FUND PERFORMANCE UPDATE

September 2014

Nikko AM Shenton Global Property Securities Fund

Highlights

- During the month, the Fund declined 4.06%, outperforming its benchmark by 28 basis points (bps). Stock selection in Hong Kong and asset allocation in Australia underpinned the Fund's relative outperformance. Australia, Hong Kong, Singapore, US and UK had generated positive relative performance while we underperformed in Europe and Japan.

- Global property stocks fell in September with the EPRA/NAREIT Global Index posting -6.3% in USD terms. All property stocks in the America, Europe and the Asia Pacific region ended in negative territory, ranging from a decline of 6.0% to a decline of 6.6%.

- Overall, we are slightly underweight to the US and Canada in the portfolio, due to rising interest rates and better opportunities for organic growth elsewhere. On Europe, we expect it to muddle along and we expect companies with stronger growth prospects to benefit more in the current environment. Meanwhile, the UK economy continued to improve in September and we are market-weight to the UK. On Japan, we expect markets to respond positively to any reform implementation which would be beneficial for Japan developers. On Asia Pacific ex Japan, we are underweight the Asia Pacific ex-Japan region. Within this region, we are overweight on the Philippines, Hong Kong and China and underweight on Singapore and Australia.

Performance Review

	Currency	Performance		
		September 2014 (% change)	Year-to-Date (% change)	Since Inception (annualized)
Nikko AM Shenton Global Property Securities Fund (Net of fees)	SGD	-4.06	9.63	1.63
Nikko AM Shenton Global Property Securities Fund (Net of fees and charges[1])	SGD	-8.86	4.15	1.08
Benchmark (UBS Global Real Estate Investors Total Return Index)	SGD	-4.34	12.27	10.46

Source: ©2014 Morningstar & Nikko Asset Management Asia Limited as of 30 September 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.
Since inception: 11 Apr 2005

Stock selection in Hong Kong and asset allocation in Australia underpinned the Fund's relative outperformance

During the month, the Fund lost 4.06%, slightly outperforming its benchmark by 28 bps. Stock selection in Hong Kong and asset allocation in Australia underpinned the Fund's relative outperformance. Australia, Hong Kong, Singapore, US and UK had generated positive relative performance while we underperformed in Europe and Japan. The Fund also suffered as global property stocks declined in September and property stocks in most major regions were affected negatively.

Market Review

Global property stocks declined in September

Global property stocks fell in September with the EPRA/NAREIT Global Index posting -6.3% in USD terms. All property stocks in the America, Europe and the Asia Pacific region ended in negative territory, ranging from a decline of 6.0% to a decline of 6.6%.

US property stocks retreated over the month

US property stocks fell 6.5% during the month in USD terms, according to the FTSE EPRA/NAREIT US Index. During September, the University of Michigan consumer confidence numbers came in at a healthy 86. Employment figures showed that the private sector added 213,000 jobs in September, the sixth consecutive month of over 200,000 jobs added. Consumer Price Index (CPI) came in lower than expected, at 1.7% year-on-year (YoY) for the month of August, which continues to allow the Fed to engage in an accommodative monetary policy. Commercial real estate values have increased as abundant access to capital and low cost of debt drove transaction volumes and pricing higher. REITs' cost of capital continues to be very low and many companies have recently taken advantage of strong pricing. Nonetheless, the acquisition environment remains challenging due to competition from private capital, making redevelopment and development a more attractive use of capital. On company news, Washington Prime Group (a spinoff from Simon Property Group from a few months ago) announced that it will acquire Glimcher in a cash and stock deal. Along with the deal, Simon will also purchase two assets from the combined company for $1.09 billion. The new company will be called WP Glimcher and will be led by the current Glimcher CEO. In health care, Sabra purchased a portfolio of independent living facilities at a 5.5% cap rate, which is very strong pricing.

European property stocks fell over the month

European property stocks retreated in the month, with the FTSE EPRA/NAREIT Eurozone Index down 6.4% in USD terms. Banks in the Eurozone took up only EUR 82bn of a possible EUR 400bn in the first of the European Central Bank (ECB)'s LTROs, which was far below the consensus expectation of EUR 150bn, suggesting banks' own risk aversion and/or a lack of demand for loans. In addition, Eurozone retail sales volumes fell by 0.4% in July, dragging the annual growth rate down to 0.8%, providing further signs of a weakening in consumer spending. On company news, Unibail has signed a definitive agreement with Carmila (new name of Carrefour Property) to dispose of EUR 931m portfolio of six shopping centres in France. Also in this month, German Residential Company TAG announced to repurchase up to 10% of its own share capital and the current CEO Rolf Elgeti resigned with effect from 31 October 2014. Swedish property company Kungsleden announced a rights issue pricing at SEK 35, reflecting a 19% discount to the previous closing price to fund potential acquisitions. Wereldhave completed the sale of the remainder of its Spanish portfolio for €99.5m, reflecting an 8% premium over book value in June 2014.

UK property stocks declined over the month

UK property stocks fell 5.3% in USD terms during the month, as measured by the FTSE EPRA/NAREIT UK Index. Month on month, September IPD capital growth was up 0.9%. CPI for the year in August was 1.5% versus 1.6% in July, while RPI was 2.4% versus 2.5% the prior month. Nationwide House prices for September dropped -0.2% for the month and are now up 9.4% for the year vs 11% in August. Real estate capital values were best for industrial, up 1.3%, followed by offices up 1.2%, and retail up 0.6%. On company news, Hammerson raised £400m through a 10% placing at a 3.5% discount to the prior days close. The proceeds are being used to purchase the 50% stake in High Cross shopping in Leicester at a 5.5% net initial yield and to set up a new joint venture with Value Retail to focus on acquiring and improving existing retail outlets. British Land has exchanged on the sale of 18 apartments with an average value of £4750 psf at its Clarges Mayfair development. This equates to profits of GBP 192m and an 84% margin on cost.

Japanese property stocks declined over the month

Japanese property stocks fell 4.6% in USD terms in August, according to the FTSE EPRA/NAREIT Japan Index. Machine orders for July came in at 1.1% YoY, much better than expected. Tokyo office vacancy for

August came in at 6.02%, an improvement of 18 bps from the prior month, and a material improvement on a YoY basis. Exports were down 1.3% YoY but still came in better than expected, while Tokyo department store sales were up 1.3% YoY. Cap rates compressed further as institutional investors took advantage of the yield premium offered by Japanese property, and hospitality joined logistics as the sectors with the best operating fundamentals, thanks to a surge in overseas tourism and little new supply. JREITs have benefited from accretive acquisitions and the emergence of rental growth in logistics and office, while developers began to raise office asking rents and reported strong demand for Tokyo central condos. On company news, Daiwa House Industry Co. Ltd., parent company of Daiwa House Residential Investment Corp. and Daiwa House REIT Investment Corp., and Sumitomo Forestry are jointly developing a AUD 230m residential and commercial project in Sydney's Summer Hill.

Asia Pacific property stocks declined in September

Property stocks in Asia Pacific ex-Japan fell 6.4% in September, alongside with property stocks in other regions. September saw an increase in volatility as bond yields rose 30bps to 2.6% (US 10-year) during the month, leading to negative returns across most markets. In local currency terms, China property stocks (GS China Properties Index) and Hong Kong property stocks (Hang Seng Property Index) led the losses, declining -8.6% and -8.3% respectively. Australian REITs (S&P/ASX 200 A-REIT Index) was not too far behind, declining -5.4%. Singapore property stocks (FTSE ST Real Estate Index) was also down but by a smaller margin of -2.6%.

10-year US bond yields rose 30bps to 2.6% over the month as macro prints in the US continued to improve. The big news at the end of the period was in Hong Kong where prodemocracy protest escalated, with the major activist group “Occupy Central” launching a civil disobedience campaign. The disobedience campaign affected public transport in several business centers, and the tension between protesters and the police increased after tear gas was used to disperse the protesters. In the physical market, Q3 Hong Kong office spot rent rose 0.4% QoQ (1.7% year-to-date (YTD)) while cap rate was unchanged, according to Jones Lang LaSalle. Central office spot rent rose 0.4% QoQ and 2.3% YTD.

According to the monthly data released by the Hong Kong Rating and Valuation Department, the price index for private residential housing further climbed by +1.9% MoM in Aug (+5.9% year-on-year (YoY) or +6.4% YTD). In China, PBOC & CBRC jointly issued a statement to ease property mortgage measures for the first time since 2008. The most impactful change is to allow second-home purchasers to enjoy mortgage terms as a first-home purchase would, as long as the first-home mortgage has been paid off. In addition, for third and subsequent home purchases, banks can be flexible with the terms, down-payment requirements and mortgage rate, if previous mortgages have been cleared. On corporate news, Agile announced a one-for-five rights issuance at HK$4.00 per share (31% discount). The gross proceeds are approximately HK$2,785 million before expenses and the net proceeds are estimated to be approximately HK$2,748 million. The company intends to apply the net proceeds to refinance the existing indebtedness and as general working capital. In Singapore, new residential sales in August was 490 units, down 12.5% MoM and 66.6% YoY. In corporate news, Keppel REIT announced that it will purchase a one-third stake in Marina Bay Financial Centre Tower 3 from its sponsor, Keppel Land. The acquisition is priced at SGD1.248b, including rental support of up to SGD49.2m over five years. Without rental support, the net price translates to S$2,680 per sqf, in line with recent office transactions.

Market Outlook and Strategy

We are slightly underweight to the US and Canada on rising interest rates and better opportunities for organic growth elsewhere

The position of the US economy has strengthened and job growth, heretofore a laggard in the recovery, has remained healthy and has assuaged the market’s concerns about the negative GDP growth experienced in the first quarter. The accelerating growth and the wind-down of quantitative easing (QE) have brought to the forefront the question of when rates will rise, however. Our view remains that interest rates are likely headed higher in the medium term, but the Fed’s actions will also be measured and gradual. From a real estate standpoint, supply across nearly all property sectors remains below historical averages, offering

REITs the chance to capitalise on stronger demand without supply pressure. The strongest property sectors are those that are tied to the energy and information technology industries where job growth has been most robust. We remain under-exposed to sectors that are most likely to lag in a rising interest rate environment, notably healthcare and net-lease. Overall, we are slightly underweight to the US and Canada in the portfolio, due to rising interest rates and better opportunities for organic growth elsewhere.

We expect Europe to muddle along; we continue to expect companies with stronger growth prospects to benefit more in the current environment

In Europe, with broad economic data showing no real signs of improvement, the ECB undertook further stimulus including rate cuts and LTROs. Given sluggish economic data and near zero inflation, we expect more aggressive monetary intervention in the future as well. Overall, we expect the European economy to muddle along, and we continue to expect companies with stronger growth prospects to benefit more in this environment (for example, German residential) although we have also selectively taken on exposure to inexpensive value plays (for example, Nordic stock Kungsleden.) We are market-weight to the region, and will be monitoring inflation data in Europe as this could particularly impact the retail names and will also dictate potentially how much QE could occur.

The UK economy continued to improve in September; we are market-weight to the UK

The UK economy continued to improve in September. Governor Carney, who has spoken about raising rates, has lately indicated that the increases in rates will be at a measured pace, and a little later than what the market had been expecting. We are market-weight to the UK in the portfolio, and will continue to monitor the pace of the economic recovery seeking indications of when the first rate rises could come through, although the current portfolio should still do well in a rising rate environment due to the number of niche companies with strong structural growth prospects.

We expect markets to respond positively to any reform implementation which would be beneficial for Japan developers

As we move towards the end of the year, we expect a resumption in the discussion on structural reforms as well as fiscal and monetary stimulus which will hopefully lead to the implementation of various reform measures and a resurgence of Abenomics. We expect markets to respond positively to any reform implementation, which would be especially beneficial for the Japan developers (more so than the JREITs). From a monetary perspective, we do not expect imminent action by the Bank of Japan but would suspect that more easing is on the way in Q1 of 2015. We have seen a slight rise in labor cash earnings and expect this trend to continue and to positively impact consumer sentiment and retail sales. This should lend support to economic growth and underline the fact that Abenomics is beginning to have a real, positive economic impact. We are overweight the Japan developers in expectation that they will benefit more than the JREITs from a macro-economic improvement. The JREITs, on the other hand, are likely to continue to benefit from capital inflows from Japanese investors but are unlikely to see as sharp a rise in valuations as they have over the past 12 months.

Continue to be sanguine on Asian REITs

We continue to believe that the pace of monetary tightening in the US could be slower than expected under the watch of a dovish Fed Chairwoman, Yellen. While US Treasury yields ticked up during the month, it subsequently corrected and continues to stabilize at a tighter range relative to last year’s peak. Furthermore, even as the US reduces its purchase of Treasuries, central banks in Europe and Japan are still expanding their balance sheets, thus exerting downward pressure on yields. With better visibility of the macro environment and yield outlook, we reiterate our opinion that the spread between REIT yields and long bond yields can compress further. In addition, we would also highlight that as the global economy recovers, rentals should also catch up with a lag, which would be constructive for real estate valuations and cash flows.

In Singapore, we remain positive on the office rental cycle as spot rental growth gathers momentum. We are also incrementally more positive on the hotel segment, as visitor arrivals, particularly from China, appear to be recovering well with a stabilisation in the Thai political situation and with the effect of the twin Malaysian Airlines disasters fading. In Hong Kong, the prime office market has also bottomed out as vacancy gets absorbed. In a similar vein, we are also more positive on the Beijing office market where there are very limited supply in the next couple of years. Overall, we continue to focus on mid-cap names where valuations are more attractive. We remain underweight in Taiwan, where there is a lack of quality investment options.

On portfolio positioning, we are underweight the Asia-Pacific ex-Japan region. Within the region, we are overweight on the Philippines, Hong Kong and China and underweight on Singapore and Australia.

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 2014, after which a 2.5% minimum rate will apply. An extra 1% interest is 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").