iFAST INSTITUTIONAL SERVICES

iFAST Mutual Funds Distribution Report

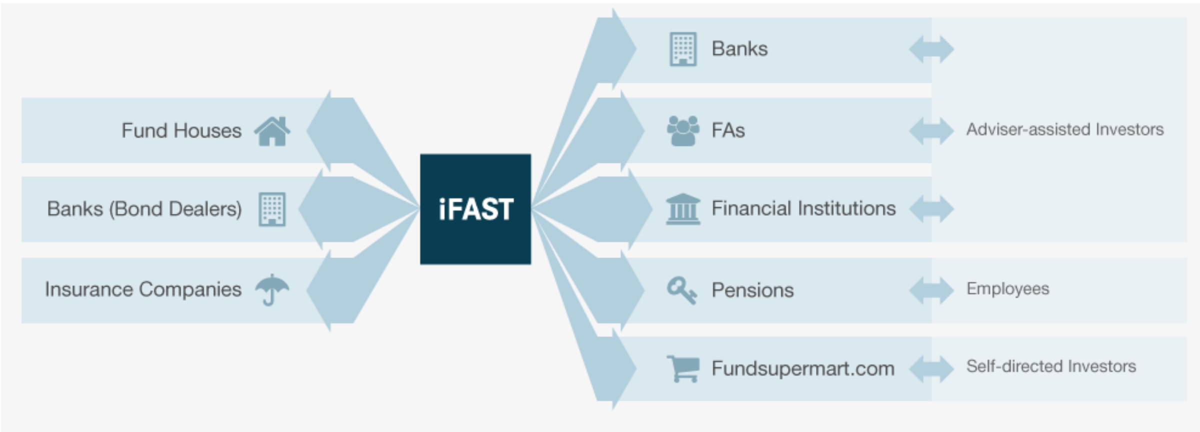
3rd Quarter 2014

A quarterly snapshot of iFAST distribution in Asia

About iFAST

<www.ifastcorp.com>

iFAST Corporation is a leading internet-based funds and investments distribution platform headquartered in Singapore, providing a comprehensive range of services, including investment administration and transactions services, research and investment trainings, IT services and backroom functions to banks, financial advisory firms, financial institutions, multinational companies, as well as retail and high net worth investors in Asia. The company is also present in Hong Kong, China and Malaysia.



About iFAST Institutional Services

<insti.ifastfinancial.com>

iFAST Institutional Services provides back and front office infrastructure support for distribution of over 40,000 funds in 25 countries to financial institutions, fund of funds managers, pension fund managers, family offices and multinational companies. Our services include fund trading and custody, collection and payment of fund rebates, provision of fund information and materials, management of distribution agreements. Through a single point of contact, distributors gain instant access to a large and dynamic fund range, lower transaction costs, reduced operational risk and better commercial terms. For asset managers, our services translate to access to new distribution channels, automated computation and payment of rebates to distributors, minimal servicing costs and cross border distribution.

Our back office support includes IT services such as the development of online distribution channel like Fundsupermart and award-winning integrated mobile applications.

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1.0 Fund Distribution Statistics

Table A1 - Top Equity Fund Categories by AUA

Table A1a - Top Equity Fund Categories by AUA (iFAST Overall)

Rank	SG	HK	MY
1	Asia Equity	Asia Equity	Local Equity
2	Global Equity	Global Equity	Asia Equity
3	GEM Equity	Europe Equity	Global Equity
4	US Equity	US Equity	US Equity
5	Europe Equity	GEM Equity	GEM Equity

Table A1b - Top Equity Fund Categories by AUA (DIY Investors)

Rank	SG	HK	MY
1	Asia Equity	Asia Equity	Local Equity
2	Global Equity	Global Equity	Asia Equity
3	GEM Equity	GEM Equity	Global Equity
4	Local Equity	Europe Equity	US Equity
5	US Equity	US Equity	GEM Equity

Table A1c - Top Equity Fund Categories by AUA (Adviser Assisted)

Rank	SG	HK	MY
1	Asia Equity	Asia Equity	Local Equity
2	Global Equity	Global Equity	Asia Equity
3	GEM Equity	US Equity	Global Equity
4	US Equity	Europe Equity	US Equity
5	Europe Equity	GEM Equity	GEM Equity

Source: iFAST Compilations, data as of end 30-Sep-2014

Table A2 - Top Bond Fund Categories by AUA

Table A2a - Top Bond Fund Categories by AUA (iFAST Overall)

Rank	SG	HK	MY
1	SD and MMF	High Yield Bonds	Local Bonds
2	High Yield Bonds	Global Bonds	SD and MMF
3	Global Bonds	US Bonds	GEM Bonds
4	Local Bonds	GEM Bonds	Asia Bonds
5	Asia Bonds	Asia Bonds	Global Bonds

Table A2b - Top Bond Fund Categories by AUA (DIY Investors)

Rank	SG	HK	MY
1	SD and MMF	High Yield Bonds	Local Bonds
2	High Yield Bonds	Global Bonds	SD and MMF
3	Asia Bonds	Asia Bonds	GEM Bonds
4	Global Bonds	GEM Bonds	Asia Bonds
5	GEM Bonds	US Bonds	Global Bonds

Table A2c - Top Bond Fund Categories by AUA (Adviser Assisted)

Rank	SG	HK	MY
1	SD and MMF	Global Bonds	Local Bonds
2	High Yield Bonds	High Yield Bonds	SD and MMF
3	Global Bonds	US Bonds	GEM Bonds
4	Local Bonds	GEM Bonds	Asia Bonds
5	Asia Bonds	Local Bonds	Global Bonds

Source: iFAST Compilations, data as of end 30-Sep-2014

Table A3 - Top Selling Equity Funds

A3SG - SG Top Selling Equity Fund for the Quarter

Table A3SGa - SG Top Selling Equity Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	First State Dividend Advantage	Asia Equity
2	Schroder Asian Growth Fund	Asia Equity
3	Aberdeen Global Emerging Markets	GEM Equity
4	Aberdeen Pacific Equity	Asia Equity
5	Aberdeen Thailand Equity	Asia Equity
6	First State Regional China Fund	Asia Equity
7	Fidelity China Focus A SGD	Asia Equity
8	Aberdeen Global Opportunities	Global Equity
9	Aberdeen India Opportunities	Asia Equity
10	Aberdeen China Opportunities	Asia Equity

Table A3SGb - SG Top Selling Equity Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	First State Dividend Advantage	Asia Equity
2	Aberdeen India Opportunities	Asia Equity
3	Aberdeen Thailand Equity	Asia Equity
4	Aberdeen Indonesia Equity	Asia Equity
5	Fidelity China Focus A SGD	Asia Equity
6	First State Regional China Fund	Asia Equity
7	PineBridge India Equity A5 SGD	Asia Equity
8	Schroder Asian Growth Fund	Asia Equity
9	Aberdeen Pacific Equity	Asia Equity
10	Aberdeen China Opportunities	Asia Equity

Table A3SGc - SG Top Selling Equity Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	First State Dividend Advantage	Asia Equity
2	Aberdeen Global Emerging Markets	GEM Equity
3	Aberdeen Pacific Equity	Asia Equity
4	Schroder Asian Growth Fund	Asia Equity
5	Aberdeen Global Opportunities	Global Equity
6	DWS China Eqty Fund Cl A SGD	Asia Equity
7	First State Regional China Fund	Asia Equity
8	Aberdeen China Opportunities	Asia Equity
9	Aberdeen Thailand Equity	Asia Equity
10	Fidelity China Focus A SGD	Asia Equity

Source: iFAST Compilations, data as of end 30-Sep-2014

A3HK - HK Top Selling Equity Fund for the Quarter

Table A3HKa - HK Top Selling Equity Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	First State China Growth Fund (USD) I	Asia Equity
2	First State Asian Equity Plus Fund (USD) I Dis	Asia Equity
3	Templeton Global Fund (USD) A(acc)	Global Equity
4	First State Global Listed Infrastructure Fund (USD) I	Global Equity
5	Invesco Korean Equity Fund (USD) A	Asia Equity
6	Aberdeen Global - World Equity Fund (USD) A2	Global Equity
7	First State Greater China Growth Fund (USD) I	Asia Equity
8	Eastspring Investments - Dragon Peacock (USD) A	Asia Equity
9	Macquarie Asia New Stars Fund (USD) A2	Asia Equity
10	Franklin MENA Fund (USD) A(acc)	EEMEA Equity

Table A3HKb - HK Top Selling Equity Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	First State China Growth Fund (USD) I	Asia Equity
2	Eastspring Investments - Dragon Peacock (USD) A	Asia Equity
3	Franklin MENA Fund (USD) A(acc)	EEMEA Equity
4	Fidelity Funds - China Focus Fund A-USD	Asia Equity
5	First State Asian Equity Plus Fund (USD) I Dis	Asia Equity
6	China Southern Dragon Dynamic Fund - China New Balance Opportunity Fund (USD) A	Asia Equity
7	Franklin India Fund (USD) A (acc)	Asia Equity
8	Adequity Trust - Lyxor Selection China A Fund (USD)	Asia Equity
9	PineBridge India Equity Fund (USD) A	Asia Equity
10	Fidelity Funds - Greater China Fund A-USD	Asia Equity

Table A3HKc - HK Top Selling Equity Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	First State China Growth Fund (USD) I	Asia Equity
2	Templeton Global Fund (USD) A(acc)	Global Equity
3	First State Asian Equity Plus Fund (USD) I Dis	Asia Equity
4	First State Global Listed Infrastructure Fund (USD) I	Global Equity
5	Macquarie Asia New Stars Fund (USD) A2	Asia Equity
6	Neuberger Berman US Multi Cap Opportunities Fund (USD)1 A Acc	US Equity
7	Aberdeen Global - World Equity Fund (USD) A2	Global Equity
8	Invesco Korean Equity Fund (USD) A	Asia Equity
9	First State Greater China Growth Fund (USD) I	Asia Equity
10	M&G Global Leaders Fund (USD) Class A	Global Equity

Source: iFAST Compilations (data excludes CIES eligible funds), data as of end 30-Sep-2014

A3MY - MY Top Selling Equity Fund for the Quarter

Table A3MYa - MY Top Selling Equity Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	Kenanga Growth Fund	Local Equity
2	Eastspring Investments Small-Cap Fund	Local Equity
3	AmPrecious Metals	Global Equity
4	Affin Hwang Select Asia (Ex Japan) Quantum Fund	Asia Equity
5	Affin Hwang AIIMAN Growth Fund	Local Equity
6	Eastspring Investments MY Focus Fund	Local Equity
7	Eastspring Investments Dana Al-Ilham	Local Equity
8	CIMB-Principal Asia Pacific Dynamic Income Fund	Asia Equity
9	Kenanga Syariah Growth Fund	Local Equity
10	AMB Ethical Trust Fund	Local Equity

Table A3MYb - MY Top Selling Equity Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	Kenanga Growth Fund	Local Equity
2	Eastspring Investments Small-Cap Fund	Local Equity
3	AmPrecious Metals	Global Equity
4	Affin Hwang Select Asia (Ex Japan) Quantum Fund	Asia Equity
5	CIMB-Principal Asia Pacific Dynamic Income Fund	Asia Equity
6	Eastspring Investments MY Focus Fund	Local Equity
7	AmAsia Pacific Equity Income	Asia Equity
8	AmGlobal Agribusiness	Global Equity
9	Affin Hwang AIIMAN Growth Fund	Local Equity
10	Aberdeen Islamic World Equity Fund - Class A	Global Equity

Table A3MYc - MY Top Selling Equity Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	Kenanga Growth Fund	Local Equity
2	Eastspring Investments Small-Cap Fund	Local Equity
3	Affin Hwang AIIMAN Growth Fund	Local Equity
4	Eastspring Investments Dana Al-Ilham	Local Equity
5	Affin Hwang Select Asia (Ex Japan) Quantum Fund	Asia Equity
6	Eastspring Investments MY Focus Fund	Local Equity
7	AmPrecious Metals	Global Equity
8	AMB Ethical Trust Fund	Local Equity
9	Kenanga Syariah Growth Fund	Local Equity
10	CIMB-Principal Asia Pacific Dynamic Income Fund	Asia Equity

Source: iFAST Compilations, data as of end 30-Sep-2014

Table A4 - Top Selling Bond Funds

A4SG - SG Top Selling Bond Fund for the Quarter

Table A4SGa - SG Top Selling Bond Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	United SGD Fund Cl A Acc	SD and MMF
2	Nikko AM Shenton ShortTerm Bond(S$)	SD and MMF
3	Cash Fund	SD and MMF
4	Allianz US High Yield AM Dis H2-SGD	High Yield Bonds
5	Eastspring Investments MIP M	High Yield Bonds
6	LionGlobal SGD Money Market	SD and MMF
7	Nikko AM China Onshore Bond Fund RMB	Asia Bonds
8	Fidelity Asian HY AMDIST SGD Hedged	High Yield Bonds
9	Phillip Money Market	SD and MMF
10	LionGlobal Short Duration Bond Fund	Global Bonds

Table A4SGb - SG Top Selling Bond Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	Nikko AM Shenton ShortTerm Bond(S$)	SD and MMF
2	Cash Fund	SD and MMF
3	United SGD Fund Cl A Acc	SD and MMF
4	Allianz US High Yield AM Dis H2-SGD	High Yield Bonds
5	Fidelity Asian HY AMDIST SGD Hedged	High Yield Bonds
6	Eastspring Investments MIP M	High Yield Bonds
7	United Asian Bond Fund Class SGD	Asia Bonds
8	LionGlobal SGD Money Market	SD and MMF
9	Legg Mason WA Global HY Fd A SGD H (mdis) plus	High Yield Bonds
10	AB Glb High Yield-AT SGD-H	High Yield Bonds

Table A4SGc - SG Top Selling Bond Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	United SGD Fund Cl A Acc	SD and MMF
2	Allianz US High Yield AM Dis H2-SGD	High Yield Bonds
3	Eastspring Investments MIP M	High Yield Bonds
4	Nikko AM China Onshore Bond Fund RMB	Asia Bonds
5	Cash Fund	SD and MMF
6	Nikko AM Shenton ShortTerm Bond(S$)	SD and MMF
7	Phillip Money Market	SD and MMF
8	LionGlobal Short Duration Bond Fund	Global Bonds
9	Schroder Asian Inv Grade Credit Cl A	Asia Bonds
10	DWS Lion Bond Cl A	Global Bonds

Source: iFAST Compilations, data as of end 30-Sep-2014

A4HK - HK Top Selling Bond Fund for the Quarter

Table A4HKa - HK Top Selling Bond Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	Principal GIF - High Yield Fund A Class QDis (USD)	High Yield Bonds
2	Allianz US High Yield (USD) A MDis	High Yield Bonds
3	Principal GIF - High Yield Fund A Class Acc (USD)	High Yield Bonds
4	Jupiter Global Fund - Jupiter Dynamic Bond (USD) L Q-Inc	Global Bonds
5	Allianz US High Yield (H2-AUD) A MDis	High Yield Bonds
6	Templeton Global Total Return Fund (USD) A (acc)	Global Bonds
7	Franklin High Yield Fund (USD) A(Mdis)	High Yield Bonds
8	Fidelity Funds - Asian High Yield Fund A-Mdist-HKD	High Yield Bonds
9	AllianceBernstein - Global High Yield Portfolio (HKD) AT	High Yield Bonds
10	Allianz US High Yield (USD) AT	High Yield Bonds

Table A4HKb - HK Top Selling Bond Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	Allianz US High Yield (USD) A MDis	High Yield Bonds
2	Franklin High Yield Fund (USD) A(Mdis)	High Yield Bonds
3	Fidelity Funds - Asian High Yield Fund A-Mdist-HKD	High Yield Bonds
4	AllianceBernstein - Global High Yield Portfolio (HKD) AT	High Yield Bonds
5	Allianz US High Yield (H2-AUD) A MDis	High Yield Bonds
6	Franklin Floating Rate Fund plc (USD) A (Mdis)	Global Bonds
7	BlackRock Global Funds - Asian Tiger Bond Fund (USD) A3 Mdis	Asia Bonds
8	Invesco Emerging Markets Bond Fund (USD) A Dist	GEM Bonds
9	BEA Union Investment Asian Bond and Currency Fund (USD) A Acc	Asia Bonds
10	E Fund RMB Fixed Income Fund (RMB) Class A	RMB Bonds

Table A4HKc - HK Top Selling Bond Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	Principal GIF - High Yield Fund A Class QDis (USD)	High Yield Bonds
2	Principal GIF - High Yield Fund A Class Acc (USD)	High Yield Bonds
3	Jupiter Global Fund - Jupiter Dynamic Bond (USD) L Q-Inc	Global Bonds
4	Templeton Global Total Return Fund (USD) A (acc)	Global Bonds
5	Allianz US High Yield (USD) A MDis	High Yield Bonds
6	Allianz US High Yield (USD) AT	High Yield Bonds
7	Allianz US High Yield (H2-AUD) A MDis	High Yield Bonds
8	IP Renminbi High Yield Bond Fund (USD) 2A Acc	High Yield Bonds
9	Aberdeen Global - Select Emerging Markets Bond Fund (USD) A2	GEM Bonds
10	Principal GIF - Preferred Securities Fund - A Class QDis Unit (USD)	Global Bonds

Source: iFAST Compilations (data excludes CIES eligible funds), data as of end 30-Sep-2014

A4MY - MY Top Selling Bond Fund for the Quarter

Table A4MYa - MY Top Selling Bond Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	RHB-OSK Cash Management Fund 2	SD and MMF
2	Affin Hwang AIIMAN Income Plus Fund	Local Bonds
3	AmBond	Local Bonds
4	Eastspring Investments Bond Fund	Local Bonds
5	RHB-OSK Money Market Fund	SD and MMF
6	AmIncome Plus	Local Bonds
7	AMB Income Trust Fund	Local Bonds
8	Kenanga Bond Fund	Local Bonds
9	AmBon Islam	Local Bonds
10	Affin Hwang Select Bond Fund - MYR	Asia Bonds

Table A4MYb - MY Top Selling Bond Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	RHB-OSK Cash Management Fund 2	SD and MMF
2	AMB Income Trust Fund	Local Bonds
3	Kenanga Bond Fund	Local Bonds
4	Eastspring Investments Bond Fund	Local Bonds
5	Maybank Global Bond Fund	Global Bonds
6	KAF Bond Fund	Local Bonds
7	AMB Dana Arif Class A-MYR	Local Bonds
8	RHB-OSK Money Market Fund	SD and MMF
9	RHB-OSK Emerging Markets Bond Fund	GEM Bonds
10	CIMB-Principal Strategic Bond Fund	Equity Exposed Bonds

Table A4MYc - MY Top Selling Bond Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	Affin Hwang AIIMAN Income Plus Fund	Local Bonds
2	AmBond	Local Bonds
3	RHB-OSK Cash Management Fund 2	SD and MMF
4	Eastspring Investments Bond Fund	Local Bonds
5	RHB-OSK Money Market Fund	SD and MMF
6	AmIncome Plus	Local Bonds
7	AmBon Islam	Local Bonds
8	Affin Hwang Select Bond Fund - MYR	Asia Bonds
9	Opus Dynamic Income Fund	Local Bonds
10	CIMB-Principal Bond Fund	Local Bonds

Source: iFAST Compilations, data as of end 30-Sep-2014

A5SG - iFAST Pensions Top Selling Funds

Table A5SGa - SG Top Selling Funds for the Quarter (iFAST Pensions)

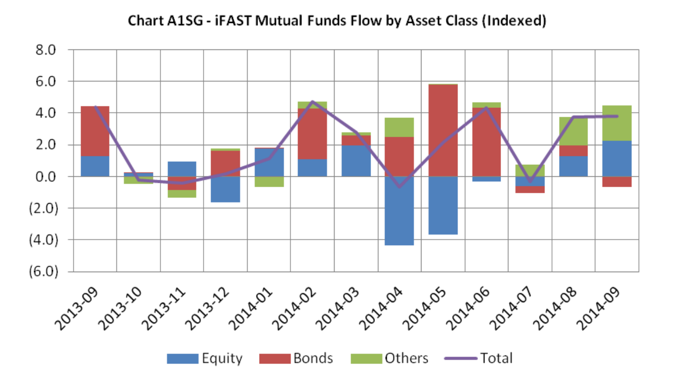
Rank	Fund Name	Region
1	LionGlobal SGD Money Market	SD and MMF
2	Phillip Money Market	SD and MMF
3	Infinity Global Stock Index	Global Equity
4	Cash Fund	SD and MMF
5	LionGlobal Short Duration Bond Fund	Global Bonds
6	Vanguard Global Bond Index Fund USD Hedged	Global Bonds
7	Vanguard U.S. 500 Stock Index Fund	US Equity
8	Aberdeen Global Opportunities	Global Equity
9	FTIF-Templeton Glb Bond A(mdis) SGD-H1	Global Bonds
10	Vanguard Global Stock Index Fund	Global Equity

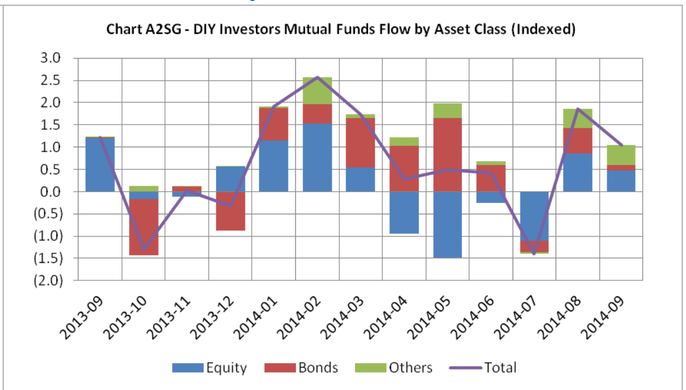
Source: iFAST Compilations, data as of end 30-Sep-2014

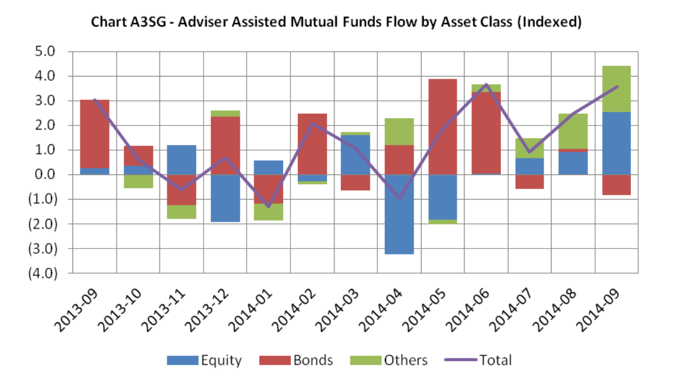
2.0 Mutual Funds Flow by Asset Classes

Singapore

Charts ASG – Net Funds Flow (total inflow less total outflow)







Source: iFAST Compilations, Total inflow less total outflow

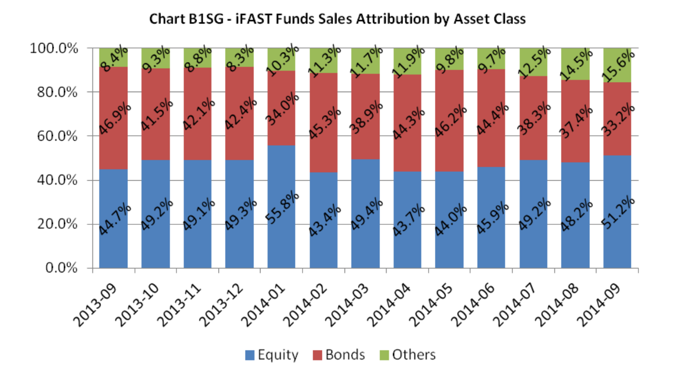
Our Commentary

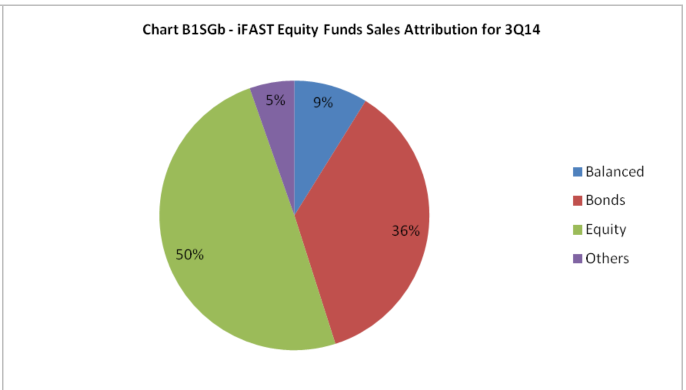
The net fund flow trend in 3Q14 surprised us. Typically, the fund flow trend is usually into equity or bond funds but in this quarter, it appeared to have bucked the trend. With reference to Chart A1SG, we can see that there were strong interest in mutual funds classified under “Others”. In our compilation, mutual funds that do not fall under the typical long only equity or bond funds are classified under “Others”. This small subset of the mutual funds universe is readily available on our platform.

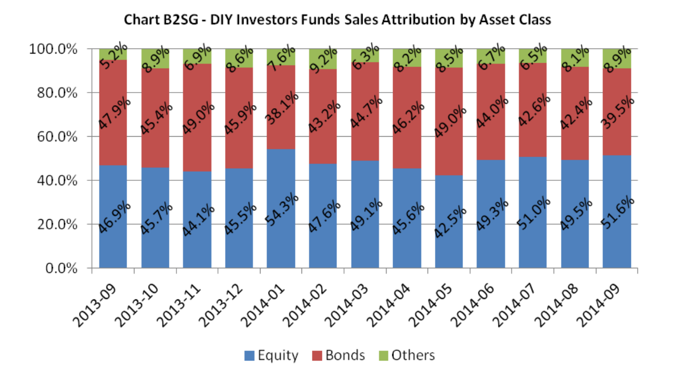
This classification is primarily made up of alternative investments strategies that are more commonly applied by hedge fund managers, strategies such as tactical asset allocation, equity long-short (130/30 or 150/50), managed futures and absolute return funds. These strategies tend to gain popularity among investors when there is a lack of clear market direction or when investors are turning cautious towards risk assets, which incidentally characterised the global equity markets in 3Q14.

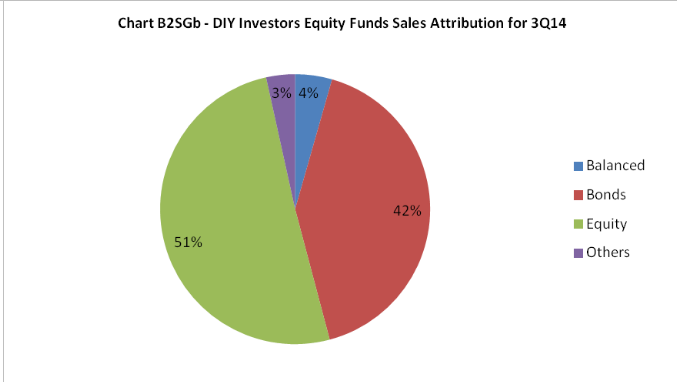
As we delved deeper into the data, we observed that funds that target to generate high distribution yield to end investors were highly sought after in 3Q14 as they accounted for over 80% of total flows into the “Others” classification.

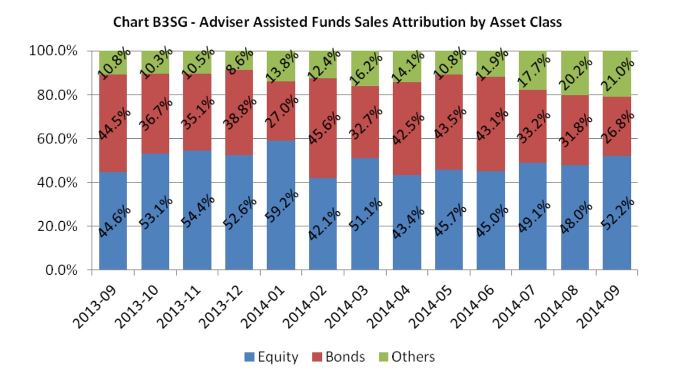
Charts BSG – Mutual Funds Sales Distribution

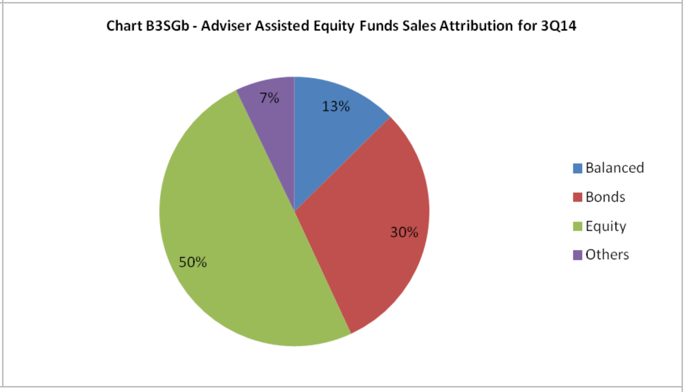








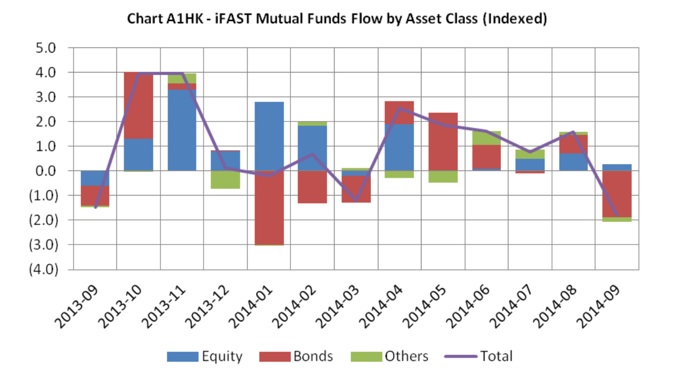


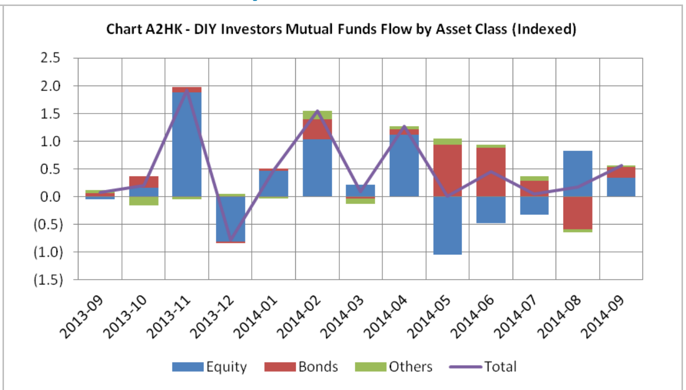


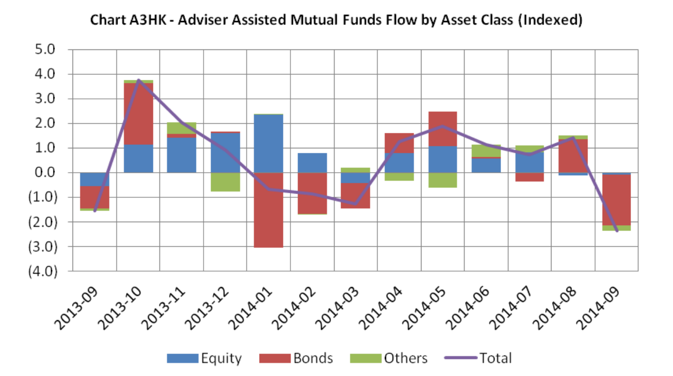
Source: iFAST Compilations, relative to total inflow

Hong Kong

Charts AHK – Net Funds Flow (total inflow less total outflow)







Source: iFAST Compilations, Total inflow less total outflow

Our Commentary

Unlike the previous quarter, the 3Q14 fund flow trend was distinctly different between Hong Kong investors and Singapore investors. While both Singapore and Hong Kong investors have access to a similar range of mutual funds, the list of alternative investments strategies available for both locale are relatively different. We believe the availability of products is a primary reason for this difference observed in 3Q14.

In addition, we also observed that the net flow of Hong Kong investors is currently exhibiting a downward trend, with its previous peak observed in April 2014. The trend is attributed to adviser assisted clients (see Chart A3HK) as they slowed down their asset accumulation progressively in 2Q14 before recording a massive outflow, specifically in bond funds, in September 2014. However, we believe this downward trend may find some respite if not a full reversal in the coming months, guided by the money flows of DIY investors in August and September 2014 (see Chart A2HK) which tends to be a leading indicator for the adviser-assisted investors to follow.

Charts BHK – Mutual Funds Sales Distribution

Chart B1HK - iFAST Funds Sales Attribution by Asset Class

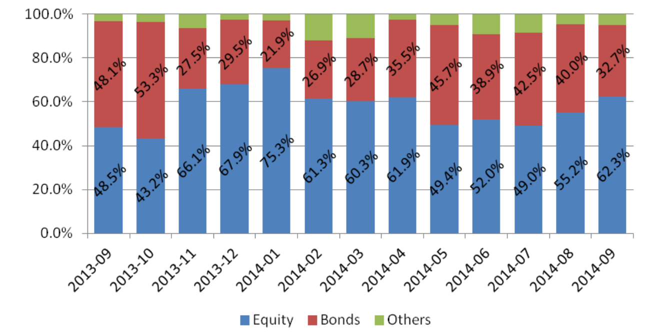


Chart B1HKb - iFAST Equity Funds Sales Attribution for 3Q14

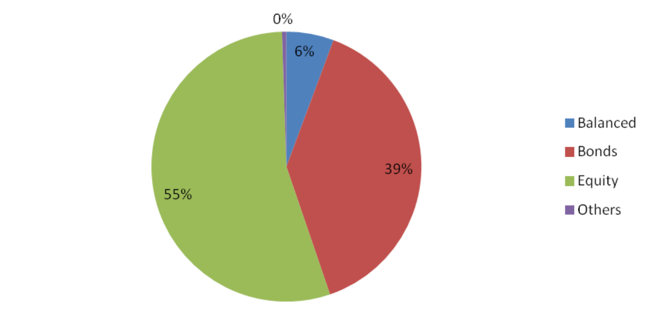


Chart B2HK - DIY Investors Funds Sales Attribution by Asset Class

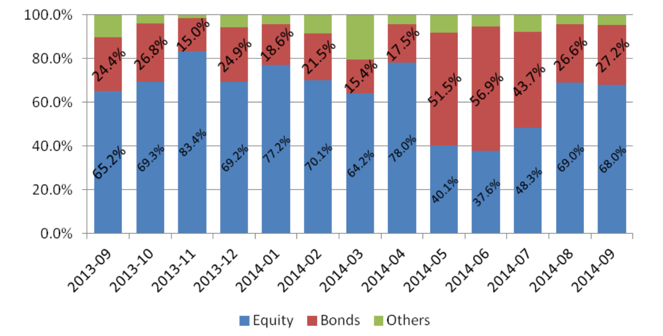


Chart B2HKb - DIY Investors Equity Funds Sales Attribution for 3Q14

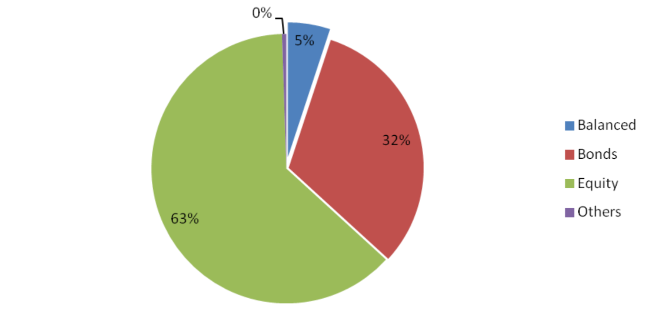


Chart B3HK - Adviser Assisted Funds Sales Attribution by Asset Class

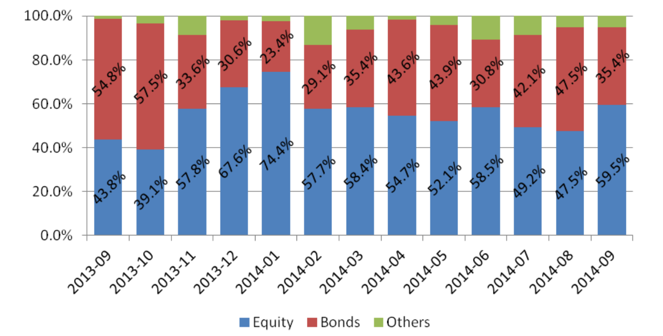
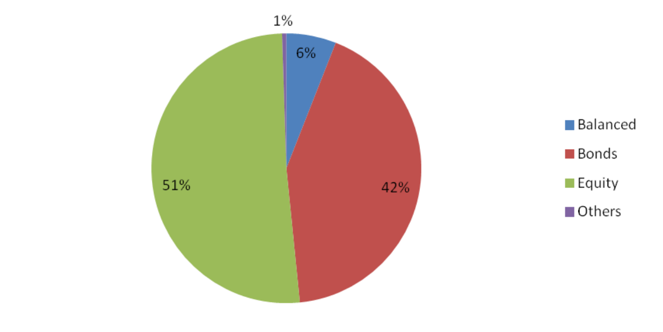


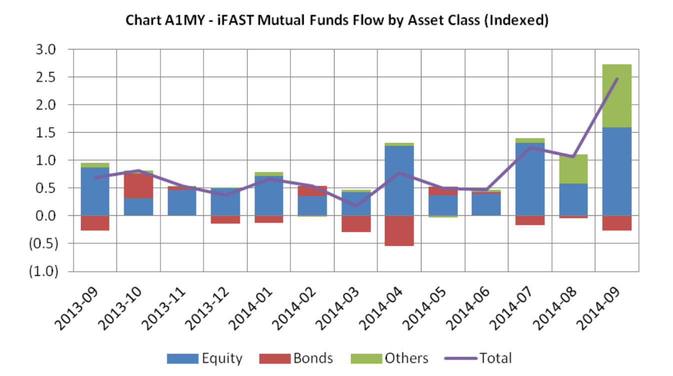
Chart B3HKb - Adviser Assisted Equity Funds Sales Attribution for 3Q14

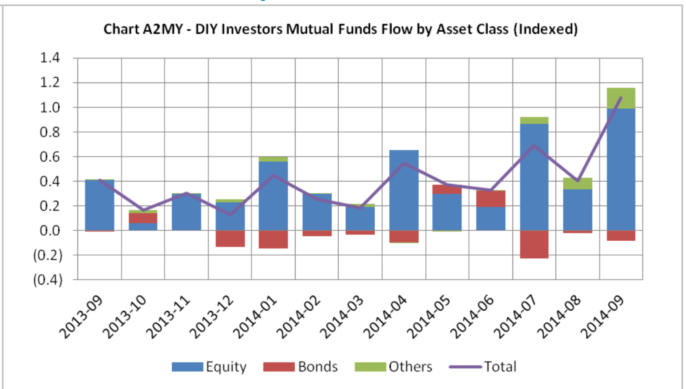


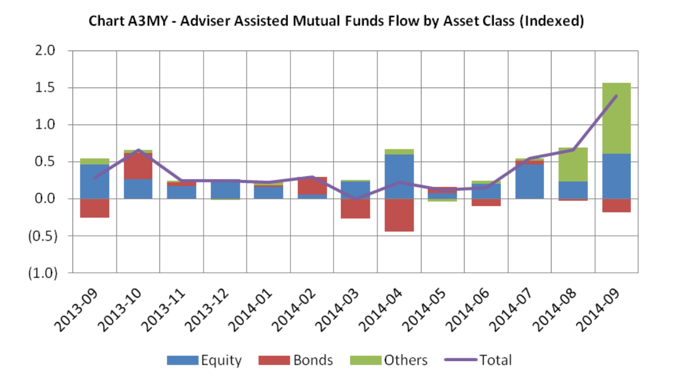
Source: iFAST Compilations, relative to total inflow

Malaysia

Charts AMY – Net Funds Flow (total inflow less total outflow)







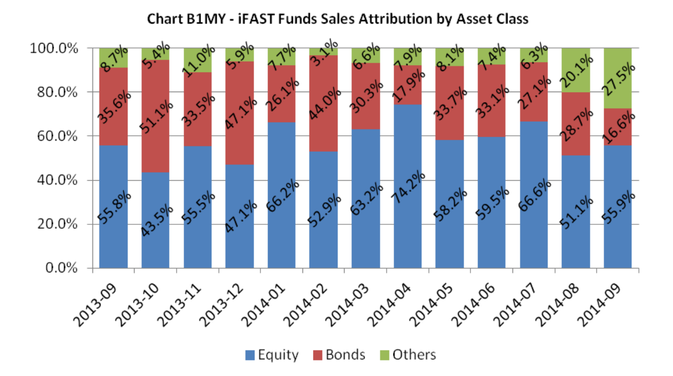
Source: iFAST Compilations, Total inflow less total outflow

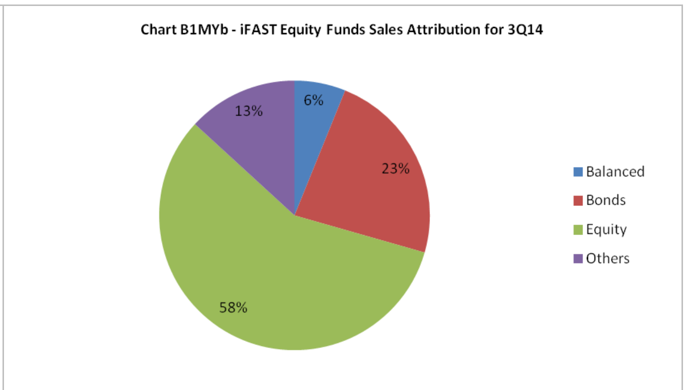
Our Commentary

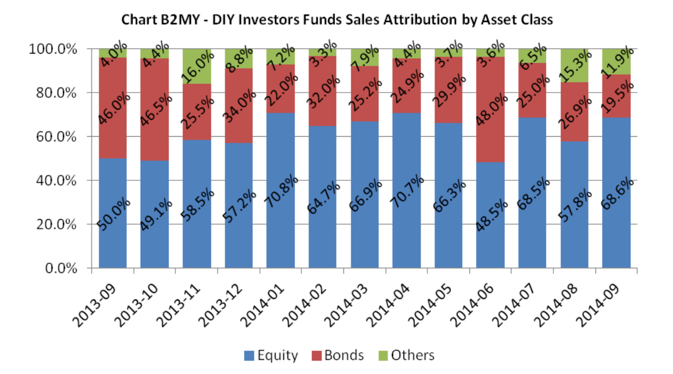
While we have long observed Malaysian investors exhibiting unique investment behavior relative to Singapore and Hong Kong investors, we were relatively surprised by the sudden surge in asset accumulation in 3Q14. Net flows into equity funds saw record high in July and the record was subsequently broken again in September. The strong inflow was heavily influenced by DIY investors whose appetite for risk assets continue to increase.

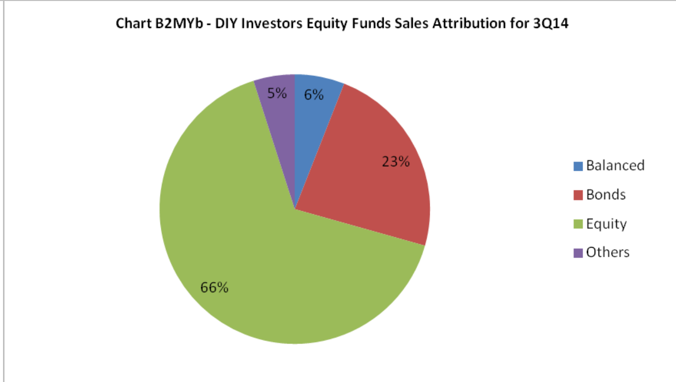
It is also worthy to note that the surge in interest for funds classified under "Others". The strong surge was primarily an outcome of interest in a closed-ended private equity fund which saw subscription ending in September 2014. Therefore we do not believe that an upward trend is developing. 4Q14 data will likely show that the interest in funds classified under "Others" to be muted similar to the periods observed in the charts above.

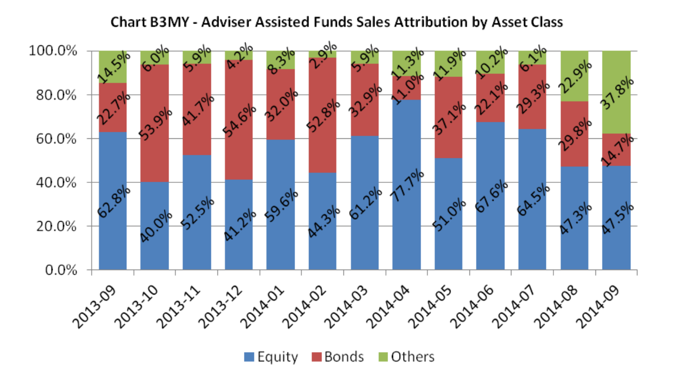
Charts BMY – Mutual Funds Sales Distribution

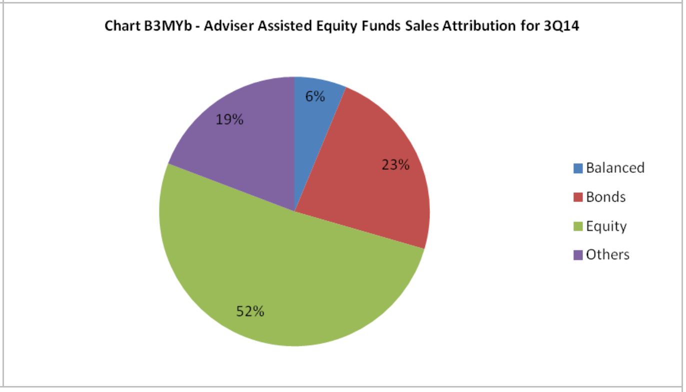










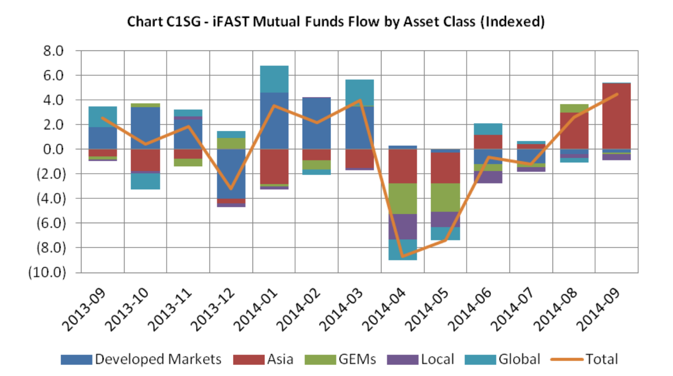


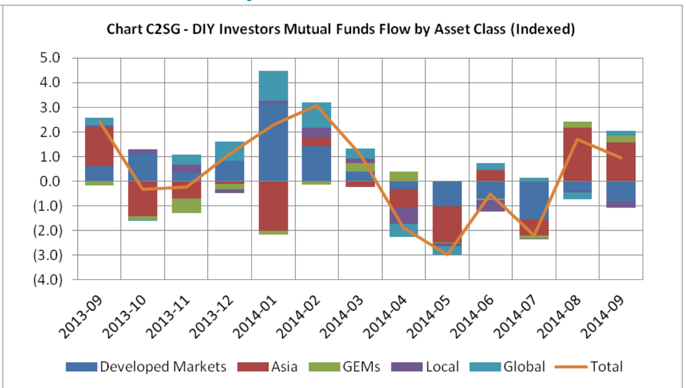
Source: iFAST Compilations, relative to total inflow

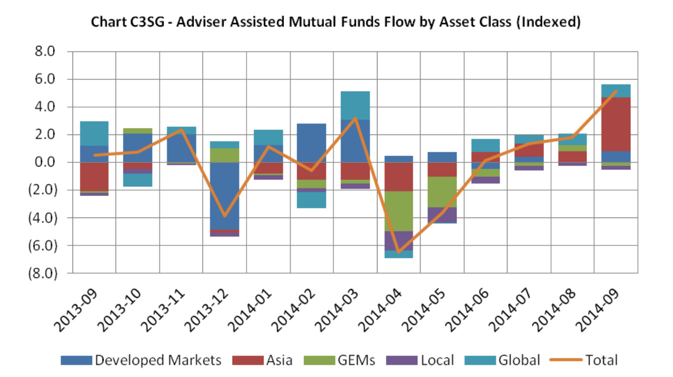
3.0 Equity Funds Flow

Singapore

Charts CSG – Net Funds Flow (total inflow less total outflow)







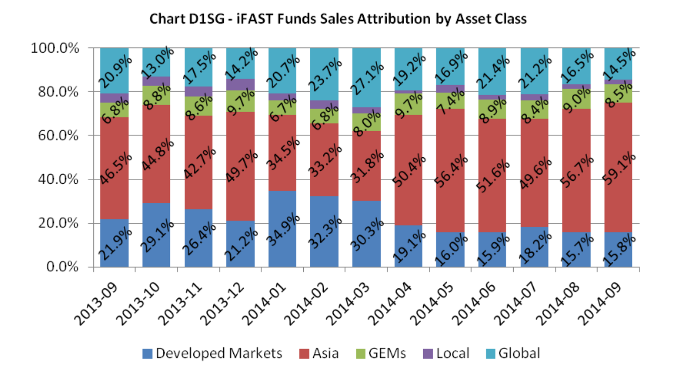
Source: iFAST Compilations, Total inflow less total outflow

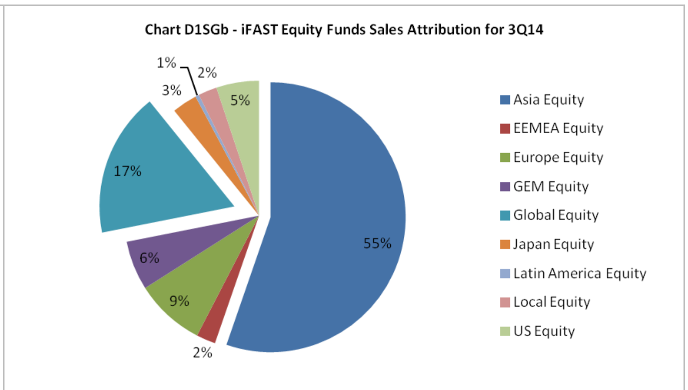
Our Commentary

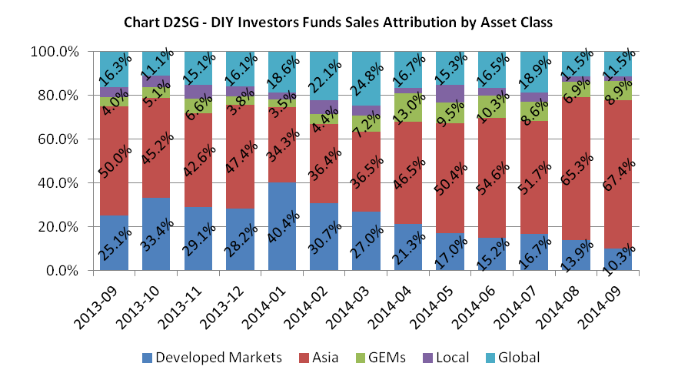
The appetite for risk appears to be improving for investors in Singapore. After four straight months of net outflow, investors are once again accumulating equities in their portfolio. As Chart C1SG shows, risk aversion peaked in April 2014 with a broad sell-off of equities in all regions. The outflows then slowed over the months and turned positive once again in August and September 2014. However, the recent pick up is due to the strong interest in Asian equity funds, which prior to this new trend, had been shunted by investors for a very long time.

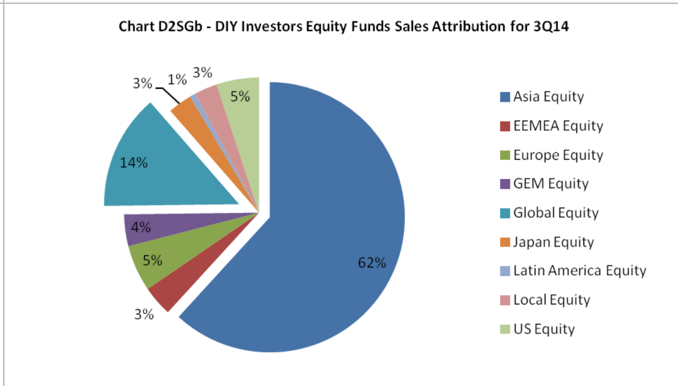
While we do see similar uptrend for both adviser assisted investors and DIY investors, the overall trend is dominated by the investment behaviors of adviser assisted investors (Chart C1SG shows a stronger correlation against Chart C3SG).

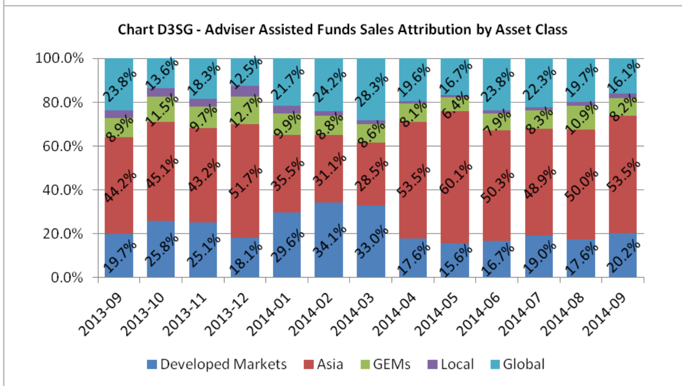
Charts DSG – Mutual Funds Sales Distribution

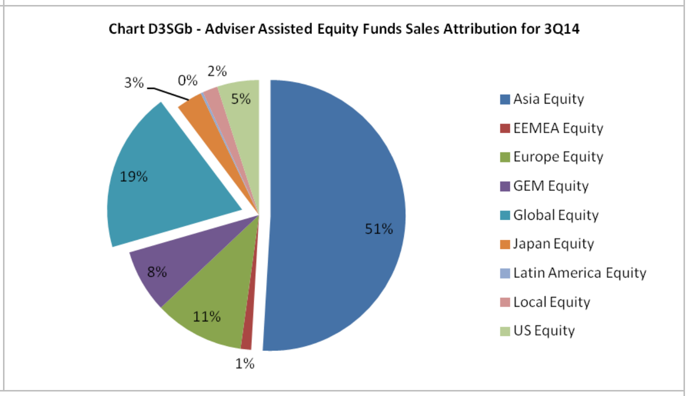








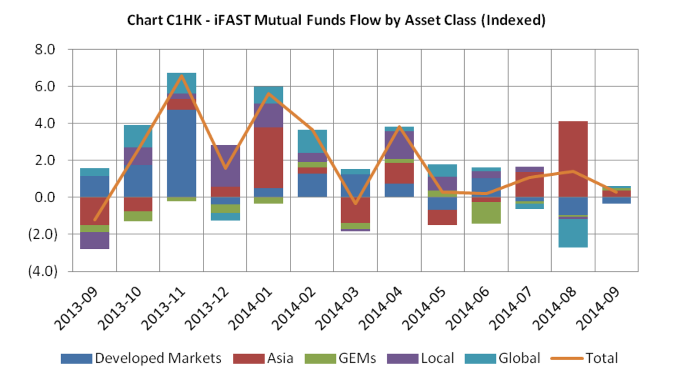


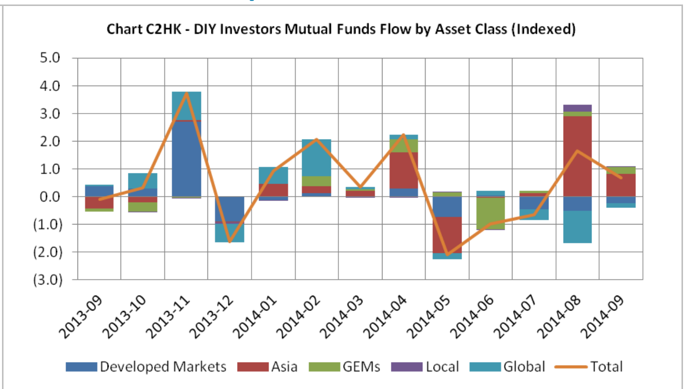


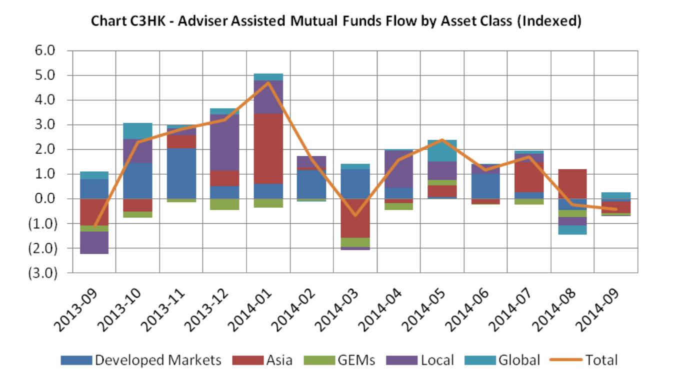
Source: iFAST Compilations, relative to total inflow

Hong Kong

Charts CHK – Net Funds Flow (total inflow less total outflow)







Source: iFAST Compilations, Total inflow less total outflow

Our Commentary

For the case of Hong Kong investors, we did not observe a similar uptrend for equity fund flows that we observed for Singapore investors. We noted a similar preference for Asian equity fund flows in August 2014 for Hong Kong investors. Over the reporting period, August 2014 recorded the strongest net flows into Asian equity fund, led by the particularly strong interest from the DIY investors. Despite the strong support from Asian equity fund flows, overall equity fund flows were relatively flat in 3Q14 as there were redemption across almost all other regional equity funds. On the whole, with reference to the three charts above, we are unable to identify a dominant trend, suggesting that Hong Kong investors remains undecided.

Charts DHK – Mutual Funds Sales Distribution

Chart D1HK - iFAST Funds Sales Attribution by Asset Class

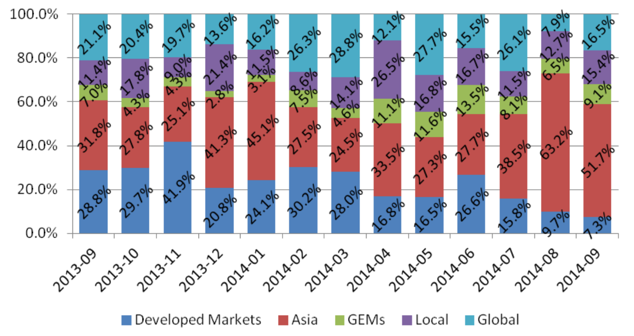


Chart D1HKb - iFAST Equity Funds Sales Attribution for 3Q14

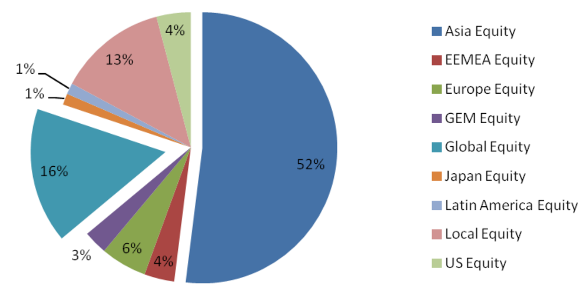


Chart D2HK - DIY Investors Funds Sales Attribution by Asset Class

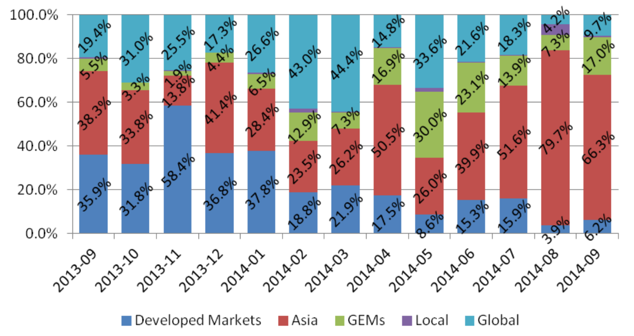


Chart D2HKb - DIY Investors Equity Funds Sales Attribution for 3Q14

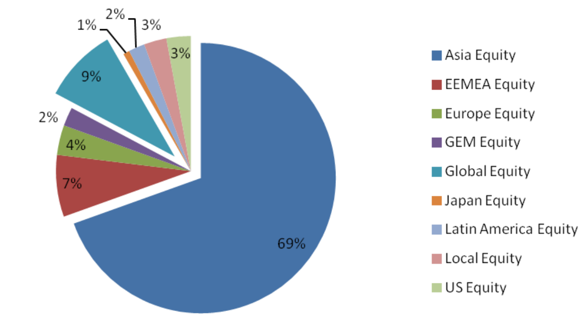


Chart D3HK - Adviser Assisted Funds Sales Attribution by Asset Class

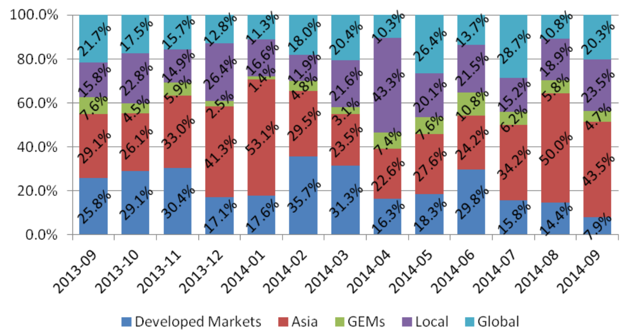
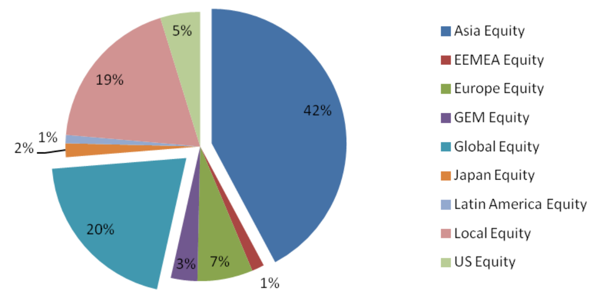


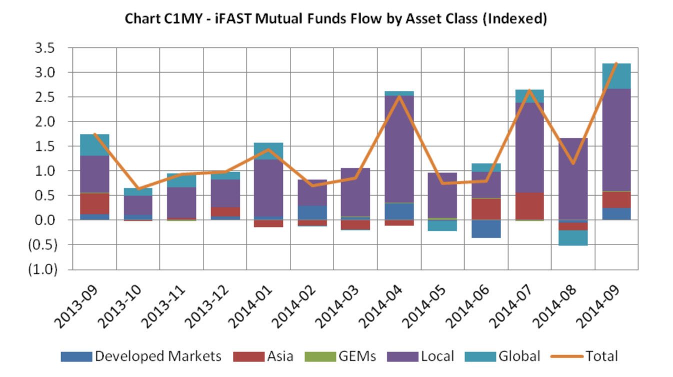
Chart D3HKb - Adviser Assisted Equity Funds Sales Attribution for 3Q14

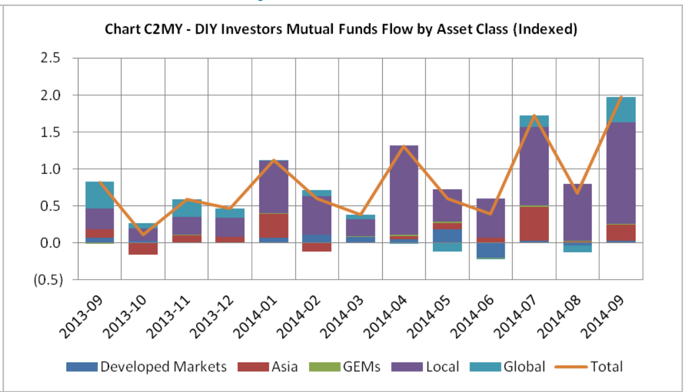


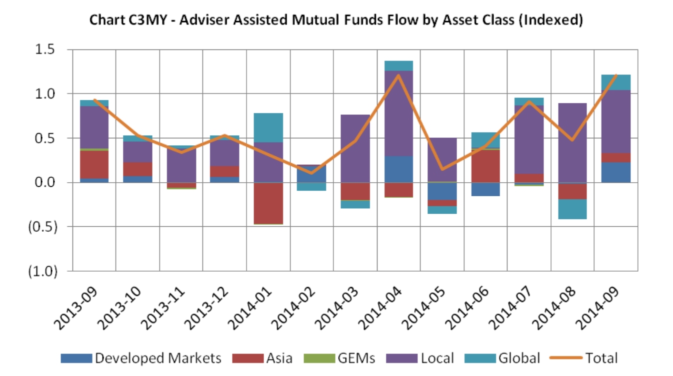
Source: iFAST Compilations, relative to total inflow

Malaysia

Charts CMY – Net Funds Flow (total inflow less total outflow)







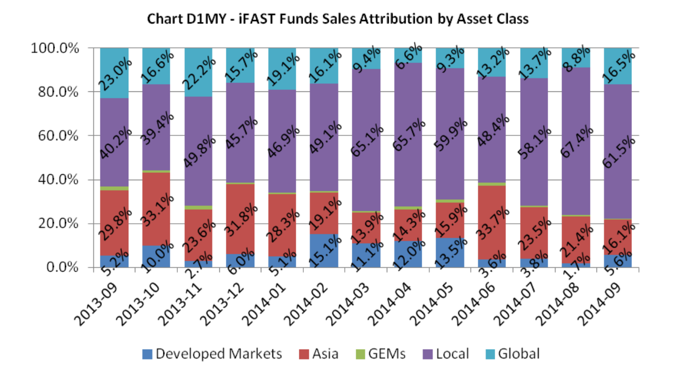
Source: iFAST Compilations, Total inflow less total outflow

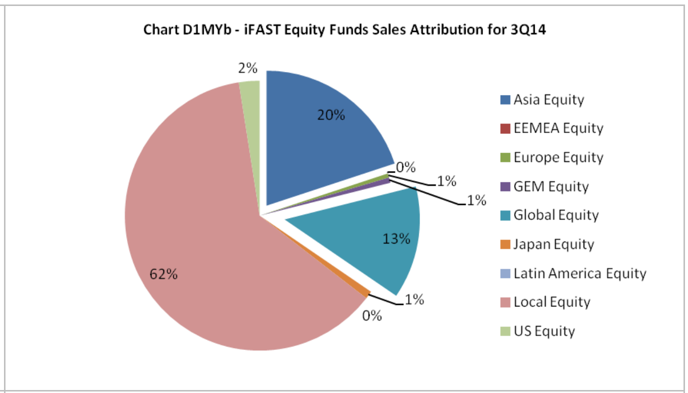
Our Commentary

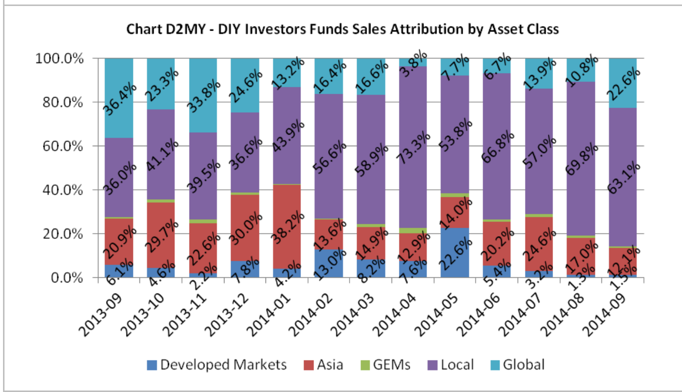
We continue to observe a strong uptrend for equity fund flows in 3Q14 with three consecutive months of net inflow. July 2014 flow reached a record high which was subsequently broken again in September 2014. However, while flows remain dominated by local equity markets, we do note that net flows tend to be more broadly diversified in 3Q14. There was notable inflows to global equity funds, Asian equity funds as well as developed markets equity funds.

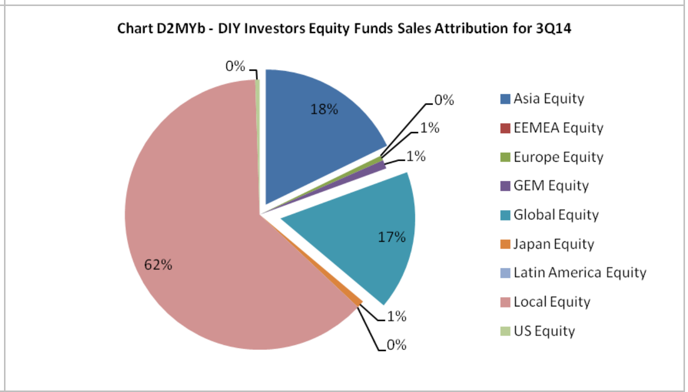
Nevertheless, local equity funds remain the dominant region for asset allocation, standing at 62% of total sales. Global equity funds however saw allocation increased to 13% of total sales, up from 9% recorded in the previous quarter. This is driven mainly by DIY investors who allocated 17% of total sales into global equity funds this quarter, a big jump from 6% recorded in 2Q14. We expect investors to continue diversifying their assets as an opportunistic positioning following September 2014 market correction.

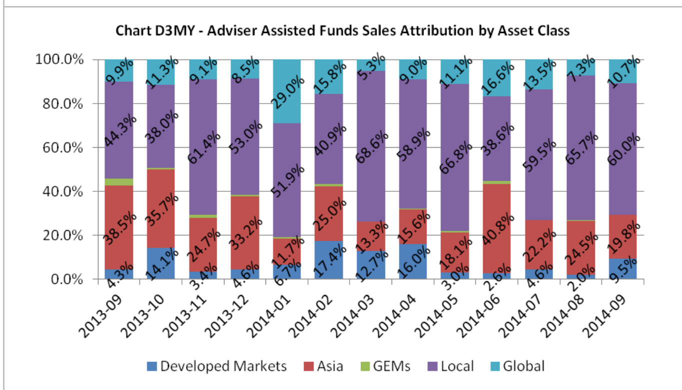
Charts DMY – Mutual Funds Sales Distribution

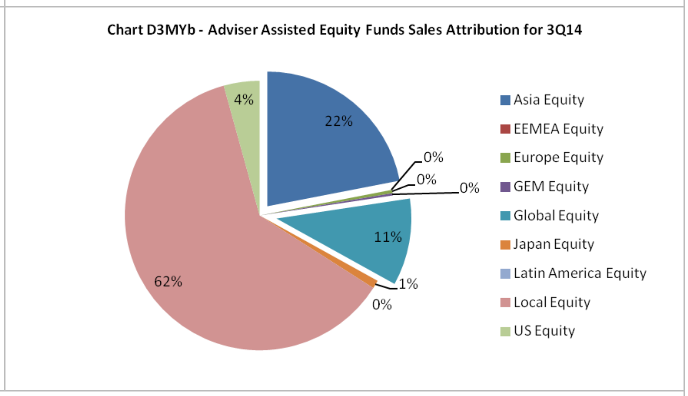










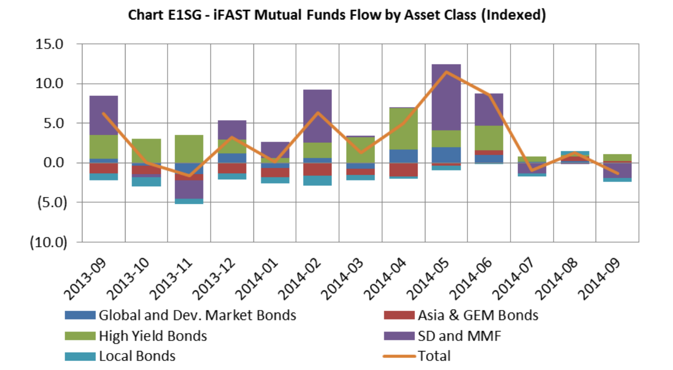


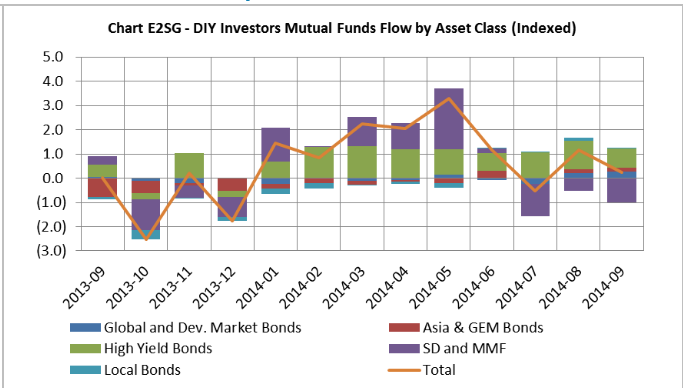
Source: iFAST Compilations, relative to total inflow

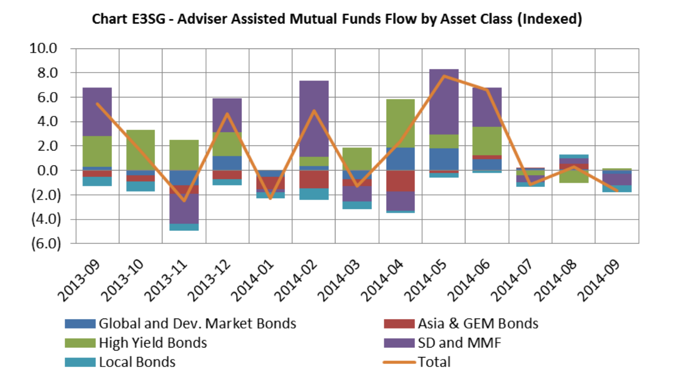
4.0 Bond Funds Flow

Singapore

Charts ESG – Net Funds Flow (total inflow less total outflow)







Source: iFAST Compilations, Total inflow less total outflow

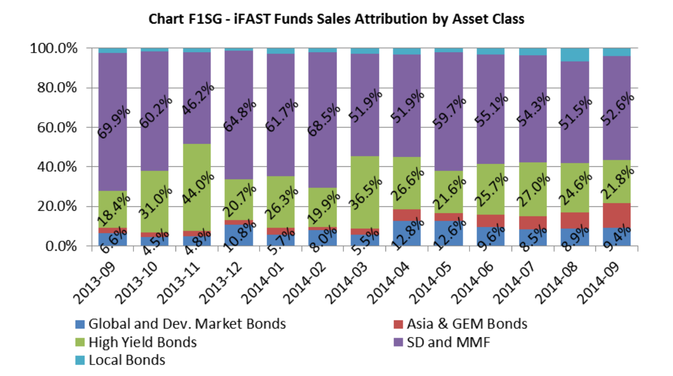
Our Commentary

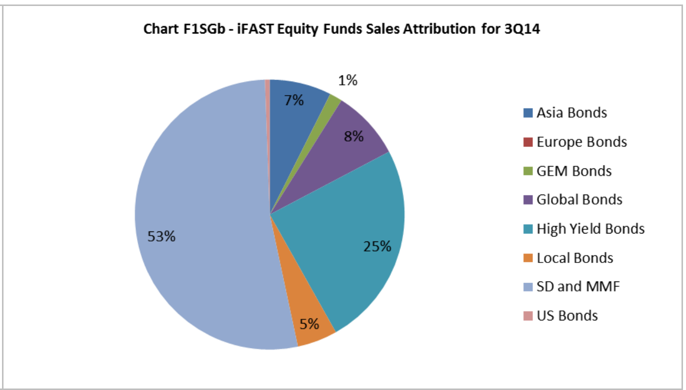
Interest in bond funds took an abrupt turn in 3Q14. After peaking in May 2014, money flows into bond funds started to dip in June 2014 before falling abruptly over the following three months. Investors are switching out of safe haven assets and probably re-allocating into riskier assets. For DIY investors, only flows into higher yielding bonds were not impacted while assets parked in short duration and money market funds (SD and MMF) saw strong negative outflow. All other bonds funds' flow were relatively flat. For the case of adviser assisted investors, overall flow is relatively flat.

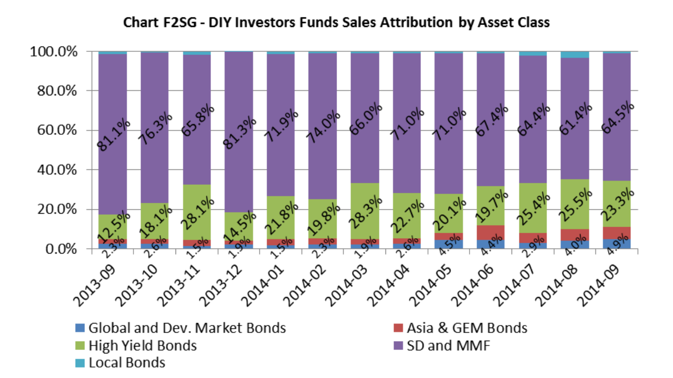
The outcome came as a surprise as the sudden reversal of trend was rapid and sudden. We are however in the opinion that some respite may be found in 4Q13 due to September 2014 equity market correction (empirically, we observed that investors have a high tendency to accumulate safer alternative in times of equity market correction) though we are not able to ascertain at this point in time if such a respite (if any) may be a sustained trend given the low yield environment that provides investors with limited upside vis-à-vis the bullish sentiments in global equity markets.

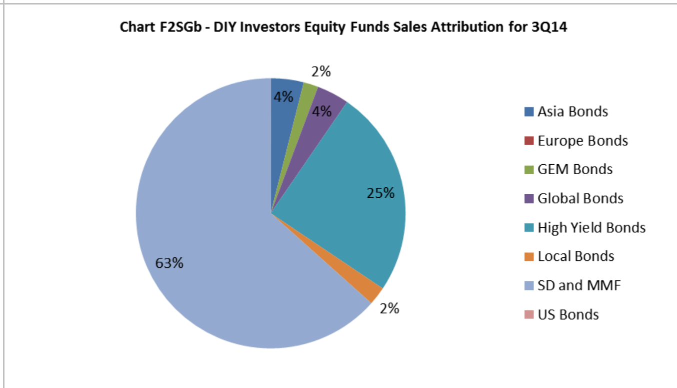
^Note: We made an assumption change to the way we classify bond funds into the various bond segments for Singapore. The resulting data compilation differs significantly from that presented in 2Q14.

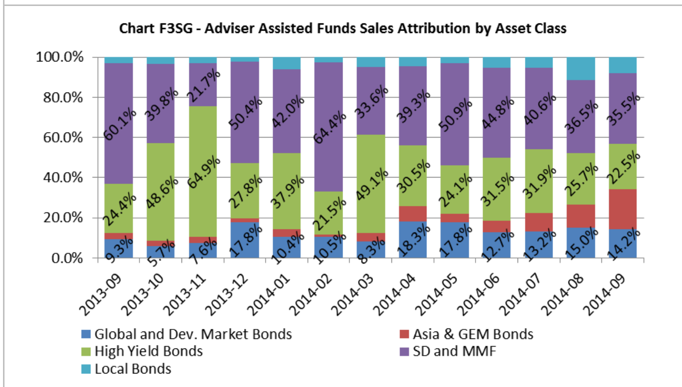
Charts FSG – Mutual Funds Sales Distribution

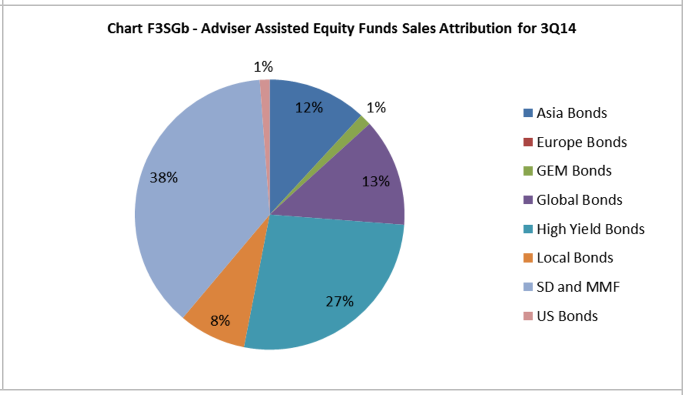








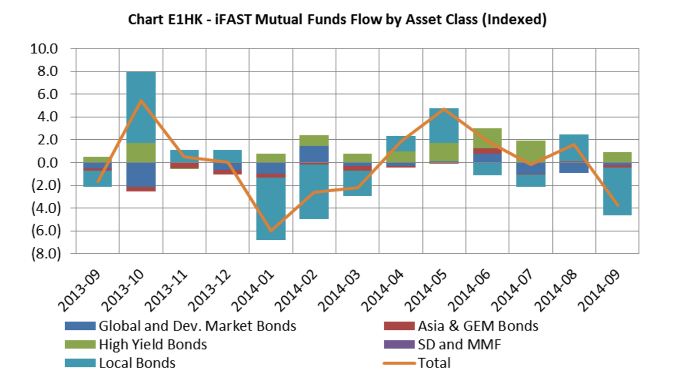


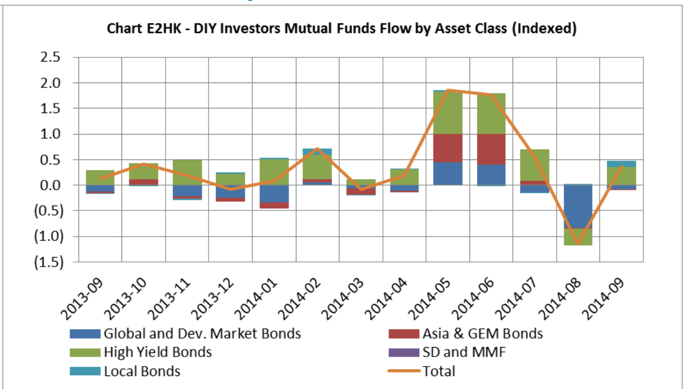


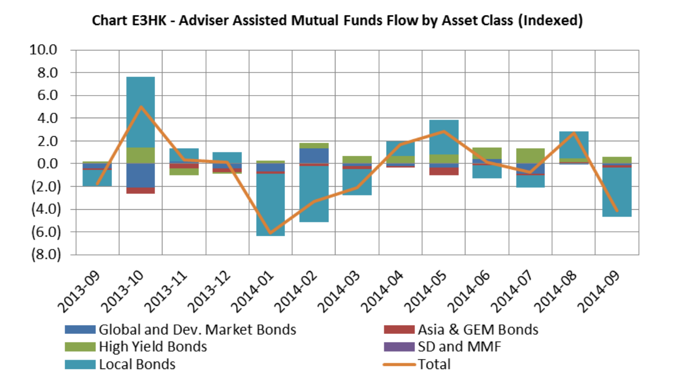
Source: iFAST Compilations, relative to total inflow

Hong Kong

Charts EHK – Net Funds Flow (total inflow less total outflow)







Source: iFAST Compilations, Total inflow less total outflow

Our Commentary

In Hong Kong, we observe a strong correlation of money flows for bond funds. Like Singapore investors, Hong Kong investors' interest in bond funds peaked in May 2014 and started trending downwards thereafter, ending a five month uptrend. However unlike Singapore, the reversal was less abrupt. Safe haven assets like local bond funds and global and developed markets saw the largest retreat, with investors favoring higher yielding alternatives such as high yield bonds. This phenomenon is consistent with earlier downtrend that bottomed in January 2014.

Despite the strong outflows, local bond funds remained the bond segment of choice with sales volume dominant over other segments. In 3Q14, local bond funds attributes 40% of total bond funds sales while high yield bonds funds came in close at 39%. There is however a big disparity between DIY investors' behavior and adviser assisted investors.

Moving forward, we expect a respite in money flows into bond funds given September 2014 equity market correction. However, it is still early to tell if such respite, if any, is going to be sustained for a longer period of time.

Charts FHK – Mutual Funds Sales Distribution

Chart F1HK - iFAST Funds Sales Attribution by Asset Class

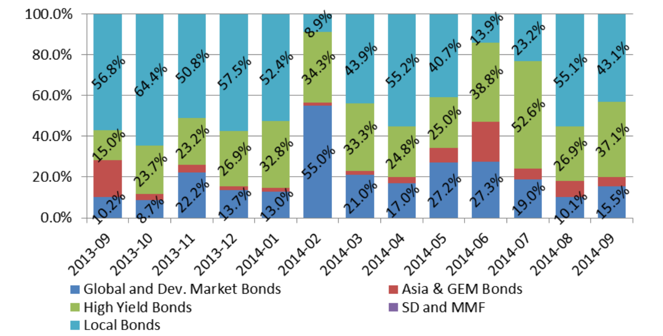


Chart F1HKb - iFAST Equity Funds Sales Attribution for 3Q14

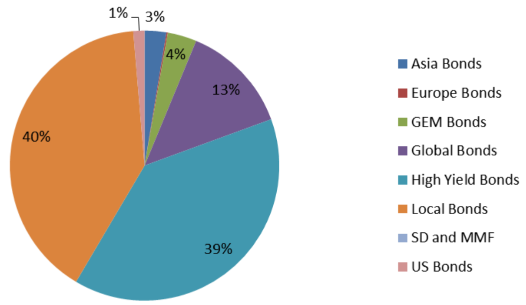


Chart F2HK - DIY Investors Funds Sales Attribution by Asset Class

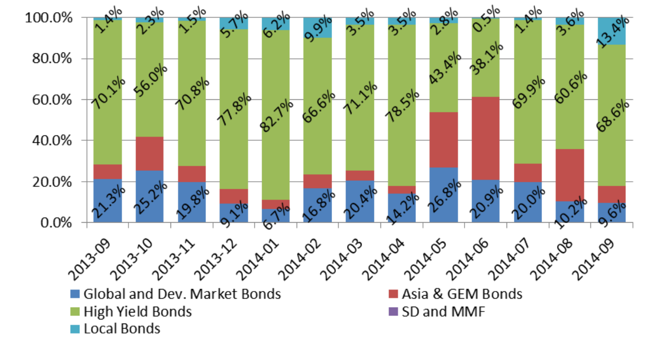


Chart F2HKb - DIY Investors Equity Funds Sales Attribution for 3Q14

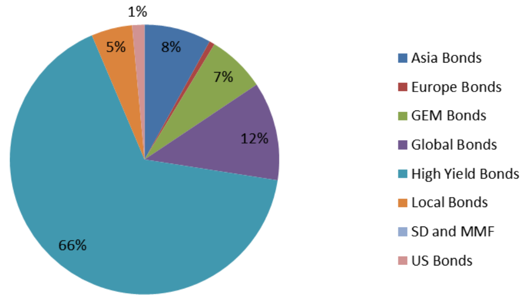


Chart F3HK - Adviser Assisted Funds Sales Attribution by Asset Class

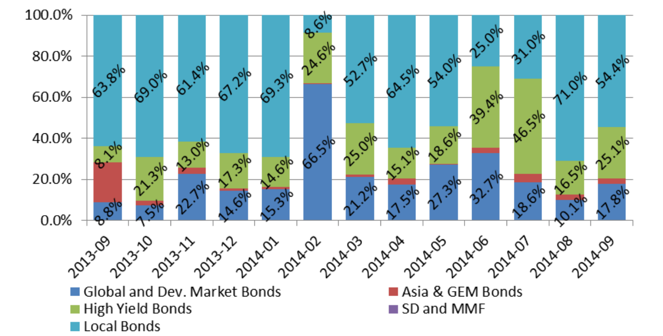
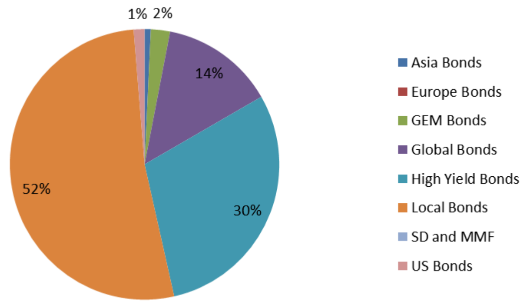


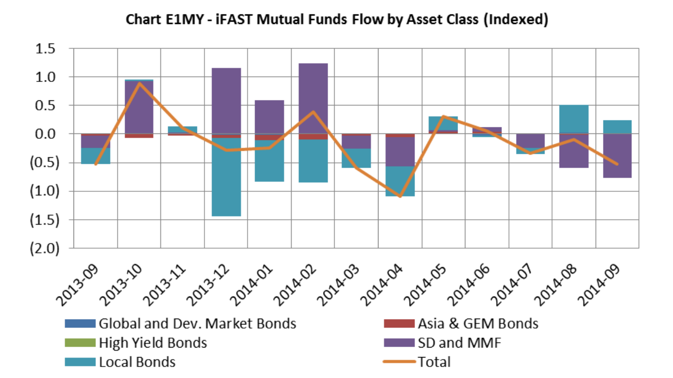
Chart F3HKb - Adviser Assisted Equity Funds Sales Attribution for 3Q14

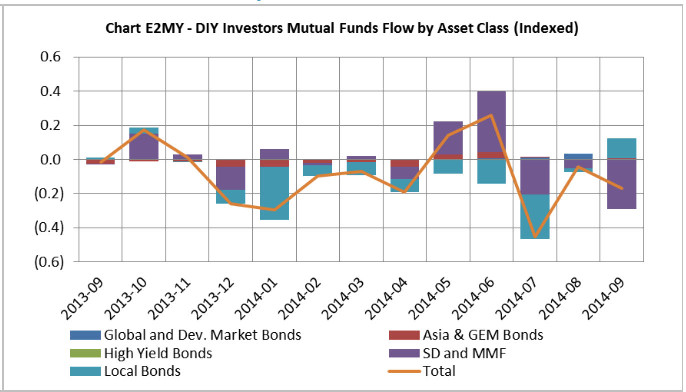


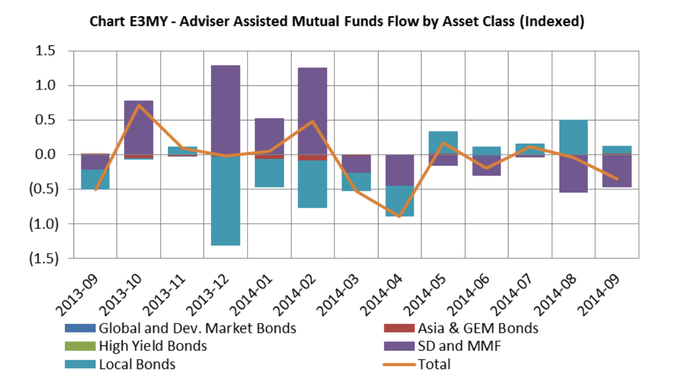
Source: iFAST Compilations, relative to total inflow

Malaysia

Charts EMY – Net Funds Flow (total inflow less total outflow)





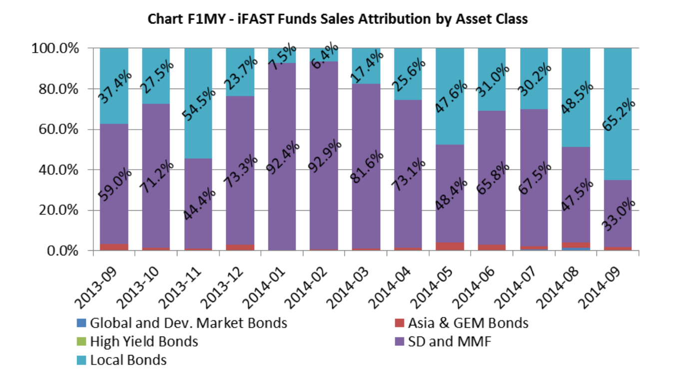


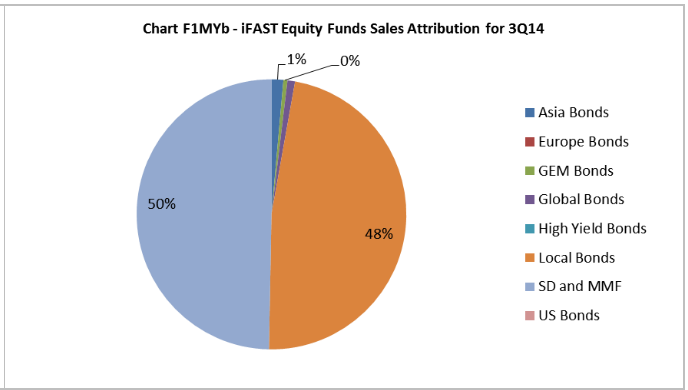
Source: iFAST Compilations, Total inflow less total outflow

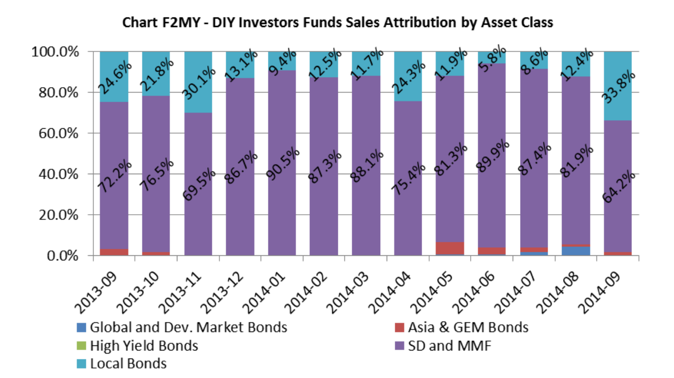
Our Commentary

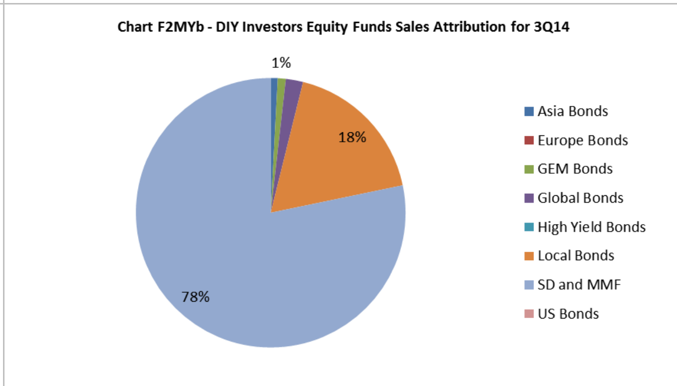
It appears that the downtrend we observed in Singapore and Hong Kong can also be found in the Malaysian market. Money flows for bond funds similarly peaked in May 2014 and started receding. It is important to note that the current downtrend is the first observation over the last one year in which all three countries are falling in unison. This is a strong signal in our opinion that Asian investors are actively seeking higher returns in exchange for higher risk, which support our expectation of stronger demand for risk assets. Therefore, we are in the expectation of an uptrend in money flows into equity funds and downtrend into bond funds in the long run. Nevertheless, we are also in the opinion that a respite in money flows into bonds funds is very likely in the 4Q14, but we are unable to ascertain if such respite, if any, will be sustainable.

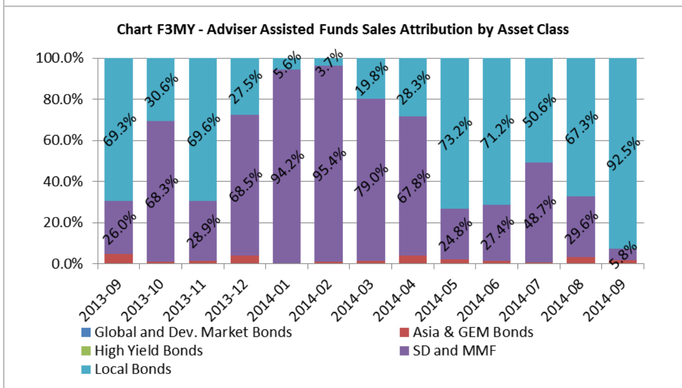
Charts FMY – Mutual Funds Sales Distribution

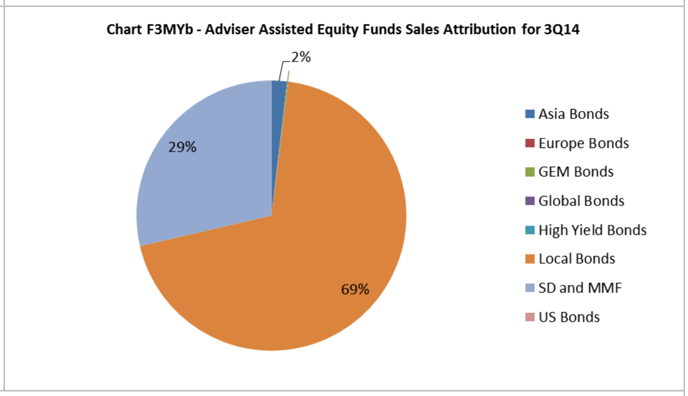












Source: iFAST Compilations, relative to total inflow

Industry Insights

iFAST Corporation Ltd. IPO Shares approximately 12.4 times Subscribed

INTERNET-BASED INVESTMENT PRODUCTS DISTRIBUTION PLATFORM TO LIST ON SGX MAINBOARD

- Offering of 32,800,000 New Shares priced at the offering price of S$0.95 per New Share ("Offering Price")
- The cornerstone investors are FIL Investment Management (Hong Kong) Limited and OWW Investments III Limited
- Received strong indication of interest from institutional and high net worth investors for the Placement, amounting to approximately 12 times the number of shares available
- Public Offer opens at 7.00 pm on 4 December 2014 and closes at 12.00 noon on 9 December 2014
- Currently, iFAST Corporation Ltd. does not have a fixed dividend policy, though the directors intend to recommend and distribute dividends of 60% of net profit after tax for 4Q2014, and dividends of 60% of net profit after tax for FY2015

SINGAPORE (**Wednesday, 10 December 2014**) - iFAST Corporation Ltd. ("iFAST Corporation" or together with its subsidiares, the "Group"), an Internet-based investment products distribution platform with assets under administration (AUA) of approximately S$5.13 billion as at end September 2014, and the parent company of Fundsupermart.com and iFAST Financial platforms, announced today the balloting results from its initial public offering (the "IPO") in conjunction with a proposed listing on the Main Board of the Singapore Exchange Securities Trading Limited (the "SGX-ST").

Based on the total Offering size of 32,800,000 New Shares, total valid applications received under the Public Offer and indications of interest received under the Placement, the Offering is approximately 12.4 times subscribed.

The Shares are expected to commence trading on the SGX-ST Mainboard on 11th December 2014 at 9 a.m. The Joint Issue Managers, Bookrunners and Underwriters for the Offering are DBS Bank Ltd. and DMG & Partners Securities Pte Ltd.

Mr. Lim Chung Chun, Chairman and CEO of iFAST Corporation, said, "We thank investors for the confidence they have shown in our company. We will continue to look to our mission statement, to 'help investors around the world invest globally and profitably', to guide us in our new initiatives."

"The Public Offer and Placement saw strong demand from the public, and institutional and high net worth investors respectively, and we are thankful for the confidence shown in us from investors," says Mr. Lim Chung Chun, Chairman and CEO of iFAST Corporation Ltd.

The public offer period was from 4th December, 7pm, to 9th December, 12pm following the roadshow to institutional and high net worth investors in Singapore, Hong Kong, Kuala Lumpur and London. "Institutional investors, especially in London, had expressed a strong understanding of our platform business because of the relatively high penetration of investment platforms in the UK," says Mr. Lim Chung Chun. The indications of interest received represented approximately 12 times of the Placement.

Among the institutional investors who have invested in the Placement shares are Schroder Investment Management (Singapore) Ltd, Affin Hwang Asset Management Berhad, and Lion Global Investors Limited.

Proceeds

Based on the Offering Price of S$0.95 per New Share, iFAST Corporation is expected to raise gross proceeds of approximately S$49.2 million from the Offering and the Cornerstone Tranche (assuming the Over-allotment Option is not exercised). iFAST Corporation is expected to have a market capitalisation of approximately S$243.4 million upon listing.

The proceeds will be used mainly for i) mergers and acquisitions strategy; ii) the expansion of the Group's business in the Chinese market; and iii) the enhancement of the Group's product capabilities, IT and services.

Prospects

As compared to developed markets such as Australia and the UK, the penetration of investment platforms in the Asia ex-Japan region is much lower and has a shorter history. An increasing proportion of funds flowing through investment platforms in Asia ex-Japan is expected to drive the Group's growth.

Dividend Policy

The directors of iFAST Corporation intend to recommend and distribute dividends of 60% of net profit after tax for 4Q2014, and dividends of 60% of net profit after tax for FY2015, to reward shareholders for participating in the growth of the Group.

Offering Information

The offering of 32,800,000 New Shares (the "Offering"), subject to the Over-allotment Option (defined below), comprises:

(i) an international placement of 30,000,000 Shares (the "Placement"); and
(ii) a public offer of 2,800,000 Shares in Singapore (the "Public Offer").

Separate from the Offering, each of FIL Investment Management (Hong Kong) Limited and OWW Investments III Limited (collectively, the "Cornerstone Investors") has entered into a cornerstone subscription agreement with the Company (collectively, the "Cornerstone Subscription Agreements") to subscribe for an aggregate of 19,000,000 New Shares at the Offering Price.

In connection with the Offering, iFAST Corporation has granted DBS Bank Ltd., the stabilising manager, an over-allotment option ("Over-allotment Option") to subscribe and/or procure subscribers for up to an aggregate of 3,280,000 Additional Shares (not more than 10% of the Offering) at the Offering Price solely to cover the over-allotment of Shares, if any.

Application Results For Public Offer and Placement

The Board of the Company and the Joint Issue Managers, Bookrunners and Underwriters, are pleased to announce that as at the close of the Application List at 12.00 noon (Singapore time) on 9 December 2014, there were 2,437 valid applications for the 2,800,000 Public Offer Shares available to the public for subscription. In total, these applicants applied for 46,719,000 Public Offer Shares, with application monies received amounting to approximately S$44.4 million.

The indications of interest received in respect of the Placement represented approximately 12 times of the total Placement Shares under the Offering. The 30,000,000 Placement Shares have been validly subscribed for and application monies received for these Placement Shares amounted to approximately S$28.5 million.

Based on the total Offering size of 32,800,000 New Shares, total valid applications received under the Public Offer and indications of interest received under the Placement, the Offering is approximately 12.4 times subscribed.

Key Investment Themes and 2015 Outlook

We offer some investment ideas and our take on financial markets for the year ahead

By: iFAST Research Team

2015 Economic Outlook

- **Still too early to call an end to the global economic expansion**
  - Alongside a strengthening US economy, there remains plenty of room for growth to bounce back in Japan (after slipping into recession in 3Q 14) and in Europe (which posted a marginal quarterly expansion in 3Q 14); growth engines in both Japan and Europe have spluttered for much of 2014, and 2015 is likely to be a year of recovery for both economies. In addition, China's multiyear rebalancing act has brought growth to the 7% range, a more sustainable level and down from the double digit growth rates seen prior to the Global Financial Crisis, entailing a stabilisation of growth rates for Asia.
  - Divergent rates of economic growth globally also means the risk of synchronised "overheating" is considerably low; receding global inflationary pressures suggests that the process of interest rate normalisation in the US could be a little slower than anticipated, while the fragile growth environment in a large part of the developed world means looser monetary policy for longer. With these factors in mind, we think that it is premature to call an end to the current global economic expansion, with both developed and developing economies geared for more growth in 2015 – we expect to see economic expansion continue well into 2015 and beyond that, albeit at varying paces for different regions. 2014 global GDP remains on track for 2.47% growth, up from 2.18% in 2013; growth is seen accelerating to 2.93% and 3.12% in 2015 and 2016.
- **Europe is still fragile, but should avoid slipping back into recession**
  - Growth in Europe has disappointed in 2014, but a low base for capital expenditures and improving household spending should see the region avoid slipping back into recession after a near-scare in 2Q 14 (see Europe: At Risk of Recession?). Also, the ECB remains highly accommodative, while fairly positive bank stress tests results should quell banking sector concerns, which could finally give anaemic credit growth a boost.
- **Inflation unlikely to be an issue, rate hikes could be delayed**
  - While the consensus largely expects rate hikes from the US Fed in mid-2015, an environment of sub-par global growth coupled with muted inflationary risks (thanks to the decline in commodity and energy prices) means the Fed may not be in a hurry to raise rates. An initial interest rate hike in 2015 is widely expected of the Fed, but this would probably be more symbolic (marking the start of a gradual return to normalisation), with subsequent rate hikes likely to be measured carefully against both US economic progress and the global economic environment. Lower energy prices may even provide a boost to personal consumption expenditures, as real discretionary incomes rise, a positive for economic growth in consumption – dominated economies like the US. For economies like Europe and Japan, price declines remain a risk, although their respective central banks have already committed to asset purchases to quell deflationary risks in both markets.

Investment Themes

- **Disappointing earnings forecasts to reverse course**
  - Outside of the US and Japan, earnings momentum has been fairly weak across various markets in 2014. Asia ex-Japan equities have seen earnings downgrades since 2011, with 2014 marking a fourth consecutive year where corporate profits have come in weaker than initially-expected. This has also coincided with a period of weakness in Asian/Chinese GDP estimates; with the region's economic growth forecasts stabilising, we believe that the Asia ex-Japan earnings revision cycle will finally be on the mend.

- **Stocks to head higher**
  - An environment of positive growth, low inflation and accommodative central banks should be a positive for earnings, and hence, stocks. Even as stock indices for the US, Germany, India and the Philippines all made new record-highs in 2014, more markets are likely to follow suit as corporate earnings continue to grow. Modest interest rate hikes are likely to have a minimal impact on stock market valuations, with higher developed market valuations likely to be sustained on a continuation of low risk-free rates. For Asian equities, a turnaround in the earnings revision cycle should be a key catalyst for valuations to mean-revert from their low current levels – the North Asian markets are expected to do some heavy-lifting to allow the Asian benchmark index to head back towards its 2007 highs.

- **Return expectations tampered**
  - With returns for developed markets like the US, Europe and Japan over the past few years outpacing the rate of earnings growth, valuations have already normalised to fair levels, which means stock markets will require earnings to continue growing to post a reasonable rate of return for investors. As in our outlook for 2014, investors looking for strong double digit returns in 2015 from a well-diversified portfolio of global equities (with a fairly large allocation to developed markets) may be disappointed, with stock returns expected to track earnings growth much more closely going forward. In the fixed income space, historically-low yields mean return expectations are low, although stabilising risk-free rates mean investors could see decent returns from credit spreads, like in the case of high yield debt, Asian bonds as well as Emerging Market debt.

- **Don't underestimate the value of active management**
  - Following strong returns for both stock and bond markets over the past few years, investors have gravitated towards passively-managed investments, with Morningstar data suggesting that passive mutual funds in the US have taken a 75% share of net flows over the past year (ending September 2014). With bond yields at historically-low levels and selected equity markets trading at or near all-time highs, we think actively-managed investments are more appropriate, with active stock-pickers able to shun more expensive stocks in favour of more attractive ones, while interest rate uncertainty coupled with historically-low rates means credit selection, currency expertise and a more flexible positioning should aid in driving fixed income strategy returns to a greater degree going forward.

- **A strengthening USD presents headwinds for commodities…**
    - Commodity prices and the USD have become increasingly negatively-correlated in recent years, with the recent strength in the USD coinciding with the lowest commodity prices since early-2009. Commodity prices have declined -50.5% from their 2008 all-time highs (as of end-October 2014), and with the consensus already expecting a stronger USD, it may appear that commodity prices could remain under pressure going forward.
- **…but investors should be wary of blindly following conventional wisdom**
    - However, investors should note that just like forecasting currency movements, guessing which way commodity prices are likely to move is an incredibly difficult art; we refrain from doing both, and would prefer to focus on the positives of lower current commodity and energy prices - this should boost consumer spending and ease budget and fiscal deficits for countries which have significant fuel subsidies and substantial energy imports. Just as importantly, we would caution against mounting expectations of an ever-strengthening USD – the currency has already posted strong appreciation in 2H 14 while selected Asian and EM currencies are already trading at multi-year lows against the greenback.
- **More pain for gold to come?**
    - As a part of the commodities basket, gold prices have declined nearly -40% since their 2011 peak on easing inflationary concerns and diminishing investor risk aversion. Having highlighted our cautious stance on gold in our 2011 outlook (see iFAST's Key Investment Ideas for 2011), we have reiterated that view over the past 4 years and have also maintained that rising interest rates are likely to pose headwinds for gold prices, given the higher opportunity cost of gold ownership (given its lack of yield and holding costs). Just as identifying the peak of an asset price bubble is near-impossible, accurately pinpointing the bottom for gold prices is not something within our expertise. For 2015, higher US rates are likely to present continued headwinds for gold, although supply could be curbed somewhat as gold prices fluctuate below the marginal cost of production for selected gold mining companies. However, lower energy costs may help to bring down the cost of gold production, which could see more downside risks for gold in 2015.

What should investors do?

- **Overweight equities vis-à-vis bonds**
    - For a seventh year in a row, we think investors should favour equities over bonds. Our preference for equities is predicated on continued earnings growth amidst fairly modest inflation and generally accommodative monetary policy which should be supportive of economic growth.
    - Bond yields still remain near historical lows, an indication of the low expected returns which characterise the asset class. With interest rates yet to normalise, we think that it is still too early in the cycle to turn positive on fixed income, despite low anticipated inflationary risk.

- Admittedly, valuations for selected developed markets have normalised, although we expect earnings growth to drive the majority of returns for these equity markets; cheaper EM and Asian equity markets may provide heftier gains as their valuations mean-revert.

- **Continue to favour Asia ex-Japan equities**

    - Corporate earnings disappointments have been a feature of Asian equity markets since 2011, which has weighed on stock performance in the region. The stabilisation in China/Asian GDP growth alongside marginal improvements in developed market growth rates should promote a recovery in Asian earnings and forecasts; 2015 could finally be a year of upward-revisions for Asian earnings.

    - With a 5.4% total return (in USD terms, as of 17 November 2014), Asia ex-Japan equities have kept pace with global equities so far in 2014, although tepid gains are reflective of the disappointing earnings growth the region's stocks are expected to deliver in 2014 (presently running at about 3%). Nevertheless, at just 12.7X 2014 earnings, Asian equities remain undervalued at this juncture, and we believe that a recovery in the earnings revisions cycle for Asia ex-Japan equities will be a key catalyst for Asian equity valuations to mean-revert higher. A normalisation to 14.5X PE would see the market deliver a 21% annualised return by end-2016 (or nearly 50% upside on a cumulative basis, including dividends).

- **Developed markets still necessary for portfolio diversification**

    - Our forecasted returns for developed markets like the US and Europe have fallen in 2014 on higher valuations, which has seen us lower our ratings on both markets to "neutral" in mid-2014. Despite the lower potential upside for both markets, we still expect both markets to deliver fairly reasonable (single-digit) returns for investors, in line with the pace of earnings growth in the absence of valuation gains. Also, both markets remain home to some of the largest companies which have global businesses with operations spanning across the world, allowing them to benefit from growth outside of their respective regions while diversifying revenue and profits geographically. We continue to advocate an allocation to developed markets for portfolio diversification purposes, with the expectation that 2015 should be another year of positive earnings growth for developed market companies.

- **China still cheap**

    - We had perhaps called for a rebound in China a little too early, as the world's second largest economy remains in a transitory stage of "rebalancing" from a more export/investment-driven economy towards a consumption-led economy. From a peak of 14.2% GDP growth in 2007, China's economy has moderated to 7.3% growth in 3Q 14, while the consensus has now adjusted down 2015 and 2016 estimates to a 7% rate. Such a drastic moderation in growth rates alongside the ongoing anti-corruption crackdown has had profound effects on the corporate sector; like Asian earnings, China's corporate earnings have been on a trend of disappointment in recent years.

    - Critically, the pace of earnings downgrades for China equities has slowed in 2014 alongside a moderation in GDP forecasts, which sets the stage for 2015 to be a year of outperformance for the China equity market. Valuations remain very undemanding at this juncture; China equities trade at just 9.2X 2014 earnings (as of 17 November 2014), a long distance away from the 13X fair PE we attribute to the market. On our estimates, the China equity market is on track to deliver a 33.6% annualised return by end-2016, driven primarily by an expansion of the market's PE ratio.

- **A disconnect occurring in Thailand**
  - With a 24.7% year-to-date return (in THB terms, including dividends as of 17 November 2014), Thailand has certainly surprised us with its strong performance in 2014. These returns have come on the back of a military coup (the first since the 2006 coup d'état) in May, while both GDP and corporate earnings forecasts have headed south since mid-2013 (see Update on Thailand: Looking Beyond the Coup D'état) – the country's 2014 GDP growth forecast was revised down from a high of 5.3% to just 1.5% presently, while earnings for 2014 and 2015 have been lowered by -14.2% and -10.8% year-to-date (as of 17 November 2014).
  - With economic growth and earnings revisions trending downwards while the stock market trends higher, there appears to be a disconnect between investor sentiment and reality, which has (in our opinion, unjustifiably) sent valuations for the Thai equity market higher so far in 2014. At 16.5X 2014 earnings, we think the market is now priced to deliver disappointing returns for investors and would suggest that investors underweight the market in their portfolios.
- **Seek out riskier bonds for better returns in fixed income**
  - Despite our suggestion to underweight fixed income, we maintain that fixed income remains an integral and relevant part of an investor's portfolio. While uncertainty surrounds the actual timing of Fed rate hikes in 2015, we expect muted inflation to contribute to a more gradual rate hike cycle, which could contribute to more stability in bond yields in 2015.
  - Nevertheless, yields on safer fixed income instruments like G7 sovereign bonds remain unattractive at this juncture (and are also expected to be hurt more should the Fed hike rates quicker-than-anticipated). In the current environment, we prefer High Yield bonds, which now sport a fairly attractive spread over similar maturity Treasuries (the spreads have widened since our cautious note on the sector early this year; see Cautious on US High Yield, Better Value in Asian High Yield and EM debt). Asian and EM debt have had a decent run in 2014, but still sport rather decent spread levels over risk-free securities, while Asian High Yield bonds still offer some of the highest potential returns in fixed income today, albeit with higher credit risk.
  - For investors seeking lower risk alternatives in fixed income, we think our long-standing preference for short duration bond funds still makes sense, despite the asset class now becoming a consensus favourite. While we expect a gradual hike in rates in 2015, longer duration risk-free bond yields still offer little in terms of an additional yield to offset the possibility that rates may rise quicker-than-anticipated, making the short duration space a far more desirable fixed income segment to be in.
- **Commodity-related equities cheap, but difficult to price**

- Investors may feel that commodity-related equities are cheap at this juncture; as an example, gold miners in the NYSE Acra Exchange Gold BUGS index have declined -73% from their 2011 highs, and presently trade at a PB ratio of just 0.77X (as of 17 November 2014), down significantly from a PB ratio of 4X back in 2006. However, pricing commodity companies remains difficult given the inability to forecast commodity price changes; unless investors have a strong conviction on the future direction in commodity prices, it can be difficult to assess the attractiveness of these companies.

- This is also evident in our view on Russia, which has been hammered by EU and US sanctions following Putin's "exploits" in Ukraine. A weaker rouble has hurt returns for investors so far in 2014, although Russian exporters are likely to benefit from rouble depreciation. At a PE ratio of just 4.9X 2014 estimated earnings, the Russian market is one of the cheapest markets anywhere in the world. However, Materials and Energy companies have a fairly large representation within the Russian index, which adds significantly to the uncertainty in Russian corporate earnings forecasts; we have thus elected to keep our 4.0 star "very attractive" rating on the market as opposed to upgrading the market on performance weakness.

The Shanghai-Hong Kong Stock Connect Initiative Explained

First announced in April 2014, the initiative is a landmark move which, for the first time in history, will allow global investors to trade Shanghai "A" shares via the Hong Kong Stock Exchange, while mainland Chinese investors will be allowed access to Hong Kong "H" shares via the Shanghai Stock Exchange.

- "A" shares "H" shares (A-H) Connect is regarded as the first step toward the internationalisation of the China "A" shares market.
- There exist a valuation gap between "A" and "H" shares of the same listed company, though the gap has narrowed since the announcement of the initiative earlier this year.
- The difference in valuations of "A" and "H" shares of the same company is due to the difference in interest rate between the two geographical markets.
- Asymmetric market preference for difference class of shares of a same listed company led to price disparity and hence investment opportunities.
- Blue chips stocks in "A" shares are trading at a discount while new economy sectors are trading at premium.
- The preference is a function of industry, market capitalisation and dividend yield. Investor prefer "A" shares for company with smaller capitalisation while "H" shares are preferred for company with higher dividend yield.
- As the size of Shanghai-Hong Kong Stock Connect is low relative to overall market capitalisation, the pricing disparity is likely to remain though we expect the spread to tighten as a result

Shanghai – Hong Kong Stock Connect

First announced in April 2014, the initiative is a landmark move which, for the first time in history, will allow global investors to trade Shanghai "A" shares via the Hong Kong Stock Exchange, while mainland Chinese investors will be allowed access to Hong Kong "H" shares via the Shanghai Stock Exchange. Currently, Mainland investors are using the QDII scheme to gain access to foreign investments, while offshore investors are only allowed to invest in local Chinese assets via the QFII scheme (along with the more recently-launched RQFII scheme).

With companies listed on both the "A" share and "H" share markets having demonstrated significant deviation in performance and valuations owing to the lack of fungibility between the two markets, investors expect the Shanghai-Hong Kong Stock Connect (see Figure 1 below on the scope of the Stock Connect) to result in a narrowing of valuations between the two markets (notwithstanding the daily investment quotas) - the valuation gap has narrowed somewhat since the announcement of the initiative earlier this year, although "A" shares currently still trade at a discount to their "H" share counterparts. The move also marks an important step in the eventual internationalisation of the China's mainland capital markets (China still maintains a closed capital account), which will allow for capital to flow more freely across its borders.

Figure 1 – Scope of Shanghai – Hong Kong Stock Connect

Northbound (Trade of SSE) Quota: RMB $300B Daily : RMB$13B	Southbound (Trading of SEHK) Quota: RMB$250B Daily : RMB$10.5B
Coverage: • Shanghai Stock Exchange 180 A-share Index (SSE 180 Index) • Shanghai Stock Exchange 380 A-share index (SSE 380 Index)	**Coverage:** • Hang Seng Large Cap Index (HSLI Index) • Hang Seng Medium Cap Index
Market: • Related stocks : 568 • International level : low, investment restriction to foreign investors • % by market capitalization : 55%	**Market:** • Related stocks : 266 • International level : High • % by market capitalization : 18%
Market difference: • Made up mainly by individual Investors • Mechanism : T+1 transaction, T+1 settlement, limit on daily price variation	**Market difference:** • Made up mainly by professional and institutional investors • Mechanism : T+0 transaction, T+2 settlement, no limit on daily price variation

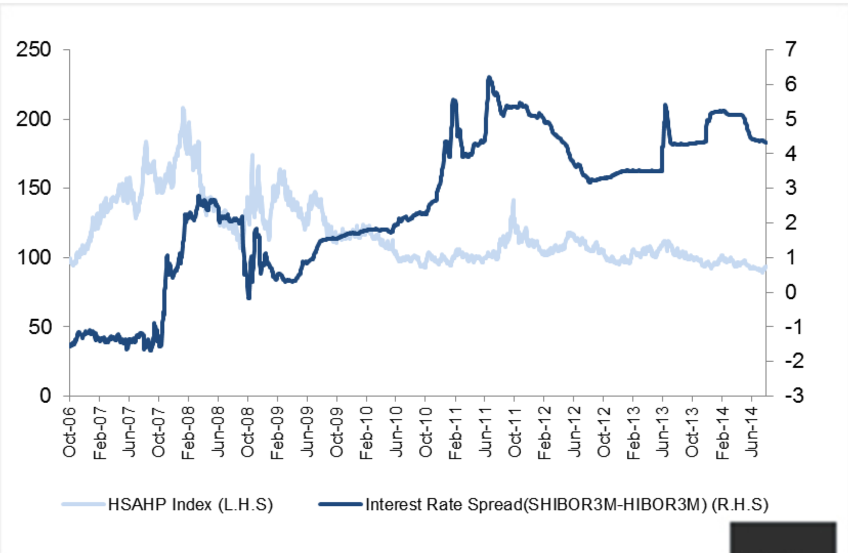
Source: iFAST Compilations, HKEX, CICC

Why is there such a valuation gap?

Reason 1: Difference in interest rate between the two geographical markets

One of the primary reason why the market is trading with a valuation gap is due to the difference in interest rate between the two geographical markets. As shown in Figure 2 below, the A-H premium represented by the Hang Seng China AH Premium Index (HSAHP Index), is negatively correlated with the interest rate differential between SHIBOR and HIBOR.

Figure 2 – Difference in interest rate between Hong Kong and Mainland China

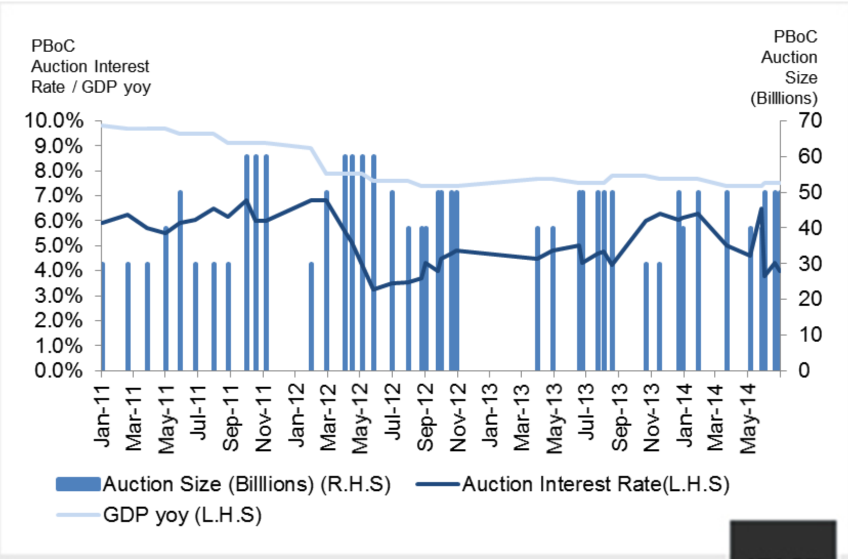


Source: Bloomberg, iFast Complications (data as of 8 October 2014)

When the SHIBOR increases relative to the HIBOR, (thus a widening of the SHIBOR – HIBOR interest rate spread), the A-H premium will fall as "A" shares performances tend to lag the "H" shares market. This is because investors in China have incentive to opt for safer fixed income assets that is provides a relatively more attractive yield relative to equity ("A" shares). Presently, the "A" shares market is trading at a discount relative to the "H" shares market.

Should the interest rate spread decreases, we expect the A-H premium to converge towards 100 (which means both "A" and "H" shares are trading at par). With reference to Figure 3 below, we can observe that the interest rate of PBoC auction to have a strong correlation with China's economic growth. Amidst a decelerating economic grown in China, consensus are expecting interest rate to remain relatively low around 4%-5%. On the other hand, US economic growth remains robust and consensus are expecting rates in US (and thus Hong Kong) to eventually increase. This should result in a tightening of SHIBOR-HIBOR interest rate spread and hence fore investment opportunities in the "A" shares markets due to a valuations revision.

Figure 3 – Difference in interest rate between Hong Kong and Mainland China



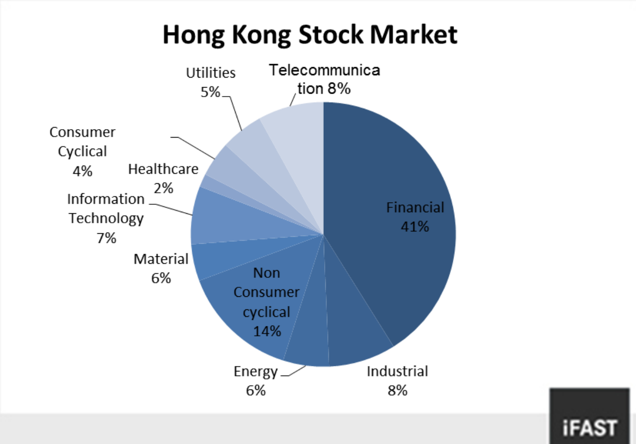
Source：PBoC, iFast Compilations (data as of the previous auction date - 28 August 2014)

Reason 2: Asymmetric preference for shares classes

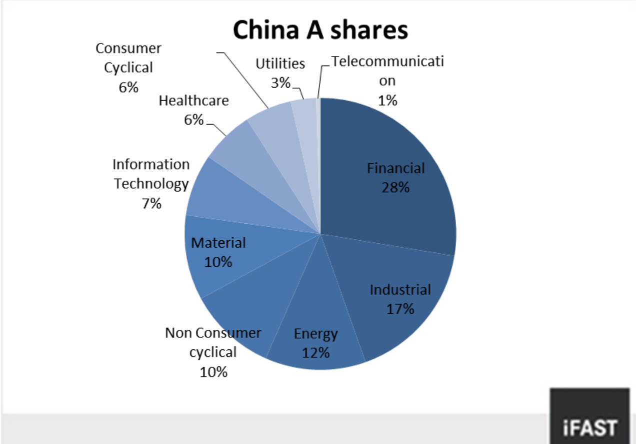
As there are major differences between the two stock markets, there exist an asymmetric preference for the different shares classes of the same company listed on the difference exchanges. For example, the market participants in made up of very different investor profiles. Hong Kong composes mainly of local and overseas institutional investors which accounts for over 60% of daily total trade volume. On the other hand, China's market is made up mostly by retail investors with investment amount less than 100K CNY, which accounts for 85% of daily transaction volume (source: HKEX, WIND).

Market composition is also a key factor for different share classes' preferences. The Hong Kong stock market composition is dominated by Financials, which accounts for 41% of total market capitalization. This is relatively more concentrated when compared against the Shanghai stock market where Financials account for only 28% of total market capitalization (see Figure 4 below).

Figure 4 – Stock Market Composition



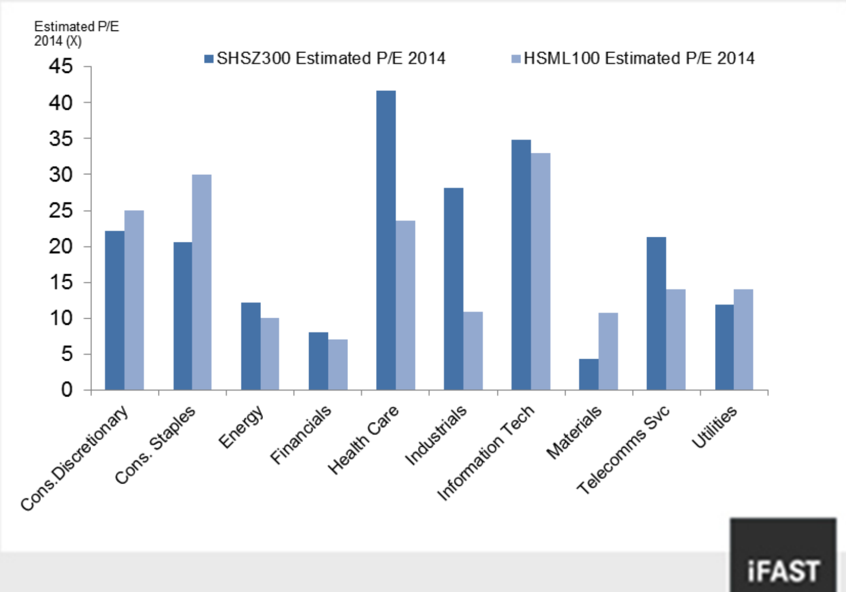
Source：Bloomberg, iFast Complications



Source：Bloomberg, iFast Complications

As Figure 5 shows, Consumer Staples and Utilities sector trades at a premium in Hong Kong (represented by the HSML 100 index) over their Shanghai counterparts (represented by SHSZ300 index) whereas the Medical and Healthcare, Industrials and telecommunication sectors in Shanghai trades at higher valuations relative to their Hong Kong counterparts.

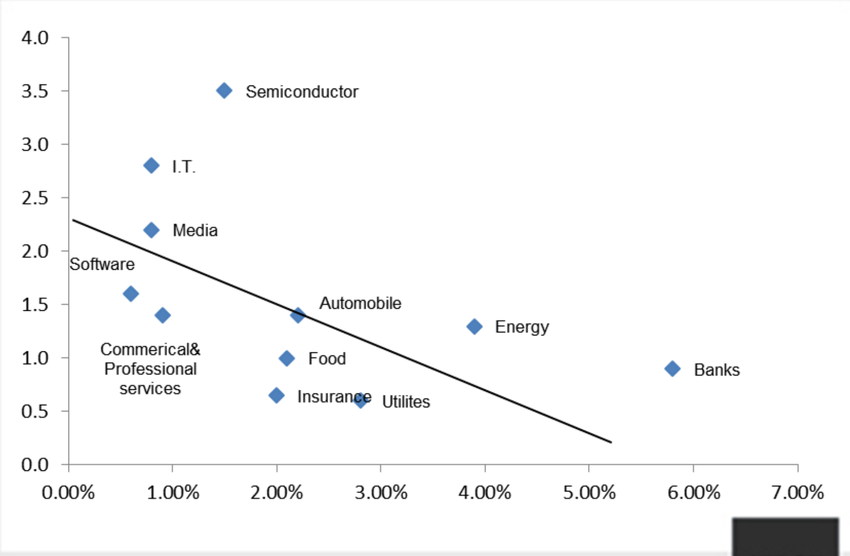
Figure 5 – Difference in Sectorial Preferences



Source：Bloomberg, iFast Complications

In addition to market capitalisation, we also believe that dividend yield has a strong influence on the A-H premium as well. In the China "A" share market, the spread between earnings yield and fixed income yield is narrower, suggesting that the latter makes a relatively more attractive investment option for mainland China investors. As a result, the demand for equities of high dividend paying companies is lower in China than that of the Hong Kong market, who has to turn to large capitalisation companies who tends to distribute a higher and more stable dividend yield. As Figure 6 shows, the higher yield industry sectors tends to trade at a lower A-H premium.

Figure 6 – A-H Premium Vs Dividend Yield



Source：Bloomberg, iFast Complications

What will be the impact of the Shanghai-Hong Kong Stock Connect initiative?

While the valuation gap has narrowed since the announcements of the Shanghai-Hong Kong Stock Connect initiative, we believe the convergence to be limited as the quota of the Shanghai-Hong Kong Stock Connect is low relative to the overall market size. With a quota in place, capital flow are still partially restricted. In each calendar year, only $250Bn CNY worth of “H” shares, or 18% of the “H” shares market capitalisation, can be accessed by mainland investors in China while only $300Bn CNY worth of “A” shares, or 55% of the “A” shares market capitalization, can be accessed by investors in Hong Kong via their domestic stock exchanges. On top of that, HKEX has a restriction on foreign investors’ shareholdings in “A” shares, whose aggregate cannot exceed 30% of total issued shares.

Conclusion

Nevertheless, while the overall impact of the Shanghai-Hong Kong Stock Connect initiative may be limited, it should still be market positive. As interest rate spread between SHIBOR and HIBOR expected to tighten moving forward, we believe that there is room for the A-H premium to further converge, which provides for further upside potential for the “A” shares market which is currently trading at a discount relative to their “H” shares counterparts. Lastly, we believe that this initiative is symbolic and marks an important step in the eventual internationalisation of the China’s mainland capital markets, which will allow for capital to flow more freely across its borders.

Annex A – Category Description

Category Description
Balanced
Funds that allocate assets into both bonds and equities.
Bonds
Asia & GEM Bonds
Asia Bonds
Such funds invest primarily in Asian debt securities. Consist of both sovereign and corporate issues, as well as both local and hard currency issues.
GEM Bonds
Such funds invest primarily in global emerging market debt securities. Consist of both sovereign and corporate issues, as well as both local and hard currency issues.
Global & Dev. Market Bonds
Europe Bonds
Such funds invest primarily in mainly in investment-grade issues of European issuers (includes both sovereign and corporate) although some of the funds do have exposure to sovereign issues as well. High yield bonds are not covered under this category.
Global Bonds
Such funds have a bias towards investment-grade issues from both sovereign and corporate issuers. However, most of these funds operate on flexible global strategic mandates that target to maximise returns based on the fund's reference currency.
US Bonds
Such funds invest primarily in mainly in investment-grade corporate issues of US issuers (includes both sovereign and corporate) although some of the funds do have exposure to sovereign issues as well. High yield bonds are not covered under this category.
High Yield Bonds
All high yield bonds funds are included in this category. While dominated by US high yield funds, this category includes both Asian high yield and European high yield bond funds.
Local Bonds
Local refers specifically to the country in discussion. For example, a local bond for Singapore is one that invest either in Singapore bonds or is bias towards the SGD.
SD and MMF
Bond funds that are actively managed to reduce interest rate risk. Most of these funds' mandate does not invest in bonds with duration exceeding 5 years.
Equity
Asia
This category includes all Asian equity funds, sub-regional Asian funds (such as Greater China equity funds) and all single Asian country funds with the exception of equity fund specific to the local country. For example, a Singapore equity fund is excluded from this category when compiling for Singapore but not for Hong Kong and Malaysia.
Developed Markets
Europe Equity
All European equity funds.
Japan Equity
All Japanese equity funds.

	US Equity
	All US equity funds.
GEMs	
	EEMEA Equity
	Emerging Europe, Middle East and Africa. This category consists of both regional equity funds, as well as single country funds within this region. For example, Russia and Turkey equity funds fall under this category.
	GEM Equity
	Specific to only global emerging market funds and does not contain any single emerging market equity fund.
	Latin America Equity
	This category consists of both regional equity funds, as well as single country funds within this region. For example, Brazil equity funds fall under this category.
Global	
	Specific to only global equity funds and does not contain any single country or regional equity fund. These funds are however biased towards developed market equities.
Local	
	Local equity funds refer to equity funds invested their specific local market. For example, a Malaysia equity fund is categorised as local equity when compiling Malaysia data but not so for both Hong Kong and Singapore.
Others	
	All other funds that do not fall under bond funds, equity funds and balanced funds.

Contact Us

Our institutional team is available to discuss your requirements for a tailored solution. For more information or to arrange a meeting, please contact us at:

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