

# Schroder Asian Income

## Monthly Fund Update

### Fund Performance

As at 30 September 2014, SGD

	1 month	Year to date	Since launch*
<b>Schroder Asian Income Fund (Bid-Bid) (%)</b>	-1.7	8.4	35.2
<b>Schroder Asian Income Fund (Offer-Bid) (%)</b>	-6.6	3.0	28.4

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

\*Launch date is 24 October 2011.

### Market Overview

Asian equities suffered sharp losses in September. Chinese equities fell on HSBC's widely-watched manufacturing PMI sliding to a three-month low of 50.2, as well as a slight decline in imports in August. Hong Kong equities saw a correction with the city's pro-democracy movement gathering momentum, culminating in street protests that affected the key Central district towards the end of the month. Taiwan stocks saw profit-taking on its technology sector's recent outperformance while Korea fell heavily on weak GDP growth and mounting household debt. In ASEAN, Indonesian equities declined on political concerns. Thailand and the Philippines were the only two countries in the region to buck the trend as they posted marginally positive gains on robust domestic consumption and the bright outlook for corporate earnings.

Asian credit fell over the month. Asian high yield credit spreads widened in September mainly driven by weak Chinese data, although investment grade spreads were steady. An additional negative impact was the rising base USD treasury yields, largely due to stronger US economic data. Individual Asian bond markets diverged between losses and gains as the bigger markets of Singapore and Hong Kong delivered negative returns to weigh down the index, though Korean, Indian, Thai, and Philippine bonds gained in the past month.

### Performance Contribution and Commentary

The fund was down 1.7% in September, bringing the year-to-date performance to 8.4%. Equities caused the bulk of the September fall. Our holdings in Australia weighed on the portfolio the most, especially in the financials and consumer sectors. Although the Australian dollar also depreciated by 4% during the month, we have hedged most of the fund's AUD exposure. The second largest detractor was Singapore which was down across sectors. On the positive side the portfolio benefited from relatively defensive holdings in telecom stocks in Korea, Indonesia and Thailand.

For the fixed income portfolio both investment grade and high yield bonds delivered negative returns in local currency terms but positive performance in SGD given the strengthening US dollar. Among all countries, the allocation in Indonesian government bonds detracted the most performance. Investors in Indonesian bonds took fright at the possible ramifications of a motion passed in parliament that will end direct regional elections in the archipelago, a widely viewed as a step back for Indonesian democracy and accountability. Although returns in SGD were positive, the portfolio did not benefit from the strong USD as most of the currency exposure was hedged back to SGD.

Our global allocation lost 0.2% of the portfolio value for the month. It was down less than the Asian portfolio, thus providing diversification benefits. Our hedges on the Australian dollar and Japanese yen also contributed positively, adding 0.6% to performance.

## Asset Allocation Strategy and Outlook

The asset allocation strategy remains unchanged. The fund's allocation is 50% in Asian equities, with 34% in Asian bonds, 11% in global assets and 5% in cash. Despite the recent correction in Asian equities due to political uncertainty, US dollar strength and rich valuations, we are confident in equities as an attractive asset class. Given excess liquidity, low inflation and modest economic growth globally, we remain positive in Asian equities in the medium term. We believe the recent sell-off provides some attractive opportunities to add positions in selected quality names.

The key risk in the market is still the expectation of the US Federal Reserve rate hike. The European Central Bank (ECB) imposed further quantitative easing measures in September. This is likely to lead to higher levels of market volatility and divergence in asset class performance globally. We observe signs of increased allocation by European investors to Asia and Latin America fixed income markets following the ECB's dovish tone. Duration and currency hedges are our key tools to effectively manage the portfolio volatility as interest rates trend up and the SGD/USD strengthens further.

In Asia, the Bank of Japan continues its loose monetary policy; while investors speculate some other central banks in the region may keep interest rates low in response to diverging economic cycles. Given this uncertainty in monetary policies, we advise investors to focus on the flexibility in asset allocation, and at the same time, tightly control the risks of their portfolio. We believe our diversified multi-asset approach with risk management should help our clients to capture both income and potential growth opportunities in volatile Asia markets.

## Equity Strategy and Outlook

Our defensive holdings held up against the sell-off in the broad market in September. We added exposure to names in the utilities sector in Hong Kong and Thailand, to partially shield the portfolio from rising volatility.

We also added positions in banking group listed in Hong Kong with its strong deposit franchise on a growing likelihood of an interest rate rise by the US Fed. Its strong capital base also implies a sustainable dividend yield of nearly 5%. Another new investment was into a trading bourse in the Pacific region. The addition of an exchange in the financial sector diversified our portfolio, while the company has the most attractive yields and valuation among its peers. The stock's steady stream of revenue from trading volumes supports the dividend yield of close to 5%.

Overall, we continue to see value in dividend stocks across Asia. Rising economic and political uncertainty in the region is likely to weigh on stock market performance in the near term. We are likely to be more selective and increase our weights on defensive sectors. Our focus will continue to take positions in companies with strong business and cash-flows to support sustainable and growing dividend payments.

## Fixed Income Strategy and Outlook

In September, market activities started to pick up again after the summer lull. With the emerging value we see in both Indonesia local government bonds\* and recent issues of Indonesia USD credits, we rotated into Indonesia funded by our Chinese and Hong Kong holdings. In this way, we reduced USD duration while increased duration in local currencies such as the Indonesian Rupiah (IDR) and Indian Rupee (INR). We also increased non-USD currency exposure slightly mainly via IDR.

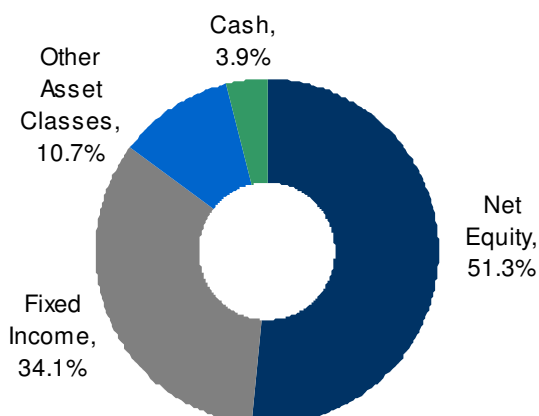
Looking forward, we expect recent volatility in US high-yield credit could reduce cross-over demand for Asian credits. Along with a heavy supply pipeline, especially in Asia, there could be some spread widening pressure. We look for opportunities to add bond exposures from the issuances of bank capital, such as Chinese banks Additional Tier-1 securities. We expect to raise overall credit quality in the portfolio in Q4.

The strong momentum in Chinese reforms should help to address structural issues. We expect further relative outperformance from State-Owned-Enterprise (SOE) credit in Q4. Recent government policies are very supportive to the property sector although its credit market has been on a weak trend. We are cautious in Chinese real estate names and continue to take a selective approach in this market.

## Fund Positioning

As at 30 September 2014, net of hedges

### Asset Allocation Breakdown



Source: Schroders

## Geographical Breakdown

As at 30 September 2014, net of hedges.

	Equities	Fixed Income	Total
Singapore	13.3	1.1	14.4
Hong Kong	8.6	6.9	15.5
Australia	12.9	-	12.9
China	1.7	10.6	12.3
Indonesia	1.1	5.8	6.9
India	-	5.7	5.7
Thailand	4.0	0.7	4.7
Japan	4.1	-	4.1
Korea	2.8	0.7	3.5
Taiwan	1.6	-	1.6
Others	1.2	2.6	3.8
Global	-	-	10.7
Cash	-	-	3.9
<b>Total</b>	<b>51.3</b>	<b>34.1</b>	<b>100.0</b>

Source: Schroders

## Sector Breakdown

	Equities	Fixed Income	Total
Financial	25.7	13.6	39.3
Communications	13.7	1.6	15.3
Utilities	7.4	2.5	9.9
Energy	0.6	3.9	4.5
Industrial	0.9	2.1	3.0
Government	-	4.3	4.3
Consumer, Cyclical	0.7	1.6	2.3
Technology	1.6	0.3	1.9
Consumer, Non-cyclical	0.7	1.0	1.7
Basic Materials	-	2.4	2.4
Diversified	-	0.8	0.8
Others	-	-	-
Global	-	-	10.7
Cash	-	-	3.9
<b>Total</b>	<b>51.3</b>	<b>34.1</b>	<b>100.0</b>

## Top 5 Holdings

### Equities

Securities	%
SK Telecom	2.8
HKT Trust and HKT Limited	2.1
Telstra Corp Ltd	2.0
Mapletree Commercial Trust	2.0
Fortune Real Estate Investment	1.9

### Fixed Income

Securities	%
India Government Bond 7.16% 20/05/2023	1.3
China Resources Power 7.25% Perp 09/05/2049	0.9
Indonesia (Government of) 9.0% 15/03/29	0.9
CK Bond Sec 03 Ltd 5.375% (29/01/2049)	0.7
Indonesia (Government of) 8.375% 15/03/2034	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%

<b>Apr-14</b>	30-Apr-14	22-May-14	0.005133	0.4583%
<b>May-14</b>	30-May-14	20-Jun-14	0.005234	0.4583%
<b>Jun-14</b>	30-Jun-14	21-Jul-14	0.005238	0.4583%
<b>Jul-14</b>	31-Jul-14	20-Aug-14	0.005303	0.4583%
<b>Aug-14</b>	29-Aug-14	01-Sep-14	0.005362	0.4583%
<b>Sep-14</b>	30-Sep-14	21-Oct-14	0.005248	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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