FUND PERFORMANCE UPDATE

February 2015

Nikko AM Shenton Short Term Bond Fund (SGD)

Highlights

- The Fund returned 0.07% in February, above the benchmark which returned 0.05%. The Fund's portfolio characteristics remained mostly unchanged over the month.
- In February, Asian high-grade credits declined 0.24% despite credit spreads tightening by about 13 basis points (bps), pressured by the weak performance of US Treasuries (USTs). Meanwhile, the Chinese central bank made a system-wide cut to banks' reserve requirement ratio (RRR) by 50bps as well as lowered both the lending and deposit rates by 25bps. Similarly, Bank Indonesia lowered its benchmark interest rate and deposit facility rate (FASBI) by 25bps each. At the same time, supply of new issues in the high-grade credit space was significantly lower in February as Asia celebrated the Chinese New Year holidays.
- We expect volatility of total returns, particularly for high-grade, to continue to be driven more by the underlying treasury movements rather than by spread movements. On the other hand, Asian credit spreads should remain supported given the positive backdrop from the easing measures seen in Asia. Meanwhile, valuations no longer appear cheap from a historical basis. However, with the underwhelming amount of new issuance in February and the pipeline yet to pick up meaningfully, technicals should be supportive in the near-term.

Fund Performance Review

	Currency	Performance		
		February 2015 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Short Term Bond Fund (S$) (Net of fees)	SGD	0.07	0.42	2.34
Nikko AM Shenton Short Term Bond Fund (S$) (Net of fees and charges[1])	SGD	-0.93	-0.58	2.27
Benchmark (3M SIBOR)	SGD	0.05	0.09	1.19

Source: ©2015 Morningstar & Nikko Asset Management Asia Limited as of 28 February 2015. 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: 29 Sep 2000

Fund returned 0.07% in February

The Fund posted a return of 0.07% in February, above the benchmark which returned 0.05%. We decreased our cash holdings in February. With 7.35% of cash as of end-February, the Fund remains well-positioned to take advantage of any market weakness. The Fund remains well balanced in terms of duration and the maturity ladder of the holdings.

As of 28 February 2015, the Fund's overall duration and estimated yield were at 1.40 years and 2.15% (hedged in SGD terms), respectively. The average credit rating of the Fund is at A-. The Fund is diversified across 185 bonds, with 131 issuers from 14 countries, with an average weight of 0.71% per issuer. During the month, the level of cash and cash equivalents was at 7.35%.

Market Review

Asian credits registered slight gains despite weaker USTs

The overall Asian credit market registered another positive performance in February, driven by tightening credit spreads even as the UST ended the month weaker. A much stronger than expected US payrolls report at the start of the month prompted a sell-off in the USTs as markets pulled forward expectations for a June rate hike by the US Federal Reserve (Fed). Subsequently, Job Openings and Labour Turnover (JOLTS) data reflected the largest number of unfilled positions since 2001, further confirming improvement in the US labour market conditions. Elsewhere in Europe, optimism that a ceasefire in Ukraine was in sight and the extension of aid to Greece for an additional four months also encouraged risk-taking, pressuring prices of perceived ‘safe-haven’ assets. Towards month-end, US Fed Chairperson Janet Yellen, in her semi-annual monetary policy testimony before Congress, hinted that interest rates would remain unchanged for now, by declaring she saw no evidence that inflation was rising toward the Fed’s 2% goal, leading prices of the USTs to climb. Nevertheless, yields of 10-year USTs eventually ended the month higher, by about 35 basis points (bps). Overall, Asian high-grade credits declined 0.24%, despite credit spreads tightening by about 13bps, pressured by the weak performance of USTs.

PBoC cut interest rates and banks’ reserve requirement ratio; Bank Indonesia reduced rates

During the month, the People’s Bank of China (PBoC) lowered banks’ reserve requirement ratio (RRR) by 50bps, the first across-the-board cut since May 2012. The cut took effect on 5 February 2015. In addition, China’s central bank also announced a surprise rate cut at the end of the month that lowered both the lending and deposit rates by 25bps to 5.35% and 2.50% respectively, marking the second time in three months that the PBoC had cut rates. Similarly, Bank Indonesia surprised markets by cutting the benchmark interest rate and deposit facility rate (FASBI) by 25bps each to 7.50% and 5.50% respectively. The move, according to the Indonesian central bank, was in response to the easing inflationary pressures.

Slower primary market activity

The month saw significantly lesser number of new deals as Asia celebrated the Chinese New Year holidays. In total, there were only seven new issues amounting to USD 4.65bn in the high-grade space.

Market Outlook & Strategy

Returns tethered to external developments; recent macro developments positive

Volatility of total returns, particularly for high-grade, could continue to be driven more by the underlying treasury movements rather than by spread movements as divergent monetary policies globally continue to take hold and as US economic data continue to suggest that a potential rate hike by the US Fed remains imminent in the summer months. On the other hand, Asian credit spreads should remain supported given the positive backdrop from the easing measures seen in Asia. The recent monetary easing by the PBoC should be supportive of China related credits, especially those from more credit intensive sectors. In addition, the pro-growth Indian budget announced should allow for positive sentiment towards Indian credits to continue although spreads have tightened significantly over the course of the past month.

Valuations no longer appear cheap but technicals supportive

Valuations no longer appear cheap from a historical basis with the exception of selected countries and sectors. Many credits, even those oil and gas related, have retraced much of the spread widening in January. However, without a meaningful pick up in new issuance, spreads are unlikely to widen significantly from here. With the underwhelming amount of new issuance in February and the pipeline yet to pick up meaningfully, technicals should be supportive in the near-term.

Asia Pacific remains primary focus

The Fund’s exposure to Asia-Pacific and cash currently stands at 95.36%. We look to roughly maintain this weightage given the region’s stronger fundamentals and attractive valuations. We maintain a bias for issuers with high credit quality and strong liquidity positions.

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 2015**, 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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For Hong Kong Investors

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