

Schroder Asian Income

Monthly Fund Update

Fund Performance

As at 31 August 2014, SGD

	1 month	Year to date	Since launch*
Schroder Asian Income Fund (Bid-Bid) (%)	1.6	10.3	37.5
Schroder Asian Income Fund (Offer-Bid) (%)	-3.5	4.8	30.6

Source: MorningStar, SGD, bid-to-bid, net dividends reinvested. The fund is benchmark unconstrained.

*Launch date is 24 October 2011.

Market Overview

Asian ex-Japan equities delivered moderately positive gains in August. While positive economic momentum in the US provided support for the market, the sharp decline in aggregate financing and new loans in China offset some of the investor optimism. Taiwanese equities outperformed in North Asia as technology stocks are expected to benefit from strong demand for consumer electronic products in the second half of the year. ASEAN markets also outperformed, with Thailand being the strongest performer after the Thai army chief General Prayuth took office as Prime Minister. While the broad Singapore equities market fell over the month, financials and REITs held up well and delivered positive returns.

The positive performance of Asian credit in August was mainly driven by lower US Treasury yields, as numerous geopolitical concerns reignited the appetite for perceived safe-haven assets. Credit spreads in Asian bonds stayed largely unchanged over the month. China credit performed well despite declining credit growth, while Indonesian sovereign continued its up-trend as sentiment remains positive from last month's presidential election result.

Performance Contribution and Commentary

The fund was up 1.6% in August, bringing the year-to-date performance to 10.3%. Equities continued to be the driver for performance, with all markets bar Indonesia and China adding value to the portfolio. Our holdings in Australia contributed the most to performance, as telecom and utilities stocks posted strong returns on demands for higher yielding stocks. Similarly, despite relatively poor performance of general Singapore equities, the fund's Singapore REITs allocation added value. Price skyrocketed for one of the portfolio's Thailand stocks on positive M&A news. Our Taiwan technology position which had suffered from a large sell-off in July also recovered strongly.

For the fixed income portfolio, both investment grade and high yield bonds delivered positive performance in August. Among all countries, the allocation in South-east Asia such as India, Indonesia and Thailand posted the strongest gain. Sector wise, oil & gas outperformed with strong contribution from our holdings in Thailand and China.

Our global allocation added value for the month, and continued to bring to the portfolio a stable and diversified source of income. Our hedges on the Australian dollar detracted value, though these were offset by hedges on the Japanese yen which has started to weaken again.

Asset Allocation Strategy and Outlook

The asset allocation strategy remains unchanged, with the target allocation to Asian equities staying at 52%, with 35% in Asian bonds, 10% in global assets and about 3% in cash. Overall equities remain the most attractive asset class as we believe the current backdrop of excess liquidity, low inflation and modest growth provides the conditions for equities to grind higher over the medium term. Although the continuous improvement in Asian economies is supportive, relative valuations have become less attractive after the strong performance over the last few months. Given the increasing geopolitical uncertainty in Europe, we are cautious of the possible contagion effect and thus maintained hedges on various Asian currencies such as Australian dollar, as the currency is the most vulnerable to a risk off episode.

Currently the biggest risk in the market remains the exit strategy and monetary policy of the US Federal Reserve. The US labour market has significantly improved as demonstrated by the strong wage growth in Q2 2014 and the lowest level of jobless claims in seven years. With further momentum in the US economic growth, short-term interest rates will need to rise. Although the quantitative easing by the European Central Bank and further loosening by the Bank of Japan will replace some of the withdrawn liquidity in the market, we are likely to see some volatility given market complacency. Therefore, investors should focus on risk management and remain flexible in their investment. The good news is that the US economic expansion means stronger demand from developed markets, which should see further improvement in Asian economies. This ultimately will result in robust earnings growth supporting sustainable dividend and coupon payments of corporates. We believe our diversified multi-asset approach focusing on risk management should continue to help our clients to capture both income and potential growth opportunities in Asia.

Equity Strategy and Outlook

The equity portfolio activities focused on deploying cash inflows into areas such as Australian financials & utilities, Hong Kong banks and Singapore REITs. For Singapore REITs, the correction towards the end of July presented us with a more attractive entry point. Business fundamentals remain solid and the current yield of 5 – 6% remains attractive for the portfolio. We also continued building position in a global banking group listed in Hong Kong. With its strong book of deposits in the UK and the Bank of England signalling an earlier rate hike, the bank's profit is likely to rise, supporting sustainable dividend growth.

In New Zealand we increased our position in the leading telecom company. The company suffered from declining revenue from its fixed line business for the last several years. As the industry consolidates and competition lessens, the revenue of the company should stabilise and improve in future, supporting an attractive 6% yield.

Overall, we continue to see value in dividend stocks across Asia. However, in some areas valuations have reached a fair to slightly expensive level. Thus, we are likely to be more selective going forward in order to balance the risk and return of the portfolio. Our focus will continue to select companies with strong business and cash-flows to support sustainable and growing dividend payments.

Fixed Income Strategy and Outlook

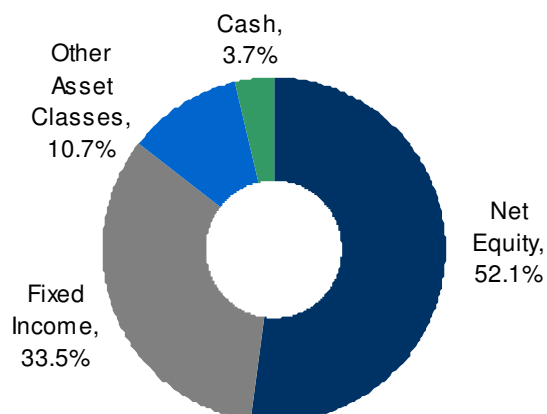
We continue to rotate the portfolio at sector/country level through replacing some exposures to real estate names in China by some oil & gas positions in India and some banking names in Hong Kong and Singapore. Corporate results in H1 2014 were mixed, and given tight valuations in some of the Chinese property names and the more challenging environment, we reduced some holdings in the Chinese property developer sector. For many oil & gas companies in India, spreads are attractive as most of them have priced in a high implied default rates, but the actual expected default probability is much lower given their strong credit profiles. Likewise, spreads of Asian banks are attractive at the current level. Asian banks' fundamental remain solid with non-performing loan ratio at record low, while the higher capital and liquidity requirement in the new regulation (Basel III) should see further improvement in Asian banks' credit profile.

Looking forward, we expect issuance to pick up in September which should give us some interesting opportunities. With the second round of Chinese State-Owned-Enterprise (SOE) reform gaining momentum, we are likely to see more activities in this sector. Elsewhere, after strong performance in recent months in USD credit in India and Indonesia, the relative valuation of local currency bonds has become more attractive, offering opportunities for the portfolio to diversify further into this area.

Fund Positioning

As at 31 August 2014, net of hedges

Asset Allocation Breakdown



Source: Schroders

Geographical Breakdown

As at 31 August 2014, net of hedges.

	Equities	Fixed Income	Total
Hong Kong	8.5	6.6	15.1
Singapore	13.5	1.0	14.5
Australia	14.0	0.0	14.0
China	1.9	10.5	12.4
Indonesia	1.0	6.0	7.0
India	0.0	5.9	5.9
Thailand	3.9	0.7	4.5
Japan	4.1	0.0	4.1
Republic of Korea	2.6	0.5	3.2
Taiwan	1.6	0.0	1.6
Philippines	0.0	1.3	1.3
Others	1.0	1.0	2.0
Global	-	-	10.7
Cash	-	-	3.7
Total	52.1	33.5	100.0

Source: Schroders

Sector Breakdown

	Equities	Fixed Income	Total
Financial	26.4	13.6	40.0
Communications	13.2	1.6	14.7
Utilities	7.5	2.4	9.9
Energy	0.8	4.1	4.9
Government	0.0	4.3	4.3
Industrial	0.9	2.0	2.9
Consumer, Cyclical	0.9	1.3	2.2
Technology	0.0	2.2	2.2
Basic Materials	1.6	0.3	1.9
Consumer, Non-cyclical	0.7	0.8	1.5
Diversified	0.0	0.9	0.9
Others	0.1	0.0	0.1
Global	-	-	10.7
Cash	-	-	3.7
Total	52.1	33.5	100.0

Top 5 Holdings

Equities

Securities	%
SK Telecom	2.6
Telstra Corp Ltd	2.2
Mapletree Commercial Trust	2.0
HKT Trust and HKT Limited	2.0
Fortune Real Estate Investment	1.9

Fixed Income

Securities	%
India Government Bond 7.16% 20/05/2023	1.2
Indonesia (Government of) 9.0% 15/03/29	1.0
China Resources Power 7.25% Perp 09/05/2049	0.9
Indonesia (Government of) 8.375% 15/03/2034	0.8
Perusahaan Listrik Negara Regs 5.25% 24/10/2042	0.7

Source: Bloomberg, Schroders

For illustrative purpose only. It does not represent any recommendation to invest in or divest of the above mentioned securities.

Dividend payout calendar

Month	Record date	Payment date	Dividend per unit	Total payout in %
Nov-11	30-Nov-11	21-Dec-11	0.006122	0.6247%
Dec-11	30-Dec-11	27-Jan-12	0.004883	0.4932%
Jan-12	31-Jan-12	21-Feb-12	0.005118	0.5082%
Feb-12	29-Feb-12	21-Mar-12	0.004930	0.4754%
Mar-12	30-Mar-12	23-Apr-12	0.005110	0.4918%
Apr-12	30-Apr-12	22-May-12	0.005351	0.5082%
May-12	31-May-12	21-Jun-12	0.005270	0.5082%
Jun-12	29-Jun-12	20-Jul-12	0.005030	0.4754%
Jul-12	31-Jul-12	23-Aug-12	0.005718	0.5246%
Aug-12	31-Aug-12	21-Sep-12	0.005580	0.5082%
Sep-12	28-Sep-12	19-Oct-12	0.005072	0.4590%
Oct-12	31-Oct-12	22-Nov-12	0.006043	0.5410%
Nov-12	30-Nov-12	21-Dec-12	0.005523	0.4918%
Dec-12	31-Dec-12	22-Jan-13	0.005748	0.5082%
Jan-13	31-Jan-13	25-Feb-13	0.005876	0.5096%
Feb-13	28-Feb-13	21-Mar-13	0.005386	0.4603%
Mar-13	28-Mar-13	26-Apr-13	0.005012	0.4219%
Apr-13	30-Apr-13	22-May-13	0.006037	0.4973%
May-13	31-May-13	19-Jun-13	0.005428	0.4671%
Jun-13	28-Jun-13	19-Jul-13	0.004696	0.4219%
Jul-13	31-Jul-13	23-Aug-13	0.005590	0.4973%
Aug-13	30-Aug-13	20-Sep-13	0.004932	0.4521%
Sep-13	30-Sep-13	29-Oct-13	0.005213	0.4671%
Oct-13	31-Oct-13	22-Nov-13	0.005269	0.4671%
Nov-13	29-Nov-13	20-Dec-13	0.004855	0.4370%
Dec-13	31-Dec-13	29-Jan-14	0.005309	0.4822%
Jan-14	31-Jan-14	20-Feb-14	0.004982	0.4583%
Feb-14	28-Feb-14	21-Mar-14	0.005060	0.4583%
Mar-14	31-Mar-14	21-Apr-14	0.005064	0.4583%
Apr-14	30-Apr-14	22-May-14	0.005133	0.4583%
May-14	30-May-14	20-Jun-14	0.005234	0.4583%

Jun-14	30-Jun-14	21-Jul-14	0.005238	0.4583%
Jul-14	31-Jul-14	20-Aug-14	0.005303	0.4583%
Aug-14	29-Aug-14	01-Sep-14	0.005362	0.4583%

* Distributions of 5.5% p.a. of the net asset value per unit of Schroder Asian Income will be declared on a monthly basis. The distributions are not guaranteed and might be changed at the Manager's discretion in accordance with the Trust Deed. Ordinarily, they will be reviewed annually. In the event of income and realised gains being less than the intended distribution, distributions will be made from capital, subject to trustee approval. Investors should be aware that the distributions may exceed the income and realised gains of the each fund at times and lead to a reduction of the amount originally invested, depending on the date of initial investment.

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