

Schroders

Monthly Fund Update

Schroder Singapore Trust (the “Fund”)

Fund overview:

The investment objective of the Fund is to achieve long-term capital growth primarily through investment in securities of companies listed on the Singapore Exchange Securities Trading Limited.

The Fund adopts a bottom-up, growth-oriented investment approach, with no specific industry or sectoral emphasis.

The bottom-up investment process capitalises on Schroders’ strong investment research capability of our Asia Pacific ex Japan equity investment team to generate value-add. The investment team is made up of 10 fund managers and 24 career analysts, with an average of over 14 years¹ in investment experience.

In-depth:

What have been the main drivers of recent fund performance at the stock and/or sector level?

Over the month, the Fund delivered a positive return, although it underperformed its benchmark (MSCI Singapore, net dividends).

The Fund’s underperformance was mainly attributable to negative stock selection in the **Financial** sector. However, positive stock selection in the **Industrial** sector helped to pare relative performance losses.

Property plays within the Financial sector weighed on performance, with our overweights in *Yanlord Land Group*, *Capitaland*, *UOL Group* and *City Developments* detracting from performance on concerns over further restrictions which may be imposed to cool speculation within the sector. Our nil holding in *Capitamall Trust* dragged down performance further, as the stock rose on the back of the positive outlook for the retail market, supported by increased retail spending and an expected pick-up in tourist arrivals.

On the flip side, the our stock picks within the Industrial sector added value, with *Jardine Matheson* contributing to performance following a share buyback announcement by Jardine Strategic Holdings. Other key contributors include *Keppel Corp.*, which rose on expectations that oil demand would increase as the world economy recovers from the recession, and *Yangzijiang Shipbuilding*, which helped portfolio performance on its margin strength and steady order flow.

¹ Source: Schroders, as at May 2010



What have been the key market events affecting the asset class recently?

Europe's debt crisis continued to dominate news headlines, as concerns surrounding Greece also extended to peripheral economies with similarly demanding debt burdens. However, the MSCI Singapore Index continued to climb, advancing by 3.69%² (in SGD terms) in April. It was helped largely by banking stocks, which rose on expectations of higher loan growth, following upward revisions in the CY10 GDP forecast for the country. The broad Singapore market also benefited from gains in its Industrial and Consumer Discretionary sectors over the month as well.

In general, while recent economic indicators for Singapore are positive, there is a possibility for these figures to surprise on the downside in the coming months, given the developing sovereign debt crisis in the Eurozone. In April, Non-Oil Domestic Exports continued to move upwards, rising 29.4%³ on a YoY basis from 25.4% in March, while Industrial Production surged 43% YoY for the month of March, as compared to a YoY rise of 17.9% in February. The Consumer Price Index edged higher by 0.4% MoM in March, fuelled largely by higher costs in the transportation sector. However, Retail Sales slowed, falling by 2.4% YoY in March, compared to a previous 4.6% YoY increase in February.

What is the outlook for the market?

Given the rebound in the Singapore economy and the improving economic outlook, the MAS announced last month that it would re-centre the exchange rate policy band and shift it from a zero appreciation band to one of 'modest and gradual' appreciation. On the back of this announcement, the GDP growth forecast for 2010 was revised upwards to 7-9%⁴ from an earlier forecast range of 4.5-6.5%⁴. While the revised estimates for growth and inflation above are a strong testament to Singapore's economic recovery, many questions lie ahead of us, such as the duration and strength of the recovery, as well as where the next sources of growth lie.

Although global economic conditions have brightened from the lows of one year ago, the broad economic outlook remains uncertain - developed nations continue to be plagued by deleveraging headwinds while the Eurozone is still in the midst of resolving its sovereign debt crisis. The massive 'shock and awe' financial package unveiled to stabilize the Eurozone sent global equities soaring momentarily, but has so far failed to assuage broader market fears in the region. The drop in the Euro over recent months may also further bolster the competitiveness of European goods relative to Asian ones, which in our opinion, poses a risk to export dependent Asian economies over the next 9 months. In addition, eruptions from the Icelandic volcano may further compound the problem, with possible disruptions to major supply chains from Asia to Europe. Should the weakness in the Euro continue, we might be impacted by a reduction in exports, given that intermediate goods are obtained from Singapore enroute to Europe, possibly resulting in volatile Exports and Industrial Production figures later this year. Undoubtedly, economic numbers in the coming months will be closely watched to see how this will all eventually play out, amidst signs of the recovering economy and as massive stimulus measures are gradually withdrawn.

Having said that, we expect to see a swing between policy withdrawal and long-term growth, with equity markets experiencing volatility as a result of sector rotation and bouts of intermittent profit-taking over the next quarter. Nonetheless, we believe that this will benefit our approach to investing, where we have consistently focused on fundamentally strong quality companies, which we believe will emerge as the long-term winners in their sectors.

² Source: Schroders

³ Source: Bloomberg (and other economic indicators within the section)

⁴ Source: Monetary Authority of Singapore Website

What are the main themes running through the portfolio in view of the outlook for the market?

While Singapore equities are no longer at “bargain” levels, they are still by no means excessively overvalued. The portfolio is tilted towards cyclicals, where it is expected to benefit from the global economic recovery on the back of earnings upgrades and potential asset value revisions. We expect banks to benefit from an increase in credit demand and higher loan growth, and will also look to increase our exposure to selected names within the Tourism and Retail sectors, which are expected to benefit from an increase in tourist arrivals following the opening of the 2 Integrated Resorts. Looking at the broader market, we expect investors to alternate between focusing on valuations and growth momentum, whilst waiting for further affirmation that the economic recovery can continue as tightening measures are introduced.

With market momentum expected to slow in 2010, it may, in turn, provide more scope for bottom-up investors like us to value add through investing in companies with strong fundamental support. The Fund continues to take profit where valuations have priced in an overly bullish view on global recovery and to shift to companies which have lagged the broad market and where we can still find value. We may also look at some unique opportunities in the smaller cap space.

Could you explain the investment process/strategy?

Portfolio construction is driven by a bottom up research process. This combines our proprietary model to carefully construct portfolios and ensures that returns are delivered with appropriate levels of risk. We believe that equity markets are not fully efficient. Our team of fund managers and investment analysts work together to exploit market inefficiencies through the application of extensive, rigorous proprietary research aimed at identifying mis-priced opportunities. We believe that in the long term, the inherent value of companies will be recognised by the market, thus eliminating this mis-pricing and enabling Schroders to deliver superior returns.

21 May 2010**Important Information:**

This document is prepared by Schroder Investment Management (Singapore) Ltd and the opinions expressed are subject to change without notice. This document is published for information and general circulation only and does not have any regard to the specific investment objectives, financial situation and particular needs of any specific person. Investors may wish to seek advice from a financial adviser before purchasing units of the Fund. In the event that the investor chooses not to do so, he should consider whether the Fund is suitable for him. Past performance of the Fund or the manager, and any economic and market trends or forecast, are not necessarily indicative of the future or likely performance of the Fund or the manager. The value of units in the Fund, and any income accruing to the units from the Fund, may fall as well as rise. Investors should read the prospectus, available from Schroders or its distributors, before deciding to subscribe for or purchase units in the Fund.

Schroder Investment Management (Singapore) Ltd
Co. Reg. No. 199201080H
65 Chulia Street, #46-00 OCBC Centre, Singapore 049513
Tel: +65 6535 3411 Fax: +65 6535 3486