FUND PERFORMANCE UPDATE

October 2013

Nikko AM Shenton Global Property Securities Fund

Highlights

- During the month, the Fund gained 1.97%, underperforming its benchmark by 31 bps. The overweight in Hong Kong was a key detractor over the month.
- Global property stocks gained in October, with the EPRA/NAREIT Global Index up 2.8% in USD terms. Property stocks in Europe gained the most, followed by those in America and the Asia Pacific region.
- The market will continue to focus on the possibility of another US Federal government shutdown and possible issues in the ongoing negotiations between Congress and the US President to raise the Federal debt ceiling. Nonetheless, we do not expect the US to default on its debt obligations. On Europe, we continue to be pessimistic on the economic outlook of Southern Europe vis-à-vis Northern Europe and Scandinavia but have reduced our underweight given reduction in sovereign risk. UK's economic conditions continue to be positive. With Tokyo being awarded the 2020 Summer Olympics, we would be expecting additional infrastructural spending over the next few years for the event. We also expect Prime Minister Abe to announce details on the stimulus plan which would help offset the consumption tax increase. Within Asian Pacific region, our allocation remains tilted towards REITs and we continue to be positive on Asian REITs, overweighting Singapore REITs and underweighting Australian REITs.

Performance Review

	Currency	Performance		
		October 2013 (% change)	Year-to-Date (% change)	Since Inception (annualized)
Nikko AM Shenton Global Property Securities Fund (Net of fees)	SGD	1.97	6.27	1.03
Nikko AM Shenton Global Property Securities Fund (Net of fees and charges[1])	SGD	-3.13	0.95	0.43
Benchmark (UBS Global Real Estate Investors Total Return Index)	SGD	2.28	9.03	10.48

Source: ©2012 Morningstar & Nikko Asset Management Asia Limited as of 31 October 2013. 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

Underperformed on overweight in Hong Kong, Singapore and cash

During the month, the Fund gained 1.97%, underperforming its benchmark which gained 2.28%, by 31 bps. The Fund's overweight allocation in Hong Kong was a key detractor in October. Stock selection in Singapore, Malaysia, and cash holdings also contributed negatively. On a stock level perspective, the Fund's holdings in Sunway and Hong Kong Land Holdings detracted over the month. Underperformance was mitigated by allocation and selection in US & Canada. US outperformed on the back of our top-tier shopping centre names that outperformed and the underweight to multifamily sector that struggled this month.

Market Review

Global property stocks gained in October

Global property stocks gained in October, with the EPRA/NAREIT Global Index up 2.8% in USD terms. Property stocks in Europe gained the most, followed by those in America and the Asia Pacific region.

US property stocks gained over the month

US property stocks gained 4.3% during the month in USD terms, according to the FTSE EPRA/NAREIT US Index. On economic news, the Federal government was shut down for 16 days after Congress failed to enact legislation appropriating funds for fiscal year 2014. The government shutdown ended and the immediate threat of default averted when the Congress was able to reach an agreement with the President. Consumer Price Index (CPI) year-on-year (YoY) for September was 1.2%, in line with market expectations. ADP data shows that the economy added 130,000 jobs, slightly lower than expected, in October. ISM manufacturing for October came in at 56.4 better than expected. On notable company news, net-lease American Realty Capital Properties had agreed to acquire Cole Real Estate Investments for USD 11.2bn including debt.

European property stocks gained over the month

European property stocks gained in October, with the FTSE EPRA/NAREIT Eurozone Index up 4.4% in USD terms. On economic news, Eurozone CPI dropped to 1.1% YoY in September, leaving more room for monetary easing as seen in early November when the ECB cut rates by 25 bps. Eurozone composite Purchasing Managers Index declined from 52.2 to 51.5 in October, which is weaker than the consensus forecast of a small rise. Also, Eurozone October CPI was up 0.8% YoY, slightly lower than market expectations. On company news, TAG faced allegations of conflicts of interest with regards to its CEO's outside investments and some potentially mis-valued property transactions.

UK property stocks gained over the month

UK property stocks gained 5.3% in USD terms during the month, as measured by the FTSE EPRA/NAREIT UK Index. UK was the best performing market on an absolute basis driven by positive news flow. On economic news, the country's GDP in 3Q grew 0.8% quarter-on-quarter, the fastest growth in 3 years. Nationwide House prices rose 5.8% YoY in October. On notable company news, Land Securities sold mixed use space Bankside on the London South Bank for GBP 315m to M&G reflecting a 5.2% net initial yield. Great Portland achieved planning permission for Rathbone Place, its largest ever development delivering 414,000 square foot of space. There were also more transactions in peripheral countries, including INTU's joint acquisition of Parque Principado shopping centre in Oviedo, Spain for EUR 162m and British Land's disposition of its half stake in the Puerto Venecia shopping centre and retail park in Zaragoza, Spain for EUR 144.5m.

Japanese property stocks fell over the month

Japanese property stocks fell 1.9% in USD terms in October, according to the FTSE EPRA/NAREIT Japan Index. On economic news, CPI inflation rose to 1.1% YoY in September which was higher than expected. Retail sales improved in September, increasing 3.1% YoY, comparing to consensus of 1.8%. On company news, Kenedix Realty Investment launched a secondary offering to raise nearly JPY 20bn. Sumitomo Realty started a redevelopment scheme in Tokyo's Roppongi district which will produce the city's second-tallest skyscraper by 2016.

Asian property stocks traded mixed in October

Property stocks in the Asia Pacific ex-Japan traded mixed in October. In local currency terms, Australian REITs gained 2.6%, as measured by the S&P/ASX 200 A-REIT Index, while Singapore property stocks rose 1.7%, according to the FTSE ST Real Estate Index. Chinese property stocks mostly gained, but Hong Kong property stocks eased 1.0%, as measured by the Hang Seng Property Index.

Other key developments during the month

During the month, Australia's Dexus Property Group, together with the Canada Pension Plan Investment Board proposed to acquire Commonwealth Property Office Fund (CPA) in a cash-and-shares deal worth AUD1.15 per CPA unit. In Hong Kong, new home sales were brisk, driven by significant discounts offered by developers. In China, new home sales were buoyant, and home prices in October rose 1.24% month-on-month (MoM) according to Soufun, faster than the 1.07% rise in September. In response to faster price increases, Beijing and Shenzhen introduced further tightening measures, prompting a correction in property share prices. In Singapore, sales of new private homes, including executive condominiums, rose 12.9% MoM in September to 1,658 units.

Market Outlook and Strategy

US not likely to default on debt obligations; economic outlook remains positive

The market will continue to focus on the possibility of another US Federal government shutdown and possible issues in the ongoing negotiations between Congress and the US President to raise the Federal debt ceiling. We do not expect the US to default on its debt obligations. On the monetary side, our view is that support of the US Federal Reserve is not indefinite and that withdrawal is indicative of more normal economic growth which is a positive in the long run. Also, Janet Yellen was announced as the nominee to be the next Chairman of the US Federal Reserve. We expect that US Federal Reserve will taper very gradually under her leadership unless economic data strengthens materially. We expect economic data to remain positive going into the last quarter which should drive the markets. The Canadian economy given its close linkages to the US economy as well as continued expansion of the resources industry should also see stable growth. But our bias is more towards the US.

Continue to be pessimistic about Southern Europe vis-à-vis Northern Europe and Scandinavia

We expect economics news flow from Europe to be marginally positive next year. We expect the German policies to remain supportive of one Europe. On the monetary side we continue to expect the European Central Bank to ease. Our expectation continues to be that European growth should be sluggish in 2013/14. Southern European countries should continue to bear painful readjustments in their economy on the back of the austerity drive. We continue to be pessimistic on the economic outlook of Southern Europe vis-à-vis Northern Europe and Scandinavia but have reduced our underweight given reduction in sovereign risk. We think that the focus will return to growth in Europe.

UK economy continues to be positive

UK economic conditions continue to be positive. We expect Bank of England governor, Mark Carney to continue with an accommodative monetary policy. We expect the government's 'Help to Buy' program to further provide a positive boost to the housing market. The current weakness in the currency continues to make London an even more attractive place for capital. We continue to focus on names with London exposure.

Expect more infrastructural spending in Japan over the new few years

We expect Prime Minister Abe to announce details about the stimulus plan worth JPY 5trn to help offset the effect of consumption tax increase. We think that further easing by the Bank of Japan is also likely to happen next year. From a fundamental perspective, we feel that Grade A office vacancy should continue to improve throughout the year. The High Quality Industrial space should continue to see stable demand. With Tokyo being awarded the 2020 Summer Olympics, everyone in Japan is very excited. We expect additional infrastructure spending over the next few years for the event.

Allocation remains tilted towards REITs, overweighting Singapore REITs and underweighting Australian REITs

Our allocation in the portfolio continues to tilt towards REITs. Within the REITs, we are overweight Singapore REITs, and are underweight Australian REITs. Among the developers, we remain most overweight in Malaysia, and modestly overweight in Thailand. We are underweight in the Hong Kong and Singapore developers.

Continue to be positive on Asian REITs

We continue to believe that tapering of Quantitative Easing in the US will eventually begin in the following months. Our view remains that in an environment where bond yields are increasing due to stronger growth expectations, Asian REITs are likely to see healthier rental income, which should more than offset the effect of any increase in interest payments. This is especially so in the more cyclical real estate sectors, including offices and hotels. We continue to believe that there is room for compression in the spread between REIT yields and long bond yields, as investors gain greater visibility on the final impact of tapering on bond yields, and also the benefits of a healthier economic environment.

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 2013, 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").