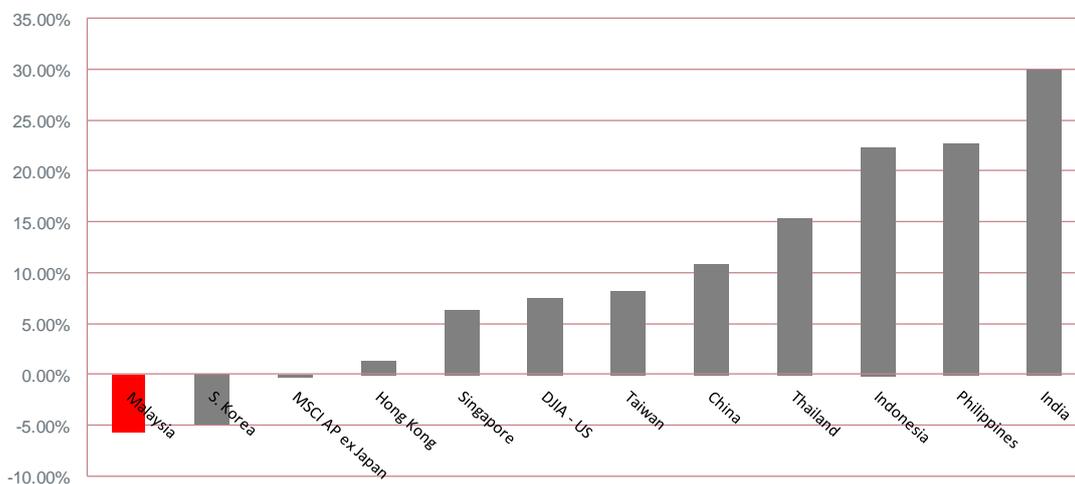


# MARKET & FUNDS INSIGHT

AS AT 19 January 2015 UNLESS OTHERWISE STATED

**With 2014 a disappointing year for Malaysia, where are the investment opportunities for 2015?**

## 2014 Equity Market Performance



Source: Bloomberg as at 31 Dec 2014 based on individual country's local currency.

## EQUITY OUTLOOK

Global markets may continue to be volatile in 2015 with less predictable monetary policy decisions, continued weaker commodity prices, and increased geo-political risks. However, the US economic data of late has been stronger than expected, and other major economies seem to show tentative signs of turning around (such as China and Japan). Falling crude oil prices can be a positive for spurring consumer demand for most economies, but may have a negative impact for countries that are net exporters of energy. The low interest rate environment remains accommodative for equities, and monetary policy globally still remains accommodative generally.

Domestically, 2015 will likely see continued softening of consumer demand, as consumers become more cautious on spending with the weaker currency, and the impending GST implementation. However, the lower crude oil prices whilst may have a negative impact on the Malaysian government's revenue, should provide some reprieve to the cost of living for the man on the street as petrol and diesel are now pegged to market prices. Nevertheless, we remain concerned over the weakness of the ringgit and how long crude oil prices will remain below USD60/bbl.

As such we maintain our cautious stance, but look for opportunities to accumulate fundamentally strong stocks on weakness when valuations are more attractive. Investment opportunities may be more evident for companies that benefit from the falling commodity prices (raw materials) as prices charged to end consumers tend to be sticky. Exporters may also be beneficiaries from a stronger US dollar as well as from the implementation of GST since the export of goods would be regarded as zero rated supply. Defensive companies with strong recurring income will likely hold up well in this environment, however yield plays may be at risk when the timing of US rate hikes is more certain.

## FIXED INCOME OUTLOOK

The US is tilted towards hiking interest rates in 2015 as its economy strengthens whereas Europe is far more dovish. The scope for US rates to rise, however, seems moderate, on lackluster global demand and slack in the US job market. Longer dated US government bonds should remain range bound on muted inflationary pressures and persisting structural demands for income-producing assets. The benign global growth and rate outlook is also likely to rein in Asian local rate rises. However, Asian monetary policy cycles are not synchronised. Indonesia, for example, has raised rates to check inflation but Malaysia has paused rates on moderating economic conditions. The unsynchronised Asian rate cycle presents opportunities to invest in markets where the cycles are more advanced and valuations more attractive.

The yield pick-up of Asian corporate bonds remains attractive compared to government bonds and even similarly-rated US corporate bonds. Sell-offs of good quality credits can present attractive opportunities for investment.

### ***Will oil price continue to fall, and what is the impact to the Malaysian economy?***

Currently it appears that OPEC is set fast on maintaining their market share and given their lower cost to produce crude oil, the dynamics currently is such that supply outstrips demand, to the point where we have a global surplus of crude oil. At US40-50/bbl the shale oil producers should not be profitable, but again, how long oil prices will stay at these levels or lower is still debatable, especially since supply estimates coming out of Iraq continue to reaffirm that crude oil prices may likely stay low for longer.

The immediate impact of lower crude oil prices will likely hurt the oil and gas capex spend by Petronas and development expenditure for 2015 may be at risk, although the Prime Minister indicated that development expenditure targets under the Budget 2015 is still achievable. Malaysia has been an underperformer versus the region because of the reliance on oil and gas related revenues which currently make up of about 30% of total government revenue. It is not just the impact of crude oil per se (as we are now a net importer of petroleum) but the impact of potential price weakness of other energy related commodities, such as crude palm oil and LNG, which make up a larger amount of export value that will have a bigger impact to Malaysia's fundamentals. Therefore if these concerns remain out there, then you would expect Malaysia's equity market to remain sanguine. These concerns would be duly reflected in the currency, which is why the Malaysian ringgit is trading near six-year lows currently.

On the 20<sup>th</sup> January 2015, the Prime Minister Dato Seri Najib Razak, revised the Budget 2015 targets, on the back of lower crude oil prices than initially assumed. We take comfort in the fact that the government remains committed to fiscal consolidation, and their revised budget assumptions are more realistic at the USD55/bbl for 2015 (versus USD100/bbl). In his speech, he indicated that under the previous assumptions there could be a revenue shortfall of RM13.8bn which would lead to a fiscal deficit of 3.9% of GDP, compared to their initial target of 3%. In light of the falling oil prices, volatile capital flows, and worsening global economic outlook, the Prime Minister announced that:

- Malaysia's fiscal deficit target would be revised to 3.2% of GDP in 2015 (lower than the 3.5% in 2014) but still in line with the Government's commitment to fiscal consolidation; and
- Operating Expenditure is expected to be reduced by RM5.5bn, but development expenditure for 2015 will be fully maintained.
- In light of the above revisions, the government remains confident that Malaysia's GDP will grow between 4.5-5.5% in 2015 (from 5-6% previously)

Mindful of potential rating agency downgrades, the government reaffirmed their commitment to ensure that the country will continue to record a current account surplus with a strategy to look in-wards when it comes to investment (encouraging GLCs and GLICs to invest domestically), and private consumption (priority to local contractors to undertake reconstruction works for flood affected areas, intensify promotion of "Buy Malaysia" products, and increase local goods and services in Government procurement). Nevertheless, we may have to bear this short term pain, as the country adjusts to this potential structural change. The upside is that the concern on Malaysia's overreliance of oil and gas revenues have been highlighted for many years, and the government had taken steps via the subsidy rationalization, fiscal consolidation measures, and the upcoming implementation of GST to reduce the rakyat's reliance of subsidized fuel and broaden the tax revenue base – the benefits of which will be reaped over the longer term.

### Malaysia's Forward Price to Earnings Multiple

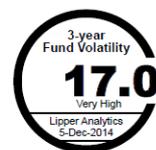


Source: Bloomberg 5 Jan 2015

### Malaysia's Forward Price to Book Multiple



Source: Bloomberg 5 Jan 2015



## Eastspring Small-cap Fund

### PERFORMANCE TABLE

	1 month	6 months	1 year	3 years	5 years	Since Inception
Fund	-6.19%	-7.16%	16.59%	112.39%	152.89%	558.03%
Benchmark *	-8.56%	-16.15%	-4.20%	28.84%	45.76%	141.73%
Lipper Ranking	6 of 12	7 of 12	1 of 12	1 of 11	1 of 11	n.a.

Lipper Fund Category: Equity Malaysia Sm & Mid Cap

\* FBMSC

Fund performance and Lipper ranking are sourced from Lipper for Investment Management and the benchmark is from www.bursamalaysia.com, 31 December 2014. Performance is calculated on a Net Asset Value ("NAV") to NAV basis with gross income or dividend reinvested. Past performance is not necessarily indicative of future performance.

### LIPPER LEADERS RATING (OVERALL)

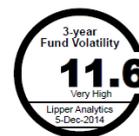
Total Return	Consistent Return	Preservation	Lipper Leaders Key	
5	5	2	Lowest	1
			Highest	5

The Eastspring Small Cap Fund managed to outperform the FTSE Bursa Malaysia Small Cap Index for the periods as shown in the table above. The 4Q2014 was a volatile month for the Fund due to the sharp correction of small cap stocks as a result of heightened risk aversion from the falling crude oil prices. However, the Fund had raised cash to 25% ahead of the correction which contributed to the outperformance against its benchmark. Small cap with good fundamentals were sold down indiscriminately and this has exacerbated the drop in share prices. The Fund stayed invested with stocks that we like with good earnings visibility and strong balance sheet.

#### Strategy for the Fund

We are incline to utilise our cash progressively and raise equity exposure to 85% as we are seeing value emerging after the recent market sell down. We are focused on exporters, technology and property stocks for now. The decline in crude oil prices should help to ease inflationary pressures from the potential impact of GST. We avoid consumer stocks for now.

We would advise our clients who are interested in Eastspring Small-Cap Fund to have a 3-5 years investment horizon. This fund is suitable for investors with high risk and volatility appetite. As at 5 Dec 2014 the 3-year volatility is 16.5. If the fund suits the investor's risk profile, age and investment time frame and the portfolio is making a loss, perhaps the investor would consider the benefits of dollar-cost-averaging.



## Eastspring MY Focus Fund

### PERFORMANCE TABLE

	1 month	6 months	1 year	3 years	5 years	Since Inception
Fund	-4.98%	-5.62%	12.89%	88.14%	n.a.	73.54%
Benchmark *	-3.28%	-6.45%	-5.66%	15.06%	n.a.	17.24%
Lipper Ranking	41 of 52	22 of 52	1 of 52	1 of 52	n.a.	n.a.

Lipper Fund Category: Equity Malaysia

\*FBMKLCI

Fund performance and Lipper ranking are sourced from Lipper for Investment Management and the benchmark is from www.bursamalaysia.com, 31 December 2014. Performance is calculated on a Net Asset Value ("NAV") to NAV basis with gross income or dividend reinvested. Past performance is not necessarily indicative of future performance.

### LIPPER LEADERS RATING (OVERALL)

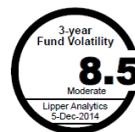
Total Return	Consistent Return	Preservation	Lipper Leaders Key	
5	5	4	Lowest	1
			Highest	5

The Eastspring MY Focus Fund underperformed the FTSE Bursa Malaysia KLCI over the 1-month period, but has managed to outperform the benchmark over the longer period as shown in the table above. The 4Q2014 was a volatile month for the Fund due to the exposure to mid-to-small cap stocks. The Fund has shifted its allocation to blue chips and cash prior to the market sell down. The Fund was hit by its oil & gas exposure as well. We initiated positions in defensive stocks like Public Bank, Digi and Tenaga. However, we stay invested in selective small cap stocks that have earnings visibility and strong balance sheet.

#### Strategy for the Fund

We are inclined to raise equity exposure to 85% in the medium term. The Fund will be big cap bias for now but selectively picking up mid-to-small cap names as valuations are becoming attractive again. We continue to focus on exporters, selected construction and property stocks with earnings visibility.

We would advise our clients who are interested in Eastspring MY Focus Fund to hold our unit trust over the medium term, which is generally 3-5 years. This fund is suitable for investors with high risk and volatility appetite. As at 5 Dec 2014 the 3-year volatility is 11.6. If the fund suits the investor's risk profile, age and investment time frame and the portfolio is making a loss, perhaps the investor would consider the benefits of dollar-cost-averaging.



## Eastspring Dana Al-Ilham

### PERFORMANCE TABLE

	1 month	6 months	1 year	3 years	5 years	Since Inception
Fund	-2.86%	-3.64%	7.20%	55.26%	105.30%	358.07%
Benchmark *	-4.06%	-6.58%	-4.17%	21.42%	46.98%	145.67%
Lipper Ranking	21 of 43	12 of 43	1 of 42	1 of 40	1 of 38	n.a.

Lipper Fund Category: Equity Malaysia - Islamic

\* FBMS

Fund performance and Lipper ranking are sourced from Lipper for Investment Management and the benchmark is from www.bursamalaysia.com, 31 December 2014. Performance is calculated on a Net Asset Value ("NAV") to NAV basis with gross income or dividend reinvested. Past performance is not necessarily indicative of future performance.

### LIPPER LEADERS RATING (OVERALL)

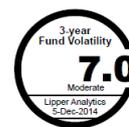
Total Return	Consistent Return	Preservation	Lipper Leaders Key
5	5	5	Lowest Highest
			① ⑤

The Eastspring Dana Al-Ilham Fund outperformed the FTSE Bursa Malaysia Shariah Emas Index for periods as shown in the table above. The 4Q2014 was a volatile month for the Fund and performance was dragged down by the exposure to oil and gas stocks, as crude oil prices continued to decline. However, on full year basis, the Fund still outperformed the index by 11.4%.

#### Strategy for the Fund

We have maintained relatively higher cash levels in the 2H14 of between 15% and 20%. We also took profit selectively and reduced the Fund's exposure to the oil and gas sector, and added exposure to more defensive stocks such as Tenaga, Sime Darby, and Telekom. Thus, the strategy moving forward will be to accumulate stocks that are oversold and trade at attractive valuations. Stock selection is key and we favour companies with healthy balance sheets, good market positioning, decent earnings growth and are trading at attractive valuations such as construction, telecommunication and technology.

We would advise our clients who are interested in Eastspring Dana Al-Ilham Fund to hold our unit trust over the medium term, which is generally 3-5 years. This fund is suitable for investors with high risk and volatility appetite. As at 5 Dec 2014 the 3-year volatility is 8.5. If the fund suits the investor's risk profile, age and investment time frame and the portfolio is making a loss, perhaps the investor would consider the benefits of dollar-cost-averaging.



## Eastspring Equity Income Fund

### PERFORMANCE TABLE

	1 month	6 months	1 year	3 years	5 years	Since Inception
Fund	-3.01%	-4.92%	2.86%	46.84%	95.64%	181.38%
Benchmark *	-3.39%	-6.83%	-6.17%	14.54%	42.17%	107.30%
Lipper Ranking	4 of 16	7 of 16	4 of 16	3 of 16	1 of 14	n.a.

Lipper Fund Category: Equity Malaysia Income

\* FBM 100

Fund performance and Lipper ranking are sourced from Lipper for Investment Management and the benchmark is from www.bursamalaysia.com, 31 December 2014. Performance is calculated on a Net Asset Value ("NAV") to NAV basis with gross income or dividend reinvested. Past performance is not necessarily indicative of future performance.

### LIPPER LEADERS RATING (OVERALL)

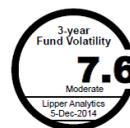
Total Return	Consistent Return	Preservation	Lipper Leaders Key
5	5	5	Lowest Highest
			① ⑤

The Eastspring Equity Income Fund outperformed the FTSE Bursa Malaysia 100 Index for the periods as shown in the table above. The 4Q2014 was a volatile month for the Fund and while performance declined in tandem with the general market, the Fund's high cash holding of around 20-25% helped stem the decline. We reduced exposure to mid-to-small cap stocks as volatility rose in tandem with the declining crude oil price towards the end of 2014.

#### Strategy for the Fund

We are inclined to use our excess cash and raise equity exposure to 85% in the medium term. Our focus will be on stocks with strong cash generating capability and decent dividend yield.

We would advise our clients who are interested in Eastspring Equity Income Fund to hold our unit trust over the medium term, which is generally 3-5 years. This fund is suitable for investors with moderate risk and volatility appetite. As at 5 Dec 2014 the 3-year volatility is 7.0. If the fund suits the investor's risk profile, age and investment time frame and the portfolio is making a loss, perhaps the investor would consider the benefits of dollar-cost-averaging.



## Eastspring Balanced Fund

### PERFORMANCE TABLE

	1 month	6 months	1 year	3 years	5 years	Since Inception
Fund	-2.92%	-5.20%	7.27%	37.69%	67.21%	288.50%
Benchmark *	-1.56%	-2.66%	-1.54%	12.39%	29.29%	128.66%
Lipper Ranking	15 of 18	12 of 18	1 of 18	2 of 17	2 of 17	n.a.

Lipper Fund Category: Mixed Asset MYR Bal - Malaysia

\* 50% FBM100 + 50% Maybank 12-month fixed deposit rate  
 Fund performance and Lipper ranking are sourced from Lipper for Investment Management and the benchmark is from www.bursamalaysia.com and www.maybank2u.com.my, 31 December 2014. Performance is calculated on a Net Asset Value ("NAV") to NAV basis with gross income or dividend reinvested. Past performance is not necessarily indicative of future performance.

### LIPPER LEADERS RATING (OVERALL)

Total Return	Consistent Return	Preservation	Lipper Leaders Key
5	5	2	Lowest 1 Highest 5

The Eastspring Balanced Fund underperformed its benchmark over the 1-month period, but outperformed over the longer term, as shown in the table above. The 4Q2014 was a volatile month for the Fund due to the exposure to small and mid cap stocks which had corrected sharply. The Fund also had some exposure to oil and gas stocks which were sold down towards the end of the 4Q2014 on the back of plunging crude oil prices.

#### Strategy for the Fund

We have reduced the exposure in oil and gas stocks, and some mid and small cap names to reduce the overall volatility, and ploughed the money into more defensive stocks in the telecommunication and healthcare sectors. We will stay defensive for now, in light of the key risks that remain in market. We continue to focus on stock selection, preferring companies that will benefit from the stronger US dollar, lower crude oil prices, and companies with strong fundamentals and good growth prospects.

We would advise our clients who are interested in Eastspring Balanced Fund to hold our unit trust over the medium term, which is generally 3-5 years. This fund is suitable for investors with moderate risk and volatility appetite. As at 5 Dec 2014 the 3-year volatility is 7.6. If the fund suits the investor's risk profile, age and investment time frame and the portfolio is making a loss, perhaps the investor would consider the benefits of dollar-cost-averaging.

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Investors are advised to consider the specific risks and other general risks as elaborated in the Prospectus as well as the fees and charges involved before investing. Investments in the Funds are exposed to the following specific risks.

Fund Name	Specific Risk			Reclassification of Shariah status risk
	Security risk	Credit or Default risk	Interest rate risk	
Eastspring Investments Balanced Fund	✓	✓	✓	
Eastspring Investments Small-cap Fund	✓			
Eastspring Investments Equity Income Fund	✓			
Eastspring Investments MY Focus Fund	✓	✓	✓	
Eastspring Investments Dana al-Ilham	✓			✓

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