FUND PERFORMANCE UPDATE

June 2015

Nikko AM Shenton Global Property Securities Fund
(ISIN: SGD – SG9999004253, USD – SG9999004261)

Highlights

- During the month, the Fund fell 4.06%, in-line with its benchmark. Australia, Hong Kong, and US generated positive relative performance while we underperformed in Japan, Singapore, UK, and Europe
- Global property stocks fell in June. All property stocks across the Asia Pacific region, Americas and Europe declined, registering -5.0%, -4.9% and -3.4% respectively.
- Overall, we continue to prefer an economic exposure to the US compared to Canada and we remain underweight in Canada and slightly underweight in the US. Furthermore, we expect the recent macroeconomic data to remain positive in the US and would support a growing labour market. UK economic data continues to improve while in Europe, the primary focus was on Greece that defaulted on EUR 1.5bn of payments due to the International Monetary Fund (IMF) by the end of June. Meanwhile in Japan, latest revised GDP growth figures pointed Japan as the fastest growing developed market at the beginning of 2015 and the Bank of Japan's (BOJ) ongoing commitment to dovish monetary policy should keep the Yen weak, maintaining an environment favorable to exports. Lastly, we continue to be sanguine on Asian REITs. On portfolio positioning, we are overweight the Asia Pacific ex-Japan region. Within the region, we are underweight in Singapore while we hold an overweight position in the Philippines, Hong Kong and Australia.

Fund Performance Review

	Currency	Performance		
		June 2015 (% change)	**Year-to-Date** (% change)	**Since Inception** (annualised)
Nikko AM Shenton Global Property Securities Fund (Net of fees)	SGD	-4.06	-2.35	2.56
Nikko AM Shenton Global Property Securities Fund (Net of fees and charges[1])	SGD	-8.86	-7.23	2.04
Benchmark (UBS Global Real Estate Investors Total Return Index)	SGD	-4.05	-2.57	10.81

Source: ©2015 Morningstar & Nikko Asset Management Asia Limited as of 30 June 2015. Returns are calculated on a NAV-NAV basis 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.
Since inception: 11 Apr 2005

The Fund performed in-line with the benchmark in June
During the month, the Fund fell 4.06%, in-line with its benchmark. Australia, Hong Kong, and US generated positive relative performance while we underperformed in Japan, Singapore, UK, and Europe.

Market Review

Global property stocks declined in June

Global property stocks fell in June. All property stocks across the Asia Pacific region, Americas and Europe declined, registering -5.0%, -4.9% and -3.4% respectively.

US property stocks fell over the month

US property stocks declined 4.9% during the month in USD terms, according to the FTSE EPRA/NAREIT US Index. The US market was weak in June, rounding out a rough quarter to end down 10%. The rising 10-year bond yield along with the flight from the USD caused the sell-off. Stock performance was moderately ahead led by our overweights to Washington REIT and PS Business Parks, two second-tier diversified names with mostly exposure to suburban office product which we did not have a weight in. In addition, performance was aided by large underweights to Iron Mountain, The Macerich Company, and Northstar Realty Finance. Relative performance was weakest due to overweights Spirit Realty, Cyrusone, Hudson pacific Properties, and General Growth, along with our underweight to Digital Realty Trust.

European property stocks declined over the month

European property stocks retreated in the month, with the FTSE EPRA/NAREIT Eurozone Index down 4.2% in USD terms. European returns were a little weak in local terms, but our outperformance came from our overweight to Kungsleden, as well as our underweights to French office names Lcade and Gecina. Negative relative performance came from overweights to Deutsche Annington, Citycon, and Sponda, two of which announced or completed rights offerings during the period.

UK property stocks retreated over the month

UK property stocks fell 2.4% in USD terms during the month, as measured by the FTSE EPRA/NAREIT UK Index. The UK was also a weak performer in June, in local terms after holding up for much of the quarter. Overweights to Capital and Counties and Safestore Holdings benefited the portfolio significantly while our underweight to defensive retail specialist Shaftsbury hurt a little.

Japanese property stocks fell over the month

Japanese property stocks lost 4.1% in USD terms in May, according to the FTSE EPRA/NAREIT Japan Index. Japan performance was slightly down in June, and we underperformed by a little. Japan Rental Housing and Kenedix Residential were the biggest helpers, Japan Excellet, Missui Fudosan, and Kenedix Office the biggest detractors.

Asia Pacific property stocks fell in June

Markets across the board were under pressure at the beginning of the month following strong year-to-date gains. This selling pressure intensified towards the end of the month as mainland Chinese investors sold down their domestic equity holdings and concern about the possibility of Greece's exit from the Eurozone caught markets by surprise. US bond yields expanded to 2.4% from 2.1% last month. In local currency terms, China property stocks (GS China Properties Index) declined -5.9%, dragged down by the selloff in the A share market. Singapore property stocks (FTSE ST Real Estate Index) and Australian REITs (S&P/ASX 200 A-REIT Index) were also down -3.5% and -4.2% respectively as market risk premium rose. Hong Kong property stocks (Hang Seng Property Index) was the only which bucked the trend, up +3.4%.

In China, People's Bank of China (PBOC) announced cuts to base deposit and lending rates by 25 bps, effective June 28. After the cut, 1-year deposit rate is now 2%. Meanwhile, the reserve requirement ratio (RRR) is cut by 0.5ppt for urban and rural commercial banks, large banks, and foreign-funded banks that meet the requirement of loans to rural and SME borrowers. PBOC also cut RRR by 3ppts for financial companies to improve their efficiency of funding operation. PBOC's simultaneous cut of both deposit/lending rates and RRR highlighted the government's determination to mitigate risk of economic slowdown and potential deflation. Property prices have ended a decline over 12 straight months, according to the National Bureau of Statistics (NBS). In May, property prices for 70 cities increased by 0.07% month-on-month (MoM) on average, compared to a 0.12% decrease in Apr 15. Property prices increased in 20 cities on a MoM basis in May 15 (vs 18 in Apr 15). In Hong Kong, According to CBRE latest Q2 15 HK office property release, the vacancy rate of Central Grade A office has fell to 1.7% in the Q2 15, which marks a new low since Q3 2008. The average rents for Central Grade A office has also recorded an increase of 6% quarter-on-quarter (QoQ) in Q215, which expanded from 2% increase in Q1 15. The rental uplift of 8.3% over H1 2015 has raised Central office rents to HK$106.8 psf /month. The report highlighted that the net absorption of Grade A offices in HK was 1.3m sqft in Q2 15, up from 0.3m sqft in Q1 15. The rental take-up in Q2 15 marked the highest level since Q2 2008, owing to the greater demand driven by Chinese corporations and financial institutions. In Australia, Lend Lease sold Barangaroo Tower 1 into a new wholesale fund for $2bn ($1.4bn equity, $600m debt), comprising Qatar Investment Authority (37.5%), APPF Commercial (25%) and LLC (37.5%). The sale price equates to $18,700psqm, up 28% from $14,600psqm for Towers 2 & 3. In Singapore, Suntec REIT announced that it has entered into a conditional property sale agreement for the sale of Park Mall at S$411.8m, in line with the latest valuation of the property as at 31 Dec 2014. In conjunction, Suntec REIT will take a 30% stake in Park Mall Investment Limited, the joint venture company set up to redevelop Park Mall into a commercial development. with the rest 70% held by SingHaiyi Group and Haiyi Holdings, entities related to Gordon Tang. The net proceeds post divestment fee, estimated at S$408m will be used to fund Suntec REIT's 30% investment in the joint venture company, redeployed including for the repayment of debt, or maybe used to mitigate the dip in distribution per unit (DPU) arising from the divestment.

Market Outlook and Strategy

Recent macroeconomic data remained positive in the US; We remain underweight in Canada and slightly underweight in the US

Recent macroeconomic data remain positive in the US and support a growing labor market. Energy prices have rebounded some but remain low and should continue to support domestic consumer spending. While the US remains on firm footing, conditions abroad point to less certain economic growth. Low interest rates coupled with solid GDP growth in the US remain a positive backdrop for US REITs. The recent rise in the 10-year bond has caused weakness in the REITs, but the 10-year remains at a low long-term level. We remain focused on companies that have above-average growth potential versus those with more bond-like characteristics. The west coast of the US looks best to us, as job growth and demand is strong, but supply remains limited. We are underweight the southwest, as supply is heightened, but demand is now questionable, given the decline in oil prices. The southeast and northeast regions are more balanced, with demand slightly ahead of supply. From a sector standpoint, our largest overweight is office, as the recovery has lagged relative to other sectors, but given the low supply, continued job growth should lead to accelerating fundamentals. Our largest underweight is healthcare, as we feel the bond-like characteristics of the sector and limited value add amongst the choices will lead to lower returns in a rising interest rate environment.

We continue to prefer economic exposure to the US compared to Canada. While oil has rebounded some, a further rebound will be necessary to spur demand. Supply of real estate currently outpaces demand in office, and store closures are outpacing openings in retail.

We remain underweight Canada and slightly underweight the US, though the sell-off in US REITs may cause us to shore up our underweight in the coming weeks.

UK economic data continues to improve; Greece the primary focus for Europe

Economic data in the UK continues to improve. The final revision for Q1 GDP was 0.4% quarter-on-quarter (QoQ) but was revised upwards to 2.9% for YoY growth. Meanwhile unemployment continues to drop and interestingly we now have a pick-up in wage growth that rose to 2.7% YoY. Whilst inflation data showed the UK is no longer in deflation YoY, a rise of 0.1% in May vs -0.1% in April is still very modest. With heightened political and macro risks elsewhere, it still seems unlikely rates will rise anytime soon.

In Europe, the primary focus was on Greece that defaulted on EUR 1.5bn of payments due to the International Monetary Fund (IMF) by the end of June. Capital controls were put in place and the banks were shut as Prime Minister Tsipras announced a referendum asking the Greek people if they accepted the austerity measures imposed by the ECB. The people voted overwhelmingly no to austerity by 61% to 39%.

A period of heightened uncertainty is now in place as the risks of a “Grexit” (Greece leaving the EU) have increased substantially. Discussions between Greece and its creditors are ongoing with the next major debt payment due to the European Central Bank (ECB) for EUR 3.5bn on 20th July. The situation in Greece caused increased volatility in both the equity and bond markets. Whilst there was no major equity market correction bond yields rose and spreads, particularly peripheral ones increased significantly versus the German bund.

Japan the fastest growing developed market at the start of 2015; expected continued weak Japanese Yen favourable to exports

Japan reported a revised 3.9% annualised quarter-on-quarter GDP growth figure for 1Q15, making it the fastest growing developed market at the beginning of 2015. GDP growth is expected to mediate in 2Q15 as 1Q benefited from one-offs such as inventory growth, but Japan should still be on track to achieve growth in the 1.5-2.0% range on an annualised basis. Unemployment remains low at 3.3% with Japan having achieved record levels of employment. Combined with a rise in hours worked per employee and incremental increases in hourly wages, total employment income is set to rise further providing support for increases in domestic consumption. The BOJ’s ongoing commitment to dovish monetary policy should keep the Yen weak, maintaining an environment favorable to exports.

Continue to be sanguine on Asian REITs

With the consensus expectations for the first rate hike in US to happen in September, market volatility can be expected to increase in the coming few months. However, rather than being overly concerned about whether a quarter point rise in policy rates happens in the next few months, what is more pertinent is the longer term health of the US economy. Economic numbers thus far remain mixed but the worry is on the hitherto lack of wage pressure as well as the burgeoning negative financing gap of US corporate which usually precedes a fall in overall capital spending.

Overall, we believe the pace of monetary tightening in the US could be slower than expected under the watch of a dovish Fed Chairwoman Yellen. Asymmetric risks will continue to keep the Fed on hold as long as possible given that if the Fed hikes too soon and the economy spirals into deflation, the levers available to resuscitate the economy will be very limited. Conversely, if inflation spikes due to low rates, the Fed can easily start hiking interest rates. In addition, even as the US reduces its purchase of Treasuries, central banks in Europe, Japan and China are still easing liberally, thus exerting downward pressure on yields. In addition, we would also highlight that as the global economy recovers, rentals should also catch up with a lag, which would be constructive for real estate valuations and cash flows.

In Hong Kong, the prime office market in the Central region has begun on its upcycle. Vacancy pressure in prime Central office has eased completely as mainland companies continue to take up prime office space. With vacancy in Central now at 2.3%, we are now in a situation where tenants struggle to find space. Suburban mall passing rents in Hong Kong should also continue to see decent growth on the back of asset enhancements, tenant mix upgrade and resilient domestic spending. In Singapore, retail is also one of the most defensive asset classes and suburban retail in particular should benefits from rising wages, and low unemployment. Suburban retail REITs’ income stream will be well protected by healthy rental reversion and tenant sales as well as tenant consolidation into better performing malls. We also remain positive on the hotel segment. On the demand side, tourist arrivals should be underpinned by new cultural attractions and incremental additions to the annual sports calendar. Despite the soft environment in the first half, a weaker Singapore Dollar, lower fuel prices and low base effect from last year could be tailwinds for the hotel REITs for the rest of the year. Another significant theme in the Singapore REIT space is the growth of global data requirements and a direct beneficiary will be data centres globally. Overall, we continue to focus on mid-cap names where valuations are more attractive. We remain underweight in Taiwan, where there is a lack of quality investment options.

On portfolio positioning, we are overweight the Asia Pacific ex-Japan region. Within the region, we are underweight in Singapore while we hold an overweight position in the Philippines, Hong Kong and Australia.

Note:
The CPF interest rate for the Ordinary Account ("OA") is based on the 12-month fixed deposit and month-end savings rates of major local banks, subject to a minimum 2.5% interest per annum. The interest rate for Special, Medisave and Retirement Accounts ("SMRA") is pegged to the 12-month average yield of 10-year Singapore Government Securities yield plus 1%. A 4% floor rate will be maintained for interest earned on SMRA until **31 December 2015**, after which a 2.5% minimum rate will apply. An extra 1% interest is paid on the first S$60,000 of a member's combined balances, including up to S$20,000 in the OA. The first S$20,000 in the OA and the first S$40,000 in the Special Account ("SA") cannot be invested under the CPF Investment Scheme ("CPFIS").

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