

FUND COMMENTARY

EASTSPRING INVESTMENTS UNIT TRUSTS – ASIAN INFRASTRUCTURE EQUITY FUND

August 2015

A member of Prudential plc (UK) 

INVESTMENT OBJECTIVE

The investment objective of the Asian Infrastructure Equity Fund is to maximise long-term capital appreciation by investing primarily in equity and equity-related securities of corporations deriving substantial revenue from, or whose subsidiaries, related or associated corporations are engaged in, infrastructure or related business and are incorporated in, or listed in, or operating principally from the Asia ex-Japan region.

The Asian Infrastructure Equity Fund may also invest in depository receipts including American Depository Receipts (ADRs) and Global Depository Receipts (GDRs), debt securities convertible into common shares, preference shares and warrants.

FUND DETAILS

Benchmark

MSCI AC Asia ex-Japan Selected Sectors Index

Portfolio Manager

Andrew Cormie

Share class	Inception date	Currency
SGD Class	1-Apr-08	SGD
USD Class	1-Apr-08	USD
Euro Class	1-Apr-08	Euro

MARKET REVIEW

- ▶ The Fund's benchmark declined 9.3% in US dollar terms in August. Asian markets continued to stumble over the month, with the various MSCI country indices closing down from July. MSCI indices for Korea and Thailand were the region's stronger performers in USD terms, whilst the MSCI indices for Malaysia and Hong Kong were the weakest performers in the region.
- ▶ South Korea's manufacturing PMI rose to 47.9 in August from 47.6 in July. In August, despite market correction and concerns over the economic slowdown in China, the Korean consumer confidence index rose to 102 from 100 in July as consumer sentiment began to pick up post the MERS scare. Thailand saw seasonally adjusted GDP growth accelerate quarter-on-quarter in the second quarter with a positive uptick in exports from the previous month.
- ▶ In August, the Chinese A-share stock market correction from the previous month continued sharply. This was further exacerbated by China's surprise devaluations of the Renminbi which initially rocked the region. However currency stability returned somewhat as the market realized that this had only been a rather clumsy attempt to allow the currency to move closer to a free float which appears to be still some time away. On 25 August, the Chinese government announced further interest rate and RRR cuts to stabilise the equity market. With this backdrop, the Malaysian market suffered a sell off in August but rebounded towards the end of the month. Contraction in new orders and costlier production inputs led the Malaysian manufacturing PMI down to 47.2 in August from 47.7 in July. The Malaysia ringgit depreciation, downward oil price pressure and rising inflation were market concerns amid the political turmoil in the country. In August, Hong Kong shares mirrored the Chinese stock market and were down by 12% month-on-month.

FUND PERFORMANCE

- ▶ The Fund in August declined 5.19% on a bid-to-bid basis (SGD Class) against the benchmark's 6.53% decline. Outperformance was 1.34%.
- ▶ In the year to date, the Fund fell 3.66% on a bid-to-bid basis (SGD Class) against the benchmark's fall of 3.30%. Underperformance was 0.36%.
- ▶ Stock selection in the financials and utilities were among the larger contributors to the Fund's year-to-date performance. Stock selection in materials and telecommunications services hurt performance.
- ▶ Since inception, the Fund declined 1.39% per annum on a bid-bid basis (SGD Class) against the benchmark's 1.49% decline. Outperformance was 0.10% a year.

All data as of 31 August 2015 unless otherwise stated.

Notes.¹ Thomson Datastream, at 31 August 2015, in USD terms.

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S-1, Metro Pacific Investments and TTW were the larger contributors to the Fund's month-to-date performance.

S-1 share price surged up in August.

MPI may consider bidding for more 2 more PPPs projects.

TTW reported 2Q net profit increased by 5% from previous quarter.

Reliance Industries, Bharti Airtel and Energy Development were the larger detractors from Fund month-to-date performance.

Reliance Industries shares suffered as Asian markets were dragged down by Chinese stocks.

Bharti Airtel shares fell as fears of competition in telecommunication services rose.

Energy Development reported H1 2015 net income fell 27% (YoY).

KEY CONTRIBUTORS

- ▶ **In August**, overweight positions in S-1 Corporation, and off-benchmark weight in Metro Pacific Investments Corp (MPI) and Thai Tap Water Supply Plc (TTW) were the key contributors to the Fund's Relative performance.
- ▶ Korea-based S-1, specialises in security services for business, homes, and automobiles. The stock price saw a surge up in August as the market actively bought the shares possibly resulting an overbought signal. The stock, which is the market leader in Korea, is somewhat inversely correlated to the Korean economy as the perception is that crime rates rise when the economy declines.
- ▶ MPI engages in water reticulation, healthcare services, electricity distribution, toll road and light rail businesses. The Philippines government plans to roll out two public-private partnership (PPP) projects linking Metro Manila to city outskirts by November 2015. After the successful bid for a light rapid train extension PPP contract, through partnership with Ayala Corp and Macquarie Infrastructure Holdings (Philippines) Ltd, MPI is considering the bid for the two additional PPPs.
- ▶ TTW is a water utility company which reticulates tap water to 2 provinces in West Bangkok. In August, the stock, although flat over the month, outperformed on a relative basis, after posting a 2Q 2015 net profit increase of 5% quarter-on-quarter.
- ▶ In the year to date, an overweight position in S-1 Corporation, an off-benchmark position in Taiwan Secom Co Ltd and an underweight in Korea Electric Power Corporation were among the larger contributors to the Fund's relative performance.

KEY DETRACTORS

- ▶ **In August**, overweights in Reliance Industries Ltd, Bharti Airtel Ltd and Energy Development Corp. were key detractors from Fund performance.
- ▶ Stock price of India-based Reliance Industries, a conglomerate with interests including oil refining, energy, petrochemicals and telecommunications, declined over the month due to the sell off in Asian markets.
- ▶ Bharti Airtel is a telecommunication service provider with headquarters based in India. The company offers voice, data services through wireless and fiber network technologies. The shares fell over the month amidst investor concerns over increased competition in the Indian market.
- ▶ Energy Development produce geothermal energy for commercial use. The company announced H1 2015 net income fell by 27% year-on-year to 4.6 billion pesos.

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- ▶ In the year to date, off-benchmark positions in Angang Steel Co. Ltd. and PT Vale Indonesia TBK and an overweight position in NWS Holdings Ltd were among the larger detractors from the Fund's relative performance.

FUND ACTIVITY

- ▶ There was no notable fund activity for the month.

STRATEGY AND OUTLOOK

The Fund will continue to focus on investments that serve domestic-demand and are endorsed by local governments.

- ▶ Our fund manager believes in the region's infrastructure story, especially when applied to emerging economies.
- ▶ The Fund will continue focusing on domestic-demand-driven investments that are endorsed strongly by local governments.
- ▶ Our manager believes that the alternative energy theme, including nuclear power, is here to stay.
- ▶ Demand for electricity is being driven by the pace of economic growth, especially among emerging countries, urbanization, and an historical underinvestment in infrastructure.

Disclaimer

Investors should note that "infrastructure" or "infrastructure related" may be capable of wide-ranging interpretation. The Investment Manager has the sole discretion to decide what constitute "infrastructure" or "infrastructure related" investments for the purposes of any such investments under the Eastspring Investments Unit Trusts - Asian Infrastructure Equity Fund.

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