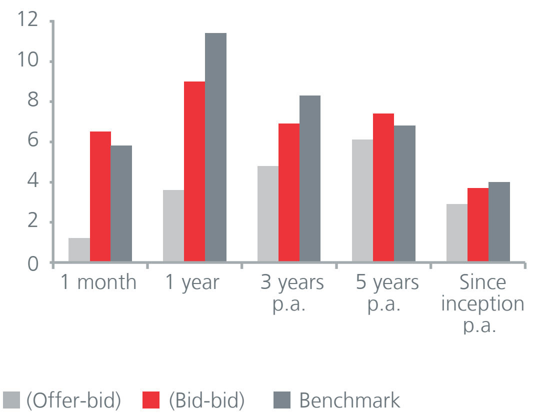
FUND INSIGHTS

BEST OF BOTH WORLDS: INCOME AND STOCK SELECTION IN CYCLICALS AIDED PERFORMANCE

EASTSPRING INVESTMENTS – ASIAN EQUITY INCOME FUND
MAY 2015

Since the start of the year to end-April 2015, the Eastspring Investments – Asian Equity Income Fund ("the Fund") has returned 7.7% (bid-to-bid basis). The bulk of year-to-date performance has been earned in April when the Fund rallied 6.5%. Though a relatively short period, drivers of performance can be attributed to the Fund's key calls made at the start of the year – emphasising the importance of Eastspring's focus on fundamental value without sacrificing premium yields in the Fund's investments.

Fig.1. Performance of the Fund (%)



Source: Eastspring Investments, 30 April 2015. Performance is based in USD on Class A shares and calculated using NAV-NAV pricing with dividends re-invested (if any) and net of all fees. Inception date: Class A 05/09/2007. Benchmark is the MSCI AC Asia Pacific ex Japan index.

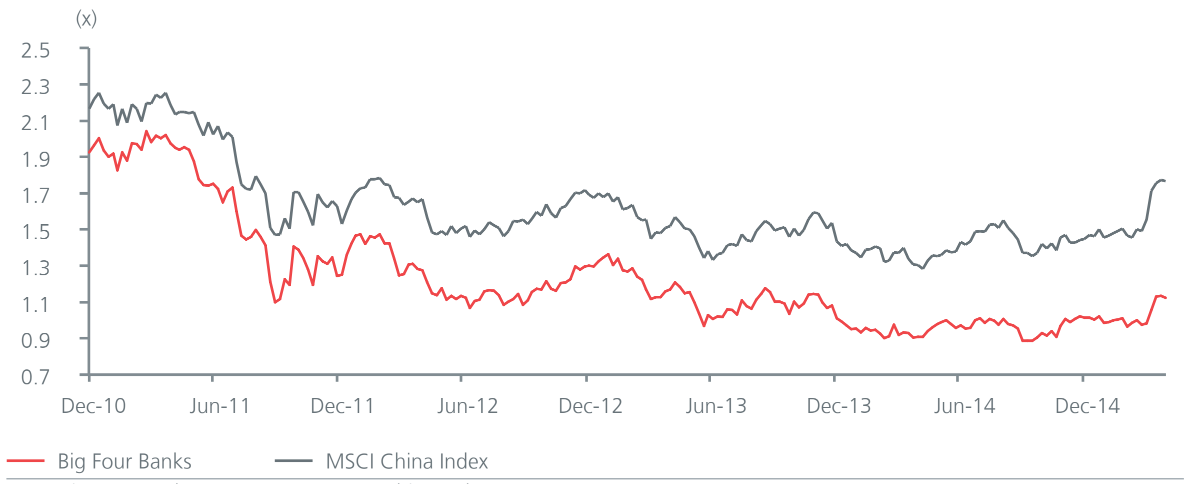
WE STARTED THE YEAR WITH A WEATHER EYE ON CHINA AND A LARGE OVERWEIGHT IN CHINESE BANKS

In our Outlook for 2015, we outlined key points where we believed market sentiment had diverged from fundamentals. We noted that negativity on China was likely overdone. We wrote:

Finally, we believe that investors have been overly discounting Asia's largest economy – China. The Chinese government has walked a fine, but measured line in achieving its stated goals of economic reform and supporting growth. Understandably, investors have been focused on potential banking system credit losses and decelerating economic growth. We believe that the market's short-term apprehension overlooks the medium-term reforms that are positive for China. Furthermore, we believe that the government is monitoring the situation closely and will introduce more measures to support the economy where needed to meet both its medium-term targets.

We had also reiterated our overweight in Chinese banks. As the embodiment of China's credit largesse, Chinese banks had suffered as the market priced in an extreme credit event. The correction left valuations of Chinese banks cheap relative to their sustainable earnings power. Chinese banks in turn became one of the highest yielding sectors – with supportive fundamentals – in the region.

Fig.2. Price-to-book ratio (PBR) of MSCI China index and simple average PBR of China's "Big Four" banks



Source: Bloomberg, Eastspring Investments, 1 May 2015.

POLICY EASING AND STEPS TOWARDS FINANCIAL LIBERALISATION UNDERPINNED RALLY IN CHINESE EQUITIES

China and Hong Kong have been the best performing major equity markets, rising 26% and 16%, relative to the Asia Pacific ex Japan benchmark which rose 11%, since the start of 2015 to end-April[1]. The sharp rally was spurred on by the rapid reversal of sentiment in Chinese equities. Optimism has rebounded as the market took initial easing measures by policymakers as a signal that economic growth would be supported.

Fig.3. Measures implemented

Aim: Support economic growth
Interest rate cuts
Lowered banks' reserve ratios
Gradually rolling-back property cooling measures
Launched an ambitious international infrastructure building program
Aim: Financial liberalisation
Progress towards internationalisation of the Chinese yuan
Deposit insurance scheme for domestic depositors
Southbound investment access via the Hong Kong Shanghai Stock Connect for qualified domestic mutual funds

THE FUND WAS WELL-POSITIONED TO BENEFIT

Already well-positioned in Chinese stocks with cheap relative valuations, the Fund's key overweights captured much of the upside as Chinese equities re-rated.

The Fund's overweight in Chinese banks was a positive contributor to performance. With strong fundamentals, attractive valuations, and premium dividend yields, Chinese banks have been one of the Fund's high-conviction investments since 2013. The active investments in Bank of China Ltd., Industrial & Commercial Bank of China Ltd., and China Construction Bank Corp. added value as their shares advanced, spurred on by buoyant sentiment and signals that the Chinese government stood ready to intervene to pre-empt a hard-landing in China.

One of the largest individual contributors to performance was GOME Electrical Appliances Holding Ltd. GOME is one of the largest electrical appliance retailers in China. Before the Fund invested in GOME, the market had become disenchanted with the company's business model. Fears that e-commerce posed a significant threat to GOME's bread and butter traditional retail business saw investors abandon its stock even as GOME has expanded its online offering.

[1]Source: Eastspring Investments.

As a result, shares of GOME declined more than 70% in local currency terms from 2011 highs to 2014 lows.

After conducting intensive research into GOME, the portfolio manager believed that the sell-off was overdone. The company remained financially sound with a net cash balance sheet and generated healthy free cash flow that underpins its dividend. The pricing episode offered an opportunity to accumulate the company's shares at attractive relative valuations and yield as the market was believed to have overlooked GOME's recovering margins and same store sales growth. Since investing in 2014, the reversal of sentiment has been swift and sharp – GOME's shares have gained 75% since the beginning of the year. On the back of GOME's outperformance, the portfolio manager has trimmed the investment to lock in profits.

NOT JUST FOCUSED ON CHINA: INVESTING FOR YIELD AND VALUE ACROSS ASIA

Despite the market's recent attention on China, the Fund has not been aggressively chasing the rally in Chinese equities. The year-to-date strength in China and Hong Kong markets have moderated the opportunities for investments in undervalued companies. Instead, the Fund has been actively rotating proceeds from outperforming names of 2014, into companies which remain out of favour with the market to earn premium yields and exploit the divergence of their stock price from fundamental value.

One of the most recent additions to the Fund is Shinhan Financial Group Co. Ltd. The company is a Korean bank and financial services holding company. One of the companies in the Group, Shinhan Bank, traces its heritage to the first bank in Korea. The Fund initiated a position in Shinhan as the portfolio manager believes the bank offers attractive relative value as the lender's shares trade below book value despite its profitability. In addition, the lender's shares offer a premium to the low-yielding Korean market and help to narrow the Fund's underweight in Korea. Fundamentally, Shinhan's capital position is strong and the bank has the potential to raise dividends on the back of cost reductions and operational execution.

DIVERSIFIED IN AUSTRALIA

A recent concern for markets has been the downturn in commodity prices. This has weighed on growth in the Australian economy. The slowing growth together with the Reserve Bank of Australia's lowering of interest rates and stated preference for a weaker currency makes investing in higher yielding equities and in particular companies with offshore earnings more attractive. Our stock picking approach leads us to have almost 40% of the Fund's Australian exposure in attractively valued, sustainable yielding offshore earners.

The Fund's commodity exposure is focussed on best-in-class companies that are globally competitive as they produce at the low end of the cost curve. These robust fundamentals should enable our investments to sustain good earnings growth despite weak commodity price conditions and still return dividend streams to shareholders. The portfolio manager remains cautious on Australia's domestic financial companies despite their high dividend yields. The sector is facing multiple headwinds of rising regulatory capital requirements, slowing top line growth, and margin pressure from falling interest rates. In addition, valuations in this sector are looking fully valued and do not offer a high margin of safety for any potential deterioration in credit quality.

CLOSING MESSAGE

We will continue to apply our valuation-oriented process to analyse investments across Asia that offer attractive yields for our clients. By investing in cheap stocks offering premium yields, the Fund seeks to benefit from the best of both worlds – upside potential as undervalued stocks appreciate and earning high sustainable income from its investments.

Furthermore, the focus on value cannot be discounted. As observed in multiple periods over the past few years, the price of undervalued stocks can revert sharply.

Disclaimer

This document is issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H). 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.

United Arab Emirates by Eastspring Investments Limited which 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.

Luxembourg by Eastspring Investments (Luxembourg) S.A., Grand-Duchy of Luxembourg.

United Kingdom by Eastspring Investments (Luxembourg) S.A. – UK Branch, 125 Old Broad Street, London EC2N 1AR.

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 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, which qualifies as Undertaking for Collective in Transferable Securities ("UCITS") under relevant EU legislation.

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) S.A. 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 intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments.

Please refer to the offering documents for details on fees and charges, dealing and redemption, product features, risk factors and seek professional advice before making any investment decision. An investment in the Fund is subject to investment risks, including the possible loss of the principal amount invested. The value of shares in the Fund and the income accruing to the shares, if any, may fall or rise. 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. You should not make any investment decision solely based on this document. Investors may wish to seek advice from a financial adviser before purchasing units of the Fund. In the event that he chooses not to seek advice from a financial adviser, he should consider carefully whether the Fund in question is suitable for him.

Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments. There are limitations to the use of indices as proxies for the past performance in the respective asset classes/sector.

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.

United Kingdom
For the purpose of UK law, the SICAV fund, which information is hereby disclosed, is a recognised 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, 125 Old Broad Street, London EC2N 1AR and on www.eastspring.co.uk.

Norway
The fund has been notified and registered with the Norwegian Financial Supervisory Authority (Finanstilsynet) in accordance with UCITS 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