

# Monthly Outlook

October 2011

*Optimism that policymakers are closer to a resolution to the Eurozone sovereign debt crisis drove a strong rebound in financial markets around the world in October. Investor sentiment towards the U.S. and China was also significantly improved on the back of generally-positive data, and in China, expectation of policy easing.*

*In SGD terms, the MSCI AC World Index gained 6.0% while the MSCI AC Asia Pacific ex-Japan Index climbed 6.3%. October turned out to be the best-performing month year to date for Asian equities, which more than retraced the previous month's losses and outperformed global stocks as risk appetite returned. Asian bonds and currencies also recovered strongly, while Asian credits regained most of the ground lost in September, with Asian high-yield outperforming against all the major credit indices.*

*Given that uncertainties regarding the latest rescue plan prevail, we believe it would take a while for the debt crisis in the Eurozone to be resolved. We are optimistic that the U.S. will be able to avoid a recession, though growth may continue to be sub-par, and that China will achieve a soft landing will be achieved. Nonetheless, we believe growth in China and the rest of Asia will continue to moderate further in the coming months due to slowing external demand, particularly from Europe, but remain relatively resilient given healthy domestic consumption.*

## Asian Rates: Asian bonds recovered as risk appetite returned

### **Progress in Eurozone debt crisis boosted risk sentiment**

Market sentiment improved significantly towards month end as the EU summit in Brussels made some progress towards a resolution to Eurozone debt crisis. Although crucial details were still missing at that point, EU leaders agreed in principle to a credible package of measures – including requiring banks holding Greek debt to accept a 50% loss, boosting the Eurozone bailout fund to EUR1t and recapitalizing banks to the tune of about EUR106b. As risk sentiment improved, U.S. Treasury (UST) yields ended the month higher, with the 10-year UST yield up 34bp.

### **Asian government bonds rallied; Indonesia and Singapore relaxed policy stance**

Better risk sentiment bolstered Asian government bonds in October, with most yield curves bull flattening on a slowing growth outlook. Indonesia government bonds outperformed regional peers during the month, with yields dropping about 50-60bp across the curve. Amid concerns of slower growth due to weakness in the global economy, Indonesia and Singapore have eased their policy stance to some extent in October. Bank Indonesia (BI) unexpectedly cut its benchmark interest rate by 25bp, while the Monetary Authority of Singapore (MAS), in a less aggressive move, eased the pace of monetary policy by reducing the slope of the SGD NEER policy band. In Thailand, massive floods continued to cause widespread damage across the country, prompting the Bank of Thailand (BoT) to lower the country's growth forecast to 2.6% from 4.1%, and raise the budget deficit to account for the aftermath reconstruction efforts.

### **Eurozone risks remain; U.S. budget-cutting deal deadline looms**

Despite recent positive developments in the Eurozone debt crisis, we remain concerned that path ahead may not be smooth, as many crucial details to the rescue plans are still missing, and politics may yet again hinder progress. Meanwhile, in the U.S., we continue to be concerned as to whether Congress' super committee will be able to agree to deficit cuts as the 23 November deadline approaches.

### **Favour long-duration exposures as yield curves likely to bull flatten**

While our base case is for a China soft landing, we do expect economic weakness in the Eurozone to affect the economies in China and the rest of Asia. Amid weaker macro data, many Asian central banks have started to hint at relaxing their policy stance, including Chinese Premier Wen in his comments on policy "fine-tuning" and selective easing. In October, Indonesia and Singapore have started the policy-

easing ball rolling. Against this backdrop, we expect Asian government bond yield curves to continue to flatten, and will look to increase our exposure to long-duration positions.

### Asian FX: Strengthened on strong inflows and hedge unwinds

#### **Asian currencies gained as risk appetite returned**

In October, Asian currencies, led by the KRW and SGD, rebounded strongly on the back of strong inflows and unwinding of hedging positions as risk sentiment improved. The strengthening of the SGD against the USD by 4.2% during the month was also helped by the fact that the MAS' easing move was less aggressive than market expectations. Despite current volatility, we remain constructive on the currency markets in Asia in the longer term as they remain well supported by the region's healthy growth fundamentals and attractive interest yield differentials versus the developed markets, in our view. We especially like the SGD, IDR and KRW. We believe the SGD will remain well supported by the MAS' explicit FX policy of gradual appreciation; we expect investor flows into Singapore to remain firm and the SGD NEER to gradually move to the upper band in the medium term.

### Asian Credits: Asian high-yield strongly outperformed all major credit indices

#### **Asian credits outperformed in October**

Asian credit markets rallied sharply in October, retracing almost all of the previous month's losses, on the possibility of a resolution to the Eurozone debt crisis and improved sentiment towards the U.S. and China. Asian credits, as measured by the J.P. Morgan Asian Credit Composite Index, ended the month up 4.66% on a total return basis, with spreads narrowing 90bp. Asian high-yield credits rallied a spectacular 14.7% on a total return basis, with spreads gapping tighter by 302bp, outperforming Asian high-grade credits which gained 2.4% as spreads narrowed by 54bp. This month, both Asian high-yield and high-grade credits significantly outperformed their respective developed market peers.

#### **Cautiously optimistic regarding Eurozone debt crisis**

While we remain concerned over continued uncertainty in the Eurozone situation, we believe the positive market tone should carry over into November on optimism that China will achieve a soft landing and the U.S. will be able to dodge a recession. Having said that, we will remain cautious of volatility and unexpected market swings as the market awaits details and more clarity on the Eurozone bailout plan. Hence, we maintain our preference for high-grade credits over high-yield in the near term, as we believe the former will hold up better amid market uncertainty.

### Asian Equities: More than retraced previous month's losses

#### **Asia-Pacific markets staged a strong rebound**

Equity markets in the Asia-Pacific ex-Japan region staged the best monthly performance year to date in October on the back of a significant improvement in risk sentiment as the EU summit in Brussels resulted in some progress towards a resolution to Eurozone debt crisis. In SGD terms, the MSCI AC Asia ex-Japan index rose 7.5% during the month, with Australia (12.4%), China (10.6%) and Korea (10.5%) emerging the top performers among the regional markets.

#### **Soft-landing hopes lifted Chinese stocks**

The Hang Seng China Enterprises Index gained 18.2% (SGD terms) in the month of October as Chinese stocks rallied strongly on signs that China's economy is on track for a soft landing. GDP growth in 3Q was softer but still healthy, moderating to 9.1% YOY from 9.5% in 2Q, while September CPI cooled to 6.1% YOY from 6.2% in August, after peaking in July. September retail sales grew a better-than-expected 17.7% YOY, reflecting healthy domestic demand. During the month, Premier Wen's pledge to fine-tune policy if necessary and implement "stimulative policies" to help smaller companies further boosted sentiment.

***Asia-Pacific equities remain well supported***

While the announcement of the latest rescue plan has helped stabilize the Eurozone situation somewhat, we remain concerned that the debt crisis is far from resolved, particularly as crucial details are still missing, and politics may again muddy the path forward. However, despite economic weakness in the external economy, particularly in Europe, we believe intra-regional demand will continue to sustain growth in the Asia-Pacific economies. In particular, we are convinced that China will manage to avoid a hard landing, based on recent data and the government's capacity to roll out policy measures to manage the slowdown. Similarly within the rest of Asia, there remain policy tools to manage an economic slowdown. We anticipate that the Asia-Pacific ex-Japan equity markets will be well supported in the coming month, helped by equity valuations that remain attractive on a medium- to long-term basis, and particularly favour the equity markets in Singapore and Indonesia.

In light of this, we reviewed performance and provide our Investment Managers' strategy and outlook for the following funds:

- Nikko AM Shenton Thrift Fund
- Nikko AM Shenton Twin City Fund
- Nikko AM Shenton Income Fund
- Nikko AM Shenton Global Opportunities Fund
- Nikko AM Shenton Asia Pacific Fund
- Nikko AM Shenton Asia Bond Fund
- Nikko AM Shenton Asia Knowledge Fund
- Nikko AM Global Property Securities Fund
- Nikko AM Shenton Short Term Bond Fund
- MyHome Fund – HomeBalanced
- MyHome Fund – HomeGrowth
- MyHome Fund – HomeSteady

## FUND PERFORMANCE UPDATE

October 2011

### Nikko AM Shenton Thrift Fund

#### Highlights

- The Fund rose 7.30% in October amid improved sentiment due to positive developments in the Eurozone debt situation and growing optimism of a soft landing in China.
- We re-invested cash raised in September in selected Singapore REITs. We continue to look out for attractive value opportunities like Singapore banks and selective landlords in Singapore and Hong Kong. Agriculture commodity plays remain a key longer-term theme.
- The Straits Times Index closed 6.75% higher in October. 3Q GDP was higher than expected but other economic data releases were generally soft. Inflation moderated in September. The MAS eased the pace of monetary tightening by reducing the slope of the policy band.
- We expect the Singapore market to trade in line with regional peers as sentiment improves. Although Singapore's economic growth will likely continue to moderate, we believe the market remains supported by attractive valuations and strong fundamentals.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Thrift Fund (Net of fees)	SGD	+7.30%	-12.28%	+5.28%
Nikko AM Shenton Thrift Fund (Net of fees and charges <sup>1</sup> )	SGD	+1.93%	-16.67%	+5.06%
Benchmark (FSSTI Index)	SGD	+6.75%	-10.48%	+2.83%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 31 Aug 1987

#### **Fund gained 7.30% in October**

The Fund rose 7.30% in October as Singapore stocks rebounded strongly along with global equity markets, driven by a recovery in sentiment following positive developments in the Eurozone. Additionally, China's improved economic data and Premier Wen's hints at selective policy easing also helped boost the Asia-Pacific markets, as investors grew more confident that there will be a China soft landing to cushion an economic slowdown. The Hong Kong/China-related stocks in the portfolio were among the best performers during the month.

#### Strategy

##### **Re-deployed cash given progress in Eurozone crisis talks**

Given improved market sentiment and cheap stock valuations, we re-invested the cash that was raised in September in selected Singapore REITs that have been sold off aggressively and were trading at "recession valuations". We believe the dividend payouts are sustainable and will help anchor portfolio returns in the challenging economic growth environment ahead.

**Continue to capture attractive value opportunities**

We continue to re-position the portfolio to capture attractive value opportunities which have emerged from the past quarter's sharp market correction. We especially like the Singapore banks, as we believe earnings will remain resilient despite the Eurozone crisis. We also see value in the rental streams of selective property landlords in Singapore and Hong Kong. We will likely continue to emphasize the theme of resilient cash flows in the next few quarters.

**Agriculture commodity plays remain key longer-term theme**

Agriculture commodity plays, including palm oil plantations and sourcing agents, remain a key longer-term theme for our investments given growing demand in Asia. We will continue to take advantage of the market volatility to add to the portfolio's exposure to this sector.

**Market Review**

% Change <sup>^</sup>	Month	YTD
STI Index	6.75%	-10.48%
FTSE ST Small-Cap Index	6.08%	-21.41%
FTSE ST Mid-Cap Index	4.26%	-28.82%
FTSE ST China Index	7.32%	-27.10%

Source: Bloomberg, 31 October 2011 (<sup>^</sup>In local currency, price return basis)

**Singapore stocks rebounded**

Singapore equities rebounded along with regional peers in October, with the Straits Times Index closing 6.75% higher, as market sentiment improved amid an easing of global recession fears and signs of progress towards a resolution to the Eurozone debt crisis. Economic data was generally soft, with September's Non-Oil Domestic Exports (NODX) declining 4.5% YOY from a 3.9% rise in August, and August retail sales slowing sharply to 3.3% YOY from 10.7% in July. Although 3Q11 GDP expanded a higher-than-expected 5.9%YOY due to a surge in biomedical manufacturing, the key electronics sector has yet to show signs of recovery. Meanwhile, CPI inflation cooled to 5.5% YOY in September, down from 5.7% in August.

**MAS eased pace of monetary tightening**

In its October policy meeting, the Monetary Authority of Singapore (MAS) maintained its policy of a modest and gradual appreciation of the SGD NEER policy band. However, given the expected moderation in core inflation, the slope of the policy band will be reduced, with no change to the width of the band and the level at which it is centred. The MAS projected that inflation will remain high till mid-2012, with headline inflation forecasted at around 5% for 2011 and 2.5-3.5% for 2012.

**Market Outlook**

**Market supported by attractive valuations and strong fundamentals**

We expect the Singapore market to trade in line with regional markets as sentiment continues to improve. While growth is likely to moderate, such an outlook has already been well-flagged and sufficiently captured in the consensus market view. Current market valuations remain attractive and fundamentals remain supportive of corporate earnings at a level that is likely to limit market downside, barring a catastrophic outcome in the Eurozone.

Note:

The CPF interest rate for the Ordinary Account ("OA") is based on the 12-month fixed deposit and month-end savings rates of major local banks, subject to a minimum 2.5% interest per annum. The interest rate for Special, Medisave and Retirement Accounts ("SMRA") is pegged to the 12-month average yield of 10-year Singapore Government Securities yield plus 1%. A 4% floor rate will be maintained for interest earned on SMRA until 31 December 2012, after which a 2.5% minimum rate will apply. From 1 January 2008, an extra 1% interest will be paid on the first S\$60,000 of a member's combined balances, including up to S\$20,000 in the OA. The first S\$20,000 in the OA and the first S\$40,000 in the Special Account ("SA") cannot be invested under the CPF Investment Scheme ("CPFIS").

## FUND PERFORMANCE UPDATE

October 2011

### Nikko AM Shenton Twin City Fund

#### Highlights

- The Fund's NAV gained 9.13% in October, outperforming the benchmark by 138bp. The outperformance was mainly due to favourable stock selection in Hong Kong and China.
- Given the slowing growth outlook in Singapore and Hong Kong, we have reduced exposure to the cyclical sectors, especially selected industrial, and consumer discretionary stocks, while adding to the defensive telco sector. We continue to emphasise sector and tactical allocation in managing the portfolio.
- Singapore and Hong Kong stocks rebounded in October as market sentiment improved on positive outcomes of the EU summit and diminished concerns over a China hard landing and U.S. recession. Data from both economies continued to point to slowing but still-healthy growth. During the month, the MAS eased the pace of monetary tightening.
- We expect the positive market tone to continue into November and keep both the Singapore and Hong Kong markets well supported. Although economic growth will likely continue to moderate in both economies, we believe these markets remain underpinned by attractive valuations and strong fundamentals.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Twin City Fund (Net of fees)	SGD	+9.13%	-16.70%	+5.19%
Nikko AM Shenton Twin City Fund (Net of fees and charges <sup>1</sup> )	SGD	-1.78%	-25.03%	+4.59%
Benchmark (FSSTI + HSI Composite Index)	SGD	+7.75%	-12.99%	+4.71%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 5 Mar 1993

#### **Fund outperformed due to favourable stock selection**

The Fund's NAV gained 9.13% in October, outperforming the benchmark by 138bp. The outperformance was mainly due to favourable stock selection in Hong Kong and China. Our Chinese consumer and materials stocks performed especially well in the market rally due to their cyclical nature, and contributed to the bulk of the gains, while the underweight in the defensive telco and utilities sectors also added value. However, the higher cash level in the portfolio pared the gains somewhat.

#### Strategy

##### **Reduce cyclical sector weighting on slowing growth outlook**

We have reduced the Fund's weighting in the cyclical sector on expectation of slower, though still-healthy, growth in Singapore and Hong Kong. We have particularly reduced exposure to selected materials, industrial, and consumer discretionary stocks, while tactically increasing our weighting in the telco sector.

**Emphasize sector and tactical allocation**

We will continue to emphasize sector allocation in managing the portfolio, rotating among sectors as and when necessary to optimise performance. In view of persistent volatility, we have raised the cash level and reduced beta in the portfolio. We will continue to tactically trade our stock positions while looking for opportunities to enter at attractive prices.

**Market Review**

**Singapore**

% Change^	Month	YTD
STI Index	6.75%	-10.48%
MSCI Small-Cap Index	11.75%	-7.27%

Source: Bloomberg, 31 October 2011 (^In local currency, price return basis)

**Singapore stocks rebounded**

Singapore equities rebounded along with regional peers in October, with the Straits Times Index closing 6.8% higher, as market sentiment improved amid an easing of global recession fears and signs of progress towards a resolution to the Eurozone debt crisis. Economic data was generally soft, with September's Non-Oil Domestic Exports (NODX) declining 4.5% YOY from a 3.9% rise in August, and August retail sales slowing sharply to 3.3% YOY from 10.7% in July. Although 3Q11 GDP expanded a higher-than-expected 5.9%YOY due to a surge in biomedical manufacturing, the key electronics sector has yet to show signs of recovery. Meanwhile, CPI inflation cooled to 5.5% YOY in September, down from 5.7% in August.

**MAS eased pace of monetary tightening**

In its October policy meeting, the Monetary Authority of Singapore (MAS) maintained its policy of a modest and gradual appreciation of the SGD NEER policy band. However, given the expected moderation in core inflation, the slope of the policy band will be reduced, with no change to the width of the band and the level at which it is centred. The MAS projected that inflation will remain high till mid-2012, with headline inflation forecasted at around 5% for 2011 and 2.5-3.5% for 2012.

**Hong Kong**

% Change^	Month	YTD
HSI Index	12.92%	-13.76%
HSCEI Index	18.19%	-17.08%

Source: Bloomberg, 31 October 2011 (^In local currency, price return basis)

**Hong Kong stocks rose along with regional markets**

In Hong Kong, the Hang Seng Index gained 12.9% (SGD terms) in October as market sentiment improved on positive outcomes of the EU summit and diminished concerns over a China hard landing and U.S. recession. Hong Kong-listed retailers soared as China retail sales rose a robust 17.5 YOY during the Golden week (versus 16.9% in the first eight months), and sectors which corrected hard in September, like property and Macau gaming, also rallied strongly. Trade moderated in September, with both exports and imports slowing, while inflation remained high with CPI climbing 5.8% YOY versus 5.7% in August.

**Soft-landing hopes lifted Chinese stocks**

The Hang Seng China Enterprises Index gained 18.2% (SGD terms) in the month of October as Chinese stocks rebounded strongly on signs that China's economy that is on track for a soft landing - including softer but still-healthy 3Q GDP growth and a further moderation in inflation. GDP growth in 3Q moderated to 9.1% YOY from 9.5% in 2Q, while September CPI cooled to 6.1% YOY from 6.2% in August, after peaking in July. Despite slowing external trade, domestic demand remained robust, with September retail sales growing 17.7% YOY, exceeding expectations of 17.0%. During the month, statements by Premier

Wen Jiabao that economic policy will be fine-tuned as needed and “stimulative policies” to help smaller companies will be implemented further boosted Chinese stocks.

## Market Outlook

### Singapore

#### ***Market supported by attractive valuations and strong fundamentals***

We expect the Singapore market to trade in line with regional markets as sentiment continues to improve. While growth is likely to moderate, such an outlook has already been well-flagged and sufficiently captured in the consensus market view. Current market valuations remain attractive and fundamentals remain supportive of corporate earnings at a level that is likely to limit market downside, barring a catastrophic outcome in the Eurozone.

### Hong Kong

#### ***Chinese economy remains sound and on track for soft landing***

We expect further moderation in China’s growth in 4Q11, led by declining exports as the Eurozone economy continues to be weighed down by the debt crisis, and the U.S. economy is still struggling to regain traction. However, given still-healthy though slowing growth and inflation that appears to be on a downtrend, we believe that the Chinese economy is headed for a soft landing. Giving further support to this view are Premier Wen’s recent statements of selective policy easing. We expect the positive market tone to continue into the coming month, which should keep the Hong Kong equity market well supported; moreover, stock valuations have also dropped to very attractive levels.

## FUND PERFORMANCE UPDATE

October 2011

### Nikko AM Shenton Income Fund

#### Highlights

- The Fund posted a strong gain of 2.19% in October, outperforming the benchmark which returned 0.03%. The Fund's Asian credits rallied the most and contributed to the bulk of the gains, while Asian government bonds also performed well and helped performance somewhat.
- We remain cautious of uncertainties in the Eurozone situation, and will stay nimble in our portfolio positioning, maintaining a bias for high-grade credits. We expect the Asian government bond yield curves to bull flatten further on policy easing expectations, and will look to shift our bond portfolio allocation towards the longer maturities.
- Risk sentiment improved significantly in October as progress was made towards a resolution to Eurozone debt crisis at the EU summit. Asian government bonds and currencies generally rebounded during the month. Asian credits rallied sharply, retracing almost all of the previous month's sharp losses.
- We maintain a cautiously positive outlook for the Eurozone as uncertainties persist. The U.S. faces the threat of another rating downgrade should it fail to reach an agreement on its budget-cutting plan. We especially like shorter-dated Thai government bonds and the SGD, but have turned negative on the THB given the extent of flood damage and prospect of a rate cut. We continue to prefer high-grade over high-yield credits.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Income Fund (Net of fees)	SGD	+2.19%	+1.35%	+4.57%
Nikko AM Shenton Income Fund (Net of fees and charges <sup>1</sup> )	SGD	-2.92%	-3.71%	+4.34%
Benchmark (DBS 12m SGD Fixed Deposit Rate for 20k to 50k)	SGD	+0.03%	+0.30%	+2.33%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 31 Jan 1989

#### **Fund strongly outperformed benchmark**

The Fund posted a strong gain of 2.19% in October, outperforming the benchmark which returned 0.03%, as risk sentiment improved markedly following positive developments in the Eurozone debt crisis. The Fund's Asian credits, which rallied sharply as spreads gapped tighter, contributed to the bulk of the gains. Asian government bonds also performed well, with most local government bond yield curves bull flattening on expectations of slower growth and policy easing ahead. Asian currencies, led by the KRW and SGD, staged an impressive rebound on the back of strong inflows and unwinding of hedging positions.

## Strategy

### ***Maintain nimble stance in credit portfolio***

Our decision to invest in selective Asian high-yield credits that have been oversold in the recent sharp market correction, such as Chinese industrial names and quality Chinese property names, has worked out well as Asian high-yield rallied the most among all the major credit classes in October. Going forward, while we remain constructive on Asian credits in the longer term, we are wary that the path forward for the Eurozone debt crisis may not be smooth, with details of the latest bailout plan still missing and the possibility that politics may once again complicate matters. Hence we will remain nimble in our portfolio positioning in the near term, maintaining our preference for high-grade credits over high-yield.

### ***Stay invested at short-end to belly of curve for now in view of uncertainty***

While our base case is for a China soft landing, we do expect economic weakness in the Eurozone to affect the economies in China and the rest of Asia. Amid weaker macro data, many Asian central banks have started to hint at relaxing their policy stance. During the month, Indonesia started the ball rolling with its 25bp rate cut, Singapore eased its pace of monetary tightening, and Chinese Premier Wen indicated that China is looking at “fine-tuning” policy at an appropriate time. Against this backdrop, our expectation is for the Asian government bond yield curves to continue to flatten; however, given lingering uncertainty in the Eurozone, we will maintain a short- to mid-term duration for the portfolio for now. We will wait for more clarity on the situation in the Eurozone before shifting the portfolio towards the longer-duration exposures.

## Market Review

### **Asia Rates & FX**

#### ***Progress at Eurozone debt talks boosted risk sentiment***

Market sentiment improved significantly towards month end as the EU summit in Brussels made some progress towards a resolution to Eurozone debt crisis. Although crucial details were still missing at that point, EU leaders agreed in principle to a credible package of measures – including requiring banks holding Greek debt to accept a 50% loss, boosting the Eurozone bailout fund to EUR1t and recapitalizing banks to the tune of about EUR106b. This boosted risk sentiment and helped the EUR to gain 4.2% versus the USD, and the S&P 500 index to clock its best monthly performance for the year. U.S. Treasury (UST) yields ended the month higher, with the 10-year UST yield up 34bp.

#### ***MAS eased policy to slow pace of SGD appreciation***

In its October policy meeting, the Monetary Authority of Singapore (MAS) announced that the slope of the SGD NEER policy band will be reduced, with no change to the width of the band and the level at which it is centred. While this move signalled a shift in priority from fighting inflation to supporting growth, the MAS' easing move was less aggressive than market expectations due to the country's still-healthy GDP growth in 3Q despite the global slowdown, and persistently-high inflation. Consequently, the SGD strengthened about 0.5% against the USD immediately following the announcement, and ended the month up 4.17%, as risk sentiment continued to improve on growing Eurozone optimism.

#### ***Bank Indonesia cut rates; Thailand suffered flood losses***

In a move that surprised most market participants, Bank Indonesia (BI) cut its benchmark interest rate by 25bp on 11 October, prompted by concerns over slowing global growth and confident that inflation is under control. Indonesian government bonds reacted well, with yields falling about 50bp across the curve, and the IDR also managed to strengthen 1.3% against the USD, despite taking an initial hit immediately following the move. Meanwhile, many parts of Thailand were hit by massive floods which have already damaged more than 12% of the country's rice paddy fields and inundated seven major industrial estates. The auto and electronics industries were among the worst hit. Flood-related losses were estimated at THB140b (Source: Bloomberg), which prompted Bank of Thailand (BOT) to lower its 2011 growth forecast to 2.6% from 4.1%, and raise the budget deficit to THB400b from THB350b to account for the

aftermath reconstruction efforts. Nonetheless, Thai government bonds performed well during the month with yields falling more than 30bp across the curve, helped by rate cut expectations. Asian government bonds and currencies mostly rebounded during the month, with Indonesian government bonds and the SGD the top performers in the respective markets.

**Table 1: MOM change in Policy Rates, Government Yields and Currencies for Asia (bp)**

	Policy Rate	Change in Policy Rate	Change in 2Y Yield	Change in 5Y Yield	Change in 10Y Yield	Currency Return vs USD
China	656	0	0	(21)	(17)	0.44%
Taiwan	188	0	1	8	10	1.89%
Korea	325	0	(5)	(3)	(8)	6.12%
India	850	50	25	73	45	0.57%
Indonesia	650	(25)	(55)	(57)	(58)	1.10%
Vietnam	900	0	23	3	(2)	-0.85%
Thailand	350	0	(38)	(45)	(30)	1.63%
Philippines	450	0	28	(14)	(44)	2.77%
Singapore	0.01	-	13	6	13	4.38%
Malaysia	300	0	(10)	(5)	5	4.03%
Australia	475	0	32	26	29	9.00%

Source: Bloomberg, 31 Oct 2011

## Asia Credit

### **Asian credits retraced last month's losses**

Asian credit markets rallied sharply in October, retracing almost all of the previous month's losses, as risk sentiment improved leading up to, and especially following, the EU summit at end-October which yielded positive results. Data and newsflow that suggest China will achieve a soft landing and the U.S. will be able to dodge a recession further lifted sentiment. Asian credits ended the month up 4.66%<sup>1</sup> on a total return basis, with spreads narrowing 90bp. Amid better investor sentiment, primary activity in the Asian credit markets picked up in October with the issuance of four investment-grade bonds amounting to USD3.75b.

### **Return of risk appetite boosted Asian credit markets, especially high-yield**

In October, Asian high-grade credits gained 2.42% on a total return basis as spreads narrowed by 54bp, while Asian high-yield credits rallied a sharp 14.67%, with spreads gapping tighter by 302bp. Following last month's sharp correction, Asian high-yield credits significantly outperformed high-grade counterparts as risk appetite returned. Similarly, credit markets in Asia also outperformed developed market peers.

### **Asian high-yield outperformed high-grade and developed market peers**

Asian high-yield credits staged a strong rebound in October, with bonds from Indonesian natural resources companies and selected Chinese property and industrial companies leading the rally. However, even after the rally, high-yield corporate spreads at 822bp remain significantly wider than year-to-date tightness of 483bp. In October, Asian high-yield credits strongly outperformed both U.S. and European peers, on both total return and spread bases.

<sup>1</sup> J.P. Morgan Asian Credit Index Composite

**Table 1: Global Credit Indices (Total Return)**

Total Returns (Respective Currency)						
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
31-Oct-11	1.58%	0.61%	2.42%	4.52%	7.93%	14.67%
30-Sep-11	0.37%	0.05%	(2.78%)	(1.15%)	(4.20%)	(14.88%)
31-Aug-11	0.44%	0.35%	0.62%	(4.72%)	(5.50%)	(4.89%)

Source: U.S. (Credit Suisse), Europe and Asia (JP Morgan)

**Table 2: Global Credit Indices (Spread)**

Month	Change in Credit Spread (MoM)					
	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
31-Oct-11	(35)	(16)	(54)	(107)	(148)	(302)
30-Sep-11	34	28	55	48	125	372
31-Aug-11	51	29	45	176	208	167

Source: U.S. (Credit Suisse), Europe and Asia (JP Morgan)

## Market Outlook

### Asia Rates & FX

#### **Eurozone risks remain; worries build for U.S. budget-cutting deal**

Despite the recent positive developments in the Eurozone debt crisis, we remain cautious that the market's current optimism may be temporary, as many crucial details to the rescue package are still missing, and implementation delayed. For example, the details of the bailout fund will not be hammered out till November. The private sector involvement (PSI) program for Greek debt is due to be implemented in early 2012, and the new EU-IMF multi-annual program financing of up to EUR100b for Greece will only be in place by the end of this year. Greece will face long years of austerity ahead and its economy is still shrinking. Moreover, many believe that the EUR1t Eurozone bailout fund is insufficient to protect the bigger economies like Italy and Spain. All in all, we believe it is still premature to say that a full-blown Eurozone debt crisis has been averted, and the situation could remain volatile in the short to medium term. Meanwhile in the U.S., the 23 November deadline for the congressional "Super Committee" to produce a deficit-cutting plan looms. Should the Super Committee fail to reach an agreement on the full USD1.2t of budget savings by then, or if Congress rejects the plan, significant automatic spending cuts will take place across the board. This could also trigger another credit downgrade, as credit rating agencies had already warned of further rating cuts should Congress not come up with a credible long-term plan to tame the nation's rising debt.

#### **Optimistic on SGD but expect THB to underperform in near term**

We remain constructive on the bond and currency markets in Asia in the longer term on sound fundamentals. Among the Asian currencies, we especially favour the SGD on its explicit FX policy of gradual appreciation. We expect investor flows into Singapore to remain firm and the SGD NEER to gradually move to the upper band in the medium term, even though near-term volatility could persist due to lingering uncertainty over the situation in the Eurozone. On the other hand, our view on the THB has turned negative, as we expect the THB to underperform regional peers in the near term given the extent of flood damage and increased likelihood of a rate cut. However, we expect reconstruction efforts to kick

in and support Thailand's growth in 2012. We are optimistic on short-dated Thai government bonds, which we expect will benefit from rate cut prospects. We expect the Thai government bond yield curve to steepen in the coming months as high inflation pushes up long-end yields while short-end yields fall on rate cut expectations.

## Asia Credit

### ***Cautiously optimistic on Eurozone debt crisis***

While the positive market tone may continue into November, we remain cautious on the Eurozone situation as the bailout plan announced at the recent EU summit suffers from a lack of details. However, optimism that China will achieve a soft landing and the U.S. will be able to dodge a recession should be supportive of sentiment. In the near term, we will maintain a defensive portfolio stance while waiting for the details of the EU bailout plan and more clarity to emerge, as considerable downside risks exist. In the longer term, we remain constructive on the Asian credit markets on favourable economic fundamentals. Moreover, the fact that monetary policies in the developed markets will likely stay accommodative for longer continues to bode well for this asset class.

### ***Continue to prefer high-grade over high-yield***

Given that uncertainties regarding the Eurozone debt crisis remain, we maintain our preference for high-grade credits over high-yield in the near term, as we believe the former will hold up better in periods of volatility and risk aversion. Asian high-yield credits remain highly susceptible to developments in the European debt crisis and policy tightening in the Chinese property sector, and downside risks are significant should things take a turn for the worse. Having said that, valuations in Asian high-yield credits remain quite attractive, with many corporate issues offering yields above 10%.

## FUND PERFORMANCE UPDATE

October 2011

### Nikko AM Shenton Global Opportunities Fund

#### Highlights

- The Fund rose 4.43% in October as financial markets rallied and risk appetite returned as policymakers made good progress towards resolving the Eurozone debt crisis.
- We will maintain an allocation of about 49% in the defensive sectors, such as consumer, healthcare and utilities, as we expect these sectors to remain resilient amidst market uncertainty and volatility.
- Global equities staged a strong rebound in October as risk sentiment improved markedly following the announcement of a credible rescue plan at the EU Summit and on increased optimism of a soft landing in China.
- We maintain a cautiously positive outlook for the Eurozone as uncertainties persist. We expect intra-regional demand to sustain the Asia-Pacific ex-Japan economies and keep the equity markets in the region well supported in the coming months.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Global Opportunities Fund (Net of fees)	SGD	+4.43%	-14.29%	+0.24%
Nikko AM Shenton Global Opportunities Fund (Net of fees and charges <sup>1</sup> )	SGD	-0.79%	-18.57%	-0.16%
Benchmark (MSCI World Free Index)	SGD	+5.91%	-7.08%	-2.14%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 5 Mar 1999

#### **Fund gained in October as risk appetite returned**

The Fund gained 4.43% in the month of October, as risk markets around the world rallied on the back of positive developments towards resolving the Eurozone debt crisis. Due to an increase in the allocation to the defensive sectors in the month of September, the Fund underperformed the benchmark by 148bp. The portfolio's three top-performing sectors in October were financials (+2.10%), energy (+1.36%), and industrials (+0.68%), while the utilities and communications sectors lagged.

#### Strategy

##### **Maintain defensive stance in the medium term**

As of end-October, the portfolio's allocation to the defensive sectors, including consumer, healthcare, utilities and other non-cyclical stocks, stood at 49%. We increased our exposure to these defensive sectors by 4% in September after taking some profit from stocks in the cyclical financials, energy and industrial sectors which had performed well. We intend to keep the allocation to the defensive sectors at around the current level in the near term due lingering market uncertainty, particularly over the Eurozone debt crisis and global macro outlook.

## Market Review

% Change <sup>^</sup>	Month	YTD
S&P 500 Index	6.40%	-2.63%
MSCI Europe Index	7.62%	-10.06%
MSCI Japan Index	-4.19%	-14.91%
MSCI Asia ex-Japan Index	7.54%	-14.24%

Source: Bloomberg, 31 October 2011 (^In SGD, price return basis)

### **Global stocks rebounded on improved outlook for Eurozone and U.S.**

In October, the MSCI AC World Index gained 6.3% in SGD terms as global stocks performed strongly after a gloomy start to the month which saw prices testing year-to-date lows. Market tone in the Eurozone was generally nervous early in the month as EU leaders struggled to deliver a solution to the ongoing debt crises and credit rating agencies downgraded both Italy and Spain. However, positive developments at the EU Summit towards month end lifted sentiment as EU leaders agreed in principle to a set of credible rescue measures. In the U.S., economic data releases during the month - including 3Q GDP which rose at the fastest pace this year and a stabilizing ECRI Weekly Leading Indicator of U.S. economic growth - painted a less pessimistic picture than many had feared and raised hopes that growth risks may be moderating.

### **Asia-Pacific markets rebounded as risk sentiment improved**

Equity markets in the Asia-Pacific ex-Japan region staged the best monthly performance year to date in October on the back of a significant improvement of risk sentiment as the EU summit in Brussels resulted in some progress towards a resolution to Eurozone debt crisis. The MSCI AC Asia ex-Japan Index up 7.5% (SGD terms) over the month. In SGD terms, Australia (+12.4%), China (+10.6%) and Korea (+10.5%) emerged the top performers in the Asia-Pacific region.

### **Soft-landing hopes lifted Chinese stocks**

The Hang Seng China Enterprises Index gained 18.2% (SGD terms) in the month of October as Chinese stocks rebounded strongly on signs that China's economy that is on track for a soft landing. GDP growth in 3Q was softer but still healthy, moderating to 9.1% YOY from 9.5% in 2Q, while September CPI cooled to 6.1% YOY from 6.2% in August, after peaking in July. September retail sales grew a better-than-expected 17.7% YOY, reflecting healthy domestic demand. During the month, Premier Wen's pledge to fine-tune policy if necessary and implement "stimulative policies" to help smaller companies further boosted Chinese stocks.

## Market Outlook

### **Cautiously optimistic on Eurozone debt crisis**

We are optimistic that the positive market tone will continue into the coming month and lend support to the global equity markets. Having said that, we are wary that downside risks from the situation in the Eurozone remain, as details of the rescue plan have yet to be ironed out and politics could again muddy the path ahead. In the U.S. we maintain our view that growth is weak but the economy is unlikely to slip into a recession.

### **Asia-Pacific equities remain well supported**

Despite economic weakness in the global economy, we believe intra-regional demand will continue to sustain growth in the Asia-Pacific region. In particular, recent data and the government's capacity to roll out policy measures to manage the slowdown bode well for a soft landing in China. Similarly within the rest of Asia, there remain policy tools to manage an economic slowdown. We anticipate that the Asia-Pacific ex-Japan equity markets will be well supported in the coming month, helped by equity valuations that remain attractive on a medium- to long-term basis, particularly in Singapore and Indonesia.

***Chinese economy on track for a soft landing***

We expect further moderation in China's growth in 4Q11, led by declining exports as the Eurozone economy continues to be weighed down by the debt crisis, and the U.S. economy is still struggling to regain traction. However, we see mounting signs that point to a soft landing in China. These include data reflecting strong domestic demand that continues to support a healthy level of growth and inflation that is on a downtrend, as well as Premier Wen's recent statements which suggest that efforts will be made to cushion the slowdown. We expect Chinese equities to be well supported in the coming month given improving market sentiment and stock valuations which have fallen to very attractive levels.

## FUND PERFORMANCE UPDATE

October 2011

### Nikko AM Shenton Asia Pacific Fund

#### Highlights

- In October, the Fund gained 12.60%, strongly outperforming the benchmark which rose 6.97%, as equity markets traded more in line with fundamentals following an improvement in risk sentiment.
- We have started to cautiously re-deploy cash. Our major additions in October include banks and landlords in Hong Kong and Singapore, resource, financial and consumer names in Australia, as well as selected agricultural and technology plays.
- Equity markets in the Asia-Pacific ex-Japan region staged a strong rebound in October following progress in the EU debt crisis. Australia, China and Korea were the top performers within the Asia-Pacific ex-Japan markets.
- We maintain a cautiously positive outlook for the Eurozone as uncertainties persist. We expect intra-regional demand to sustain the Asia-Pacific ex-Japan economies and keep the equity markets well supported in the coming months.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Asia Pacific Fund (Net of fees)	SGD	+12.60%	-16.69%	+4.55%
Nikko AM Shenton Asia Pacific Fund (Net of fees and charges <sup>1</sup> )	SGD	+6.97%	-20.86%	+4.27%
Benchmark (MSCI AC Daily TR Net Asia Pacific ex-Japan Index)	SGD	+8.78%	-11.41%	+3.35%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 31 Aug 1992

#### **Fund outperformed as markets traded more in line with fundamentals**

In October, the Fund gained 12.60%, strongly outperforming the benchmark which rose 7.59%, as equity markets traded more in line with fundamentals following an improvement in risk sentiment. The improved performance can be mainly attributed to our fundamentals-driven process whereby we stuck to our stock convictions. Top performers during the month include China-related stocks, shipbuilders and offshore marine equipment builders in Korea, oil and gas producers, and our Singapore holdings.

#### Strategy

##### **Start to cautiously re-deploy cash**

Given improved market sentiment on the back of the recent progress in the Eurozone debt crisis, we have started to re-deploy cash raised over the two months. However, we will continue to exercise caution as uncertainties in the Eurozone, particularly regarding implementation and politics, persist.

**Investment activities during the month**

We continued to target state-owned Chinese banks in Hong Kong as we think they were severely oversold. Similarly, we ploughed into cashflow-generative landlords in both Singapore and Hong Kong, as we think that these two hub cities will continue to prosper from China's economic growth. In Australia, we bought back Newcrest for exposure into gold, stock exchange operator ASX for its resilient earnings, and insurer AMP for the longer-term growth potential in superannuation products. Supermarket operators Woolworths in Australia and Lianhua in China were also bought for their defensive earnings. Within the long-standing agriculture theme in the portfolio, we bought more of Olam and Noble in Singapore as well as palm oil plantation plays Astra Agro, London Sumatra and Salim Ivomas in Indonesia. In Australia, we continued to accumulate Incitec Pivot for its fertilizer exposure. In the technology space, Unimicron was bought as it remains a beneficiary of the demand for high-density PCBs used in smartphones. The overweight position in Hon Hai was also maintained for its exposure to Apple's iPhone 4S. In line with the benchmark change to include India, we bought an underweight position in an iShares ETF tracking MSCI India.

**Market Review**

MSCI AC Price Returns (% Change in SGD Terms)		
	Oct-11	YTD 2011
Australia	12.39%	-8.57%
China	10.58%	-17.07%
Korea	10.54%	-7.48%
AC Asia Pacific ex-Japan	8.74%	-12.73%
Thailand	8.00%	-6.93%
Hong Kong	7.98%	-15.20%
AC Far East ex-Japan	7.93%	-13.10%
Malaysia	7.92%	-3.81%
AC Asia ex-Japan	7.54%	-14.24%
Singapore	6.09%	-13.31%
Philippines	5.66%	-2.60%
India	4.19%	-23.25%
Indonesia	4.01%	4.42%
Taiwan	2.62%	-19.62%
New Zealand	-2.56%	2.75%

Source: Bloomberg, 31 October 2011

**Asia-Pacific markets rebounded as risk sentiment improved**

Equity markets in the Asia-Pacific ex-Japan region staged the best monthly performance year to date in October on the back of a significant improvement of risk sentiment as the EU summit in Brussels resulted in some progress towards a resolution to Eurozone debt crisis. The MSCI AC Asia ex-Japan Index up 7.5% (SGD terms) over the month. In SGD terms, Australia (12.4%), China (10.6%) and Korea (10.5%) emerged the top performers in the Asia-Pacific region.

**Soft-landing hopes lifted Chinese stocks**

The Hang Seng China Enterprises Index gained 18.2% (SGD terms) in the month of October as Chinese stocks rebounded strongly on signs that China's economy that is on track for a soft landing. GDP growth in 3Q was softer but still healthy, moderating to 9.1% YOY from 9.5% in 2Q, while September CPI cooled to 6.1% YOY from 6.2% in August, after peaking in July. September retail sales grew a better-than-expected 17.7% YOY, reflecting healthy domestic demand. During the month, Premier Wen's pledge to

fine-tune policy if necessary and implement “stimulative policies” to help smaller companies further boosted sentiment and lifted Chinese stocks.

## Market Outlook

### ***Asia-Pacific equities remain well supported***

We believe that the situation in the Eurozone has stabilized somewhat following the recent progress made at the EU summit; however, caution is still warranted given crucial details of the latest package of measures are still missing, and politics may yet again muddy the path forward. However, despite economic weakness in the external economy, we believe intra-regional demand will continue to sustain growth in the Asia-Pacific economies. In particular, recent data and the government’s capacity to roll out policy measures to manage the slowdown bode well for a soft landing in China. Similarly within the rest of Asia, there remain policy tools to manage an economic slowdown. We anticipate that the Asia-Pacific ex-Japan equity markets will be well supported in the coming month, helped by equity valuations that remain attractive on a medium- to long-term basis, particularly in Singapore and Indonesia.

### ***Chinese economy on track for a soft landing***

We expect further moderation in China’s growth in 4Q11, led by declining exports as the Eurozone economy continues to be weighed down by the debt crisis, and the U.S. economy is still struggling to regain traction. However, we see mounting signs that point to a soft landing in China. These include data reflecting strong domestic demand that continues to support a healthy level of growth and inflation that is on a downtrend, as well as Premier Wen’s recent statements which suggest that efforts will be made to cushion the slowdown. We expect Chinese equities to be well supported in the coming month given improving market sentiment and stock valuations which have fallen to very attractive levels.

## FUND PERFORMANCE UPDATE

October 2011

### Nikko AM Shenton Asia Bond Fund

#### Highlights

- The Fund gained 0.22% in October as financial markets rebounded, retracing most of the previous month's losses on an improvement in risk sentiment following positive developments in the Eurozone.
- We are wary that the Eurozone situation is not fully contained and could remain volatile. Hence, we will remain defensive on duration, with our portfolio positioned mainly between the short end to belly of the curve.
- Risk sentiment improved significantly in October as progress was made towards a resolution to Eurozone debt crisis at the EU summit. Asian government bonds and currencies generally rebounded during the month. Asian credits also performed well, retracing almost all of the previous month's sharp losses.
- We maintain a cautiously positive outlook for the Eurozone as uncertainties persist. The U.S. faces the threat of another rating downgrade should it fail to reach an agreement on its budget-cutting plan. We especially like shorter-dated Thai government bonds and the SGD, but have turned negative on the THB given the extent of flood damage and prospect of a rate cut. We continue to prefer high-grade over high-yield credits.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Asia Bond Fund (Net of fees)	SGD	+0.22%	+1.08%	+1.36%
Nikko AM Shenton Asia Bond Fund (Net of fees and charges <sup>1</sup> )	SGD	-4.79%	-3.97%	+0.53%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 1 Aug 2005

#### **Fund gained in October**

The Fund gained 0.22% in October as financial markets rebounded, retracing most of the previous month's losses on an improvement in risk sentiment following positive developments in the Eurozone. Currency and bond markets in the Asia Pacific region generally performed well, contributing to the Fund's gains.

#### Strategy

##### **Remain defensively positioned as global uncertainty persists**

Despite the recent progress in the Eurozone debt situation, we remain cautious that the situation is not fully contained and could remain volatile. Hence, we will remain defensive on duration, with our portfolio positioned mainly between the short end to belly of the curve. We remain constructive on the Asia currencies in the longer term, and will continue to maintain our exposures to selected currencies like the SGD, IDR and KRW.

## Market Review

### Asia Rates & FX

#### **Progress at Eurozone debt talks boosted risk sentiment**

Market sentiment improved significantly towards month end as the EU summit in Brussels made some progress towards a resolution to Eurozone debt crisis. Although crucial details were still missing at that point, EU leaders agreed in principle to a credible package of measures – including requiring banks holding Greek debt to accept a 50% loss, boosting the Eurozone bailout fund to EUR1t and recapitalizing banks to the tune of about EUR106b. This boosted risk sentiment and helped the EUR to gain 4.2% versus the USD, and the S&P 500 index to clock its best monthly performance for the year. U.S. Treasury (UST) yields ended the month higher, with the 10-year UST yield up 34bp.

#### **MAS eased policy to slow pace of SGD appreciation**

In its October policy meeting, the Monetary Authority of Singapore (MAS) announced that the slope of the SGD NEER policy band will be reduced, with no change to the width of the band and the level at which it is centred. While this move signalled a shift in priority from fighting inflation to supporting growth, the MAS' easing move was less aggressive than market expectations due to the country's still-healthy GDP growth in 3Q despite the global slowdown, and persistently-high inflation. Consequently, the SGD strengthened about 0.5% against the USD immediately following the announcement, and ended the month up 4.17%, as risk sentiment continued to improve on growing Eurozone optimism.

#### **Bank Indonesia cut rates; Thailand suffered flood losses**

In a move that surprised most market participants, Bank Indonesia (BI) cut its benchmark interest rate by 25bp on 11 October, prompted by concerns over slowing global growth and confident that inflation is under control. Indonesian government bonds reacted well, with yields falling about 50bp across the curve, and the IDR also managed to strengthen 1.3% against the USD, despite taking an initial hit immediately following the move. Meanwhile, many parts of Thailand were hit by massive floods which have already damaged more than 12% of the country's rice paddy fields and inundated seven major industrial estates. The auto and electronics industries were among the worst hit. Flood-related losses were estimated at THB140b (Source: Bloomberg), which prompted Bank of Thailand (BOT) to lower its 2011 growth forecast to 2.6% from 4.1%, and raise the budget deficit to THB400b from THB350b to account for the aftermath reconstruction efforts. Nonetheless, Thai government bonds performed well during the month with yields falling more than 30bp across the curve, helped by rate cut expectations. Asian government bonds and currencies mostly rebounded during the month, with Indonesian government bonds and the SGD the top performers in the respective markets.

**Table 1: MOM change in Policy Rates, Government Yields and Currencies for Asia (bp)**

	Policy Rate	Change in Policy Rate	Change in 2Y Yield	Change in 5Y Yield	Change in 10Y Yield	Currency Return vs USD
China	656	0	0	(21)	(17)	0.44%
Taiwan	188	0	1	8	10	1.89%
Korea	325	0	(5)	(3)	(8)	6.12%
India	850	50	25	73	45	0.57%
Indonesia	650	(25)	(55)	(57)	(58)	1.10%
Vietnam	900	0	23	3	(2)	-0.85%
Thailand	350	0	(38)	(45)	(30)	1.63%
Philippines	450	0	28	(14)	(44)	2.77%
Singapore	0.01	-	13	6	13	4.38%
Malaysia	300	0	(10)	(5)	5	4.03%
Australia	475	0	32	26	29	9.00%

Source: Bloomberg, 31 Oct 2011

## Global Credit

### **Asian credits retraced last month's losses**

Asian credit markets rallied sharply in October, retracing almost all of the previous month's losses, as risk sentiment improved leading up to, and especially following, the EU summit at end-October which yielded positive results. Data and newsflow that suggest China will achieve a soft landing and the U.S. will be able to dodge a recession further lifted sentiment. Asian credits ended the month up 4.66%<sup>2</sup> on a total return basis, with spreads narrowing 90bp. Amid better investor sentiment, primary activity in the Asian credit markets picked up in October with the issuance of four investment-grade bonds amounting to USD3.75b.

### **Return of risk appetite boosted Asian credit markets, especially high-yield**

In October, Asian high-grade credits gained 2.42% on a total return basis as spreads narrowed by 54bp, while Asian high-yield credits rallied a sharp 14.67%, with spreads gapping tighter by 302bp. Following last month's sharp correction, Asian high-yield credits significantly outperformed high-grade counterparts as risk appetite returned. Similarly, credit markets in Asia also outperformed developed market peers.

### **Asian high-yield outperformed high-grade and developed market peers**

Asian high-yield credits staged a strong rebound in October, with bonds from Indonesian natural resources companies and selected Chinese property and industrial companies leading the rally. However, even after the rally, high-yield corporate spreads at 822bp remain significantly wider than year-to-date tightness of 483bp. In October, Asian high-yield credits strongly outperformed both U.S. and European peers, on both total return and spread bases.

**Table 1: Global Credit Indices (Total Return)**

Total Returns (Respective Currency)						
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
31-Oct-11	1.58%	0.61%	2.42%	4.52%	7.93%	14.67%
30-Sep-11	0.37%	0.05%	(2.78%)	(1.15%)	(4.20%)	(14.88%)
31-Aug-11	0.44%	0.35%	0.62%	(4.72%)	(5.50%)	(4.89%)

Source: U.S. (Credit Suisse), Europe and Asia (JP Morgan)

**Table 2: Global Credit Indices (Spread)**

Month	Change in Credit Spread (MoM)					
	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
31-Oct-11	(35)	(16)	(54)	(107)	(148)	(302)
30-Sep-11	34	28	55	48	125	372
31-Aug-11	51	29	45	176	208	167

Source: U.S. (Credit Suisse), Europe and Asia (JP Morgan)

<sup>2</sup> J.P. Morgan Asian Credit Index Composite

## Market Outlook

### Asia Rates & FX

#### ***Eurozone risks remain; worries build for U.S. budget-cutting deal***

Despite the recent positive developments in the Eurozone debt crisis, we remain cautious that the market's current optimism may be temporary, as many crucial details to the rescue package are still missing, and implementation delayed. For example, the details of the bailout fund will not be hammered out till November. The private sector involvement (PSI) program for Greek debt is due to be implemented in early 2012, and the new EU-IMF multi-annual program financing of up to EUR100b for Greece will only be in place by the end of this year. Greece will face long years of austerity ahead and its economy is still shrinking. Moreover, many believe that the EUR1t Eurozone bailout fund is insufficient to protect the bigger economies like Italy and Spain. All in all, we believe it is still premature to say that a full-blown Eurozone debt crisis has been averted, and the situation could remain volatile in the short to medium term. Meanwhile in the U.S., the 23 November deadline for the congressional "Super Committee" to produce a deficit-cutting plan looms. Should the Super Committee fail to reach an agreement on the full USD1.2t of budget savings by then, or if Congress rejects the plan, significant automatic spending cuts will take place across the board. This could also trigger another credit downgrade, as credit rating agencies had already warned of further rating cuts should Congress not come up with a credible long-term plan to tame the nation's rising debt.

#### ***Optimistic on SGD but expect THB to underperform in near term***

We remain constructive on the bond and currency markets in Asia in the longer term on sound fundamentals. Among the Asian currencies, we especially favour the SGD on its explicit FX policy of gradual appreciation. We expect investor flows into Singapore to remain firm and the SGD NEER to gradually move to the upper band in the medium term, even though near-term volatility could persist due to lingering uncertainty over the situation in the Eurozone. On the other hand, our view on the THB has turned negative, as we expect the THB to underperform regional peers in the near term given the extent of flood damage and increased likelihood of a rate cut. However, we expect reconstruction efforts to kick in and support Thailand's growth in 2012. We are optimistic on short-dated Thai government bonds, which we expect will benefit from rate cut prospects. We expect the Thai government bond yield curve to steepen in the coming months as high inflation pushes up long-end yields while short-end yields fall on rate cut expectations.

### Global Credit

#### ***Cautiously optimistic on Eurozone debt crisis***

While the positive market tone may continue into November, we remain cautious on the Eurozone situation as the bailout plan announced at the recent EU summit suffers from a lack of details. However, optimism that China will achieve a soft landing and the U.S. will be able to dodge a recession should be supportive of sentiment. In the near term, we will maintain a defensive portfolio stance while waiting for the details of the EU bailout plan and more clarity to emerge, as considerable downside risks exist. In the longer term, we remain constructive on the Asian credit markets on favourable economic fundamentals. Moreover, the fact that monetary policies in the developed markets will likely stay accommodative for longer continues to bode well for this asset class.

#### ***Continue to prefer high-grade over high-yield***

Given that uncertainties regarding the Eurozone debt crisis remain, we maintain our preference for high-grade credits over high-yield in the near term, as we believe the former will hold up better in periods of volatility and risk aversion. Asian high-yield credits remain highly susceptible to developments in the European debt crisis and policy tightening in the Chinese property sector, and downside risks are significant should things take a turn for the worse. Having said that, valuations in Asian high-yield credits remain quite attractive, with many corporate issues offering yields above 10%.

## Nikko AM Shenton Asia Knowledge Fund

### Highlights

- In October, the Fund gained 11.58%, strongly outperforming the benchmark which rose 6.00%, as equity markets traded more in line with fundamentals following an improvement in risk sentiment.
- We have started to cautiously re-deploy cash. We continue to target HK banks and landlords in HK and Singapore. However, we took profit on our Indonesian banking stocks as valuations have become fair.
- Equity markets in the Asia ex-Japan region staged a strong rebound in October following progress in the EU debt crisis. China, Korea and Thailand were the top performers within the Asia ex-Japan markets.
- We maintain a cautiously positive outlook for the Eurozone as uncertainties persist. We expect intra-regional demand to sustain the Asia ex-Japan economies and keep the equity markets well supported in the coming months.

### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Asia Knowledge Fund (Net of fees)	SGD	+11.58%	-18.16%	+2.38%
Nikko AM Shenton Asia Knowledge Fund (Net of fees and charges <sup>1</sup> )	SGD	+6.00%	-22.25%	+2.00%
Benchmark (MSCI AC FE ex-Japan Index)	SGD	+7.93%	-13.09%	+1.39%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 28 Apr 2000

#### **Fund outperformed as markets traded more in line with fundamentals**

In October, the Fund gained 11.58%, strongly outperforming the benchmark which rose 6.00%, as equity markets traded more in line with fundamentals following an improvement in risk sentiment. The improved performance can be mainly attributed to our fundamentals-driven process whereby we stuck to our stock convictions. Top performers during the month include China-related stocks, shipbuilders and offshore marine equipment builders in Korea and our Indonesian holdings.

### Strategy

#### **Start to cautiously re-deploy cash**

Given improved market sentiment on the back of the recent progress in the Eurozone debt crisis, we have started to re-deploy cash raised over the two months. However, we will continue to exercise caution as uncertainties in the Eurozone, particularly regarding implementation and politics, persist.

#### **Investment activities during the month**

We continued to target state-owned Chinese banks in Hong Kong (HK) as we think they were severely oversold. Similarly, we ploughed into cashflow-generative landlords in both Singapore and HK, as we

think that these two hub cities will continue to prosper from China's economic growth. We took profit on our Indonesian banking stocks as valuations have become fair after the recent rally.

## Market Review

MSCI AC Price Returns (% Change in SGD Terms)		
	Oct-11	YTD 2011
Australia	12.39%	-8.57%
China	10.58%	-17.07%
Korea	10.54%	-7.48%
AC Asia Pacific ex-Japan	8.74%	-12.73%
Thailand	8.00%	-6.93%
Hong Kong	7.98%	-15.20%
AC Far East ex-Japan	7.93%	-13.10%
Malaysia	7.92%	-3.81%
AC Asia ex-Japan	7.54%	-14.24%
Singapore	6.09%	-13.31%
Philippines	5.66%	-2.60%
India	4.19%	-23.25%
Indonesia	4.01%	4.42%
Taiwan	2.62%	-19.62%
New Zealand	-2.56%	2.75%

Source: Bloomberg, 31 October 2011

### **Asian equities rebounded as risk sentiment improved**

Equity markets in the Asia ex-Japan region staged the best monthly performance year to date in October on the back of a significant improvement of risk sentiment as the EU summit in Brussels resulted in some progress towards a resolution to Eurozone debt crisis. The MSCI AC Asia ex-Japan index closed up 7.5% (SGD terms) over the month. In SGD terms, China (10.6%), Korea (10.5%) and Thailand (8.0%) emerged the top performers in the Asia ex-Japan region.

### **Soft-landing hopes lifted Chinese stocks**

The Hang Seng China Enterprises Index gained 18.2% (SGD terms) in the month of October as Chinese stocks rebounded strongly on signs that China's economy that is on track for a soft landing. GDP growth in 3Q was softer but still healthy, moderating to 9.1% YOY from 9.5% in 2Q, while September CPI cooled to 6.1% YOY from 6.2% in August, after peaking in July. September retail sales grew a better-than-expected 17.7% YOY, reflecting healthy domestic demand. During the month, Premier Wen's pledge to fine-tune policy if necessary and implement "stimulative policies" to help smaller companies further boosted sentiment and lifted Chinese stocks.

## Market Outlook

### **Asian equities remain well supported**

We believe that the situation in the Eurozone has stabilized somewhat following the recent progress made at the EU summit; however, caution is still warranted given crucial details of the latest package of measures are still missing, and politics may yet again muddy the path forward. However, despite economic weakness in the external economy, we believe intra-regional demand will continue to sustain growth in the Asian economies. In particular, recent data and the government's capacity to roll out policy measures to manage the slowdown bode well for a soft landing in China. Similarly within the rest of Asia,

there remain policy tools to manage an economic slowdown. We anticipate that the Asia ex-Japan equity markets will be well supported in the coming month, helped by equity valuations that remain attractive on a medium- to long-term basis, particularly in Singapore and Indonesia.

***Chinese economy on track for a soft landing***

We expect further moderation in China's growth in 4Q11, led by declining exports as the Eurozone economy continues to be weighed down by the debt crisis, and the U.S. economy is still struggling to regain traction. However, we see mounting signs that point to a soft landing in China. These include data reflecting strong domestic demand that continues to support a healthy level of growth and inflation that is on a downtrend, as well as Premier Wen's recent statements which suggest that efforts will be made to cushion the slowdown. We expect Chinese equities to be well supported in the coming month given improving market sentiment and stock valuations which have fallen to very attractive levels.

## FUND PERFORMANCE UPDATE

October 2011

### Nikko AM Shenton Global Property Securities Fund

#### Highlights

- During the month of October, the Fund returned 7.38%, underperforming its benchmark marginally by 17bp. Our underweight stance in Australia, and cash allocation had a negative impact on relative performance.
- In North America and Europe, we continue to be defensively positioned. In Japan we expect a modest economic recovery on the back of exports. We remain modestly overweight the Asia-Pacific ex-Japan region.
- Global property stocks recovered in October following two months of decline, rising 11.9% according to the EPRA/NAREIT Global Index in USD terms. Stocks in the Americas fared the best, while those in the Asia Pacific region and Europe lagged.
- In the U.S., we expect defensive sectors to continue to do well. In Europe, our bias is still to be more exposed to Northern Europe. In Japan, we expect rents in the Tokyo market to be weak but vacancy to drop. We believe that the economies of the Asia Pacific ex-Japan region should continue to grow at healthier pace than their global peers.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualized)
NAV - NAV	SGD	+7.38%	-2.68%	-1.87%
NAV - NAV (Net of charges) <sup>1</sup>	SGD	+2.01%	-7.54%	-2.64%
Benchmark (UBS Global Real Estate Investors Total Return Index)	SGD	+7.55%	+0.65%	+8.97%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup> Takes into account sales and realization charges, where applicable.

Since inception: 11 Apr 2005

#### **Underperformed marginally in October**

During the month of October, the Fund returned 7.38%, underperforming its benchmark marginally by 17bp. Performance was aided by stock selection in Hong Kong and our underweight position in Japan. However, our underweight stance in Australia, and cash allocation had a negative impact on relative performance.

#### Strategy

##### **Defensive stance in North America and Europe; overweight Asia**

In North America, we continue to be exposed to defensive sectors like healthcare and triple net leases. We expect the current rally, which was sparked by hopes of a resolution to the European sovereign debt crisis, to be short-lived. In Europe, we continue to be defensively positioned and focused on Northern Europe and Scandinavia. In Japan we expect a modest economic recovery on the back of exports, and will adjust our exposures to take advantage of this. We remain modestly overweight the Asia-Pacific ex-Japan region, where we expect economic growth to remain healthier than the major developed markets. We remain underweight Australia, and overweight Singapore and Thailand.

## Market Review\*

### **Global property stocks recovered in October**

Global property stocks recovered in October following two months of decline, rising 11.9% according to the EPRA/NAREIT Global Index in USD terms. Stocks in the Americas fared the best, while those in the Asia Pacific region and Europe lagged. Global property stocks outperformed general equities, with the MSCI World Index up 10.3% during the month.

### **U.S. property stocks gained on as economic data surprised on the upside**

U.S. property stocks gained 14.3% during the month in USD terms, according to the FTSE EPRA/NAREIT U.S. Index. Stocks were driven by the possibility of a resolution to the Eurozone sovereign debt crisis and resilient economic data. In macroeconomic news, U.S. 3Q11 GDP grew 2.5% on an annualized basis, and new home sales for September came in slightly higher than expected. The ADP Employment Change for October was also higher than expected. In company news, Duke Realty sold a 10.1m sqf portfolio of office buildings to a Blackstone fund for USD1.08b, which was above book value.

### **European property stocks rose on latest plan to resolve sovereign debt crisis**

European property stocks recovered in October following five consecutive negative months, with the FTSE EPRA/NAREIT Eurozone Index up 9.7% in USD terms. Markets responded positively to the latest plan to resolve the sovereign debt crisis. The German services PMI for Oct came in at 52.1, which was slightly better than expected, while the manufacturing PMI Manufacturing came in at 48.9, which was slightly lower than expected. The Eurozone's unemployment rate for September was 10.2% up 20bp MOM. In company news, Unibail acquired a shopping center in Barcelona, Spain for EUR189m. Also Deutsche Wohnen acquired 2600 residential units primarily in Berlin and Dusseldorf for EUR154m.

### **UK property stocks gained along with Eurozone peers**

UK property stocks gained 10.3% in USD terms during the month, as measured by the FTSE EPRA/NAREIT UK Index. UK 2Q11 GDP growth was revised downwards to 0.1% QOQ, from an earlier estimate of 0.2%, as the UK economy showed further signs of a slowdown. Inflation rose sharply in September with CPI up 5.2% YOY from 4.5% the prior month. CBRE data showed that in September, Central London office was the best-performing real estate sector with a total return of 1.0% MOM. In company news, Derwent London and Grosvenor announced a new joint venture to develop mixed-use projects at 1-5 Grosvenor Place and 1 Oxford Street.

### **Japanese property stocks gained marginally**

Japanese property stocks gained 1.4% in USD terms, according to the FTSE EPRA/NAREIT Japan Index. During the month, the Bank of Japan (BOJ) intervened in the currency markets to stop the JPY from strengthening. In September, sales from large retailers dropped 3.6% YOY, and industrial production fell 4.0% MOM, which were worse than expected. The BOJ continued to buy REITs on multiple occasions during the month, and has the capacity to buy more if necessary. In real estate news Tokyo office vacancy moved up slightly to 8.78% in October, from 8.64% the month before. Premier REIT launched a secondary offering to raise JPY16b to buy assets.

### **A-REITs gained but underperformed general equities**

The A-REITs gained 3.7% in AUD terms during the month, according to the S&P/ASX 200 A-REIT Index. Reflecting their low-beta nature, the REITs underperformed Australian equities, which gained 7.2%, as measured by the S&P/ASX 200 Index. During the month, the Reserve Bank of Australia left the cash rate unchanged at 4.75% for the tenth consecutive meeting. Employment rebounded in September, with 20,400 jobs added, better than expectations of a 10,000-job gain. In corporate news, Westfield Group sold its 50% interest in Cairns Central to Lend Lease's unlisted Australian Prime Property Fund for AUD261m. A Macquarie-led consortium raised its bid for Charter Hall Office REIT to AUD2.43 per unit.

### **Chinese property stocks rallied despite lukewarm high-season sales**

Chinese property stocks mostly rallied during the month, with big-cap names rising about 30%. Home sales remained suppressed during the traditionally strong month of October due to a number of factors,

including strict implementation of home purchase restrictions, lower availability of mortgages, buyers taking a wait-and-see attitude following modest price cuts, and high-end buyers being more cautious due to tightened liquidity affecting SMEs. During the month, developers were reported to have started cutting prices by 5-15%. The city of Foshan attempted to ease home purchase restrictions, but retracted the changes shortly after they were announced.

#### ***HK property stocks surged as primary sales picked up***

HK property stocks surged 20.4% in HKD terms, according to the Hang Seng Property Index. In October, HK home prices eased by 1.3% according to the Centa-City Leading Index. According to data compiled by JP Morgan, 847 homes were sold in the primary market in October, up from 567 in September, as more new projects were launched. In his 2011-12 Policy Address, Chief Executive Donald Tsang announced that the Home Ownership Scheme will be resumed, and that Kowloon East will be developed over the next twelve years into a new business district providing 4m sqm in new office space. Sun Hung Kai Properties won the tender for a site at Nam Cheong at a price of HKD11.8b, below expectations of HKD13-16b.

#### ***Singapore property stocks gained as residential sales firmed***

Singapore property stocks also gained during the month, with the FTSE ST Real Estate Index up 8.1% in SGD terms. Developers sold 2,064 new homes in August including Executive Condominiums (ECs), up 25.8% MOM. Excluding ECs, sales was 1,631 units, up 20.7% MOM. During the month, the Urban Redevelopment Authority announced that prices of private residences increased 1.3% in 3Q11, lower than the 2.0% rise in 2Q11. Office rents grew 0.9%, against 1.5% a quarter ago. Retail rents rose 0.5%, from 0.8% in 2Q11. Industrial rents rose the most, gaining 6.9% during the quarter, from 5.5% a quarter ago.

## **Market Outlook\***

#### ***Negative bias in the U.S. given potential political deadlock and slowing economy***

Monetary policy should continue to be accommodative in the U.S., we believe. We continue to be concerned as to whether Congress' super committee will be able to agree to deficit cuts as the 23 November deadline approaches. We expect defensive sectors to continue to do well given the slowing macro environment. In Canada, we continue to see positive fundamentals in western Canada primarily driven by the oil-based economy.

#### ***Maintain preference for North over South in Europe***

In Europe, our bias is still to be more exposed to Northern Europe. Market expectations that the latest deal in Europe will be a conclusive solution to the sovereign debt crisis is too optimistic, in our opinion. With Italian 10-year yields rising, we feel that the crisis in Europe will intensify before it gets better. Also, once the immediate crisis of sovereign risk is resolved there will likely be an economic slowdown as austerity measures start to negatively impact consumption across Southern Europe. Significant economic turmoil in Europe could drag the world in a global recession, we believe.

#### ***UK property stocks should outperform Eurozone peers***

UK property stocks should continue to do better than those in the Eurozone. We expect economic data over the next few months to start reflecting the impact of austerity in the UK. We continue to be partial to niche stories and major London landlords but are not enthusiastic about names focused outside London.

#### ***Japanese property companies could be impacted by Thai floods***

Massive floods in Thailand are impacting Japanese producers negatively, just as industrial production was set to recover to pre-earthquake levels in Japan. Major Japanese corporates including Toyota and Honda have significant operations based in Thailand which are at present completely shut down. Consequently many companies have cut full-year forecasts and reduced production in Japan due to supply chain issues. However, the BOJ's asset purchase program and loose monetary policy remain supportive. We continue to expect rents in the Tokyo market to be weak but expect a drop in vacancy as

tenants move into Grade A space to take advantage of low rents. We expect suburban retail sales to recover to pre-quake levels and also expect more J-REIT secondary offerings. The slowdown in global growth would be a negative given the export-oriented nature of the Japanese economy.

***Asian growth still more healthy than global peers***

We believe that the economies of the Asia Pacific ex-Japan region, while not immune to a slowdown in the major developed nations, should continue to grow at a healthier pace than their developed global peers. This should be broadly supportive of commercial real estate values and rents. In areas where the outlook has become weaker in recent months - like Singapore and HK office rents - we believe that any downturn will be relatively mild. We maintain our view that policy tightening may be at an end in the China residential sector. In general, we believe that valuations for Asian property stocks remain attractive.

\* *Content Source: Nikko Asset Management Asia Limited and Urdang Securities Management, Inc., October 2011.*

Note:

The CPF interest rate for the Ordinary Account ("OA") is based on the 12-month fixed deposit and month-end savings rates of major local banks, subject to a minimum 2.5% interest per annum. The interest rate for Special, Medisave and Retirement Accounts ("SMRA") is pegged to the 12-month average yield of 10-year Singapore Government Securities yield plus 1%. A 4% floor rate will be maintained for interest earned on SMRA until 31 December 2012, after which a 2.5% minimum rate will apply. From 1 January 2008, an extra 1% interest will be paid on the first S\$60,000 of a member's combined balances, including up to S\$20,000 in the OA. The first S\$20,000 in the OA and the first S\$40,000 in the Special Account ("SA") cannot be invested under the CPF Investment Scheme ("CPFIS").

**FUND PERFORMANCE UPDATE**

October 2011

**Nikko AM Shenton Short Term Bond Fund**
**Highlights**

- The Fund posted a gain of 0.15% in October 2011, outperforming the benchmark which returned 0.03%.
- The Fund retains its bias for Asia-Pacific investment-grade credits. In view of lingering market uncertainty, issuers with high credit quality and strong liquidity positions, and bonds which are USD-denominated (on a hedged basis) are preferred.
- Asian credit markets staged a strong rebound in October as risk sentiment improved markedly following the announcement of a credible rescue plan at the EU Summit and on increased optimism of a soft landing in China. Asian credits, as measured by the J.P. Morgan Asian Credit Composite Index, rose 4.66% on a total return basis.
- In the near term, we maintain a cautiously positive outlook for the Eurozone as uncertainties persist, and continue to favour high-grade credits over high-yield.

**Performance Review**

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Short Term Bond Fund (Net of fees)	SGD	+0.15%	+1.50%	+2.23%
Nikko AM Shenton Short Term Bond Fund (Net of fees and charges <sup>1</sup> )	SGD	-0.85%	+0.49%	+2.14%
Benchmark (3M SIBOR)	SGD	+0.03%	+0.33%	+1.43%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 29 Sep 2000

**Fund gained in October as risk sentiment improved**

The Fund posted a gain of 0.15% in October 2011, outperforming the benchmark which returned 0.03%. The Fund recovered from the previous two months' losses as risk sentiment improved following positive developments in the Eurozone debt crisis, which led to narrower credit spreads. During the month, we deployed cash to purchase some credits that looked attractive following September's sharp correction. Year-to-date, the Fund gained 1.50% on a total return basis, outperforming the benchmark, which returned 0.33%.

**Fund's characteristics mostly unchanged**

As of 31 October 2011, the Fund's overall duration (see Note 1) and estimated yield (see Note 2) remained fairly unchanged at 1.34 year and 2.81% (hedged in SGD terms), respectively. The average credit rating of the Fund remained at A-. The Fund is diversified across 119 bonds, with 82 issuers from 11 countries, with an average weight of 1.26% per issuer. During the month, the level of cash and cash equivalents was reduced to 8.22% from 12.9% previously.

## Strategy

### **Asia Pacific remains primary focus**

The Fund's allocation to credits from Asia-Pacific issuers currently stands at 89%. We look to roughly maintain this weightage given the region's stronger fundamentals and attractive valuations. We remain cautious due to lingering market uncertainty, particularly regarding the Eurozone debt crisis, and maintain a bias for issuers with high credit quality and strong liquidity positions. We are also positive on USD-denominated bonds, on a hedged basis.

## Market Review

### **Asian credits retraced last month's losses**

Asian credit markets rallied sharply in October, retracing almost all of the previous month's losses, as risk sentiment improved leading up to, and especially following, the EU summit at end-October which yielded positive results. Data and newsflow that suggest China will achieve a soft landing and the U.S. will be able to dodge a recession further lifted sentiment. Asian credits ended the month up 4.66% (according to the J.P. Morgan Asian Credit Composite Index) on a total return basis, with spreads narrowing 90bp. Amid better investor sentiment, primary activity in the Asian credit markets picked up in October with the issuance of four investment-grade bonds amounting to USD3.75b.

### **Return of risk appetite boosted Asian credit markets, especially high-yield**

In October, Asian high-grade credits gained 2.42% on a total return basis as spreads narrowed by 54bp, while Asian high-yield credits rallied a sharp 14.67%, with spreads gapping tighter by 302bp. Following last month's sharp correction, Asian high-yield credits significantly outperformed high-grade counterparts as risk appetite returned. Similarly, credit markets in Asia also outperformed developed market peers.

**Table 1: Global Credit Indices (Total Return)**

Total Returns (Respective Currency)						
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
31-Oct-11	1.58%	0.61%	2.42%	4.52%	7.93%	14.67%
30-Sep-11	0.37%	0.05%	(2.78%)	(1.15%)	(4.20%)	(14.88%)
31-Aug-11	0.44%	0.35%	0.62%	(4.72%)	(5.50%)	(4.89%)

Source: U.S. (Credit Suisse), Europe and Asia (JP Morgan)

**Table 2: Global Credit Indices (Spread)**

Month	Change in Credit Spread (MoM)					
	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
31-Oct-11	(35)	(16)	(54)	(107)	(148)	(302)
30-Sep-11	34	28	55	48	125	372
31-Aug-11	51	29	45	176	208	167

Source: U.S. (Credit Suisse), Europe and Asia (JP Morgan)

## Market Outlook

### ***Cautiously optimistic on Eurozone debt crisis***

While the positive market tone may continue into November, we remain cautious on the Eurozone situation as the bailout plan announced at the recent EU summit suffers from a lack of details. However, optimism that China will achieve a soft landing and the U.S. will be able to dodge a recession should be supportive of sentiment. In the near term, we will maintain a defensive portfolio stance while waiting for the details of the EU bailout plan and more clarity to emerge, as considerable downside risks exist. In the longer term, we remain constructive on the Asian credit markets on favourable economic fundamentals. Moreover, the fact that monetary policies in the developed markets will likely stay accommodative for longer continues to bode well for this asset class.

### ***Continue to prefer high-grade over high-yield***

Given that uncertainties regarding the Eurozone debt crisis remain, we maintain our preference for high-grade credits over high-yield in the near term, as we believe the former will hold up better in periods of volatility and risk aversion. Asian high-yield credits remain highly susceptible to developments in the European debt crisis and policy tightening in the Chinese property sector, and downside risks are significant should things take a turn for the worse. Having said that, valuations in Asian high-yield credits remain quite attractive, with many corporate issues offering yields above 10%.

*Note 1: Duration is defined as the weighted average of duration to maturity or call date, whichever is lower, of the Fund.*

*Note 2: Yield is defined as the weighted average of yield to maturity or call date, whichever is lower, of the Fund.*

*Note 3: Non-Credit AAA is defined as issuers that are AAA sovereigns, AAA Supranationals and Singapore statutory boards. Such issuers typically do not carry any meaningful credit spread component as their expected default risks are very low.*

#### Note:

The CPF interest rate for the Ordinary Account ("OA") is based on the 12-month fixed deposit and month-end savings rates of major local banks, subject to a minimum 2.5% interest per annum. The interest rate for Special, Medisave and Retirement Accounts ("SMRA") is pegged to the 12-month average yield of 10-year Singapore Government Securities yield plus 1%. A 4% floor rate will be maintained for interest earned on SMRA until 31 December 2012, after which a 2.5% minimum rate will apply. From 1 January 2008, an extra 1% interest will be paid on the first S\$60,000 of a member's combined balances, including up to S\$20,000 in the OA. The first S\$20,000 in the OA and the first S\$40,000 in the Special Account ("SA") cannot be invested under the CPF Investment Scheme ("CPFIS").

## FUND PERFORMANCE UPDATE

October 2011

### MYHOME FUND – HomeBalanced

#### Highlights

- The Fund returned +3.20% for the month.
- We re-invested cash raised in September in selected Singapore REITs. We continue to look out for attractive value opportunities like Singapore banks and selective landlords in Singapore and Hong Kong. Agriculture commodity plays remain a key longer-term theme.
- Risk sentiment improved significantly in October as progress was made towards a resolution to Eurozone debt crisis at the EU summit. The MAS eased monetary policy by reducing the slope of the SGD NEER policy band. SGS yields rose and the yield curve steepened; the SGD strengthened against the USD.
- We are cautious that risks persist in the Eurozone debt situation as many crucial details to the rescue package are still missing, and implementation delayed. We expect the near-term direction of the SGD and SGS to continue to be highly sensitive to developments in the Eurozone and U.S.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
MyHome Fund – HomeBalanced (Net of fees)	SGD	+3.20%	-2.40%	+4.60%
MyHome Fund – HomeBalanced (Net of fees and charges <sup>1</sup> )	SGD	-0.93%	-6.30%	+2.57%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 2 Oct 2009

The Fund returned +3.20% for the month. In the month of October 2011, holdings in the Nikko AM Singapore STI ETF contributed 3.79% positively while ABF Singapore Bond Index Fund contributed 0.48% negatively.

#### Strategy

MyHome Fund – HomeBalanced seeks to provide moderate capital appreciation through largely Singapore-dollar denominated assets. The investment focus is to passively invest the assets of the Fund in Singapore-dollar denominated fixed income securities and Singapore-listed equities (or in one or more different mutual fund(s) and unit trust(s) reflecting an underlying investment in such fixed income securities and equities) in the proportion of 50:50.

#### Market Commentary

% Change <sup>^</sup>	Month	YTD
Singapore Straits Times Index	6.75%	-10.48%
iBoxx ABF Singapore Bond Index	-0.79%	+6.39%

Source: ©2011 Morningstar & Bloomberg, 31 October 2011 (<sup>^</sup>in local currency, price return basis)

#### Equity

**Singapore stocks rebounded**

Singapore equities rebounded along with regional peers in October, with the Straits Times Index closing 6.75% higher, as market sentiment improved amid an easing of global recession fears and signs of progress towards a resolution to the Eurozone debt crisis. Economic data was generally soft, with September's Non-Oil Domestic Exports (NODX) declining 4.5% YOY from a 3.9% rise in August, and August retail sales slowing sharply to 3.3% YOY from 10.7% in July. Although 3Q11 GDP expanded a higher-than-expected 5.9%YOY due to a surge in biomedical manufacturing, the key electronics sector has yet to show signs of recovery. Meanwhile, CPI inflation cooled to 5.5% YOY in September, down from 5.7% in August.

**MAS eased pace of monetary tightening**

In its October policy meeting, the Monetary Authority of Singapore (MAS) maintained its policy of a modest and gradual appreciation of the SGD NEER policy band. However, given the expected moderation in core inflation, the slope of the policy band will be reduced, with no change to the width of the band and the level at which it is centred. The MAS projected that inflation will remain high till mid-2012, with headline inflation forecasted at around 5% for 2011 and 2.5-3.5% for 2012.

**Fixed Income****MAS eased policy to slow pace of SGD appreciation**

In its October policy meeting, the Monetary Authority of Singapore (MAS) announced that the slope of the SGD NEER policy band will be reduced, with no change to the width of the band and the level at which it is centred. While this move signalled a shift in priority from fighting inflation to supporting growth, the MAS' easing move was less aggressive than market expectations due to the country's still-healthy GDP growth in 3Q despite the global slowdown, and persistently-high inflation. Consequently, the SGD strengthened about 0.5% against the USD immediately following the announcement, and ended the month up 4.17%, as risk sentiment continued to improve on growing Eurozone optimism. The MAS also cut Singapore's growth forecast for 2011 to 5% from 5-6% previously, and warned that the growth outlook remained bleak with 2012 growth possibly falling below its "potential rate of 3-5%". Core inflation, as a result, is also expected to ease from an estimated 2.3% pace in 4Q11 to 1.5% by the end of 2012.

**SGS yields higher on positive developments in Eurozone**

Market sentiment improved significantly towards month end as the EU summit in Brussels resulted in some progress towards a resolution to Eurozone debt crisis. Although crucial details were still missing at that point, EU leaders agreed in principle to a credible package of measures – including requiring banks holding Greek debt to accept a 50% loss, boosting the Eurozone bailout fund to EUR1t and recapitalizing banks to the tune of about EUR106b. This boosted risk sentiment and resulted in higher yields in both the U.S. Treasury (UST) and Singapore Government Securities (SGS) markets, with both curves bear-steepening. Yields on the 20-year, 10-year and 5-year SGS were seen rising 27bp, 13bp and 7bp, respectively, while 30-year and 10-year UST yields climbed 40bp and 34bp respectively.

## FUND PERFORMANCE UPDATE

October 2011

### MYHOME FUND – HomeGrowth

#### Highlights

- The Fund returned +5.77% for the month.
- We re-invested cash raised in September in selected Singapore REITs. We continue to look out for attractive value opportunities like Singapore banks and selective landlords in Singapore and Hong Kong. Agriculture commodity plays remain a key longer-term theme.
- Risk sentiment improved significantly in October as progress was made towards a resolution to Eurozone debt crisis at the EU summit. The MAS eased monetary policy by reducing the slope of the SGD NEER policy band. SGS yields rose and the yield curve steepened; the SGD strengthened against the USD.
- We are cautious that risks persist in the Eurozone debt situation as many crucial details to the rescue package are still missing, and implementation delayed. We expect the near-term direction of the SGD and SGS to continue to be highly sensitive to developments in the Eurozone and U.S.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
MyHome Fund – HomeGrowth (Net of fees)	SGD	+5.77%	-6.46%	+4.69%
MyHome Fund – HomeGrowth (Net of fees and charges <sup>1</sup> )	SGD	+1.54%	-10.20%	+2.66%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 2 Oct 2009

The Fund returned +5.77% for the month. In the month of September 2011 holdings in the Nikko AM Singapore STI ETF contributed 6.00% positively while ABF Singapore Bond Index Fund contributed 0.18% negatively.

#### Strategy

MyHome Fund – HomeGrowth seeks capital growth through largely Singapore-dollar denominated assets. The investment focus is to passively invest the assets of the Fund in Singapore-dollar denominated fixed income securities and Singapore-listed equities (or in one or more different mutual fund(s) and unit trust(s) reflecting an underlying investment in such fixed income securities and equities) in the proportion of 20:80.

#### Market Commentary

% Change <sup>^</sup>	Month	YTD
Singapore Straits Times Index	6.75%	-10.48%
iBoxx ABF Singapore Bond Index	-0.79%	+6.39%

Source: ©2011 Morningstar & Bloomberg, 31 October 2011 (<sup>^</sup>in local currency, price return basis)

## Equity

### ***Singapore stocks rebounded***

Singapore equities rebounded along with regional peers in October, with the Straits Times Index closing 6.75% higher, as market sentiment improved amid an easing of global recession fears and signs of progress towards a resolution to the Eurozone debt crisis. Economic data was generally soft, with September's Non-Oil Domestic Exports (NODX) declining 4.5% YOY from a 3.9% rise in August, and August retail sales slowing sharply to 3.3% YOY from 10.7% in July. Although 3Q11 GDP expanded a higher-than-expected 5.9%YOY due to a surge in biomedical manufacturing, the key electronics sector has yet to show signs of recovery. Meanwhile, CPI inflation cooled to 5.5% YOY in September, down from 5.7% in August.

### ***MAS eased pace of monetary tightening***

In its October policy meeting, the Monetary Authority of Singapore (MAS) maintained its policy of a modest and gradual appreciation of the SGD NEER policy band. However, given the expected moderation in core inflation, the slope of the policy band will be reduced, with no change to the width of the band and the level at which it is centred. The MAS projected that inflation will remain high till mid-2012, with headline inflation forecasted at around 5% for 2011 and 2.5-3.5% for 2012.

## Fixed Income

### ***MAS eased policy to slow pace of SGD appreciation***

In its October policy meeting, the Monetary Authority of Singapore (MAS) announced that the slope of the SGD NEER policy band will be reduced, with no change to the width of the band and the level at which it is centred. While this move signalled a shift in priority from fighting inflation to supporting growth, the MAS' easing move was less aggressive than market expectations due to the country's still-healthy GDP growth in 3Q despite the global slowdown, and persistently-high inflation. Consequently, the SGD strengthened about 0.5% against the USD immediately following the announcement, and ended the month up 4.17%, as risk sentiment continued to improve on growing Eurozone optimism. The MAS also cut Singapore's growth forecast for 2011 to 5% from 5-6% previously, and warned that the growth outlook remained bleak with 2012 growth possibly falling below its "potential rate of 3-5%". Core inflation, as a result, is also expected to ease from an estimated 2.3% pace in 4Q11 to 1.5% by the end of 2012.

### ***SGS yields higher on positive developments in Eurozone***

Market sentiment improved significantly towards month end as the EU summit in Brussels resulted in some progress towards a resolution to Eurozone debt crisis. Although crucial details were still missing at that point, EU leaders agreed in principle to a credible package of measures – including requiring banks holding Greek debt to accept a 50% loss, boosting the Eurozone bailout fund to EUR1t and recapitalizing banks to the tune of about EUR106b. This boosted risk sentiment and resulted in higher yields in both the U.S. Treasury (UST) and Singapore Government Securities (SGS) markets, with both curves bear-steepening. Yields on the 20-year, 10-year and 5-year SGS were seen rising 27bp, 13bp and 7bp, respectively, while 30-year and 10-year UST yields climbed 40bp and 34bp respectively.

## FUND PERFORMANCE UPDATE

October 2011

### MYHOME FUND – HomeSteady

#### Highlights

- The Fund returned +1.11% for the month.
- We re-invested cash raised in September in selected Singapore REITs. We continue to look out for attractive value opportunities like Singapore banks and selective landlords in Singapore and Hong Kong. Agriculture commodity plays remain a key longer-term theme.
- Risk sentiment improved significantly in October as progress was made towards a resolution to Eurozone debt crisis at the EU summit. The MAS eased monetary policy by reducing the slope of the SGD NEER policy band. SGS yields rose and the yield curve steepened; the SGD strengthened against the USD.
- We are cautious that risks persist in the Eurozone debt situation as many crucial details to the rescue package are still missing, and implementation delayed. We expect the near-term direction of the SGD and SGS to continue to be highly sensitive to developments in the Eurozone and U.S.

#### Performance Review

	Currency	Performance		
		October 2011 (% change)	Year-to-Date (% change)	Since Inception (annualised)
MyHome Fund – HomeSteady (Net of fees)	SGD	+1.11%	+3.20%	+4.46%
MyHome Fund – HomeSteady (Net of fees and charges <sup>1</sup> )	SGD	-2.94%	-0.92%	+2.43%

Source: ©2011 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2011. All returns are calculated on a NAV-NAV basis and on the assumption that all dividends and distributions are re-invested if any.

<sup>1</sup>Takes into account sales and realization charges, where applicable.

Since inception: 2 Oct 2009

The Fund returned +1.11% for the month. In the month of October 2011, holdings in the Nikko AM Singapore STI ETF contributed 1.73% positively while ABF Singapore Bond Index Fund contributed 0.76% negatively.

#### Strategy

MyHome Fund – HomeSteady seeks to provide capital preservation with a mild element of capital appreciation in largely Singapore-dollar denominated assets. The investment focus is to passively invest the assets of the Fund in Singapore-denominated fixed income securities and Singapore-listed equities in the proportion of approximately 80:20.

#### Market Commentary

% Change <sup>^</sup>	Month	YTD
Singapore Straits Times Index	6.75%	-10.48%
iBoxx ABF Singapore Bond Index	-0.79%	+6.39%

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