes in aluminum doors/windows/facades and interior fittings. The group is dominant in most domestic segments, but has also grown internationally through acquisition in recent years. We think Lixil should see an upward move in profitability as the emphasis of its domestic operations shifts from lower margin new builds to higher margin refurbishments. But, our investment case hinges on the successful integration of German affiliate Grohe (manufacturer of bathroom and kitchen fixtures) in 2016. The move will substantially change/diversify Lixil from a current 80% dependence on the Japanese domestic market to roughly 55%, of which only 35% will be to the new build segment. Although there are several moving parts to the model, and short-term progress may be limited in the aftermath of the Japanese consumption tax hike, we think Lixil management is of high quality and their strategy credible. Based on assumptions that are more conservative than current guidance, we believe the stock is cheap.

Samsung is a dominant player in the three key industries in which it operates—mobile phones, semiconductors, and consumer electronics. Despite the commodity nature of some of these industries, the company has demonstrated consistently high profitability due to its status as a low cost vertically integrated company, a world leader in research and development (R&D), with a management team with an excellent record. Recent price weakness is due to an overly short-term focus on the smartphone business that has lost market share and seen a significant hit to profitability. We believe current margins in that segment are near a trough. Meanwhile, structural changes within the semiconductor industry due to consolidation and increasingly high capital requirements means that current levels of profitability appear sustainable. Looking through the noise, Samsung appears cheap, and we believe well supported by it healthy free cash flow yield.

Five holdings were eliminated from the portfolio during the quarter. Misumi (precision machinery components, Japan), DP World (global port operator, Dubai), SAP (enterprise software, Germany), and Temp Holdings (temporary employment agency, Japan) had all performed strongly, and we believe had little further upside to our assessment of intrinsic value.

We sold Japanese broadcaster Fuji Media following developments that caused us to change our thesis and downgrade our intrinsic value expectations. The original investment case relied on a steady, but low-growth media business providing valuation support with significant potential upside accruing from the group's participation in the development of Japan's first casino resort. Legislation changes to permit the development have been held up, and bids by other cities and sites to host the casino have made it far less likely that Fuji Media will see any benefit.

In addition, we trimmed a number of positions after strong performances had reduced their upside potential. Reductions to palm oil producer First Resources and Softbank, however, were made after recent developments weakened their respective investment cases. A bumper soya crop in the U.S. and Latin America has depressed the soya oil price. As a substitute for palm oil, this has had a knock on effect on palm oil prices, weakening the near-term investment case for First Republic. In the case of Softbank, we made two reductions to the Fund's position. First, we reduced exposure on the collapse of the planned merger of U.S. subsidiary Sprint with T-Mobile, which removed a near term catalyst for realizing the value inherent in Sprint. The second cut was profit taking as the remaining holding ran up aggressively ahead of the IPO of Chinese internet retail giant, Alibaba (Softbank owns 31% of Alibaba).

Market Outlook

For several quarters, we have maintained that the strong rally in international markets through 2013 and early 2014 had brought valuations to levels that looked rich, with further upside limited. Although there has been some volatility, for most of 2014 international equity markets have indeed tracked broadly sideways. The lack of progress is also attributable to significant new uncertainty surrounding the Russia/Ukraine crisis, concerns about the nascent Euro-zone economic recovery, and the shift to less accommodative monetary policy in the U.S. These uncertainties are likely to persist and drive further volatility. That said, recent weakness has taken some of the 'heat' out of valuations in certain areas of the market, and for the first time in a few months we are starting to see attractive opportunities. In the medium-term, we expect markets to remain within their recent trading range amid the tug-of-war between improved economic momentum and anxiety about political developments and a potential policy change by the Federal Reserve and other central banks.

Pictet Asset Management
London, UK

As of September 30, 2014, Raiffeisen Bank International comprised 1.15% of the portfolio's assets, Carlsberg – 2.39%, Erste Bank – 1.30%, Jazztel – 0.87%, PCCW – 2.00%, Nokia – 1.49%, Sony – 1.77%, Healthscope – 0.72%, Lixil – 1.00%, Samsung – 0.61%, First Resources – 0.39%, and Softbank – 1.61%.

Note: Investing in foreign markets involves the risk of social and political instability, market illiquidity, and currency volatility.

Fund Performance

Average Annual Total Returns

	Monthly returns (%) Period ended 12/31/14			Annualized Returns (%) Period ended 12/31/14					
	Month	3 Months	YTD	1 yr	3 yr	5 yr	10 yr	Since Incept.	Incept. Date
Fund Class N Shares (APINX)	-4.22	-5.64	N/A	N/A	N/A	N/A	N/A	-10.93	4/14/2014
Fund Class I Shares (APCTX)	-4.25	-5.67	N/A	N/A	N/A	N/A	N/A	-10.86	4/14/2014
MSCI EAFE Index	-3.46	-3.57	-4.90	-4.90	11.06	5.33	4.43	-5.53	3/31/2014
Category: Foreign Large Blend	-3.46	-3.18	-4.98	-4.98	10.22	5.04	4.48	-5.26	3/31/2014

Calendar year-end returns

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Fund Class N Shares (APINX)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fund Class I Shares (APCTX)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MSCI EAFE Index	0.00	22.78	17.32	-12.14	7.75	31.78	-43.38	N/A	N/A	N/A

The performance data quoted represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares upon redemption may be worth more or less than their original cost. Certain expenses were subsidized. If these subsidies were not in effect, the returns would have been lower. The adviser is contractually obligated to waive management fees and/or reimburse expenses through February 28, 2015. Current performance may be lower or higher than the performance data quoted.

For periods less than one-year, total returns are reported; for periods more than one-year, average annual total returns are reported.

The MSCI EAFE Index (The Morgan Stanley Capital International Europe, Australasia and Far East Index), is designed to measure international equity performance, excluding the U.S. and Canada. Indices are adjusted for the reinvestment of dividends and capital gains. Individuals cannot invest in an index.

The Morningstar Foreign Large Blend Category figures allow for a direct comparison of a fund’s performance within its Morningstar Category.

Morningstar Rating™ (based on risk-adjusted returns) and Morningstar Rankings™ (based on total returns) Foreign Large Blend Category as of 12/31/2014								
	Overall	**1 yr**	**3 yr**		**5 yr**		**10 yr**	
	Rating	**Rank**	**Rating**	**Rank**	**Rating**	**Rank**	**Rating**	**Rank**
Fund Class N Shares (APINX)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fund Class I Shares (APCTX)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total # funds in category	N/A	N/A	N/A		N/A		N/A	

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund’s monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars,the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating is derived from a weighted-average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics.© Morningstar, Inc.

The highest or most favorable Morningstar percentile rank is 1 and the lowest percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Various rating agencies categorize funds differently. Past performance is no guarantee of future results.

Fund Overview

Investment Strategy

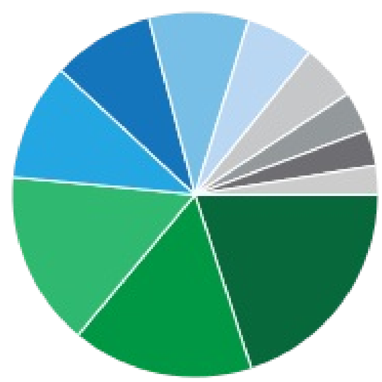
The **ASTON/Pictet International Fund** builds a portfolio of companies based outside of the U.S. using bottom-up fundamental analysis focused on growth in cash generation and stocks trading at a discount to intrinsic value.

Objective

The Fund seeks to provide capital appreciation.

Fund Stats (as of 12/31/14)	N Shares	I Shares
Origin Of Information	N/A	N/A
Sales Load	None	None
Total Net Assets (1/23/15)	$927,750.13	$26,964,336.03
Turnover	N/A	N/A
Minimum Investment	2,500	1,000,000
Alpha (3 yr.)	N/A	N/A
Beta (3 yr.)	N/A	N/A
R-Squared (3 yr.)	N/A	N/A
Standard Dev (3 yr.)	N/A	N/A
Sharpe Ratio (3 yr.)	N/A	N/A
Current Wtd Average P/E (trailing)	19.94	19.94
Current Wtd Average P/B (trailing)	2.41	2.41
Median Mkt Cap ($Mil)	8,718	8,718
Average Wtd Coupon	N/A	N/A
Effective Maturity	N/A	N/A

Sector Breakdown (as of 12/31/14)	
FINANCIALS	20.02%
INDUSTRIALS	16.03%
CONSUMER DISCRETIONARY	15.50%
CONSUMER STAPLES	10.36%
HEALTH CARE	9.03%
TELECOMMUNICATION SERVICES	8.82%
ENERGY	6.02%
INFORMATION TECHNOLOGY	4.94%
UTILITIES	3.54%
MATERIALS	3.19%
CASH EQUIVALENTS & OTHER	2.55%



Past performance does not guarantee future results. Investment return and principal value of mutual funds will vary with market conditions, so that shares, when redeemed, may be worth more or less than their original cost.

As the fund is actively managed, the securities as presented may not represent the current or future composition of the portfolio.

Fund Holdings

Holdings as of: 12/31/14

Company	Ticker	CUSIP	Number of Shares	Market Value	% of Net Assets ↓
SOMPO JAPAN NIPPONKOA HOLDINGS INC	8630	B62G7K6	30,700	$772,034.88	3.41%
NESTLE SA	NESN	7123870	8,851	$645,246.88	2.85%
CASH EQUIVALENTS & OTHER			541,018	$576,423.09	2.55%

HSBC HOLDINGS PLC	HSBA	0540528	60,837	$574,896.09	2.54%
INPEX CORP	1605	B10RB15	47,800	$532,156.02	2.35%
INMARSAT PLC	ISAT	B09LSH6	42,148	$522,613.72	2.31%
CARLSBERG A/S	CARLB	4169219	6,791	$521,547.77	2.30%
SOCIETE GENERALE SA	GLE	5966516	11,298	$472,824.53	2.09%
ROCHE HOLDING AG	ROG	7110388	1,575	$426,733.99	1.88%
GALP ENERGIA SGPS SA	GALP	B1FW751	41,298	$419,382.56	1.85%
GATEGROUP HOLDING AG	GATE	B4JPM52	14,561	$415,499.07	1.83%
BAYER AG	BAYN	5069211	3,041	$414,515.10	1.83%
SOFTBANK CORP	9984	6770620	6,900	$410,710.72	1.81%
LIXIL GROUP CORP	5938	6900212	19,200	$404,078.42	1.78%
WORLD DUTY FREE SPA	WDF	BDSV5Z5	41,319	$396,705.65	1.75%
NOS SGPS	NOS	B0B9GS5	62,282	$392,434.03	1.73%
BOLLORE SA	BOL	4572709	82,500	$375,713.67	1.66%
DISTRIBUIDORA INTERNACIONAL DE ALIMENTAC	DIA	B55ZR92	54,835	$371,567.32	1.64%
PRUDENTIAL PLC	PRU	0709954	16,070	$371,530.81	1.64%
SAMSUNG ELECTRONICS CO LTD	005930	6771720	308	$370,291.30	1.63%
PCCW LTD	8	6574071	543,073	$369,773.79	1.63%
JARDINE MATHESON HOLDINGS LTD	JM	6472119	6,000	$364,586.19	1.61%
UNIPOLSAI SPA	US	B89YH96	132,184	$355,887.68	1.57%
ERSTE GROUP BANK AG	EBS	5289837	15,288	$355,579.61	1.57%
NOKIA OYJ	NOK1V	5902941	43,003	$340,103.35	1.50%
CIE FINANCIERE RICHEMONT SA	CFR	BCRWZ18	3,834	$339,917.18	1.50%
JAPAN TOBACCO INC	2914	6474535	12,300	$338,530.29	1.49%
UBS GROUP AG	UBSG	BRJL176	19,054	$327,532.55	1.45%
ASTRAZENECA PLC	AZN	0989529	4,517	$319,039.70	1.41%
VOLKSWAGEN AG	VOW3	5497168	1,425	$316,714.68	1.40%
ORPEA	ORP	7339451	5,002	$313,090.70	1.38%
AIRBUS GROUP NV	AIR	4012250	6,323	$312,597.23	1.38%
FUJITEC CO LTD	6406	6356826	29,300	$310,987.07	1.37%
STANDARD CHARTERED PLC	STAN	0408284	20,162	$301,541.44	1.33%
RIO TINTO PLC	RIO	0718875	6,470	$298,248.57	1.32%
MILLICOM INTERNATIONAL CELLULAR SA	MIC	B00L2M8	3,978	$294,750.40	1.30%
SOHGO SECURITY SERVICES CO LTD	2331	6546359	11,800	$285,406.58	1.26%
SONY CORP	6758	6821506	13,600	$277,565.81	1.22%
KONINKLIJKE DSM NV	DSM	B0HZL93	4,521	$275,750.03	1.22%
SUMITOMO MITSUI FINANCIAL GROUP INC	8316	6563024	7,100	$256,684.34	1.13%
H LUNDBECK A/S	LUN	7085259	12,754	$253,158.99	1.12%
MGM CHINA HOLDINGS LTD	2282	B4P8HQ1	100,000	$252,491.45	1.11%
MATAS A/S	MATAS	BBL4QM1	11,067	$252,171.43	1.11%
CERVED INFORMATION SOLUTIONS SPA	CERV	BNGN809	47,444	$250,550.95	1.10%
ENTERPRISE INNS PLC	ETI	B1L8B62	140,567	$247,987.49	1.09%
WILLIAM HILL PLC	WMH	3169889	43,672	$245,402.48	1.08%
HUTCHISON WHAMPOA LTD	13	6448068	21,000	$240,062.94	1.06%
ONTEX GROUP NV	ONTEX	BNBNNH6	8,265	$237,175.83	1.05%
GMO INTERNET INC	9449	6170167	27,800	$236,062.74	1.04%

NIPPON TELEGRAPH & TELEPHONE CORP	9432	6641373	4,600	$234,980.09	1.04%
RUBIS SCA	RUI	4713100	4,002	$228,385.67	1.01%
TSURUHA HOLDINGS INC	3391	B0MKZN5	3,900	$225,666.30	0.99%
BG GROUP PLC	BG/	0876289	16,485	$220,597.82	0.97%
ENAGAS SA	ENG	7383072	6,949	$219,179.31	0.97%
MITSUBISHI CORP	8058	6596785	11,500	$210,451.45	0.93%
DAIICHIKOSHO CO LTD	7458	6253132	7,500	$203,349.29	0.90%
AGEAS	AGS	B86S2N0	5,662	$201,313.98	0.89%
OBRASCON HUARTE LAIN SA	OHL	5379749	8,467	$188,934.27	0.83%
GENTING BHD	GENT	B1VXJL8	73,600	$186,445.80	0.82%
MIRACA HOLDINGS INC	4544	6356611	4,200	$180,679.37	0.80%
MIGHTY RIVER POWER LTD	MRP	B8W6K56	73,306	$170,009.28	0.75%
COMPUTERSHARE LTD	CPU	6180412	17,687	$169,192.18	0.74%
FAURECIA	EO	4400446	4,379	$162,541.78	0.71%
METRO PACIFIC INVESTMENTS CORP	MPI	B1L8838	1,582,700	$161,716.82	0.71%
COM HEM HOLDING AB	COMH	BN7PJ67	19,698	$159,190.05	0.70%
OIL SEARCH LTD	OSH	6657604	24,786	$158,943.83	0.70%
ASCIANO LTD	AIO	B1YC5L4	31,818	$155,820.82	0.69%
FORTESCUE METALS GROUP LTD	FMG	6086253	66,800	$146,669.16	0.64%
MODERN TIMES GROUP MTG AB	MTGB	B151P43	4,286	$135,920.20	0.60%
SPOTLESS GROUP HOLDINGS LTD	SPO	BMJJMM7	86,181	$133,497.28	0.59%
ESTIA HEALTH LTD	EHE	BSSWC52	34,046	$131,749.01	0.58%
SNAM SPA	SRG	7251470	19,809	$98,039.37	0.43%
BBA AVIATION PLC	BBA	B1FP891	16,846	$94,145.69	0.41%
TRADE ME GROUP LTD	TME	B76CYL7	32,033	$90,983.42	0.40%
ACCIONA SA	ANA	5579107	1,233	$83,202.32	0.36%
ASTALDI SPA	AST	7376544	14,204	$81,924.36	0.36%
RAIFFEISEN BANK INTERNATIONAL AG	RBI	B0704T9	4,409	$67,369.83	0.29%
DELTA LLOYD NV	DL	B574ZG0	2,349	$51,655.48	0.22%
UGL LTD	UGL	6914871	25,976	$46,317.93	0.20%
ODFJELL DRILLING LTD	ODL	BDX87W2	15,402	$27,485.12	0.12%
				$22,582,614.39	**100%**

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