

PRU Dragon Peacock Fund

Fund Update

Commentary

PRU Dragon Peacock Fund (the "Fund") performance and market overview

The MSCI India dropped 7.99%¹ in May largely due to concerns regarding the impact of a sovereign debt crisis in Europe. Domestic macroeconomic data also pressured the market as industrial production growth decelerated to 13.5%² in March from a year earlier after gaining 15.1%² in February. Inflation was slightly above expectations as the benchmark wholesale price index advanced 9.6%² year on year after a 9.9%² gain in the previous month. On 19 May, India's central bank said that it will raise rates only cautiously. Meanwhile, the MSCI China Index fell 5.36%¹ in May. All sectors reported losses with health care leading the underperformance followed by consumer discretionary and IT. The People's Bank of China ordered banks to set aside more reserves, by 50 basis points³, effective May 10. The current level is 16.5%³ for the biggest banks and 14.5%³ for smaller ones. Concerns over the EU debt crisis weighed on market sentiment while macro data showed China's economic expansion persisted though at a slightly slower pace. The Fund declined 3.9% (bid-to-bid basis), outperforming its benchmark's decline of 4.6%.

Positive contributors

Relative outperformance was primarily driven by stock selection in the financial sector. Rural Electrification Corporation Ltd, a provider of financing for state and rural electric cooperatives, advanced following their quarterly earnings announcement that reported robust loan growth, higher margins and a positive outlook. Overweight Bank of China Ltd also contributed to relative performance. First quarter earnings results increased 41%⁴ year on year which was about 6%⁵ higher than consensus. The increase was mainly attributable to fee income growth thanks to recovery of international trade as well as growing bank card and advisory business. Overweight Dr. Reddy's Laboratories Ltd moved higher following the approval of a new drug that is used in organ transplantation. The company is only the second player to enter this market and the limited competition in this space for the medium-term will contribute to annual sales. Dr. Reddy's Laboratories Ltd enjoys strong management, technological capabilities, and future earnings visibility.

Negative contributors

Detractors from performance were led by information technology and telecommunications stocks. Shares of Mphasis Pte Ltd fell after management indicated that its largest client Hewlett Packard has again renegotiated rates downward, leaving forward earnings visibility murky. Underweight positioning in China Mobile Ltd hurt performance in May. Shares climbed as investors sought a defensive position in a large market cap name amid concerns of a slow-down in China's growth. Overweight Tata Motors Ltd fell due to concern regarding raw material costs and economic slowdown in Europe. However, the company continues to show growth in the domestic market, especially in commercial vehicles and Jaguar Land Rover.

¹ MSCI Barra, as at May 2010

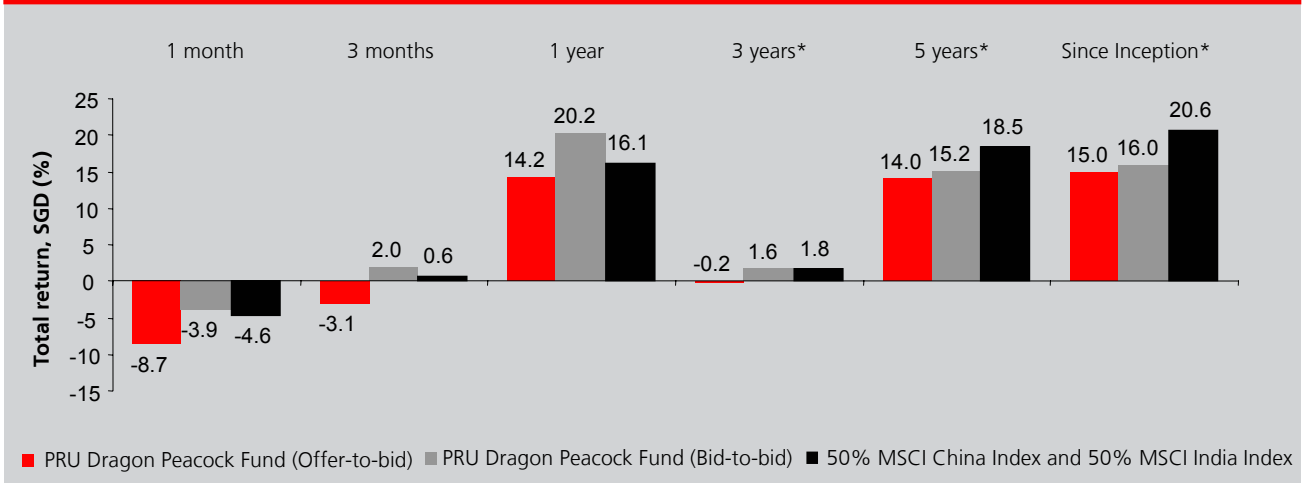
² JP Morgan, as at June 2010

³ Bloomberg, as at May 2010

⁴ Goldman Sachs, as at 28 April 2010

⁵ China International Capital corporation, as at 28 April 2010

Fund Performance



Benchmark: 50% MSCI China Index and 50% MSCI India Index

Source: Prudential Asset Management (Singapore) Limited and Bloomberg. S\$; net income reinvested; Offer-bid includes 5% Initial Sales Charge. Inception Date: 18 June 2004 *Annualised.

The charts above are included for illustrative purposes only. Past performance and any projection or forecast are not necessarily indicative of the future or likely performance of the Fund.

Changes to the Portfolio

The fund manager exited Larsen & Toubro Ltd, a technology, engineering, construction and manufacturing company with global operations. Although the company is fundamentally strong, valuations had become stretched as the market has priced in significant optimism.

Outlook

Domestic demand remains resilient in India and the drop in global commodity prices is favourable to the margins of Indian companies. Strong earnings and GDP growth is likely to continue. We anticipate a measured adjustment to interest rates that will limit the overall impact on consumption. While the recent deceleration in China's growth has reduced the risk of aggressive rate hikes, the capital market may be concerned regarding the risk of a hard landing, in our view. Valuation of China stocks in general is fair while in our view, increasing foreign direct investment and improving exports bode well for China going forward.

Top 10 holdings (%)

Company	Fund
Bank of China Ltd	7.9
Reliance Industries Ltd	5.8
Industrial and Commercial Bank of China Ltd	5.4
Infosys Technologies Ltd	5.1
Axis Bank Ltd	4.1
China Mobile Ltd	3.5
ICICI Bank Ltd	2.8
China Zhongwang Holdings Ltd	2.8
Cnooc Ltd	2.7
Focus Media Holding Ltd	2.6

Industry weighting (%)

Sector	Fund
Financials	30.3
Resources	16.2
Information Technology	9.6
General Industrials	9.1
Non-Cyclical Consumer Goods	7.6
Basic Industries	6.2
Non-Cyclical Services	5.9
Cyclical Services	4.7
Cyclical Consumer Goods	4.4
Others	6.0

Geographical breakdown (%)

Country	Fund
China Related	49.6
India Related	48.8
Others	1.6

Source: Prudential Asset Management (Singapore) Limited, as at 31 May 2010.

Contact details

Prudential Asset Management (Singapore) Limited (Registration No. 199407631H)
30 Cecil Street #20-01 Prudential Tower Singapore 049712
Tel: 63179 618 Fax: 6536 3521
Website: www.prufunds.com.sg

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