Issued in July 2014

# Schroder Asian Equity Yield Fund
# Monthly Fund Update

## Fund Performance

| | 1 M (%) | 3 M (%) | 6 M (%) | YTD (%) | 1 Y (%) | 3 Y (% p.a.) | 5 Y (% p.a.) |
|---|---|---|---|---|---|---|---|
| Fund Performance | 0.83 | 4.14 | 9.13 | 9.13 | 10.87 | 7.95 | 10.86 |
| Reference Benchmark* | 0.95 | 4.68 | 4.81 | 4.81 | 14.92 | 4.89 | 9.23 |

Source: Schroders, Morningstar, as at 30th Jun 2014. Please note that past performance is not indicative of future returns. Performance of the fund is reported net dividends reinvested, bid-to-bid in SGD
* MSCI AC Pacific ex Japan Index

## Market Summary

Asian equities trended higher in June on the back of continued positive momentum in global equities, as an improving outlook for the US economy and stabilizing macro data from China supported investor risk appetite. The Chinese equity market extended gains as the government announced further measures to support structural reforms and stable growth, while recent macro indicators also pointed towards signs that the economic recovery is gaining momentum.

Thailand was the top performing market over the month as improved domestic sentiment post the coup in May and economic measures endorsed by the military administration were key drivers for outperformance. Indonesia was the weakest market as impending elections and concerns of worsening trade deficit due to oil price volatility resulted in investors opting to stay side-lined ahead of the presidential elections in July.

## Performance Commentary

The fund rose marginally by 0.83% in June, broadly in line with the benchmark which returned 0.95%. Indian holdings were key contributors as signs of improvement in global growth outlook boosted share prices of export-oriented IT stocks. Taiwan technology names extended gains on the back of strong earnings guidance, with companies ramping up capacity in anticipation of new product launches in 2H14. Meanwhile, Hong Kong holdings were down on profit taking, led by declines in property developers as a slight pick-up in bond yields weighed on interest rate-sensitive sectors. Across other markets, Korean stock Halla Visteon Climate Control retreated, while Australian materials stock Brambles was also down amidst concerns a stronger Australian dollar would weigh on translated overseas earnings.

## Outlook and Strategy

Despite the concerns surrounding the ‘tapering’ of QE, and its adverse effects on bond yields and dividend stocks, markets have seen a relatively muted reaction to this reduction of easy money. Tepid growth in developed markets, a continued dovish stance by the Fed and geopolitical concerns continue to limit rate movements, taking bond yields off January highs with investors crowding back into yield stocks.

On the valuation front, while Asian markets look cheap versus developed markets and are broadly neutral versus history, this is skewed by a number of large Chinese sectors (notably banks) that have been severely de-rated due to concerns about balance sheet quality and their deteriorating outlook. By contrast, the premium valuations for the stronger companies in the region have continued to expand in many cases. Indicative of this polarisation within the markets, the proportion of stocks within our research universe with upside to fair value is now back to a six-month low of only 45%. Given our cautious outlook for many of these ‘cheaper’ Chinese stocks, we remain reluctant to rotate significantly into these areas, which explain why turnover for the fund has been very low over the last few months.

Nevertheless, we do continue to find opportunities in non-traditional sectors such as large miners in Australia – changing capital allocation practices means that rising free cash flows are increasingly being returned to shareholders through dividends and share buybacks. Another such sector is property in Hong Kong, where valuations have been depressed by worries about the impending pick up in US interest rates. Given developers in Hong Kong are more geared into the outlook and cycle of local commercial property where fundamentals remain supportive due to the minimal levels of supply, we believe the sector offers good value with share prices trading at deep discount to NAV. Elsewhere in the region, we remain focused on the stronger, globally competitive industrial and technology companies in North Asia, as well as consumer names in South East Asia that are well placed to benefit from the longer term growth in domestic consumption.

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