FUND INSIGHTS

INVESTING IN VALUE

EASTSPRING INVESTMENTS – NORTH AMERICAN VALUE FUND ("THE FUND") APRIL 2015

WHAT HAS DRIVEN 2015 PERFORMANCE THUS FAR?

US equities began the year on a relatively unspectacular note. As of mid-March, the S&P 500 Index had returned 0.19% year-to-date, despite a 5.75% rebound in February[1]. Lackluster performance was primarily driven by a strengthening US dollar, falling oil prices and, counterintuitively, improving labour market conditions — which fuelled speculation that the Federal Reserve was moving closer to raising interest rates. While these factors have hindered year-to-date performance, they do not necessarily portend weak returns going forward. In fact, for long-term oriented, bottom-up managers such as us, over-reactive markets often create compelling investment opportunities. We believe this is especially true in light of the following.

First, though a stronger USD can negatively impact multinational firms' earnings results, the majority of companies in our investment universe are primarily exposed to the domestic market, reducing the impact of currency fluctuations. According to FactSet Geographic Revenue Exposure data, companies in the S&P 500 Index, on aggregate, generate a significant percentage of sales from North America, almost all of which comes from the US[2].

Second, while it's true that falling oil prices have had a negative effect on some sectors – most notably energy – the overall impact of declining oil prices is by no means purely detrimental. Consumers of oil have benefited greatly, as lower fuel prices help boost individuals' spending power and keep input costs low, boding favourably for both sides of the profit equation – sales potential and cost of goods sold, respectively – for many companies.

[1]Morningstar Direct. As measured by the year-to-date performance of the S&P 500 Index as at 13 March 2015 and month-to-date performance of the index as at 28 February 2015. [2]FactSet Earnings Insight. 6 March 2015. Based on the most recent fiscal year results.

Third, despite some investors' knee-jerk reactions to the specter of monetary policy normalisation, overall improving economic conditions bode well for longer-term earnings growth potential. In fact, the US economy continues to lead developed markets' expansion and is anticipated to outpace the economies of Japan and Europe over the next several years[3].

Despite near-term obstacles, we think investors would do well to keep in mind that market swings are often driven by sentiment rather than long-term fundamental value.

HOW HAS THE FUND PERFORMED YEAR-TO-DATE?

Year-to-date and across market capitalisation, value-oriented stocks have underperformed growth-oriented stocks[4]. The Eastspring Investments – North American Value Fund (Share Class A), which follows a value-focused strategy, underperformed the broader US equity market during the same time frame[5]. Under performance relative to the S&P 500 Index was primarily the result of security selection in the Consumer Discretionary and Energy sectors.

The Fund typically maintains an investment horizon that spans approximately 2-3 years, rather than focusing on short-term results.

Additionally, as demonstrated thus far in the year, month-over-month performance results can be volatile[6].

IS A RISING INTEREST RATE ENVIRONMENT BAD FOR US STOCKS?

Since the Fed's decision to taper QE3 in October 2013, the markets have tended to interpret any positive development seen as a harbinger of accommodation withdrawal — including improving economic data — as negative. This explains, for instance, the market's recent adverse response to improving labour market

Fig.1. Performance of the Fund (Class A) as at 28 February 2015 (%)

Source: Eastspring Investments (Singapore) Limited; USD; Net income reinvested; Offer-bid includes 5% sales charge. Prior to 01 August 2012, Initial Sales Charge was 5.75%.; Inception Date: 31/08/2007; Benchmark returns for all periods have been computed up to one business day earlier than the performance reporting date. This is to recognise that the Net Asset Value of the fund, due to time zone difference, is determined using last available prices of the securities in the fund which can be the securities prices traded one day ago as of the performance reporting date. Benchmark is S&P Citi Value Index. *Annualised.

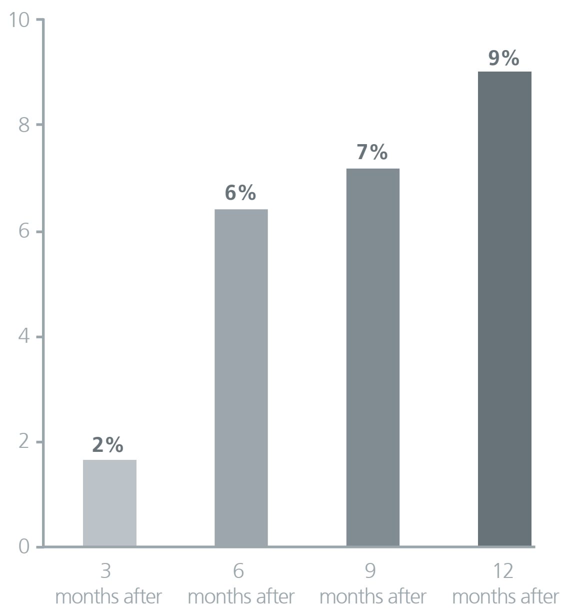
metrics. Certainly, based on the current growth outlook and unemployment rate, the Fed could potentially decide to raise rates later this year. However, we believe it will be cautious in its approach to monetary policy normalisation and avoid overly aggressive rate hikes. Furthermore, US stocks have historically delivered positive performance following the start of Fed tightening cycles: Based on the six most recent Fed tightening cycles (1980-2004), the S&P 500 Index delivered, on average, +2%, +6% and +9%, respectively, in the three, six and 12 months following the initial rate increase[7]. Though history is not necessarily an indicator of future performance, investor fears regarding monetary policy may be overblown.

[3]Bloomberg Live. As indicated by the Bloomberg Strategists consensus estimates for annual GDP growth for Japan, all of Europe and the United States for 2014, 2015 and 2016. [4]Morningstar Direct. As measured by the YTD performance of the S&P 500 TR Index, S&P 500 Value TR Index, S&P 500 Growth Index, Russell Mid Cap TR Index, Russell Mid Cap Value TR Index, Russell Mid Cap Growth TR Index, S&P SmallCap 600 TR Index, S&P SmallCap 600 Value TR Index and S&P SmallCap 600 Growth TR Index as at 13 March 2015. [5]Morningstar Direct. As measured by the YTD performance of the Eastspring Investments – North American Value Fund (Share Class A) as of 28 February 2014. [6]Morningstar Direct. As measured by the monthly performance of the S&P 500 Index. January (-3.0%), February (+5.75%), month-to-date as of 13 March 2015 (-2.33%). [7]Barclays, Morningstar and PPMA. Performance was based on the S&P 500 Total Return Index for the 12 months following the initiation of Fed tightening. As reported by Barclays, the start dates of the last six periods of Fed tightening were: 31 July 1980, 31 March 1983, 30 March 1988, 4 February 1994, 30 June 1999 and 30 June 2004.

Fig.2. US Federal Reserve Funds Rate (%)

Source: Factset as measured by the monthly effective federal funds rate since 1980.

Fig.3. Average Performance of S&P 500 Total Return Index following the initiation of the Fed tightening (%)



Source: Barclays, Morningstar and PPMA. As reported by Barclays, the start dates of the last six periods of Fed tightening were: 31 Jul. 1980, 31 Mar. 1983, 30 March 1988, 4 February 1994, 30 June 1999 and 30 June. 2004.

DO MARKET PRICE-TO-EARNINGS (P/E) RATIOS SUGGEST THERE ARE FEWER OPPORTUNITIES IN THE US MARKET?

In early March, the financial news media recognised the sixth anniversary of the current equity bull market and questioned whether high returns can persist. Indeed, the S&P 500 Index has climbed steadily higher since the financial crisis, with few interruptions, and current entry points are less attractive than they once were. At 17.1x estimated earnings, the current 12-month forward P/E ratio is greater than both the five- and 10-year averages, respectively, of 13.7x and 14.1x. Our investment philosophy and approach, however, incorporates a wide variety of quantitative and qualitative measures and is far from being solely reliant on assessing average index valuations to uncover the best opportunities for our clients. Though P/E analysis is useful, it is certainly not an infallible guide to US stock market valuation. For instance, depressed earnings expectations for the Energy sector combined with relatively unchanged prices have inflated the sector's forward P/E multiple by approximately 45% from prior year-end. This in turn has increased the overall market multiple, underscoring the unreliability of broad averages.

IN WHAT SECTORS DO YOU CURRENTLY SEE OPPORTUNITIES?

As always, our portfolios are constructed via security-by-security selection according to our views on individual companies' fundamentals and valuations. Consequently, sector and industry weightings relative to the benchmark reflect the number of value opportunities we've identified in each given segment. Currently, we see a number of compelling stocks within the following sectors: Banks, Insurance, Technology Hardware, and Energy.

Though stocks within the Energy sector may appear expensive on a forward P/E basis, the sector has historically been primarily valued based on price-to-book (P/B) and price-to-cash flow (P/CF) metrics; certain stocks appear attractive based on these measures.

[8]FactSet Earnings Insights as at 5 March 2015.

As mentioned, P/E is only one component of our overall stock evaluation process. Price-to-cash flow, for instance, is a particularly helpful metric for assessing energy-related companies' performance, as energy firms tend to report a very high level of costs associated with non-cash items, potentially resulting in earnings that are not reflective of actual cash generation.

WHAT WERE Q4 EARNINGS RESULTS, AND WHAT DO THEY IMPLY FOR US STOCKS GOING FORWARD?

Based on the most recent fourth quarter results, FactSet reported that the earnings growth rate for companies within the S&P 500 Index was 3.7%[8].

Though at this level the rate surpassed prior estimates of 1.7%, much of the earnings upside surprise was attributed to low forecast levels.

Looking ahead, FactSet reports that Q1 2015 and Q2 2015 earnings and revenues are likely to fall from year-over-year levels. Specifically, much of the expected decline is attributable to downward revisions within the Energy sector. On the positive side, earnings growth is projected to return beginning in Q3, and revenue growth is expected to follow in Q4 results[9]. Additionally, FactSet expects profit margins to continue expanding in 2015, likely as a result of favourable trends in inflation, borrowing costs and energy prices. Ultimately, we believe that investors would be well-advised to worry less about quarter-over-quarter results and focus on the overall trajectory of earnings and revenues.

Fig.4. Quarterly Bottom-Up EPS Actual and Estimates

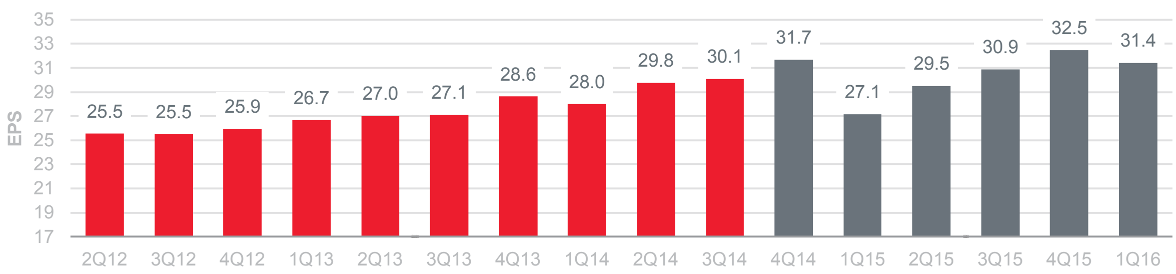
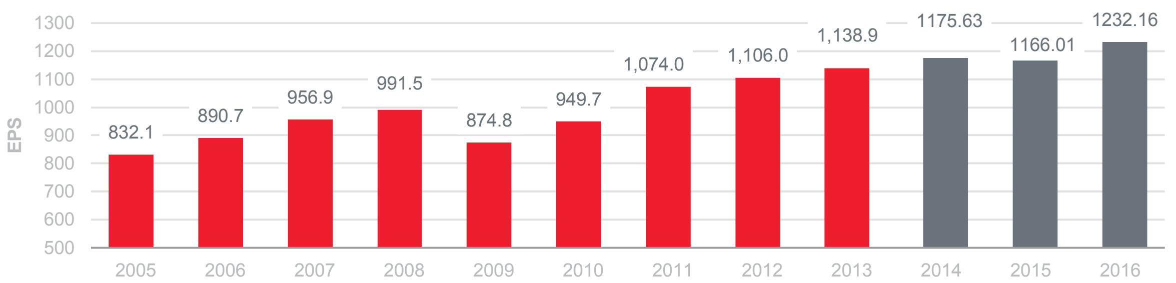


Fig.5. Annual Bottom-Up EPS Actual and Estimates



Actual Estimates

Source: Chart Sources: FactSet Earnings Insight as at 6 March 2015. EPS refers to Earnings per share.

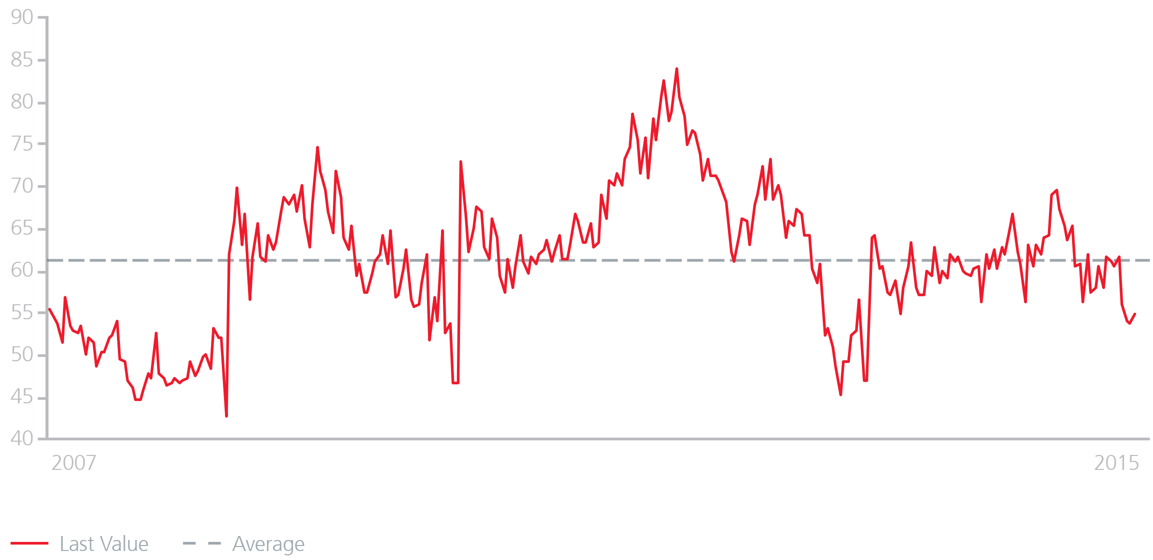
[8]FactSet Earnings Insights as at 5 March 2015. [9]FactSet Earnings Insights as at 5 March 2015.

WHAT IS THE CASE FOR A VALUE-ORIENTED STRATEGY NOW?

Though most investors are well aware of the benefits of diversifying their portfolios with less correlated assets, correlation between the individual stocks that make up the US equity market is less discussed. Inter-stock correlation, however, is another potential indicator of prospective investment opportunities. Low correlation suggests that investors are more mindful of assessing stocks based on company specific risks. High correlation, meanwhile, indicates that investors anticipate individual securities to move in tandem with the broader market. While the market is at all-time highs, correlation of individual stocks in the S&P 500 Index and the index (measured by the CBOE SPX Implied Correlation Index), itself had dropped to below-average levels at the end of February[10].

We believe that this environment bodes well for our investment process, which is predicated upon individual stock selection. With the CBOE SPX Implied Correlation Index at below-average levels, we think individual stocks have a higher potential of moving toward the index's longer-term fundamental value.

Fig.6. CBOE SPX Implied Correlation Index (ICJ)



Source: CBOE and Bloomberg as at 6 March 2015. As measured by the ICJ ticker, which currently represents the CBOE S&P 500 Implied Correlation Index. The indices consist of the ICJ, JCJ and KCJ tickers, which are rotated as time elapses and measures the expected average correlation of price returns of the S&P 500 Index components, implied through S&P 500 Index option prices and prices of single-stock options on the 50 largest components of the S&P 500 Index. Breaks in the ICJ ticker occur between November 2009 and November 2010 as well as November 2012 and November 2013 due to the intended rotation of the tickers. As at 31 December 2014, the ICJ ticker represents: January 2016 maturity S&P 500 implied correlation; calculated using Jan. 2016 equity options and Dec. 2015 S&P 500 options; quotation is suspended after the November 2015 expiration.

[10]Bloomberg. As measured by the CBOE SPX Correlation Index ("ICJ") as AT 6 March 2015.

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