

September 2014

A member of Prudential plc (UK) 

INVESTMENT OBJECTIVE

The investment objective of the Sub-Fund is to seek to provide investors with regular income and capital growth by investing: (i) 30% to 70% of its assets into the Luxembourg domiciled Eastspring Investments – US High Yield Bond Fund (the “US High Yield Bond”); and (ii) 30% to 70% of its assets into the Luxembourg domiciled Eastspring Investments – Asian Bond Fund (the “Asian Bond”), (collectively, the “Underlying Funds”). The Sub-Fund may in addition, at the Manager’s absolute discretion, invest up to 20% of its assets in any other Asia Pacific investments (including real estate investment trusts, dividend yielding equities and any other sub-funds of the Eastspring Investments (the “Eastspring Investments Umbrella Fund”), subject to the prior approval of the Authority where necessary).

FUND DETAILS

Benchmark

50% JP Morgan Asia Credit Ind & 50% BofA Merrill Lynch USD High Yield Constrained Ind- hedged to SGD*

Portfolio Manager

Joanna Ong

Share class	Inception date	Currency
A	1-Feb-05	SGD
M	1-Feb-05	SGD
M (RMB hedged)	2-Sep-13	CNH

MARKET REVIEW

- ▶ Global investment markets dropped substantially in September across various asset classes. Geopolitical strife, concerns about China’s economic slowdown and worries over rising US interest rates all contributed to investors’ anxiety.
- ▶ During the month, the US Treasury yields generally went up. US high yield credits¹ fell 2.1% with widened credit spreads, despite the trailing 12-month default rate decreasing to 1.35% from 1.40%. Asian USD-denominated bonds² also returned negatively (-0.8%). Risk sentiment deteriorated amid concerns over the prospects of rising interest rates and weak economic data from China.
- ▶ **Year to date**, investors continue to grapple with uncertainty over the global economic prospects as well as timing of a turn in the US Federal Reserve policy cycle.
- ▶ Both of the underlying asset classes have returned positively so far this year. US high yield credits¹ have increased 3.6%, whilst Asian USD-denominated bonds² have rose 6.9% during the period.

FUND PERFORMANCE

- ▶ During September, the Eastspring Investments Funds - Monthly Income Plan Class A and Class M both dropped 2.2% (bid-to-bid) in SGD terms (both -7.1% offer-to-bid in SGD terms).
- ▶ The Fund benchmark fell 1.5% in SGD terms during the same period.
- ▶ **Year to date**, the Fund’s Class A has increased 3.9% (bid-to-bid) in SGD terms (-1.3% offer-to-bid in SGD terms), and the Fund’s Class M has increased 4.0% (bid-to-bid) in SGD terms (-1.2% offer-to-bid in SGD terms).
- ▶ The Fund benchmark has increased 5.2% in SGD terms over the same period.

All data as of 30 September 2014 unless otherwise stated.

*With effect from 1 June 2012, the benchmark for the Fund was changed from the 12 month SGD Fixed Deposit Rate to 50% JP Morgan Asia Credit Index and 50% BofA Merrill Lynch US High Yield Constrained Index hedged to SGD to better reflect the investment focus and risk of the Fund.

The two series are chain-linked to derive the longer period benchmark returns.

Source: Eastspring Investments. ¹ BofA Merrill Lynch US High Yield Constrained Index Total Return in USD terms.

² JP Morgan Asia Credit Index Total Return in USD terms

FUND COMMENTARY

EASTSPRING INVESTMENTS FUNDS – MONTHLY INCOME PLAN

September 2014

During the month, security selection within the underlying Eastspring Investments – US High Yield Bond Fund is the major performance detractor.

Year to date, the largest positive contributor to the Fund performance is the off-benchmark allocation to equities.

FACTORS AFFECTING PERFORMANCE

- ▶ During the month, the Fund underperformance was mainly due to the security selection effect within the underlying Eastspring Investments – US High Yield Bond Fund. The Fund's underweight to Asian USD bonds and overweight to off-benchmark equities also detracted value from the relative performance.
- ▶ During the month, the Eastspring Investments – US High Yield Bond Fund's overweight to Quicksilver Resources Inc. (KWK), an independent oil and gas exploration & production company, coal producers Arch Coal Inc. (ACI) and Alpha Natural Resources (ANR) were the top detractors. Whilst the cash position was the largest contributor to relative return.
- ▶ During the month, the Eastspring Investments – Asian Bond Fund's non-benchmark exposure to Asian currencies detracted, given the broad weakness of Asian currencies against USD. However the harm was offset by the positive security selection effect.
- ▶ **Year to date**, the largest positive contributor to the Fund performance is the off-benchmark allocation to equities, which increased 11.3% in SGD terms over the review period. Security selection within the underlying Eastspring Investments – Asian Bond Fund also added value. However, security selection within the underlying Eastspring Investments – US High Yield Bond Fund was the major detractor to the relative performance.
- ▶ **Year to date**, the Eastspring Investments – US High Yield Bond Fund's overweight to Quicksilver Resources Inc. (KWK), Arch Coal Inc. (ACI) and Alpha Natural Resources (ANR) have been the top detractors to its relative return.
- ▶ **Year to date**, the Eastspring Investments – Asian Bond Fund's increased exposure to long-dated investment grade credits since April contributed to relative performance. Positive security selection, particularly in Hong Kong and Indonesia, also added value. However, the underweight in selected high yield sovereign issues such as Pakistan detracted from performance.

FUND COMMENTARY

EASTSPRING INVESTMENTS FUNDS – MONTHLY INCOME PLAN

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STRATEGY AND OUTLOOK

Concerns over the global economy growth have led to sharp corrections in various asset classes.

The good news is that easier financial conditions ought to provide some support to growth and profits going forward.

The odds of a material shift in the commencement of the US Federal Reserve tightening program from mid-2015, appear limited.

The Fund maintains its preference for US high yield (target allocation: 50%) over Asian US dollar bonds (40%).

The Fund is looking for opportunities to increase its equity exposure by adding Asian equities.

- ▶ Concerns over the global economy growth have led to sharp corrections in cyclical assets- commodities, energy prices, small capitalization stocks and Treasury yields. In contrast to other corrective phases over the past two years, cross asset volatility increased.
- ▶ The good news is that easier financial conditions ought to provide some support to growth and profits going forward. In China, the “plunge protection team” have also offered more policy easing. In Asia, falling energy prices are also likely to be positive for growth over the coming months as they ease both fiscal and interest rate burdens. Of course, there is a material risk that the slow down is much deeper first, before easier financial conditions begin to support growth.
- ▶ In the very near term, the macro news flow in the US has not changed substantially. Indicators of output and growth such as real GDP and the manufacturing survey have improved, but the labor market improvement has slowed and inflation has come back down. On this basis, the odds of a material shift in the commencement of the US Federal Reserve tightening program from mid-2015, appear limited.
- ▶ The Fund maintains its preference for US high yield (target allocation: 50%) over Asian US dollar bonds (40%). The former has historically been relatively less susceptible to a rise in government bond yields. US high yield, with its higher absolute yield level, offers more carry to offset any negative impact from a rise in government bond yields. Additionally, the Fund manager continues to remain confident in the credit fundamentals of the US high yield corporates. Debt service and leverage metrics, as well as debt maturity profiles remain very healthy for the US corporates.
- ▶ Singapore dividend stocks and REITs continue to offer value and the Fund continues focusing on companies with strong balance sheets, visible and resilient recurring cashflows to support dividend payouts.
- ▶ In addition, Asian equities look attractive after the recent market falls. They offer attractive dividend yields, good diversification from USD interest rate risk, as well as potential capital upside to achieve medium-term fund return target. Therefore the Fund is looking for opportunities to increase its exposure to this asset class.
- ▶ The overall Fund’s running yield is 5.9% as of 30 September 2014.

Disclaimer

The name of the Fund “Eastspring Investments Funds - Monthly Income Plan” should not be taken as implying that monthly or regular distributions in respect of units will be made. Distribution payout shall, at the sole discretion of the Manager, be made out of either (a) income; or (b) net capital gains of the Fund; or (c) capital of the Fund or a combination of (a) and/or (b) and/or (c). There is no guarantee that any distribution will be made or that the frequency and amount of distributions as set out in the prospectus will be met. When distributions are declared and paid out (including out of capital) with respect to the Fund, the net assets attributable to the relevant class of Units will stand reduced by an amount equivalent to the product of the number of Units outstanding and distribution amount declared per Unit. Payout is computed based on initial issue price of its respective classes of units.

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Eastspring Investments (Singapore) Limited (UEN. 199407631H)
10 Marina Boulevard
#32-01 Marina Bay Financial Centre Tower 2
Singapore 018983
Tel: 6349 9711 | Fax: 6509 5382

eastspring.com.sg



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