



FUND INSIGHTS

INVESTING IN ASIA: ASIA'S VALUE OPPORTUNITY

EASTSPRING INVESTMENTS – ASIAN EQUITY FUND
APRIL 2014



ARE INVESTORS OVERLOOKING ASIA'S VALUE?

Since 2010, investors have chased higher equity markets supported by easy monetary policies in the US, Europe, and Japan. Over the same period, Asia (ex Japan) markets have been discounted due to concerns over political uncertainty, an export-led slowdown, and credit-driven asset bubbles. This trend continued in 2013 and as a result, out of favour Asian equities continued to under-perform most developed markets.

Amidst the clamour for developed market equities, we believe investors have overlooked the growing value opportunity in Asia.

Asia (ex Japan) is relatively well-positioned within global equities. Fundamentally, Asian companies are expected to generate record high profits. Yet, investors in Asia have historically low valuations on their side given that Asia (ex Japan) has been neglected.

Over the long-term, an investment style grounded by fundamentals and valuations has been shown to generate superior returns in Asia. Savvy investors understand that weighing the price one pays for an investment versus its underlying fundamentals is a crucial step to successfully navigating volatile markets.

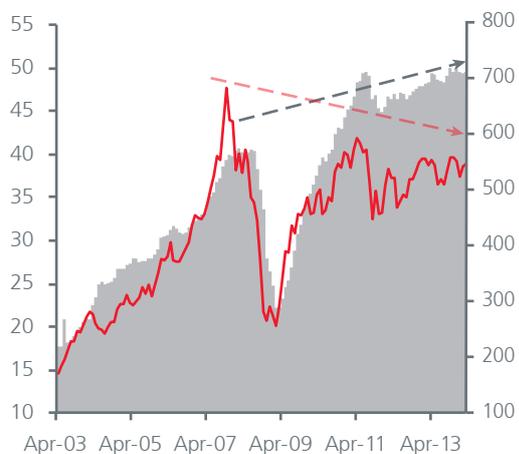
LOOKING AT THE EVIDENCE

With respect to history, Asian companies are robust and attractively valued.

Asian (ex Japan) companies have recovered from the Global Financial Crisis (GFC). The grey bars in Figure 1 show the future earnings power of Asian companies are close to record levels and forecast earnings are now 22%¹ higher than the highest pre-GFC level.

In contrast to the strength of forecasted corporate profits, the prices of Asian companies have unexpectedly diverged from fundamentals. As of end-March, Asian companies, represented by the MSCI Asia (ex Japan) index in Figure 1, stand **20%¹ lower** than their pre-GFC high.

Fig.1. MSCI Asia ex Japan 12 month forward earnings per share (LHS) & price index (RHS)



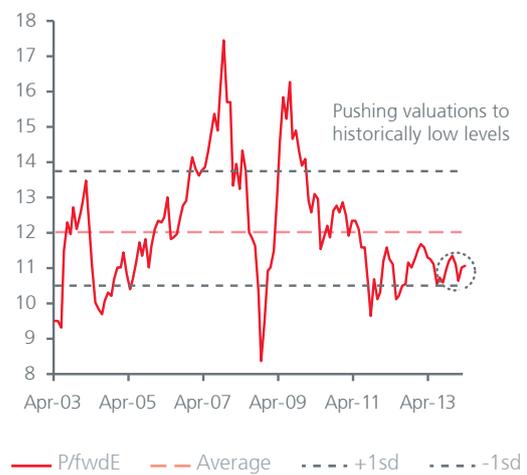
■ MSCI AxJ 12mth fwd EPS — MSCI AxJ Price Index
Source: MSCI, Datastream, Eastspring Investments (Singapore) Limited, end-March 2014. Left hand side (LHS). Right hand side (RHS).

Prices of profitable Asian companies are at **historically wide discounts**.

AN OPPORTUNITY

This divergence between price and fundamentals makes valuations compelling. When comparing the price an investor pays to potential profits (the price-to-earnings ratio) of Asia (ex Japan) companies, it can be clearly seen that current valuations are at historically low levels, (Figure 2).

Fig.2. MSCI Asia ex Japan price-to-forward earnings (x)

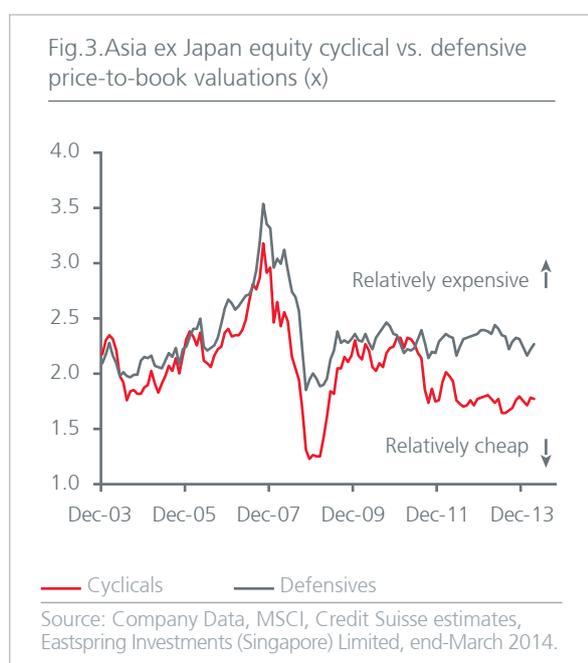


— P/fwdE — Average - - - +1sd - - - -1sd
Source: MSCI, Datastream, Eastspring Investments (Singapore) Limited, end-March 2014. The horizontal lines represent the average (the middle line) and one standard deviation (sd) on either side of this average for the period shown. Nearly 70% of all values shown lie within the range shown.

¹MSCI, Datastream, Eastspring Investments (Singapore) Limited, end-March 2014.

BOUNCE BACK OF ASIAN CYCLICAL STOCKS

Within Asia, investors have gravitated towards companies with “defensive” qualities such as a high degree of earnings certainty. Meanwhile, companies highly leveraged to the economic cycle – cyclicals – have been neglected as global growth has been below trend. However, a number of cyclicals now trade at attractive discounts to their intrinsic valuations and are undervalued relative to defensive stocks. (Figure 3).



ASIAN EQUITIES BACKED BY CHEAPER VALUATIONS

In addition to the trends within Asia, Asia (ex Japan) as a region trades at a significant discount to global equities and developed markets. This makes them cheaper relative to other equity markets and attractive on a relative basis. Compared to Europe and the United States valuations, Asia is not expensive. (Figure 4).

Fig.4. MSCI Asia ex Japan vs. U.S. & Europe price-to-earnings (x)



Investors in Asia are well placed to benefit from the **fundamental strength** of Asian companies while a **generous margin of safety** exists between stocks with cheap and attractive valuations versus stocks with expensive and demanding valuations.

WEIGHING IT ALL

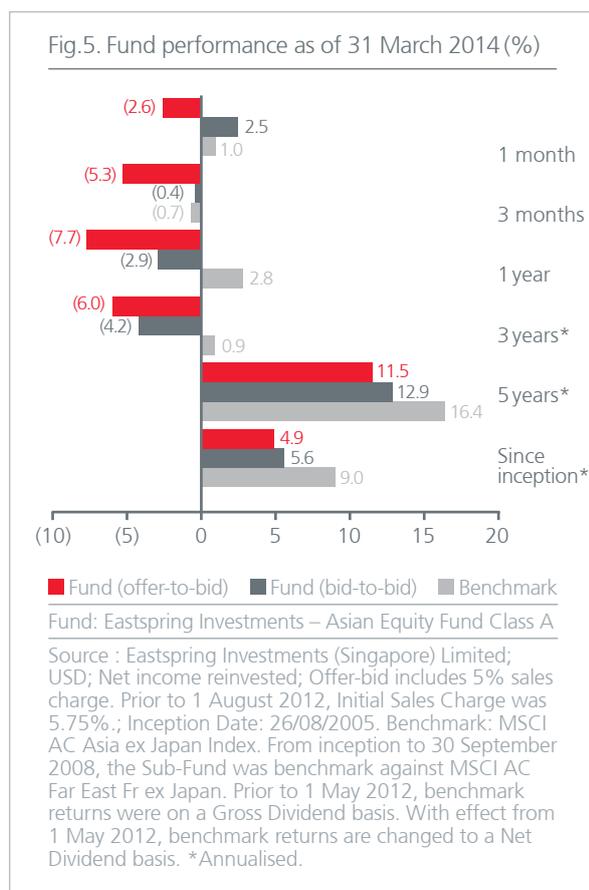
While the above does not guarantee absolute returns, robust fundamentals and low valuations tilt the balance of risk-to-reward in favour of Asia (ex Japan).

- ▶ Asia is profitable.
- ▶ Cheap valuations to its history.
- ▶ Cyclicals are heavily discounted relative to defensives within Asia.
- ▶ Asia is an inexpensive region within the world.

HOW WELL HAS THE FUND PERFORMED IN THE ABOVE ENVIRONMENT?

At Eastspring Investments, we have a value-oriented, fundamental research driven approach to investing. As a result of the relative value opportunity in cyclical stocks, the Eastspring Investments Asian Equity Fund has been selectively adding cyclical exposure. Given that Asia has been out of favour and attractively valued companies have been neglected by investors, Fund performance has been challenged.

The Fund has underperformed its benchmark by 5.1% (bid-bid basis) per annum over three years till end-March 2014. Since inception, the Fund has underperformed its benchmark by 3.4% (bid-bid basis) per annum.



WHAT CAUSED THE UNDERPERFORMANCE OF THE FUND?

The combination of stock specific decisions and headwinds to our style of investing has detracted from Fund performance. Key stock detractors can be grouped into three broad categories – stocks which were misjudged, stocks which the Fund invested too early, and stocks which the Fund stands underweight relative to the benchmark.

In the first group of stocks, the fund manager’s investment case did not pan out. For these stocks, once the investment rationale expires, exposure in the Fund is cut. AU Optronics Corp., the largest Taiwan manufacturer of liquid crystal displays and plasma display panels, is one example. The fund manager established a position in the company on the basis of rising demand for TFT panels. However, the positive up-cycle for display panels did not materialise and the fund manager exited the stock from the Fund.

For the second group of stocks, the fund manager’s investments into these companies were premature. Yet, upon further monitoring and analysis, the investment rationale remained solid and the stocks continued to be attractively valued. As a result, these stocks remain in the Fund. An example is Parkson Retail Group Ltd. The company operates a national network of department stores in China. Brick-and-mortar department stores continue to be challenged by online retailers in an environment of slowing economic growth. Despite the challenging business environment, the fund manager sees intrinsic value at current prices in addition to the company’s efforts to grow by opening stores in mid-size Chinese cities that remain underserved by department stores.

In the last group, benchmark stocks that the Fund is underweight, but have performed well, hurt relative performance. However, the fund manager does not believe that companies which are overvalued and trading with unrealistically expensive and unsustainable

valuations are good investments. For example, the Fund has no weight in Tencent Holdings Ltd., one of the leading Internet and telecommunications companies in China and operator of the popular QQ and WeChat messenger platforms. The company is at an inflection point as it seeks to monetize its asset base in mobile messenger, e-commerce, and mobile games. Despite an unproven business model, Tencent trades at extremely expensive relative valuations that leave a very narrow margin of safety. The fund manager believes that there are more attractive risk-reward opportunities in the market.

ENHANCEMENTS AND IMPROVEMENTS

Given the underperformance of the Fund, various enhancements to the investment process have been implemented.

A dedicated Regional Asia focus team has been formed to focus solely on investments in the Fund's investment mandate.

A new fund manager, Hugh Maxwell-Davis, has been appointed to run the fund. Hugh is currently the team leader of the Regional Asia equity team and was previously Eastspring's Head of Equity Research. Hugh has over 18 years of investment experience and a strong track record in Asia.

The team continues to be intensely focused on bottom-up fundamental stock research. The team's value-oriented investment style is directed towards adding stocks with attractive relative valuations.

FORWARD LOOKING OUTLOOK AND STRATEGY

Asian stocks as a whole are cheap relative to history. Within Asia, the Fund has active positions in the energy and financial sectors. These sectors are leveraged to economic growth and will benefit as Asian economic

growth picks up. Stocks in these sectors are also attractively valued, trading below their historical valuations and with respect to the overall market.

A slow but apparently steady economic recovery in the United States and the deceleration of Europe's banking and economic crisis may herald a recovery of global consumption.

In line with the above trend, the World Trade Organization forecasts world trade growth to accelerate in 2014. We expect to see nascent signs of export recovery in China, Korea and Taiwan.

This can provide solid opportunities for Asian earnings growth and a rebound of valuations by whetting demand for the region's exports.

A **rosier outlook ahead** driven by an economic recovery in the West.

OUR VALUE ADD

Eastspring Investments as a fundamental, research-driven investment manager is well-positioned to capitalise on this opportunity due to its value-oriented investment process.



Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

- > Singapore by Eastspring Investments (Singapore) Limited (Company Reg No. 199407631H). The fund is recognised under the Securities and Futures Act of Singapore. Eastspring Investments (Singapore) Limited is the appointed Singapore Representative and agent for service of process in Singapore.
- > Hong Kong by Eastspring Investments (Hong Kong) Limited.
- > DIFC by Eastspring Investments Limited.
- > Luxembourg by Eastspring Investments (Luxembourg) S.A., Grand-Duchy of Luxembourg.
- > United Kingdom by Eastspring Investments (Luxembourg) S.A. – UK Branch, 84 Brook Street, W1K 5EH London.

This document has not been reviewed by the regulators of the above entities such as Securities and Futures Commission, Hong Kong, Monetary Authority of Singapore, Dubai Financial Services Authority etc.

The Fund is a sub-fund of the Eastspring Investments ("the SICAV"), an open-ended investment company with variable capital (société d'investissement à capital variable) registered in the Grand Duchy of Luxembourg on the official list of collective investment undertakings pursuant to part I of the Luxembourg law of 17 December 2010 relating to undertakings for collective investment and the Directive 2009/65/EC of the European Union Parliament and of the Council of 13 July 2009 (the "UCITS Directive"). As per UCITS Directive and where applicable, all transactions into the Fund should be based on the latest available prospectus, Key Investor Information Document (KIID), and any applicable Fund or share class offering document of the SICAV. Hong Kong investors should refer to the Hong Kong Summary Prospectus and Product Key Fact Statements ("KFS"). Singapore investors should refer to the Singapore Prospectus and Product Highlights Sheet ("PHS"). Such documents, together with the annual and semi-annual financial reports and the articles of incorporation of the SICAV, may be obtained free of charge from Eastspring Investments (Luxembourg) SA at 26, Boulevard Royal, L-2449 Luxembourg, Grand-Duchy of Luxembourg, or at relevant Eastspring Investments business units/website and their distribution partners.

This document is solely for information and does not have any regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. This document is not an offer, solicitation of an offer, or a recommendation to transact in the Fund. You should not make any investment decision solely based on this document and should read the offering document of the Fund referred to above for further details.

Eastspring Investments makes no guarantee of the accuracy and completeness of this document and is not responsible for errors of transmission of factual or analytical data nor shall Eastspring Investments be liable for damages arising out of any person's reliance upon this information

Please refer to the offering documents, as indicated above, for details on fees and charges, dealing & redemption, product features, risk factors and seek professional advice before making any investment decision. The value of shares in the Fund and the income accruing to the shares, if any, may fall or rise. Past performance of the Fund is not necessarily indicative of the future performance. An investment in the Fund is subject to investment risks, including the possible loss of the principal amount invested. Unless otherwise stated, source of information is from Eastspring Investments. Where an investment is denominated in a currency other than your base currency exchange rates may have an adverse effect on the value price or income of that investment.

Please note that the securities mentioned are included for illustration purposes only. It should not be considered a recommendation to purchase or sell such securities. [Please note that there are limitations to the use of indices as proxies for the past performance in the respective asset classes/sector.] This document is not intended for distribution or use by any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication or use would be prohibited.

The Fund may use derivative instruments for efficient portfolio management and hedging purposes.

The Fund may, at its discretion, pay dividends out of capital or gross income while charging all or part of its fees and expenses to its capital, resulting in higher distributable income. Thus, the Fund may effectively pay dividends out of capital. Payment of dividends out of capital (effective or not) amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment, which may result in an immediate reduction of the net asset value per share/unit. The distributions, including amounts and frequency, are not guaranteed and are subject to the discretion of the Fund. Past dividends declared are not a forecast or projection of future distributions.

The preceding paragraph is only applicable if the Fund intends to pay dividends/distributions.



Eastspring Investments companies (excluding JV companies) are ultimately wholly-owned / indirect subsidiaries / associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

Dubai - Institutional

Eastspring Investments Limited has its office at Precinct Building 5, Level 6, Unit 5, Dubai International Financial Center, Dubai, United Arab Emirates. Eastspring Investments Limited is duly licensed and regulated by the Dubai Financial Services Authority (DFSA). This information is directed at Professional Clients as defined by the Conduct of Business rulebook of the DFSA and no other person should act on it.

United Kingdom

For the purpose of UK law, the SICAV fund, which information is hereby disclosed, is a recognized scheme under section 264 of the Financial Services and Markets Act 2000. Please note that the protections provided by the UK regulatory system, especially for retail clients, do not apply to offshore investments. Compensation under the UK Financial Services Compensation Scheme will not be available and UK cancellation rights do not apply. Relevant information on the SICAV is also available at Eastspring Investments (Luxembourg) S.A. - UK Branch, 84 Brook Street, W1K 5EH London and on www.eastspringinvestmenst.com/uk.

Norway

The fund has been notified and registered with the Norwegian Financial Supervisory Authority (Finanstilsynet) in accordance with Directive 2009/65/EC.

Sweden

The SICAV is a UCITS which has been passported into Sweden for marketing and sale to the public for the purpose of the Swedish Investment Funds Act (Sw. lag (2004:46) ominvesteringsfonder) and has therefore been registered by the Swedish Financial Supervisory Authority (Sw. Finansinspektionen) pursuant to the Swedish Investment Funds Act. This marketing material only refers to sub-fund(s) and share classes of the SICAV which have been passported for marketing and sale into Sweden under the Swedish Investment Funds Act.

Switzerland

In Switzerland, the documents referred to above may also be obtained free of charge from (i) First Independent Fund Services Ltd, having its registered office at Klausstrasse 33, CH-8008 Zurich, who is acting as Swiss Representative Agent of the SICAV and (ii) NPB- New Private Bank Ltd, having its registered office at Limmatquai 1/am Bellevue, CH-8022 Zurich, who is acting as Swiss Paying Agent of the SICAV.

For more information contact content@eastspring.com | Tel: (65) 6349 9100

Singapore | Hong Kong | Dubai | Ho Chi Minh City | Jakarta | Kuala Lumpur | Mumbai | Seoul | Shanghai | Taipei | Tokyo | Chicago | Luxembourg | London