FUND PERFORMANCE UPDATE

February 2015

Nikko AM Shenton Thrift Fund

Highlights

- In February, the Fund gained 0.20%, underperforming the benchmark of 0.34%.

- The FTSE Straits Times Index posted 0.34% in February. The top sector performers for the month were Financial Services, Aerospace & Defense and Mobile Financial Services; while the top performing stocks were Singapore Exchange, Singapore Technologies Engineering and Singapore Telecommunications. During the month, Finance Minister Tharman Shanmugaratnam presented an pro-growth Fiscal Year 2015 budget, as part of an expansionary fiscal policy, in which the overall deficit is expected to amount to SGD 6.7bn (1.7% of GDP). Inflation declined further in January, falling to -0.4% year-on-year (YoY) although the economy grew at a much faster pace than earlier thought in the fourth quarter of 2014. Meanwhile, industrial production (IP) disappointed as it was well below consensus expections of a 3.3% growth though it improved to 0.9% YoY from -1.9% in December. On other data, non-oil domestic exports (NODX) in January printed much better-than-expected, rising 4.3% YoY, against consensus of a 2.0% rise.

- We are optimistic on the outlook for Singapore equities in 2015 and we think that some of the macro headwinds faced in 2014 could bottom out. We expect macro conditions to stabilise in 1H15 before a modest acceleration in 2H15. We believe that the recent monetary loosening by the MAS bodes well for equity prices. Furthermore, we continue to see value unlocking opportunities in 2015 and we foresee oil prices stabilising at some point which lead to selected oil service related stocks to recover off attractive valuations with increased certainty on oil prices. On portfolio positioning, we remain positioned in selected overseas names which are amongst our highest conviction stocks; and are overweight on companies which are well-plugged into the region as intermediaries of trade, finance and services.

Performance Review

	Currency	Performance		
		February 2015 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Thrift Fund (net of fees)	SGD	0.20	2.26	6.39
Nikko AM Shenton Thrift Fund (net of fees and charges[1])	SGD	-4.81	-2.85	6.19
Benchmark (FSSTI Index)	SGD	0.34	1.12	3.14

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: 31 Aug 1987

The Fund posted returns of 0.20% in February
The Fund gained 0.20% but underperformed its benchmark in the month of February. Performance gained from our overweight positions in Innovalues, UOL Group and Singapore Exchange but suffered some losses from our overweight positions in Japfa, CWT and United Engineers.

Market Review

The Singapore equity market returned 0.34% in February

The FTSE Straits Times index posted 0.34% in February, underperforming the MSCI AC Asia Pacific ex Japan which returned 3.49% for the month. The top sector performers were Financial Services (+5.28%), Aerospace & Defense (+4.46%) and Mobile Telecommunications (+3.37%) while Travel & Leisure (-4.09%), Beverages (-2.78%) and Industrial Transportation (-2.28%) were the worst sector performers. On a stock level perspective, Singapore Exchange, Singapore Technologies Engineering and Singapore Telecommunications emerged as the top performing stocks, registering +5.28%, +4.46% and +3.43% respectively.

Budget 2015 set out an expansionary fiscal policy

During the month, Finance Minister Tharman Shanmugaratnam presented a pro-growth Fiscal Year 2015 budget. The overall deficit is expected to amount to SGD 6.7bn (1.7% of GDP) which will be funded largely from surpluses in earlier years. Operating and development expenditures are set to increase by 12.5% and 40.5% respectively from 2014 levels. At the same time, continued measures to support economic restructuring were unveiled. Among others, the Wage Credit Scheme will be extended to 2017 to provide employers more time to adjust to tight labour market conditions, and the 30% corporate income tax rebate will be similarly stretched up to 2017. In addition, the government deferred the next round of levy hikes for most foreign workers, previously scheduled to take effect in July of this year. Meanwhile, a more progressive income tax regime to be implemented in 2017 was announced, increasing the personal income taxes for top income earners. Also, benefits for households remained targeted with a focus on retirement adequacy for the elderly and families with children.

Inflation declines further in January

Headline inflation in January fell to -0.4% YoY, following a revised -0.1% reading in December. The decline was due primarily to lower housing, utilities and healthcare inflation, as electricity tariffs were cut and enhancements were made to medical subsidies. Meanwhile, private road transport inflation read higher, following a slight rise in car certificate of entitlement premiums. At the same time, the housing rental market continued to soften, reflected in a slight drop in accommodation cost inflation. Excluding private road transport and accommodation costs, core inflation fell to 1.0% YoY from the 1.5% recorded in the previous month. The Monetary Authority of Singapore (MAS) expects both headline and core inflation to ease further before rising in the second half of the year.

4Q2014 GDP revised upwards

Singapore's economy grew at a much faster pace than earlier thought in the fourth quarter of 2014, following upward revisions to the performance of both manufacturing and services sectors. 4Q2014 expansion printed 2.1% YoY, higher than the market expectations of 1.7% and an earlier estimate of 1.5%. Consequently, GDP growth for the full year 2014 registered 2.9%, slightly higher than the advance estimate of 2.8%.

IP disappointed; NODX surprised on the upside

IP growth improved to 0.9% YoY in January from -1.9% in December, but was well below consensus expectations of 3.3% growth. January's IP growth was due mainly to a 5.3% increase in the biomedical manufacturing cluster, while the transport engineering, chemicals, and general manufacturing clusters all contracted. On other data, NODX in January printed much better-than-expected, rising 4.3% YoY, against consensus of a 2.0% rise. It was the third straight monthly increase. By destination, shipments to the European Union, Hong Kong and Korea were the top three contributors to growth.

Market Outlook & Strategy

We are optimistic on the Singapore market in 2015

We remain optimistic on the outlook for Singapore equities in 2015. Some of the macro headwinds faced by Singapore in 2014, such as higher operating costs, tight labour policies and anemic exports, could bottom out. We expect macro conditions to stabilise in 1H2015 before a modest acceleration in the second half of the year. We believe that the recent monetary loosening by the MAS bodes well for equity prices, as it had in previous occasions. In addition, a more competitive currency is favourable for export-oriented as well as tourist-oriented industries.

2015 will see SG50 celebrations in Singapore, with potentially more stimulus programs to support the economy and domestic sentiment. In addition, we see a good chance of general elections happening ahead of the January 2017 deadline, providing further support for local equities. SG50 reinforces the importance of Singapore's role as a centre for intermediation. The conclusion of the ASEAN Economic Community in 2015 also ushers in a new era of connectivity for Singapore. As such, we are overweight on companies which are well-plugged into the region as intermediaries of trade, finance and services.

Corporate restructuring remains a key conviction, as domestic woes challenge Singapore corporates to focus on capital efficiency and returns. We continue to see value unlocking opportunities in 2015. Lastly, we foresee oil prices stabilising at some point, and with increased certainty on oil prices, selected oil service related stocks could recover off attractive valuations. We also remain positioned in selected overseas names, which are chosen from among our highest convictions in the Asia-Pacific ex-Japan universe. These include selected stocks listed in Hong Kong, Taiwan and Indonesia.

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").