FUND PERFORMANCE UPDATE

September 2014

Nikko AM Shenton Japan Fund

Highlights

- The Fund gained 1.00% (in SGD terms) in the month of September but fell 2.47% (in SGD terms) for the year-to-date period.
- The domestic equity market rose in September, and Japanese stocks continued their uptrend throughout the month supported by a number of factors, including the yen's substantial weakening to JPY 109 versus the US dollar amid strong economic sentiment in the US and rising long-term interest rates. The market was also lifted by the growing expectations that the Bank of Japan might be forced into additional easing given the downward revision of Japan's April-June GDP and intensifying uncertainty regarding the future directions of Japan's economy.
- Despite some fallout from the consumption tax hike, most Japanese corporations are generally seeing positive progress with their earnings and, given the current weak yen, we expect firms to upgrade earnings further. Over the medium term, in addition to the government's growth strategies, Japanese corporations are generally taking a positive stance on shareholder returns and are attempting to improve their ROEs.

Performance Review

	Performance		
	September 2014 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Japan Fund SGD Class Units (net of fees)	1.00	-2.47	1.18
Nikko AM Shenton Japan Fund SGD Class Units (net of fees and charges[1])	-4.05	-7.35	0.99
Benchmark (TOPIX index[2])	0.44	-1.44	-1.86

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.*
[2]*The Fund's benchmark is TOPIX and is stated in SGD terms.*

Since inception: 31 December 1986

Fund outperformed in September
The Nikko AM Shenton Japan Fund's unit price gained 1.00% in the month while the benchmark rose 0.44%, both in Singapore dollar terms, resulting in a 0.56% out-performance. Sentiment remained strong in the Japanese equity market in September, as the yen continued its weakening trend. During the month, we maintained the fully invested portfolio with the Fund's equity weighting in the 98% range. As of the end of September, the Fund consisted of 89 names.

We invested in stocks of companies that appeared undervalued from a profitability standpoint due to changes in their earnings and these are viewed positively on the back of their higher dividend yields and better financial structures. Specifically, we raised the weighting of globally renowned consumer electronics maker Sony, which announced a downward revision to earnings and additional restructuring in its smartphone business.

In general, external demand-driven names held in the portfolio rose in September on the back of the yen's further weakening and this added to the Fund's performance. In addition, stocks that made positive contributions this month included: control equipment manufacturer Yokogawa Electric, which benefitted from the announcement that it would initiate structural reforms; and seasoning manufacturer Ajinomoto, which announced the acquisition of a US company to speed up its overseas expansion. However, the lack of positive contribution from the value attributes of the portfolio resulted in the Fund's only marginal outperformance for the month.

Market Review

Japanese stocks continued their uptrend throughout September

The domestic equity market rose in September, with the TOPIX (w/dividends) climbing 4.51% and the Nikkei (w/dividends) rising 5.46% month-on-month. Japanese stocks continued their uptrend throughout the month supported by a number of factors, including the yen's substantial weakening to JPY 109 versus the US dollar amid strong economic sentiment in the US and rising long-term interest rates. The market was also lifted by the growing expectations that the Bank of Japan might be forced into additional easing given the downward revision of Japan's April-June GDP and intensifying uncertainty regarding the future directions of Japan's economy. In addition, following the cabinet reshuffling by Prime Minister Abe, anticipation that the administration would make the economy its highest priority and moving forward with structural reforms and deregulation also became a tailwind for stock prices. Twenty-six of 33 TSE sectors, including Transportation Equipment, Machinery, and Electric Appliances, saw one-month price increases. In contrast, seven sectors, such as Marine Transportation, Oil & Coal Products, and Pulp & Paper, saw declines.

Market Outlook & Strategy

Since the start of the year, the Japanese equity market had been marked by a correctional phase triggered by caution towards geopolitical risk and concerns over the resilience of the domestic economy following the consumption tax hike. However, from mid-May onwards, stocks have rebounded supported by positive sentiment in the foreign equity markets and as Japanese corporations began to adopt more proactive shareholder return stances on the back of strong earnings. With the market also taking a favorable view of the yen weakening against other major currencies, Japanese stocks renewed their highs for the year in September. Despite some fallout from the consumption tax hike, most Japanese corporations are generally seeing positive progress with their earnings and, given the current weak yen, we expect firms to upgrade earnings further. Over the medium term, in addition to the government's growth strategies, Japanese corporations are generally taking a positive stance on shareholder returns and are attempting to improve their ROEs (which are low compared to those of firms in Europe and North America).

Investment Strategy

We anticipate no change to the long-term uptrend in the Japanese stock market, supported by external factors that would affect a broad range of Japanese companies, including government policies aimed at ending deflation, the weakening of the Japanese yen, and improvements to corporate earnings structures. As such, we will continue with the Fund's unique value approach of using positive changes in economic fundamentals as a source of added value in order to capture alpha.

In contrast to the beta-driven market we saw in 2013 when broad market indices posted sharp gains, we foresee trading in 2014 remaining in a boxed range as the market takes account of many different risks. However, from a long-term perspective, the lull in the markets should offer a wide array of very attractive investment opportunities.

Going forward, we will make carefully selected investments, considering companies which meet or which may benefit from the following criteria: (1) Companies that will benefit from the improved sentiment towards capital spending and stimulation of domestic demand as the government's economic policies promote an inflationary mindset; (2) re-emergence of undervalued companies on the back of bold corporate reforms and a stronger international competitive edge, with the structural changes in the currency markets being a tailwind; (3) undervalued companies that are a good fit for the Asian region that continues to grow, specifically with regards to the region's needs in social infrastructure and environmental initiatives; (4) undervalued companies that can benefit from the change that is driving the Chinese economy; and (5) undervalued companies with a strong commitment to improving returns to shareholders, taking into consideration total returns and not just dividend payouts.

Content Source: Nikko Asset Management Co., Ltd, September 2014.

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").

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