FUND PERFORMANCE UPDATE

June 2014

Nikko AM Shenton Asia Pacific Fund

Highlights

- In June, the Fund gained 1.92%, outperforming the benchmark index of 1.11% in SGD terms.
- Asia Pacific markets performed in-line with global counterparts, bolstered by strong returns in Asia which was up 2.4% in USD terms and despite negative returns in Australia which was 0.2% lower in June. Performance was mixed across Asian markets with Thailand, Taiwan and India significantly outperforming while Indonesia and Singapore were the only markets in negative territory. Political developments again took center-stage this month with the rebounding of Thailand, continued strong demand for Indian equities post May election results and the heating up of the Indonesian presidential contest. Meanwhile, the Greater China markets registered strong performance on the back of stronger economic data and targeted easing in China. Taiwanese stocks have seen renewed investor interest on account of improving export markets, higher earnings expectations and upcoming global smartphone launches.
- Currently investors are pessimistic on Asia, but we think that the recent strength in the Indian market demonstrates the latent potential for Asian markets to rally if the right catalyst emerges. On China, we believe that the longer term impact under the new leadership regime will make China a more structurally sound market and we are still positive on the economy. We still remain underweight in Hong Kong despite selective opportunities in well-managed blue chips. Meanwhile, Taiwan and India continue to be amongst our more favoured markets while for the Southeast Asia region, we are holding a neutral to underweight position. We continue to hold an underweight position in Australia.

Performance Review

	Currency	Performance		
		June 2014 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Asia Pacific Fund (Net of fees)	SGD	1.92	5.68	4.83
Nikko AM Shenton Asia Pacific Fund (Net of fees and charges[1])	SGD	-2.16	1.45	4.63
Benchmark (MSCI AC Daily TR Net Asia Pacific ex-Japan Index)	SGD	1.11	5.74	3.96

Source: ©2014 Morningstar & Nikko Asset Management Asia Limited as of 30 June 2014. Returns are calculated on a NAV-NAV basis and assuming all dividends and distributions are re-invested if any. Past performance is not indicative of future performance.

[1]Takes into account maximum sales and realisation charges, where applicable.
Inception date: 31 Aug 1992

Fund gained 1.92% in June
The Fund increased 1.92% in SGD terms in June 2014, outperforming the benchmark by 0.81%. Our overweight in India helped as the market continued to benefit from the strong election results in May. Stock selection in China and Australia contributed positively. In China, the Fund benefitted from its holdings in BYD Electronic and China Pacific Insurance Group while in Australia, Westfield Corp and Oil Search performed well despite the market's underperformance over the month.

Market Review

Asia Pacific markets performed in-line with its global counterparts in June

Asia Pacific ex-Japan markets performed in-line with global counterparts returning 1.7% in USD terms versus 1.8% for MSCI World. Asia Pacific ex Japan returns were bolstered by strong returns in Asia ex-Japan, up 2.4%, while negative returns for MSCI Australia, down 0.2%, offset these gains. Political developments continued to dictate market movements with Thailand, the month's best performer, bouncing back 6.9% following a military coup in May and India continuing its post-election rally to finish up 4.5% for the month.

Political developments continued to shape Asian markets' performance in Asia

Thailand was the best performing market in June, rising 6.9% in USD terms after having bounced back from the military coup in May. Initially this led investors to sell down positions in May but the market was comforted by the military's decisive action to provide overdue payments to rice farmers and kick start the debate on the country's much anticipated Infrastructure program. In India, investors continued to buy into policy-orientated stocks as news flow suggested there could be wide reaching reforms announced by the incoming Bharatiya Janata Party (BJP) government that could kick-start an investment cycle and alleviate much of the bottlenecks in problem areas such as infrastructure, power and agriculture. MSCI India rose 4.5% in USD terms, following a 9.2% gain in May.

Greater China markets performed on strong economic data releases, led by Taiwan

The Greater China markets were strong for the month, rising 3.3% in USD terms as we witnessed stronger economic data out of the region and across key export markets. Taiwan was the best performer up 5% in USD terms while MSCI China was up 3.3%. MSCI Hong Kong lagged the market, finishing up only 0.7%. The Taiwanese market had another solid month, making it the second best performing market over the quarter next to India. The Taiwanese economy is benefiting from both a more sustainable US recovery and small scale stimulus measures in China. Exports to both these markets account for over 25% of Taiwan's GDP. Having successfully migrated its technology and automation industries to service niche segments it holds a structural advantage over other export markets in the region. We note the better-than-expected industrial production (5.2% year-on-year (YoY) growth in May) and PMI (54) as evidence of an improving outlook for the country's economy and stock market. China continued to roll-out selective stimulus measures, including cutting the reserve requirement ratio (RRR) for small and medium-sized business focused lenders. Measures so far have been small but are seen as a marginal loosening in China after having been in a more combatant, tightening mode throughout last year. The China HSBC PMI Index also bounced back into expansionary territory registering 50.7 for the month of June. The defeat of the Iraq army across a number of major northern cities by ISIS, an active jihadist militant group, sent Brent crude oil prices above USD 115 during June and this led to strong share price performance across China's oil services stocks with MSCI China Energy up 5.2% in USD terms.

Developed markets underperformed within Asia Pacific ex Japan

Developed markets within Asia Pacific ex Japan were notable underperformers over the course of the month with MSCI Australia down 0.2% in USD terms, MSCI Singapore was down 0.2% and MSCI Hong Kong was up only 0.7%. The Australian market was propped up by defensive dividend paying stocks as we entered the seasonal payout period. Consumer staples and materials sectors underperformed as base metal prices continued to fall and consumer confidence slipped further, translating into weaker retail sales and demand for credit. Singapore was led lower by Financials, Real Estate and Telecommunications. Yield-sensitive stocks came under pressure as we saw a rebound in the US 10-year government bond yields following better than expected economic data there. Singapore banks came under pressure as we saw a probe launched into a private metals firm in Qingdao port which was suspected of duplicating warehouse certificates in order to use metal stocks multiple times to raise financing. Although none of the Singapore banks were directly implicated in this specific case it fuelled concern amongst investors that growth in this business segment may slow going forward and there is potential for credit quality risks in China. Hong Kong underperformed after retail sales plunged -9.5% YoY in April and slower VIP gross gaming revenue across Macau casinos weighed on consumer stocks.

Emerging Southeast Asian market performance mixed

Southeast Asian market performance was mixed in June with the rebounding of Thailand and the continued strong demand for Philippine equities as the structural economic expansion continues at pace. MSCI Philippines gained 2.92% in June and was the second best performing market after Thailand. Indonesian stocks witnessed some selling pressure over the course of the month as we are approaching the July 9th presidential election. Opinion polls showed the market's preferred candidate, Joko Widodo (Jokowi), losing some of his early lead to rival candidate, ex-general Prabowo Subianto. This, together with a much weaker-than-expected trade balance print for April (-2bn USD vs. market expectations of a small USD 200mn surplus), led the Rupiah to slide back above 12,000 versus the USD and investors to trim their holdings. MSCI Indonesia was down -1% in USD terms. Elsewhere, Malaysia continued to trade with low volumes, registering a small gain of 0.95% over the month. The MSCI Southeast Asia Index was up 1.1% in USD terms in June, underperforming both North Asia and India.

Market Outlook & Strategy

Recent market strength of the Indian market demonstrates potential for Asian markets rally following pessimism on Asian markets

The recent strength in the Indian market demonstrates the latent potential for Asian markets to rally if the right catalyst emerges: India markets went from extreme pessimism where it was the worst performing markets up till November 2013, to extreme optimism spurring the markets to its all-time high within a short span of 6 months. Currently investors are pessimistic on Asia, with fund flows still in the negative territory year-to-date and with stock markets being punished whenever there is some slightly negative macroeconomic news. Given the optimism in the European and United States stock markets, investors have neglected the disciplined monetary tightening and reforms that most Asian markets have pursued in the last 2 years. Despite the slight uptick in the markets in the last 2 months, Asia continues to exhibit trough valuations and interest from foreign investors remains lacklustre.

We are still positive on China and believe that a stronger China is generally positive for economic growth

In China, we believe that the new leadership regime under Xi Jinping and Li Keqiang will continue to strengthen its position and resolve to implement reforms. This is best evidenced by the ongoing anti-corruption crackdown. We would also note Li Keqiang's commitment to sustained and balanced economic growth as highlighted during a speech given on his official visit to the UK in June. We believe that the longer term impact will make China a more structurally sound market but finding the right balance between reforms and short-term growth will be challenging. We believe the coming months will be characterised by market hope for policy easing but this must be complemented with broader changes to warrant a more overweight position. At this point, we are still more positive on the new economy and structurally positive stocks with good earnings momentum rather than just waiting on more time sensitive reform-related stocks. A stronger China is generally positive for economic growth in the rest of the region.

We will remain underweight in Hong Kong despite selective opportunities in well-managed blue chips

We are generally more negative on Hong Kong due to the lack of economic tailwinds and increasing political tension. Outside of the financial sector, tourism and its position as China's gateway, Hong Kong has little structural growth mechanism. The recent demonstrations by pro-democracy supporters highlighted the underlying tensions present as China assumes greater influence over its special administrative region. However, companies in Hong Kong are generally well-managed, have good corporate governance and in some cases broad business scope across the Asia region. We will remain underweight on Hong Kong although we will maintain some selective opportunities in well-managed blue chips.

Taiwan continues to be our favourite market while Korea is one of our least

Taiwan remains our favourite market. Previously we have been positive on its transformation where it has deliberately focused on niche competitive industries that have lesser competition from China, Japan, Korea and other emerging countries. We view that transformation as nearing completion as Taiwan no longer competes purely on price and is no longer facing a hollowing out effect from industrial companies moving to China because of cheaper costs. Recently, we have also seen a pick-up in domestic consumption whereas it has been absent in the last 3 years due to rising property prices (In Taiwan, when property price rises, people save more in order to be able to afford the property). The stabilising property prices and the strong stock market are giving consumers reasons to start spending. Taiwan is also one of the chief beneficiaries in the region of improving demand from the US and economic stabilisation in China. In Korea we see further pressure for the local stock market given a large component is export related and we see continued appreciation of the Korean Won, especially relative to its key competitor, Japan which continues with its ultra-loose monetary policy.

We hold a neutral to underweight position in Southeast Asia
Southeast Asian markets continue to be tricky. We are negative on Thailand as we view that investors' optimism is unwarranted. Most investors have reacted positively to the military coup on the hope that this will lead to faster decision making and infrastructure lead capex cycle to commence. However, we think that this time round, it could be different as Thailand has to deal with an unfavourable demographics and economy is currently on a high base which make it difficult to churn out above average economic growth. We have turned more cautious on Indonesia as the election draws closer and the market's preferred candidate sees his lead eroded. The lack of reforms in the last 5 years has resulted in Indonesia falling behind its long-term potential growth rate and the prospect of no clear majority could make it difficult for tough but necessary policy decisions to be made. Although Malaysia seems to have found a bottom in term of growth, we struggle to find attractively valued companies in Malaysia as valuations remain high. Overall we are neutral to underweight in Southeast Asia.