FUND PERFORMANCE UPDATE

June 2015

Nikko AM Shenton Short Term Bond Fund (SGD)
(ISIN: SGD – SG9999004212, AUD – SG9999007967)

Highlights

- The Fund returned 0.04% in June, marginally underperforming the benchmark which returned 0.07%. The Fund's portfolio characteristics remained mostly unchanged over the month.

- Asian high-grade declined 1.05% after tightening for most of the month; only to be gripped by the heightened risk aversion over fears of a Greek default which caused high-grade spreads to gap 14 bps higher from the low of 185 bps to eventually close the month 6 bps wider. US Treasuries (USTs) bear steepened in June with the 10-year Treasury eventually ended the month at 2.35%, 23 basis points (bps) higher compared to end May levels. For new issuance, it was another month of heavy issuance. The investment-grade space saw a total of 20 new issues amounting to USD 11.5bn during the month. The Reserve Bank of India (RBI) cut the repo rate by 25 bps to 7.25%. The People's Bank of China (PBoC) also embarked on a slew of monetary easing measures - trimming its lending rate to a record low of 4.85%, reducing its deposit rate by 25 bps to 2% and easing the reserve requirement ratios by up to 300 bps for certain financial institutions. Moody's upgraded its outlook for the Chinese property market to 'stable' from 'negative' on the back of strong policy support from the government.

- Volatility of returns is likely to remain high as volatility over the uncertainty in Greece. With that being said, even if Greece defaults or exits form Eurozone, the impact on Asia market should be minimal over the medium-term. In the short-term, the impact on high-grade spreads will likely be offset by a commensurate rally in the underlying risk-free rates. Notwithstanding the Greece impasse, the impending US interest rate hike still looms large in the backdrop. The Asian credit spreads continue to be driven by the easing measures of the Chinese authorities which could be offset the continuous supply of further Chinese investment grade issues.

Fund Performance Review

	Currency	Performance		
		June 2015 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Short Term Bond Fund (S$) (Net of fees)	SGD	0.04	1.32	2.35
Nikko AM Shenton Short Term Bond Fund (S$) (Net of fees and charges[1])	SGD	-0.96	0.31	2.28
Benchmark (3M SIBOR)	SGD	0.07	0.38	1.19

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.
Inception date: 29 Sep 2000

Fund returned 0.04% in June
The Fund posted a return of 0.04% in June, underperforming the benchmark slightly which returned 0.07%. This performance was largely attributed to the movement in risk free rates where 2-year and 5-year US Treasury yield went 4 bps and 11 bps higher during the month. Nevertheless, the Fund was still able to generate positive absolute return. Overall, the Fund will continue to position conservatively with regards to duration while maintaining comfortable liquidity.

As of 30 June 2015, the Fund's overall duration and estimated yield were at 1.33 years and 2.05% (hedged in SGD terms), respectively. The average credit rating of the Fund is at A-. The Fund is diversified across 184 bonds, with 128 issuers from 14 countries, with an average weight of 0.68% per issuer. During the month, the level of cash and cash equivalents was at 12.55%.

Market Review

Asian investment grade credits recorded negative returns on US Treasury (UST) weakness

Overall, Asian credits ended mixed in June. Asian investment grade credits declined by 1.05%; driven mainly by rising UST yields. The UST yield curve bear steepened, with developments over Greece and the Federal Open Market Committee (FOMC) meeting mid-month dominating sentiment. Early in the month, UST yields tracked Bund yields higher amid a sell-off in German Bunds prompted by prospects of higher inflation in the Eurozone. Subsequently, tempered expectations of a US Federal Reserve (Fed) rate hike by US Fed Chairperson Janet Yellen brought out buyers for USTs, sending yields slightly lower. Towards the end of the month, fears of a Greek default emerged as talks between Greece and its creditors broke down, leading investors to seek safety in USTs. The 10-year Treasury eventually ended the month at 2.35%, 23 basis points (bps) higher compared to end May levels. For most of the month, Asian credit spreads tightened, but the uncertainty over the upcoming events in Greece towards the end of the month soured sentiment, causing high-grade spreads to gap 14 bps higher from the low of 185 bps to eventually close the month 6 bps wider.

Continued signs of policy easing in Asia, Moody's upgraded Chinese property market outlook

The RBI cut interest rates for the third time this year. The repo rate was lowered by 25 bps to 7.25%. The PBoC trimmed rates for the fourth time since November 2014, putting the lending rate to a record low of 4.85%. The deposit rate was similarly reduced by 25 bps to 2%. Simultaneously, the PBoC also selectively eased the reserve requirement ratios by up to 300 bps for certain financial institutions. Meanwhile, in another step towards banking liberalization, China's State Council proposed to scrap a law that caps lending by commercial banks at 75% of deposits. Meanwhile, Moody's upgraded its outlook of the Chinese property market to 'stable' from 'negative'. The credit rating agency expects national property sales to pick up in the next 12 months, on the back of strong policy support from the government.

New issues continued to be heavy in June

June saw another month of heavy issuance, with activity heavily skewed towards the high-grade space. In the investment-grade space saw a total of 20 new issues totaling USD 11.5bn during the month.

Market Outlook & Strategy

Volatility of returns to stay high given the impasse over Greece

The Greece referendum and developments in its aftermath are likely to dictate market movements in the coming weeks. In our view, in the event that Greece defaults/exits from Eurozone, the impact on Asia markets should be minimal over the medium term, given that Asia is not directly exposed to Greece. In a short-term risk-off scenario, high-grade spreads could widen but could, to some extent, be offset by a rally in the underlying risk-free rates. If the impasse over Greece is resolved, economic data from the US leading up to the FOMC meeting later in the month should again re-focus the attention on the potential path of risk-free rates. This would continue to impact returns for Asian credit especially for high-grade. The spillover in sentiment from recent weakness in Chinese equities against a backdrop of aggressive policy easing by the Chinese authorities will be another factor that will drive Asian credit spreads.

New issuance pipeline to pick up if sentiment stabilises

While credit spreads, particularly for high-grade, has cheapened slightly in recent weeks, they are still at the tighter end of the post-crisis historical range. Even with the summer lull approaching, the expectation is for the supply of new issuance to continue with China investment grade issues forming the majority. This could continue to exert pressure on secondary spread levels.

Asia Pacific remains primary focus

The Fund's exposure to Asia-Pacific and cash currently stands at 95.86%. We look to roughly maintain this weightage given the region's stronger fundamentals and attractive valuations. We maintain a bias for issuers with high credit quality and strong liquidity positions.

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").'

Important Information

For Hong Kong Investors