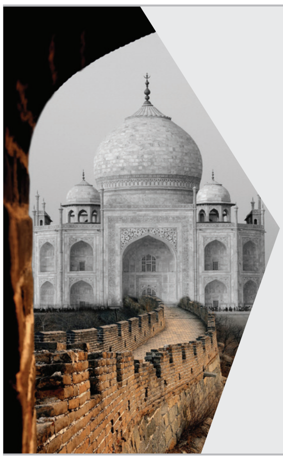
FUND INSIGHTS

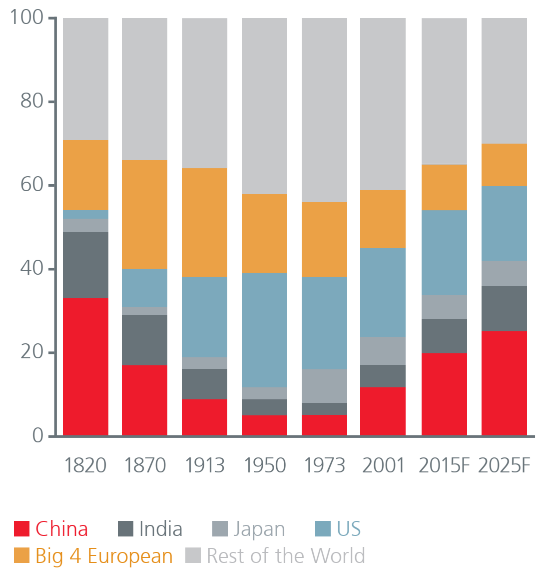


INVESTING IN CHINA & INDIA: DIFFERING STRENGTHS OFFER COMPELLING OPPORTUNITIES

EASTSPRING INVESTMENTS – DRAGON PEACOCK FUND
MAY 2014

China is currently the world's 2nd biggest economy in terms of gross domestic product (GDP)[1] while India ranks 10th. Combined, they make up 61% of Asia Pacific's GDP[2]. Despite the recent challenges, the long-term growth potential of China and India remain strong and pivotal to the region's expansion.

Fig.1. Percentage of the World's GDP at Purchasing Power Parity (%)



Source: Angus Maddison and OECD, 2009.

China and India are forecast to contribute almost 40% of the global output by 2025.

BREADTH OF CHOICE OFFERS FLEXIBILITY

Aside from the size of their economies, the breadth of these markets offers additional flexibility. For instance, an investor can gain an exposure to an oil company either through CNOOC, China's biggest offshore oil and gas producer, or India's state-run Oil and Natural Gas Corp (ONGC), depending on which is more attractive in terms of valuation.

DIFFERING STRENGTHS WORK IN OUR FAVOUR

Pharmaceutical Sector: India is one of the world's largest producers of generic medicine. As such there are ample opportunities to invest in Indian pharmaceutical companies. Over the past five years, the penetration of generic drugs in the US, the world's biggest pharmaceutical market, has jumped to over 85% and Indian companies' market share is now about 26% from about 12% five years ago[3].

Materials Sector: China presents more investment opportunities than India in this sector. China is the world's biggest producer of cement, the largest

[1] World Bank's World Development Indicators database, 17 December 2013. [2] Asia-Pacific Macro Themes, Barclays, February 2014.
[3] India Pharmaceuticals' Generics in the US" A 'therapeutic' outlook, HSBC Global Research, 19 February 2014.

consumer of almost all fertilizer products, and a major fragrance and essence manufacturing centre.

Financial Sector: There are opportunities in both countries but the investment rationale differs. For example, Indian banks stand out for their high growth while Chinese banks are known for the attractiveness of their yield.

TWO COUNTRIES, ONE PORTFOLIO APPROACH IS UNIQUE AND EFFICIENT

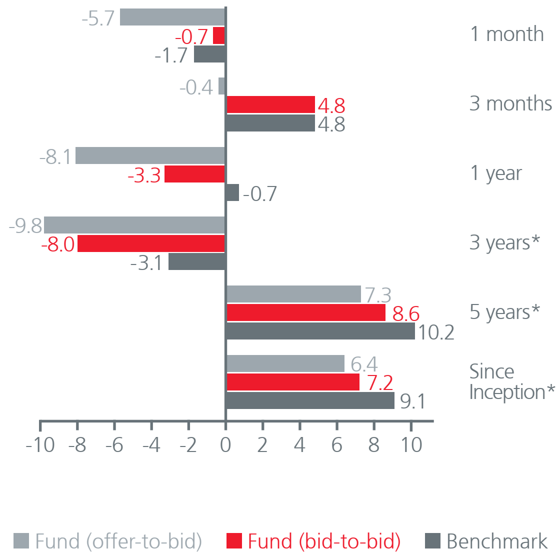
Both China and India have unique strengths. Being at different stages of economic development, China and India have built winners in different industries. By adopting a dynamic management approach in managing stock selection process across the sectors in the two countries, we are constantly looking to identify potential winners over the medium to long term.

By using a single portfolio-based investing approach when investing in both China and India equity markets, we look for the best ideas in both markets, using a bottom-up investing approach in each country/ sector. Our focus is on areas where we see the most compelling opportunities.

FUND PERFORMANCE: CHALLENGING IN RECENT YEARS

The equity markets of China and India were a tale of diverging fortunes in the last three years. The MSCI China rose almost 10% during the period while the MSCI India dropped 24%[4]. China's stock market suffered a large sell-off in 2011 amid worries of a hard landing but the next two years saw a reversal of declines. Evidence of stabilising economic growth and the unveiling of extensive reforms in the world's second-biggest economy, helmed by a new generation of leaders, propped the market higher. Indian equities, on the other hand, de-rated during the period on the back of slowing economic growth, accelerating inflation, widening twin deficits and a depreciating currency.

Fig.2. Fund Performance as at 30 April 2014 (%)



Source: Eastspring Investments (Singapore) Limited. Class A, USD; Net income reinvested; Offer-bid includes 5% sales charge. Prior to 1 August 2012, Initial Sales Charge was 5.75%.; Inception Date: 30/06/2006. Benchmark: 50% MSCI China and 50% MSCI India. Prior to 1 May 2012, benchmark returns were on a Gross Dividend basis. With effect from 1 May 2012, benchmark returns are changed to a Net Dividend basis. The two series are chain-linked to derive the longer period benchmark returns.*Annualised.

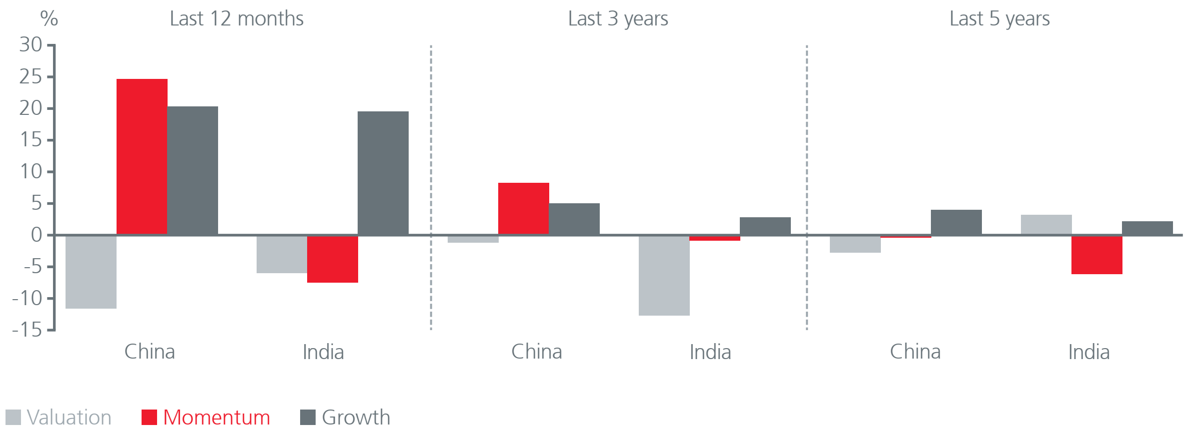
Equity markets aside, investing style too played a part in the underperformance of the Fund. Our approach to investing is about being a patient valuation-focused long-term investor. We strongly believe that our value-oriented investment tack will generate superior long-term returns. We aim to buy cheap, out of favour stocks in China and India. We are looking for those counters which are mispriced and trading substantially below their intrinsic value and where a large margin of safety has been factored in the price.

Growth and momentum factors however performed better than value factors in both China and India over the past three years. Most investors ignored traditional value signals. Instead, they chased the prospects of potential growth and rode the momentum of the equity markets which are not sustainable over the medium to

[4] MSCI China and MSCI India levels, Bloomberg Data, Three years to end-2013 in US dollar terms.

GROWTH AND MOMENTUM EMERGE AS THE MARKET'S OPIUM

Fig.3. Factors driving stock market returns



Source: Source: Macquarie Securities, 31 December 2013.

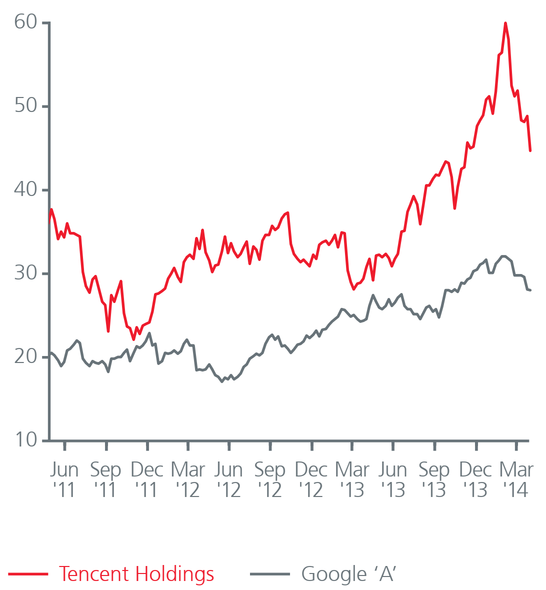
longer term. Fig.3 shows that stocks with a valuation bias underperformed in both China and India over the last three years.

INFORMATION TECHNOLOGY SECTOR UNDERWEIGHT IMPEDES FUND'S RETURNS

The Fund has underperformed versus its benchmark as a result of our underweighting the information technology (IT) sector in both China and India. Valuations of IT stocks in China and India became increasingly expensive, as a result of investors chasing after the growth trend by holding IT stocks which generated slightly higher earnings-per-share growth versus other listed companies.

One Chinese IT stock, Tencent Holdings, rose on momentum play. The company, which specialises in online video games and social media, emerged as the biggest detractor from relative fund performance in the three-year period. We have an underweight position in Tencent as we believe it is overvalued, trading well above its peers such as Google Inc. As of end-April 2014, Tencent was trading at 44.6x P/E while Google at 27.4x P/E (See Fig.4). Much of Tencent's growth businesses have been factored in its share price, we believe.

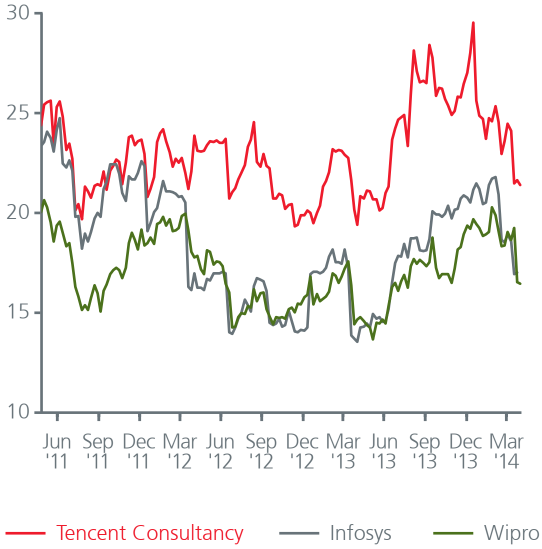
Fig.4. Tencent Holdings and Google Inc price-to-earnings (x)



Source: Thomson Reuters Datastream as at 30 April 2014.

Tata Consultancy Services (TCS), India's largest software exporter, emerged a big detractor among Indian IT stocks in the three-year period. The Fund had an underweight position in TCS, which we deemed as expensive. Concerns rose that TCS and rivals would suffer from US' efforts to limit the number of overseas IT workers allowed into the US. TCS, however, jumped 73% in 2013 after a single-digit gain in 2012. Although TCS' share price fell in the first quarter of 2014, the stock is still expensive; as of end-April 2014 TCS was trading at 21.4x P/E while peers Infosys and Wipro were trading at 17.1x P/E and 16.5x P/E respectively (refer to Fig.5).

Fig.5. Tata Consultancy, Infosys and Wipro price-to-earnings (x)



Source: Thomson Reuters Datastream as at 30 April 2014.

FOCUS ON THE FUTURE

China: We view as positive China's efforts to implement crucial reforms. In November, China announced an extensive reform plan that included the requirement for state-owned companies to pay larger dividends, relaxation of the one-child policy, increased rights for farmers, and a dedicated enforcement mechanism among other measures. The one-child policy has been in place since 1980 but the leadership has been facing pressure from the public amid the country's aging population.

China's approach towards leverage will also need to be addressed as this structural issue has been weighing down equity markets. A long-awaited official audit report released in December 2013 showed local government debt levels in China soared to 17.9 trillion yuan ($2.96 trillion) at end of June 2013 from three years earlier[5]. Analysts have long been worried by the amount of debt owned by local governments, which are not allowed to tap banks directly but must establish special purpose vehicles to borrow money for investment projects.

With the implementation of various reform initiatives, we would expect the total amount of leverage in China to grow at a much slower pace in 2014. This would be the most ideal case as neither a fast paced further levering up (credit risk bubble) scenario or a rapid deleveraging situation (hard landing) would appeal to investors.

India: the world's largest democracy, may have reached an inflection point on the back of the resounding victory of the Bharatiya Janata Party (BJP), the opposition party led by Prime Minister-elect Narendra Modi. The BJP became the first non-Congress party to win an absolute majority in 16 general elections since the formation of the Republic of India.

The election of the new leader from the opposition is a bugle call for change and we believe that the overwhelming mandate of the incoming government will be a key catalyst for reforms. Reforms in the power sector will likely be high in the new government's agenda for change.

The election outcome has increased our confidence in India's medium to long-term growth, which will be supported by the positive factors of demographics, reforms and globalisation.

> Investors' confidence will likely improve along with clarity and consistency in China and India's reform plans and implementation.

[5]Deutsche Bank Market Research's Chinese Banks – NAO Report, 31 December 2013

EARNINGS ON GROWTH PATH

China: In China, there is a growing sense that its equity market valuations will have the potential to re-rate marginally after having de-rated over the past few years. With the reforms potentially addressing the structural concerns, China's longer term outlook does seem to provide more stability and a greater margin of safety for investors. If the potential for improvement in external demand is realised, we believe China would be in a better position to accelerate some of its reforms.

Consensus MSCI China earnings growth is expected to rise by 8.8% in 2014 and 10.6% in 2015[6]. The EPS growth of banks and diversified financials will likely ease this year but this may be offset by better earnings growth of non-financial names in consumer durables, energy, capital goods, software and services.

Fig.6. MSCI China price-to-forward earnings (x)

Average   +1sd   -1sd

Source: IBES, Thomson Reuters Datastream as at 30 April 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.

India: Add to the results of the polls, growth and earnings in Asia's third-biggest economy, may have bottomed while interest rates and inflation are nearing their peak. In the last few years, slower growth, higher interest and rising inflation hurt corporate earnings.

Consensus estimates, however, suggest that earnings could increase by 14.7% in CY14 from 7.8% in CY13, and then rise by 14.9% in CY15[7]. Domestic-oriented sectors such as materials, capital goods and real estate are likely to benefit from a pick-up in growth.

Fig.7. MSCI India price-to-forward earnings (x)

Average   +1sd   -1sd

Source: IBES, Thomson Reuters Datastream as at 30 April 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.

ADHERENCE TO PROCESS

The portfolio's performance has been weak over the short term, but in the medium to longer term, performance had been steady. Long-term investing is what we do best and our focus is on retaining a simple approach to create value for our investors.

In 2013, market sentiment had swung heavily in favour of developed equity markets like the US, Europe and Japan as investors focused more on the prospects of growth and momentum at the expense of valuations.

2014 and 2015 could be a different story. Investors may begin to look for companies with low valuation (P/E and P/B) multiples with expectations of seeing the firms' earnings recover and normalise.

[6]MSCI China EPS growth consensus estimates: Citi Intelligence as of 31 March 2014. [7]MSCI India EPS growth consensus estimates: Citi Intelligence as of 31 March 2014

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