FUND PERFORMANCE UPDATE

June 2015

Nikko AM Shenton Global Opportunities Fund
(ISIN: SG9999004303)

Highlights

- The Fund fell 1.31% (in SGD terms) in the month of June, outperforming the benchmark of -2.63% (in SGD terms).
- In early June, after a spate of stronger-than-expected economic data in both the US and the EU, credit markets continued to price a gradual normalisation of monetary policy by the US Federal Reserve (Fed). This is following valuations which had reached elevated levels by the end of May, with indices in the US, Germany and China near all-time highs. Chinese economic data, on the other hand, has generally been uninspiring. Chinese equity market was detached from the weaker economic performance for the second quarter with the Shanghai Composite up 40% at one stage, before a combination of heavy equity issuance and greater margin requirements for personal trading accounts saw much of this gain unwind.
- June data release pointed to the beginning of wage inflation in US. The rate at which rates are hiked in US will determine the direction of the US dollar. Meanwhile in China, we hope to see a reverse in the environmental damage and a rebalance in society without endangering job creation and social cohesion following allocated abundant capital for two decades. In terms of valuations, it is in an expensive territory relative to historical means. Valuations appear to require us to remain in the sweet spot of the cycle where there is growth whilst real rates remain depressed. We continue to expect sub-trend growth for a number of years.

Fund Performance Review

	Performance		
	June 2015 (% change)	**Year-to-Date** (% change)	**Since Inception** (annualised)
Nikko AM Shenton Global Opportunities Fund SGD Class Units (net of fees)	-1.31	6.56	3.12
Nikko AM Shenton Global Opportunities Fund SGD Class Units (net of fees and charges[1])	-6.24	1.23	2.79
Benchmark (MSCI World Free Index[2])	-2.63	3.16	0.95

Source: ©2015 Morningstar & Nikko Asset Management Asia Limited as of 30 June 2015. Returns are calculated on a NAV-NAV basis, Singapore Dollar (SGD), *and assuming all dividends and distributions are re-invested if any. Past performance is not indicative of future performance.*

[1]*Takes into account maximum sales and realisation charges, where applicable.*

[2]*The Fund's benchmark is MSCI World Free Index and is stated in SGD terms.*

Note:

With effect from 16 March 2015, the sub-manager has been changed from Nikko Asset Management Co., Ltd ("NAM Japan") to Nikko Asset Management Europe Ltd ("NAM Europe").

With effect from 16 March 2015, the fund's base currency has been changed from Singapore dollars to United States dollars.

Since inception: 5 March 1999

The Fund declined 1.31 in June
The Fund fell 1.31% (in SGD terms), outperforming the benchmark's return of -2.63% (in SGD terms). The most notable aspect of the month was the continuing back up in bond yields in most markets, as economic data generally came in better than expected, leading to concerns over US Fed's tightening. Towards the end of the month, Greece once again returned to the headlines, as the country's Government failed to reach a deal with its creditors, sparking renewed concerns over Greece leaving the Eurozone, in which we still regard this as a low probability event. Meanwhile, Chinese equities gave back all of May's gains as a raft of IPOs came to the market, seeking to take advantage of the market's lofty valuation. Traditional bond proxies, like REITs and Insurance sectors lagged, whilst banks outperformed this month.

From a country perspective, US holdings returned notable performance, with Facebook, HD Supply and Mednax all performing strongly. Overall the contribution from most regions was driven almost entirely by stock specific rather than any broader allocation effects. From a sector perspective, the performance of industrials was strong, with the portfolio benefitting from strong gains in HD Supply, Ryanair and CH Robinson – which gained ground lost earlier in the quarter as US macroeconomic data firmed again. Our underweight in Energy also added to performance, as did our stock selection within that sector. These gains were partially offset by stock selection in the materials sector. The weakness in Johnson Matthey was the biggest detractor from performance. In terms of stocks, Facebook, MTN and HD Supply were the top performers of June, registering 8.3%, 6.3% and 8.4% respectively. Meanwhile, Sony, Amadeus and Johnson Matthey were amongst the worst performers, declining by 10.1%, 13% and 13% respectively.

Market Review

Credit markets continued to price in gradual normalization by Fed; Chinese equities unwound
Valuations had reached elevated levels by the end of May, with indices in the US, Germany and China near all-time highs. In early June, after a spate of stronger-than-expected economic data in both the US and the EU, credit markets continued to price a gradual normalisation of monetary policy by the US Fed. This potential exit from Quantitative Easing (QE) was enough to spark some mild profit taking and the re-emergence of European political risk at the end of the June did not help matter.

Chinese economic data, on the other hand, has generally been uninspiring. Consequently, the People's Bank of China (PBOC) has been loosening monetary policy in a bid to offset some of the pain caused by their attempt to wean the economy off its traditional over-reliance on fixed asset investment. The Chinese equity market was detached from the weaker economic performance for the second quarter with the Shanghai Composite up 40% at one stage, before a combination of heavy equity issuance and greater margin requirements for personal trading accounts saw much of this gain unwind.

Market Outlook & Strategy

Policy normalisation in the US; USD impacted by how quickly US rates are hiked
April and May saw considerable angst about the underlying strength of the US economy as the data followed the traditional seasonality of a weak Q1, followed by better growth thereafter. Data released in June has suggested that this pattern will repeat but with evidence of wage inflation beginning to emerge, questions will be raised whether the US Fed will be able to stay on hold for much longer. How quickly rates are hiked in the US will likely determine where the US dollar goes from here – especially with rate cuts and / or QE still on the menu for most of the US' trading partners. US dollar strength hurts exporter earnings and weighs on growth in Emerging economies but how the US Fed will take this in to consideration in policy change remains to be seen.

Expectations of a reversal in environmental damage and rebalance in the Chinese society
Having allocated abundant capital for two decades, we hope to see a reverse in the environmental damage and a rebalance in society without endangering job creation and social cohesion. Whether the Chinese government can and will address demographics issues caused by the 'One Child' policy will be a talking point for future reforms.

Equities shifted into expensive territory compared to history
It is difficult not to conclude that equities have now moved into an expensive territory versus history. Valuations appear to require us to remain in the sweet spot of the cycle where there is growth whilst real rates remain depressed. Whether low real rates drive growth and is an ending of QE; or it has proved to be just a large refinancing of a global economy saturated with debt, will be a crucial debate. However, either outcome will likely question valuation in the longer term.

Pre-packaged ETFs and “smart” beta solutions are favoured as yield is scarce
Yield is scarce, creating desperation amongst investors seeking it. The desire of financial intermediaries to exploit this trend is unabashed and in a world of ubiquitous cheap computing, pre-packaged solutions (ETFs and “smart” beta) are quick to be implemented. “Low volatility yield” started as a rational strategy, but is now just an expensive crowded trade.

We continue to expect sub-trend growth for a number of years. A wave of monetary easing has allowed the World to service its debts but the amount of debt has continued to increase since the Global Financial Crisis. Any normalisation of interest rates, in response to better economic growth or to ward off inflation will likely prove a meaningful headwind. With demographics less supportive generally, productivity improvements and innovation will increasingly determine the relative winners.

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