

Schroder Asian Income

Monthly Fund Update

Fund Performance

As at 31 July 2015, in SGD

	1 month	Year to date	1 Year	3 Years (p.a.)	Since launch* (p.a.)
Schroder Asian Income Fund (Bid-Bid) (%)	0.1	0.8	4.6	7.6	9.7
Schroder Asian Income Fund (Offer-Bid) (%)	-4.9	-4.3	-0.6	5.7	8.2

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

*Launch date is 24 October 2011.

Market Overview

Asia ex Japan equities fell in July as regional returns were dragged lower by a sell-off in China's A-shares indices, where stocks experienced an extremely volatile month. Chinese equities fell sharply as a result of the deleveraging and unwinding of margin financing, a key driver of the market's earlier rally. Following government support measures, relative calm descended on the markets only for them to experience another lurch downwards towards the end of the month on speculation that the Chinese government was contemplating withdrawing its support measures. Markets elsewhere in ASEAN were not spared from the sell-off, as dented sentiment and disappointing macroeconomic and earnings data continued to weigh on markets in the region.

Returns from USD-denominated Asian credit were marginally positive in July on the back of falling bond base yields globally, and credit spreads not widening too dramatically despite the equity market sell-off. Country wise, Indonesia underperformed on the back of the sharp fall in oil price and the rupiah, while other Asian countries all delivered positive returns with India leading the gains. Investment grade outperformed high yield bonds given their higher sensitivity to base yields. The rout in Asian currencies continued with all currencies depreciating against the US dollar.

Over the month, the Singapore dollar depreciated close to 2% against the US dollar.

Performance Commentary

The Fund was flat in July, with the year-to-date performance now at +0.8%.

Asian equities continued the downtrend in June falling close to 5% in July. As a result, the equity portfolio again was the main detractor, although it performed much better than the broader market given its defensive nature and the low exposure to Chinese equities. Our holdings in Hong Kong delivered positive returns in the month, as sectors such as REITs and telecom provided shelter for investors amidst a volatile market. Despite a small allocation, the Macau gaming stocks in the portfolio also contributed strongly given their strong price performance. Elsewhere, prices of Taiwan technology stocks tumbled given concerns over weakening demand for Apple's products resulting from a growth slowdown in China. However, we believe that we are currently in a cyclical trough and demand is likely to pick up again later this year, especially when Apple announce the new model of iPhone. We are inclined to take advantage of the improved valuation and add to these positions.

Over the month the fixed income portfolio was up marginally. Our credit selection in India and China

contributed positively. In India, our holdings in the Oil & Gas sector outperformed on the back of falling international oil prices, while the real estate names in China also performed strongly given further loosening of policies to support the market. However, the exposure to Indonesia local currency debt offset all the outperformance as a result of the large depreciation of the rupiah. Elsewhere, names in the portfolio performed largely in-line with the broad market.

The global exposure was also up slightly, providing good diversification during this period of high volatility. Hedging was the largest performance contributor in July, with currency hedges adding the most value given the large fall in Asian currencies. Our net long exposure of more than 20% to USD & HKD also helped given the strong performance of the currency. The duration hedges were slightly negative given falling yields, while the equity put options finished the period flat.

Asset Allocation Strategy and Outlook

In July there was no change to broad asset allocation with 53% in physical equities, 33% in fixed income, 10% in global assets and 4% in cash. We continued to maintain put options hedges on Australian and Taiwan equities of about -2%, bringing the net equity exposure to 51%. Over the month, the put options on Hang Seng expired. Given the volatility in the market, put options on HK equities have become more expensive, and hence we have not replaced these put options in the portfolio. However, we will continue to look out for opportunities to re-introduce hedges to the portfolio should the costs come back down.

Currency wise, we maintained the hedges on AUD, CNH, JPY and THB, while also initiating a hedge on the TWD. We believe the TWD is a good hedge against a risk-off environment in Asia. In addition, the Taiwan dollar forward market currently has priced in a lower interest rate than the USD, resulting in a positive carry for the hedge. Overall, the USD & HKD exposure is now at 23%, which is close to its highest level since inception. In addition, we kept the duration hedge in the portfolio to reduce the impact of the increasingly likely rate hike by the US Fed, with the portfolio duration remaining at about 1.5 years.

Looking ahead, despite the resolution of the “Grexit” situation in Europe and the stabilisation of the Chinese onshore A-share market, the overall environment for risky assets remain challenging. While economic growth in the US remains robust, we are increasingly concerned about the economic backdrop of China as many indicators are showing signs of a further slowdown. In addition, the recent sudden devaluation of the Chinese Yuan highlighted the higher risks facing investors. We believe this higher level of uncertainty in the market means that risk management and security selection will become increasingly important. We will continue to actively manage the Fund’s currency and equity hedges to reduce downside risks.

On the other hand, the correction over the last few months has also resulted in improved valuation across both Asian equities and fixed income. For example, dividend yields of some of the high quality equities have risen back to 5.5 – 6%*, which is a level we saw last year. Similarly, spreads of many Asian bonds are also now back to a level which are more attractive both in absolute and relative terms. We believe this makes future returns more attractive.

**For illustrative purpose only. The mentioned yield is not indicative of the return of the fund, and this is not a recommendation to invest or divest in the above mentioned company, sector and/or country.*

Equity Strategy and Outlook

During the month we took profit across a few sectors including HK utilities, HK banks and Philippines telecoms. All the stocks performed well over the last few months with valuation becoming more expensive. For the HK utilities company, we are getting more concerned on the potential lower permitted rate of return upon the renewal of the Scheme of Control. For the HK bank, we fail to see an increase of dividends after the asset sale of the company, while valuation has become rich hence the reduced position. In addition, the company’s plan of acquiring assets in South-east Asia from its parent company could dilute management’s focus on the profitable local business, which could ultimately affect shareholder return.

Elsewhere, we have rotated our exposure to office REITs in Singapore into industrial REITS. Recent data suggest office rental revisions are likely to come down, while industrial REITs are expected to benefit from falling vacancy rates. We also initiated a position in a HK commercial property name, which currently trades at 43% discount to its net-asset-value (NAV). The high end commercial market continue to be resilient in

the city, while the diversified portfolio of the company should continue to maintain a stable cash flow supporting a dividend yield of 4%*.

In terms of the impact from the RMB devaluation, we believe the effect on equities are mainly sentiment driven as there was a parallel movement across most Asian currencies, which offset some of the effect of the depreciation of the RMB. Overall, relative to other emerging market countries, most Asian economies are healthy in terms of their ability to handle a lower liquidity environment given their low external debt, strong FX reserves and healthy or improving capital account balances, with the exception of Indonesia and Malaysia which are likely to be more vulnerable. Having said that, the uncertainty surrounding FX movements and monetary policies means volatility is likely to remain higher. Therefore, we will continue to position the Fund's equity portfolio defensively with major holdings in regional telecoms, banks and REITs, which tend to perform better given their quality bias providing the needed stability in the current volatile environment.

**For illustrative purpose only. The mentioned yield is not indicative of the return of the fund, and this is not a recommendation to invest or divest in the above mentioned company, sector and/or country.*

Fixed Income Strategy and Outlook

Over the month, we exited quite a number of high yield bond positions across various sectors including Chinese property developers and some commodity related names. Valuations of these positions are getting expensive and they are likely to be more vulnerable to market volatility. The new issuances market was active in the month, and we took the opportunity to participate in a handful of selected investment grade bonds mainly in the Chinese state-own-enterprise (SOE) space. These names are all of high quality with strong credit profiles providing resilience for the portfolio.

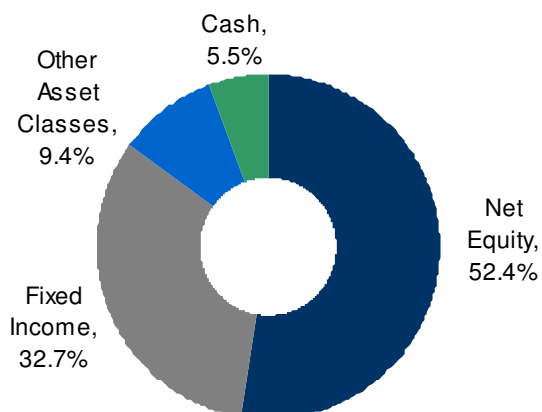
The devaluation of the Chinese Yuan has resulted in some selling pressure in offshore CNH bonds especially in some names with higher foreign ownerships such as some of the names in the oil & gas sector, as the fear of further depreciation of RMB triggered investors to reduce their RMB exposures. Some of the Chinese issuers with a relatively high amount of USD debt also suffered given the worries of higher debt servicing costs and deteriorating credit profile. In our fixed income portfolio, we have hedged out all the CNH exposures and thus shielded the portfolio from the currency depreciation while maintaining the underlying physical allocation. Overall, our view remains that any further weakening of the RMB is likely to have limited impact except the highly levered names which we have always avoided. In fact, we took advantage of these mis-pricing opportunities and increased marginally our exposure to certain attractive names.

The area which we are more concerned is Indonesia, which we have been trimming since the beginning of the month given the macro headwinds that the country faces. In addition to the reduction in our exposures, we have also added a CDS protection on Indonesian sovereign spread, which could provide some protection against further spread widening. Given the outperformance of Asian credit year-to-date, we have been de-risking in the fixed income portfolio. The rotation from high yield to investment grade bonds helped the portfolio ride the volatile period more smoothly.

Fund Positioning

As at 31 July 2015, net of hedges

Asset Allocation Breakdown



Source: Schroders

Geographical Breakdown

As at 31 July 2015

	Equities	Fixed Income	Total
Singapore	12.8	1.3	14.1
Hong Kong	11.8	4.7	16.5
Australia	12.2	-	12.2
China	2.6	12.7	15.3
Indonesia	1.2	4.8	6.0
India	-	4.2	4.2
Thailand	4.6	0.4	5.0
Japan	2.2	-	2.2
Korea	1.4	1.1	2.5
Taiwan	3.2	0.4	3.6
Others	1.8	3.1	4.9
Global	-	-	9.4
Equity Hedges	-1.4	-	-1.4
Cash	-	-	5.5
Total	52.4	32.7	100.0

Source: Schroders

Sector Breakdown

	Equities	Fixed Income	Total
Financial	27.8	14.9	42.7
Communications	15.1	2.0	17.1
Utilities	7.9	2.8	10.7
Energy	-	3.2	3.2
Industrial	0.7	2.3	3.0
Government	-	3.6	3.6
Consumer, Cyclical	0.4	1.0	1.4
Technology	1.5	-	1.5
Consumer, Non-cyclical	0.3	0.9	1.2
Basic Materials	-	1.5	1.5
Diversified	-	0.7	0.7
Global	-	-	9.4
Equity Hedges	-1.4	-	-1.4
Cash	-	-	5.5
Total	52.4	32.7	100.0

Top 5 Holdings

Equities

Securities	%
HK Electric Investments & HKE	1.8
Singapore Telecommunications	1.8
The Link REIT	1.8
Ascendas Real Estate Investment Trust	1.7
Telstra Corporation	1.7

Fixed Income

Securities	%
India Government Bond 7.16% 20/05/2023	0.8
Perusahaan Gas Negara 5.125% 16/05/2024	0.6
China Resources Power 7.25% 09/05/2049	0.6
Indonesian Government Bond 9.0% 15/03/2029	0.5
Woori Bank Co Ltd 4.75% 30/04/2024	0.5

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 – SGD Class

Month	Record date	Payment date	Dividend per unit	Total payout in %
Feb-15	27-Feb-15	20-Mar-15	0.005578	0.4583%
Mar-15	31-Mar-15	21-Apr-15	0.005518	0.4583%
Apr-15	30-Apr-15	20-May-15	0.004959	0.4167%
May-15	29-May-15	19-Jun-15	0.004905	0.4167%
Jun-15	30-Jun-15	22-Jul-15	0.004796	0.4167%
Jul-15	31-Jul-15	21-Aug-15	0.004780	0.4167%

Dividend payout calendar – AUD-Hedged Class

Month	Record date	Payment date	Dividend per unit	Total payout in %
Feb-15	27-Feb-15	20-Mar-15	0.005980	0.5417%
Mar-15	31-Mar-15	21-Apr-15	0.005921	0.5417%
Apr-15	30-Apr-15	20-May-15	0.005405	0.5000%
May-15	29-May-15	19-Jun-15	0.005350	0.5000%
Jun-15	30-Jun-15	22-Jul-15	0.005230	0.5000%
Jul-15	31-Jul-15	21-Aug-15	0.005210	0.5000%

Dividend payout calendar – USD-Hedged Class

Month	Record date	Payment date	Dividend per unit	Total payout in %
Mar-15	31-Mar-15	21-Apr-15	0.002358	0.2342%
Apr-15	30-Apr-15	20-May-15	0.003333	0.3333%
May-15	29-May-15	19-Jun-15	0.003296	0.3333%
Jun-15	30-Jun-15	22-Jul-15	0.003223	0.3333%
Jul-15	31-Jul-15	21-Aug-15	0.963000	0.3333%

* Distributions 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.

Important Information

This is prepared by Schroders for information and general circulation only and the opinions expressed are subject to change without notice. It does not constitute an offer or solicitation to deal in units of any Schroders fund (the "Fund") and does not have regard to the specific investment objectives, financial situation or the particular needs of any specific person who may receive this. Investors may wish to seek advice from a financial adviser before purchasing units of any Fund. In the event that the investor chooses not to seek advice from a financial adviser, he should consider whether the Fund in question is suitable for him. Past performance of the Fund or the manager, and any economic and market trends or forecast, are not necessarily indicative of the future or likely performance of the Fund or the manager. The value of units in the Fund, and the income accruing to the units, if any, from the Fund, may fall as well as rise. Investors should read the prospectus, available from Schroder Investment Management (Singapore) Ltd or its distributors, before deciding to subscribe for or purchase units in any Fund. Funds may carry a sales charge of up to 5%.

Schroder Investment Management (Singapore) Ltd
138 Market Street
#23-01 CapitaGreen
Singapore 048946
Telephone: +65-6800-7000 Fax: +65-6536-3486
Registration No.: 199201080H