PARVEST ASIAN CONVERTIBLE BOND

January 2010 Review

Fund performance in January 2010

The monthly performance, gross of fees, was -1.1% compared with +0.14% for the UBS Asian ex-Japan Convertible Index. The monthly performance, net of fees (Classic shares), was -1.22%.

This month's underperformance was largely due to the fund's relatively high equity exposure. Our overweight in Genting International was impacted by a mandatory conversion option exercised by the issuer. This resulted in a technical correction, but the company's fundamentals have not changed.

Current exposure and outlook

As at 29 January, 2010 exposure was as follows:

	Parvest Asian Convertible Bond	Benchmark
Portfolio delta	34.0%	30.1%
Yield curve exposure	1.21	1.42
Yield to best	2.2%	3.2%
Sector exposure		
Tech & Media	9%	5%
Cyclicals	70%	66%
Defensives	13%	17%
Financials	0%	0%
Infrastructure	2%	12%
Cash	6%	0%
Currency exposure		
USD	52%	54%
HKD	22%	20%
EUR	0%	0%
INR	7%	8%
IDR	1%	0%
JPY	1%	0%
MYR	0%	1%
SGD	15%	15%
TWD	0%	0%
CNY	2%	2%

Main portfolio movements during the month

- We continued to add property companies such as **CFS Retail Property Trust 5.075% August 2014** and **Commonwealth Property Fund 5.25% December 2016** for the exposure to real assets and to consumption related themes.

BNPP AM is the source for all data reflected in this document as at 29 January, 2010 unless otherwise specified.

- **LG Display 0% April 2010** and **Hynix 4.5% December 2012** were added for their attractive valuation and a defensive positioning in the Consumer Technology sector.

- We sold **Khazanah / Plus 0% July 2012** and **Guocoland 0% May 2012** given their limited upside potential. We reduced exposure to **Genting International 0% April 2012** because the mandatory conversion option exercised by the issuer put pressure on the underlying equity in the short term.

The Asian convertible bond market in January

- The market was flat over the month, mainly due to lower equity sensitivity and the positive influence of certain Korean shipping stocks and related sectors.
- The primary market was active with four new issues:
  - Far East Consortium, a real estate developer and investor in Hong Kong and China, issued HK$800 million of 3.625% March 2015 convertible bonds, the first Asian convertible issue this year. It was priced at the best end (for investors) of the indicative terms: 3.625% yield to put with a put option after two years, and a 25% conversion premium. The proceeds will be for land bank acquisitions and for refinancing purposes. *We participated in this deal but sold it in the secondary market as the performance of the bond was disappointing.*
  - Hidili Industry International Development, a coking coal miner in the Sichuan and Guizhou provinces of China, issued Chinese yuan 1,707 million of 1.5% January 2015 convertible bonds. The issue was priced at a low conversion premium of 30%, 1.5% coupon (the low end of the range), and yield-to-put of 3.5% (the high end of the range). About half the proceeds will be used for fund expansion of mines and production plants; while the other half will refinance existing debt. *Although the convertible bonds were fully subscribed, due to the credit quality of the company, we judged the terms too aggressive, and did not participate in this deal.*
  - Ying Li International Real Estate, a commercial property developer in Chongqing, issued SG$200 million of 4% March 2015 convertible bonds. The issue was priced at the best end (for investors) of the indicative terms: 6.5% yield to put with a put option after three years, 4% coupon, and a 28.5% conversion premium. There is no disclosure of how the proceeds will be used. *We did not participate in this deal.*
  - Jaiprakash Power Venture, a hydro and thermal power developer in India, issued a US$200 million of February 5% 2015 convertible bond. The proceeds will fund an increase in power generation capacity to 3,100 megawatts by March 2012. The issue was priced at the best end (for investors) of the indicative terms: 7% yield, 5% coupon and a 16.5% conversion premium. However, the lead manager has the option to increase the issue by another US$100 million until February 2012. *We did not participate in this deal, as we feel it is necessary to carry out a more in-depth study on the credit profile and the company strategy.*
- Some of last month's corporate activity:
  - New World Development, issuer of Sherson (New World Development) 0% June 2014, planned to issue US$300 million (up to US$500 million) 10-year straight bonds in the Libor+320 area. The issue was well received and priced at the tight end on the grey market. Straight bond issuance is seen as credit positive to the convertible bond. The fund is overweight the convertible bond.
  - Olam International, issuer of Olam International 1% July 2013, Olam International 1.2821% July 2013, and Olam International 6% October 2016 convertible bonds, issued SG$250 million of 3-year straight bonds about 200bp over the swap rate. It is reported that the proceeds will be used to support the company's acquisition and capital expansion plan. For the moment this issue has not had any effect on the convertible bonds. The fund is underweight the 2016 convertible bond.
  - Genting International, issuer of Genting Singapore 0% January 2012 and Genting Singapore 0% April 2012 convertible bonds, issued a mandatory conversion notice for the April 2012 convertible bond after the stock closed for the 20th consecutive day above the threshold. The approximately 474 million shares underlying the bonds are equivalent to 4% of the existing capital or roughly four days trading volume. The company's fundamentals are unchanged, but the underlying share suffered in the wake of the mandatory conversion. We believe the correction will be short-lived. We reduced our exposure to the convertible bond and converted the remaining position into shares to be sold later on. During the second week of February, the company obtained its casino license from the Singapore government for its resort. The fund is overweight the April 0% 2012 convertible bond and has no exposure to the January 0% 2012 issue.

- The credit spreads of high grade bonds widened but that of high yield bonds tightened in January. The Itraxx Asia IG went up to 108.925 at the end of January from 94.75 in December, and the high yield bond credit spread, as illustrated by the Itraxx Asia HY, edged down to 391.65 at the end of January, from 408.13 from December.

Outlook:

- The market appears to be pricing in fears from a potentially more hawkish stance from central banks and policy-makers. Higher inflation expectations and some good economic numbers from the US have led some investors to anticipate a tightening monetary policy sooner than had been previously expected.

- The rise in the required reserve ratio, the open market operation, and enforcement of a credit quota reflected a more hawkish stance from the People's Bank of China, which is doubtless intent on cooling down the overheated property sector. However, within our investment universe, the weighted conversion premium on Chinese property names is around 135%, so the impact on convertible valuations is limited. It would seem that the market is preparing for a greater degree of inflationary pressure, and thus a possible rise in interest rates earlier than had previously been expected.

- The Reserve Bank of India maintained the status quo on the reverse-repo and repo rate front, but raised the cash reserve ratio by 75bp to 5.75% to extract the excess liquidity from the system. The move was expected due to nascent inflationary pressure, but the magnitude was more severe and also earlier than expected

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- The equity exposure of convertibles as measured by the UBS Asia convertible bond ex-Japan, remains fairly low (at 30%). A certain degree of retreat could be inevitable in Asian convertibles but a collapse or a repeat of the global crisis is unlikely.

- We prefer names in agriculture/soft-commodities, rental property companies outside China, consumer discretionary and energy-related convertibles. We will probably reduce our equity exposure and adjust it closer to the benchmark to be more defensive given the unfavourable market sentiment.

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