

DBS GLOBAL PROPERTY SECURITIES FUND

June 2010

Highlights

- The Fund delivered a return of negative 6.0% in the month of May, outperforming its benchmark by 0.1%. The outperformance was mainly due to stock selection in Europe. The Fund's cash allocation helped, while stock selection in Japan and Hong Kong detracted from performance.
- Based on a balance of risks against rewards, we remain neutral on the U.S. and Canada. We remain cautious in Europe, and overweight on Japan. We remain overweight the Asia Pacific ex-Japan region due to relatively stronger economic fundamentals in the region.
- Global property stocks corrected in the month of May, with the FTSE EPRA/NAREIT Global Index down 8.2% in USD terms. The Americas region continued to outperform, with Europe and the Asia-Pacific regions lagging. The correction in real estate stocks mirrored losses in broader equity markets worldwide.
- In the U.S. and Canada, we continue to have confidence in the economic and property recovery. In Europe, we expect property stocks to continue to underperform as worries over Europe's sovereign debt crisis continue to mount. In Japan, even though property markets are bottoming, we expect global events to drive stocks in the near term. In the Asia-Pacific region, the economic environment is likely to remain supportive of property stocks.

Performance Review

	Currency	Performance	
		May 2010 (% change)	Year-to-Date (cumulative)
DBS Global Property Securities Fund	SGD	*-5.95%	*-1.65%
Benchmark	SGD	*-6.11%	*+2.67%
UBS Global Investors Index Total Return	SGD	*-6.11%	*0.15%

Outperformed due to stock selection in Europe

The Fund delivered a return of negative 6.0% in the month of May, outperforming its benchmark by 0.1%. The outperformance was mainly due to stock selection in Europe, where the portfolio is underweight the Eurozone countries and overweight the non-Eurozone countries such as Sweden and Switzerland. The Fund's cash allocation also helped performance, while stock selection in Japan and Hong Kong (HK) detracted from performance.

Strategy

Positive on Japan, cautious on Europe, and neutral on the U.S. and Canada

Based on a balance of risks against rewards, we remain neutral on the U.S. and Canada. In Canada, we find that property stocks are attractively valued, and will look to add to positions there. We are overweight property types with short-term leases, which are better-leveraged to a property upswing. We remain cautious on Europe, and have shifted the portfolio towards Sweden and Switzerland, where fiscal and economic issues are less likely to impact the property and equity markets. We are neutral on the UK. In Japan, we remain overweight given attractive valuations and a bottoming of property fundamentals.

Remain overweight Asia Pacific ex-Japan

We remain overweight the Asia Pacific ex-Japan region due to relatively stronger economic fundamentals in the region. We continue to favour HK developers, Singapore hotel and office owners, and Australian REITs with residential and industrial development activity.

Market Review**

Global property stocks corrected in sympathy with broader equities

Global property stocks corrected in the month of May, with the FTSE EPRA/NAREIT Global Index down 8.2% in USD terms. The Americas region continued to outperform, with Europe and the Asia-Pacific regions lagging. The correction in real estate stocks mirrored losses in broader equities markets worldwide, which were driven by macro concerns surrounding Southern Europe, regulatory changes in the U.S. financial sector, a ban on naked short-selling of selected securities by Germany, and monetary tightening in China.

U.S. outperformed, with more defensive stocks leading the way

U.S. property stocks continued to outperform, with more defensive names leading the sector. Healthcare property stocks held up especially well, with portfolio holdings Healthcare REIT, Nationwide Health Properties, and Ventas posting flat performances. Apartment owner stocks also performed relatively well, led by Equity Residential and Essex Property Trust. Hotel companies underperformed, with portfolio holdings Starwood Hotels and Resorts, DiamondRock Hospitality, and Host Hotels & Resorts all posting double-digit negative returns.

European property stocks fell, with the north outperforming

European property stocks fell, with the European debt crisis hitting Eurozone stocks harder than the non-Eurozone stocks. While Greek and Spanish property stocks were down over 20%, portfolio holding Castellum, a Swedish stock, was up 4%. Swiss property stocks, where we are overweight, were broadly flat. In the UK, smaller, specialized names, such as portfolio holding London & Stamford, posted positive returns during the month, outperforming its larger peers.

Japanese property stocks swooned

After a solid performance in April, Japanese property stocks fell heavily in May. The JREITs outperformed the non-REITs, as the defensive nature of the income-producing vehicles shined through. Portfolio holding Kenedix Realty fell 15% in May after gaining 27% in the April.

Australian REITs fell, with defensive names outperforming

Australian REITs (A-REITs) eased over the month, with the S&P/ASX 200 A-REIT Index falling 4.2%. While performance was largely driven by global events, the A-REITs outperformed the broader Australian market, reflecting their relatively lower risk profile with solid cash flows and healthy balance sheets. Defensive names like Westfield, CFS Retail and Commonwealth Property were especially resilient. During the month, the Reserve Bank of Australia (RBA) again raised its cash rate by 25bp to 4.5%. Employment continued to improve, rising by 33,700 in April against expectations of a 20,000 gain. Residential building approvals also outstripped expectations, rising 15.3% MOM in March, against consensus of a 0.8% rise.

HK property stocks eased as land sales showed muted sentiment

HK property stocks eased during the month, with the Hang Seng Property Index falling 5.8%. Results from land sales conducted during the month showed muted sentiment among property developers. In particular, a site at Tung Chung was sold to Nan Fung at HKD3.4b, below market expectations of HKD4.2-5.0b, and a tender for a site at Nam Cheong Station was cancelled despite receiving three bids from major developers. Observers attributed the weak results to developers reserving capital for the very large Nam Cheong site and another attractive site in Homantin to be sold in June. Analysts also speculated that the Nam Cheong tender was cancelled so as to allow the government to lower the substantial land premium required before re-tendering it for sale. Residential prices remained relatively stable, with the Centa-City Leading Index gaining 0.5% for the month. According to JP Morgan data, primary residential sales fell 62% MOM in May, while secondary transactions declined 27% MOM.

Chinese property stocks declined as sales volume slumped

Chinese property stocks mostly declined in May, as policy tightening on the sector continued. During the month, Guangzhou and Chongqing announced their local interpretations of the central government's tightening measures. Unlike Beijing, however, these cities echoed the central government's measures, and did not impose relatively tighter restrictions. The State Tax Authority also issued a notice in May requiring the strict collection of Land Appreciation Tax. In the past, the collection of this tax has not been strictly implemented. According to JP Morgan data, primary residential sales in eight major cities slumped about 51% MOM and 59% YOY in May. Selling prices, however, remained mostly resilient, based on reported anecdotal evidence. Price cuts so far have mostly been restricted to projects in poorer locations.

Singapore property stocks fell as supply loomed

Singapore real estate stocks fell in May, with the FTSE ST Real Estate Index down 6.8%. During the month, the Urban Redevelopment Authority (URA) announced the Government Land Sales program for 2H10, which featured 18 residential sites on the Confirmed List and another 13 on the Reserved List. The sites on the Confirmed List can yield 8,135 homes. This is a record high and is a jump from 2,925 units in the 1H10 Confirmed List. Demand for land remained strong, with four mass residential sites sold during the month at S\$405-523psf per plot ratio. Primary home sales remained brisk in the month of April with 2,207 units sold, a 25% MOM increase. However, sales is likely to have declined substantially in May, according to news reports.

Market Outlook**

Continue to believe in economic and property recovery in the U.S. and Canada

In the U.S. and Canada, we continue to have confidence in the economic and property recovery. The bull case for U.S. REITs envisions job growth, stable financial markets, and the U.S. economy being insulated from the troubles in Europe. The bear case revolves around contagion effects and its negative impacts on consumption, global trade, employment growth, interest rates, and capital availability. In such a scenario, not only would earnings estimates prove high, but cap rates could potentially rise.

Europe, UK expected to struggle

In Europe, we expect property stocks to continue to underperform as worries over Europe's sovereign debt crisis continue to mount. Cash flows will likely be under pressure as inflation-linked rents are weighed down. Global investors have begun to shun the region, with Australian property giant Lend Lease saying it would suspend plans to expand into Europe for the next three years. The UK REITs should benefit from some positive NAV momentum, though the value recovery is slowing. Property yields softened over the last month with the uncertainty of the election and its resulting new leadership. With tough measures needed to reduce the fiscal deficit, the UK market is likely to struggle, though valuations have become more attractive, in our view.

Japan stocks attractive, but will be driven by global events and politics

In Japan, even though property markets are bottoming and showing signs of an upturn, we expect that global events will drive stocks in the near term. The recent change of political leadership has had little effect on the stocks. The appointment of PM Kan's cabinet has been accompanied by a flurry of tough rhetoric on the need to bring public finances under control, echoing the shift of emphasis in the G20 statement from early June. The JREITs are yielding roughly 6% on average, which is very cheap by historical standards.

Remain positive on the Asia-Pacific ex-Japan region

We believe that the ongoing debt crisis in Europe will not lead to a double-dip recession in the Asia-Pacific ex-Japan region. As such, the economic environment is likely to remain supportive of property stocks. Property stocks in the region have been increasingly less reactive in recent weeks to negative news regarding policy tightening. Valuations have become more attractive, and could have factored in lower residential sales and prices to some extent in markets like China, HK and Singapore. The significant corrections in new home sales volumes seen in these markets could also prompt the authorities to ease off on implementing new cooling measures for the sector.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Content Source: DBS Asset Management Ltd and Urdang Securities Management, Inc., May 2010.*

The CPF interest rate for the Ordinary Account ("OA") is based on the 12-month fixed deposit and month-end savings rates of the major local banks. The new interest rate for the Special, Medisave and Retirement Accounts ("SMRA") is pegged to the yield of the 10-year Singapore government bond plus 1%. The CPF Board pays a minimum interest of 2.5% p.a. for all accounts. From 1 January 2008, an extra interest rate of 1% p.a. is paid for the first S\$60,000 of the CPF members' combined balance in the OA and Special Account ("SA"), including up to S\$20,000 in the OA. From 1 April 2008, the first S\$20,000 in the OA and SA will not be allowed to be invested under the CPF Investment Scheme ("CPFIS"). From 1 May 2009, CPF members must set aside S\$30,000 in their SA before they can invest their SA monies under CPFIS. From 1 July 2010, the first S\$40,000 of members' SA balance will no longer be allowed to be used for CPFIS investments.