Eastspring Investments – Dragon Peacock Fund

eastspring investments
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FUND DETAILS

Fund size (mil)	**175.5**
Fund base currency	**USD**
Fund dealing frequency	**Daily**
Net asset value (Class A)	**USD 26.221**
ISIN (Class A)	**LU0259732245**
Inception date (Class A)	**30-Jun-06**
Reference index	
50% MSCI China Index + 50% MSCI India Index	

FUND MEASURES

Number of Securities	56
*3 year tracking error (Class A)	3.4
*3 year sharpe ratio (Class A)	0.6
*3 year volatility (Class A)	15.5

*Source: Morningstar

SECTOR WEIGHTS (%)

Financials	24.7
Information technology	24.0
Consumer discretionary	12.2
Energy	8.4
Materials	7.2
Utilities	5.2
Industrials	4.4
Consumer staples	3.9
Health care	3.1
Cash and others	6.9

COUNTRY WEIGHTS (%)

China related	53.2
India related	43.2
Cash and others	3.6

INVESTMENT OBJECTIVE

This Sub-Fund aims to maximize long-term total return by investing primarily in equity and equity-related instruments of corporations, which are incorporated in, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations, derive substantial revenue from, the People's Republic of China (PRC) and India. The investments of the Sub-Fund include, but are not limited to, listed securities in the Recognised Markets, depository receipts [including American Depository Receipts (ADRs) and Global Depository Receipts (GDRs)], debt securities convertible into common shares, preference shares and warrants.

PERFORMANCE

Cumulative returns (price indexed)

	Cumulative returns (%)				Annualised returns (%)			
	1 m	3 m	YTD	1 y	3 y (p.a.)	5 y (p.a.)	10 y (p.a.)	Since inception (p.a.)
Class A	-0.1	4.7	36.5	33.8	8.9	8.2	1.5	8.8
Reference index	0.4	4.7	41.7	38.8	9.0	9.7	2.4	10.3
Relative	-0.5	0.0	-5.2	-5.0	-0.1	-1.5	-0.9	-1.5

	Rolling 12-month returns (%)				
From	30 Nov 2016	30 Nov 2015	30 Nov 2014	30 Nov 2013	30 Nov 2012
To	30 Nov 2017	30 Nov 2016	30 Nov 2015	30 Nov 2014	30 Nov 2013
Class A	33.8	4.0	-7.3	13.8	1.0
Reference index	38.8	2.8	-9.1	18.8	3.1
Relative	-5.0	1.2	1.8	-5.0	-2.1

(p.a.): per annum. Source: Eastspring Investments (Singapore) Limited. Returns are based in USD and computed on NAV-NAV basis with net income reinvested, if any. Since inception returns for periods less than a year are not annualised.

TOP 10 HOLDINGS (%)

1.	TENCENT HOLDINGS	8.2
2.	INFOSYS LTD	4.6
3.	ALIBABA GROUP HOLDING-SP ADR	4.5
4.	CHINA CONSTRUCTION BANK-H	4.1
5.	IND & COMM BK OF CHINA-H	3.5
6.	PING AN INSURANCE GROUP CO-H	3.2
7.	LARSEN AND TOUBRO	2.4
8.	GAIL INDIA	2.3
9.	BANK OF BARODA	2.3
10.	COAL INDIA	2.1

SHARE CLASS DETAILS

Share class	Currency	Bloomberg ticker	ISIN	Inception date	Initial sales charges % (max)	Annual management fee% (max)	Annual admin fee % (max)	*Minimum initial investment	*Minimum subsequent investment	Distribution frequency	Ex-date	Dividend per share	Annual dividend yield %
A	USD	IOFDRPA LX	LU0259732245	30-Jun-06	5.000	1.750	0.500	USD500	USD50	N.A.	N.A.	N.A.	N.A.
AH	HKD	IODPAHH LX	LU0640798327	15-Jun-11	5.000	1.750	0.500	USD500	USD50	N.A.	N.A.	N.A.	N.A.

Distributions are not guaranteed and may fluctuate. Past distributions are not necessarily indicative of future trends, which may be lower. Distribution payouts and its frequency are determined by the Board of Directors, and can be made out of (a) income; or (b) net capital gains; or (c) capital of the Fund or a combination of any of (a) and/or (b) and/or (c). The payment of distributions should not be confused with the Fund's performance, rate of return or yield. Any payment of distributions by the Fund may result in an immediate decrease in the net asset value per share. Funds with Monthly and Quarterly Distribution Frequency: Annual Dividend Yield = (Dividend amount / Reference NAV) x (No. of calendar days in a year / No. of calendar days in distribution period) x 100%. Funds with Yearly Distribution Frequency: Annual Dividend Yield = (Dividend amount / Total Net Assets) x (No. of calendar days in a year / No. of calendar days in distribution period) x 100%. *Or their near equivalent in any major freely convertible currency of the amounts specified. "N.A.": This share class does not distribute dividends.

		Cumulative returns (%)				Annualised returns (%)				Rolling 12-month returns (%)				
Share class	Currency	1 m	3 m	YTD	1 y	3 y (p.a.)	5 y (p.a.)	10 y (p.a.)	Since inception (p.a.)	30 Nov 2016 - 2017	30 Nov 2015 - 2016	30 Nov 2014 - 2015	30 Nov 2013 - 2014	30 Nov 2012 - 2013
A														
Fund	USD	-0.1	4.7	36.5	33.8	8.9	8.2	1.5	8.8	33.8	4.0	-7.3	13.8	1.0
Reference index	USD	0.4	4.7	41.7	38.8	9.0	9.7	2.4	10.3	38.8	2.8	-9.1	18.8	3.1
Relative	USD	-0.5	0.0	-5.2	-5.0	-0.1	-1.5	-0.9	-1.5	-5.0	1.2	1.8	-5.0	-2.1
AH														
Fund	HKD	0.0	4.5	37.5	34.8	9.1	8.4	–	4.2	34.8	4.1	-7.3	13.8	1.0
Reference index	HKD	0.6	4.5	42.8	39.7	9.3	9.9	–	6.4	39.7	2.8	-9.1	18.9	3.1
Relative	HKD	-0.6	0.0	-5.3	-4.9	-0.2	-1.5	–	-2.2	-4.9	1.3	1.8	-5.1	-2.1

(p.a.): per annum. Source: Eastspring Investments (Singapore) Limited. Returns are based in share class currency and computed on NAV-NAV basis with net income reinvested, if any. Since inception returns for periods less than a year are not annualised. The reference index for the hedged share classes, if any, is also calculated on a hedged basis.

Commentary sources

1.Eastspring Investments (Singapore) Limited

COMMENTARY

Performance Review

Emerging Market equities rose in US dollar terms in November, but fell in local currency terms, to underperform developing markets and in particular the US, which in turn offset losses in Europe. The complicated picture of the world's markets in November was reflected in increased volatility with the VIX index spiking late in the month. But in aggregate, global markets rose to continue their bull run for the year – the US$ MSCI World Index was up 2.2% by month end.

China markets were choppy with the MSCI China index up 1.5% but the local currency Hang Seng and Shanghai index ended up 3.3% and down 2.4% respectively. Many of the indices touched record highs mid-month with tech names leading the charge but profit takers sent year-to-date winners lower by month end. Investors were reminded of the still-evolving regulatory landscape in some newer industries when the regulator unexpectedly capped lending rates with online lenders and revoked license availability, which hurt online lending stocks and related IPOs.

Indian equities also saw a volatile month, declining at the start before rising into the end of the month to end the month lower; MSCI India posted a 0.70% decline. The month end boost came as Moody's rating agency upgraded the country's sovereign debt by one notch to Baa2 and the GST Council made sweeping rate reductions for several consumer related items. The defensive sectors such as IT Services and Utilities fared well. On the other hand, Materials, Healthcare and Industrials were the key sector laggards.

On the economic front, India's real GDP growth recovered to 6.3% on a year-over-year basis in calendar Q3, from 5.7% in Q2.

Key Contributors

The overweight position in Ping An Insurance, Geely Automobile and China National Building Material added to relative performance.

Ping An Insurance was up another 12% in November as the Chinese insurer has seen its share price rise 10 out of the past 11 months. Ping An has had very positive investor sentiment as the company's strong technology looks loaded enough into each business line to lead extra corporate value growth. The company is also benefiting from its competitive edge in the non-life business putting pressure on their key Chinese insurer competitors like PICC and China Pacific Insurance. Despite the strong YTD gains, Ping An currently trades at 13.8x 2018e P/E which continues to make the stock quite compelling among Chinese insurers.

Geely Automobile's share price rose by nearly 13% in November and the stock is now up over 270% YTD as it continues to ramp up its auto sales throughout China. Geely had sold 1.1 million auto sales during the first 11 months of the year and has already reached its full year sales target with one month to spare. The company continues to achieve strong sales growth while reaching new highs for most models with its low to mid end products seeing the highest sales boost. Despite the strong gains in 2017, the company currently trades at an undemanding P/E multiple of 15x 2018e earnings which still makes the stock attractive.

China National Building Material (CNBM) share price rose for a sixth consecutive month as it gained another 9% in November. YTD, the company's share price has risen by over 90% on the back of the acceleration in cement price hikes in major operating regions for CNBM. With cement prices already exceeding the previous peak levels back in 2Q17, the market outlook remains faovurable for cement prices as we continue to be in peak demand season for cement in China until the Lunar New Year holiday in February 2018. CNBM currently trades at a 2018e P/E of only 9x earnings while also generating a dividend yield of around 2.4% which makes it one of the cheaper material stocks in China.

Key Detractors

The overweight positions in Qudian, Li Ning and Rural Electrification weighed on relative performance.

Qudian's share price dropped by 45% in November, impacted by the regulatory tightening on China's online consumer credit business. In addition, Alibaba's Alipay has recently moved to lower interest rates for all related credit products to 24% or less which means that all of Qudian's transactions facilitated via Alipay channels will be subject to no more than 24% annual percentage rate (APR) which was not expected. The company can still charge an APR of 36% or less on its own mobile platform which is still compliant to current Chinese laws. Despite this recent negative sentiment, the Chinese government is currently trying to eliminate the highly risky players and restore reasonable and sustainable market order and as such, we think strong market players like Qudian will likely gain more market share in the online consumer lending space in the medium to long term.

Li Ning's share price corrected by over 10% in November as the Chinese sports apparels maker had some concerns over its slower online sales growth during Single's Day. Despite the slower than expected sales growth on Single's day, the company's same store sales growth has recorded a healthy improvement to mid-single digits last month while its full year online sales growth is tracking the guidance set forth by the company's management. With improving overall sales growth trend and given that Li Ning is only trading at around 16.8x 2018e P/E, which is significantly lower than its global peers like Nike (23x P/E), Adidas (23x P/E) and Under Armour (61x P/E), the company does still continue to look relatively attractive.

Rural Electrification's share price trended down as the pressure on interest rate margins persisted in the most recent quarter, highlighting pricing pressure in the government-sector lending space. At five times earnings and below book valuations, the concerns are largely priced-in, in our opinion.

Fund Activity

Among key trades, the Fund initiated a position in HDFC and added to holdings in Bank of China and Cipla in India. The Fund also trimmed holdings in Bharat Petroleum, Alibaba and Ping An Insurance.

Outlook

Investors will continue to monitor China's balancing act of undertaking reforms while trying to rein in credit expansion and sustain economic growth. With the completion of the 19th National Party Congress, a new group of Politburo Standing Committee members will help drive China's political leadership over the next five years as they support and implement the visions as set forth by Xi Jinpeng. The consistency in the implementation of reforms on state-owned enterprises should support market sentiment and conviction. China's approach towards leverage will continue to interest investors as this structural issue has been weighing down sentiment for some foreign investors towards China's equity markets.

India's economic recovery appears to be on a strong footing to achieve its potential real GDP growth aided by lower interest rates, strong reforms momentum, and a thrust on investments. Also, India is poised to

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harness the lower commodities' price dividend; especially oil's. A stimulus through investments and not subsidies should yield a better quality and sustainable growth in the long term. India's corporate earnings are expected to recover gradually, aided by higher demand, lower interest rates, and a favourable investment cycle. Valuations are fair in light of an impending recovery in earnings.

IMPORTANT INFORMATION

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