

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?

The Fund delivered a positive return over the month, although it lagged behind its benchmark (MSCI Singapore, net of dividends). While the Fund benefited from positive stock selection in the **Energy** sector, negative stock selection in the **Industrial** sector and the underweight in the **Consumer Discretionary** sector weighed on gains.

Within the **Industrial** sector, key detractors from performance include the Fund's overweights in cyclical names *Keppel Corp.*, *Noble Group* and *Singapore Airlines*. Given the continued uncertainty surrounding the global macro outlook, these stocks fell on the back of their exposure to global growth over the month. However, performance losses were mitigated slightly by the portfolio's overweight in **Energy** name *Straits Asia Resources*.

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

Despite the ongoing sovereign debt crisis in Europe, a slowdown in Chinese growth and increased concerns of a 'double-dip' in global economic activity, Singapore equities, as represented by the MSCI Singapore Index (net of dividends, in SGD terms), climbed 3.5%² over the month. Better performing sectors include the Consumer Discretionary, Telecommunications and Financial sectors, whilst weaker performance came from the Industrials and Consumer Staples sectors.

Following a robust expansion in the first half of 2010, the Singapore Government revised the 2010 GDP growth figures upwards to 13-15%³ for the full year. The 6 point revision upwards was attributable to strong YoY GDP growth of 19.3%* for the second quarter, which surpassed the

¹ Source: Schroders, as at May 2010

² Source: Schroders

³ Source: Bloomberg (including all other economic data in this section)

* Advance estimates



revised YoY figure of 16.9%, for the first quarter. The stellar YoY growth in the second quarter was led by a 45.5%* surge in manufacturing output, and bolstered further by a 13.5%* increase in construction as well as a 11.4%* rise in the services sectors. However, on a sequential basis, GDP growth slowed from 45.9% in the first quarter to 26%* in the second quarter of 2010. In terms of Singapore trade growth, the annual growth forecast for Non-Oil Domestic Exports (NODX) was raised to a range of 17-19%. 2Q10 NODX figures grew by 28.7% YoY, helped by a 43.9% increase in electronic NODX. On a month-on-month basis, exports continued to slow, with seasonally adjusted NODX falling 0.1% MoM in June after a 0.2% MoM decline in May.

What is the outlook for the market?

The 2Q10 GDP growth numbers were a major surprise, and indicated that the relative strength of the Singapore economy still remained quite good, compared to that of other global economies. The marked upward revision in full year GDP growth numbers on the back of the jump in 2Q10 figures caught economists off-guard - with this positive forecast, people are more optimistic that Singapore is able to better weather potential external factors that may be less favourable for other global economies.

However, there remains some debate over whether the broader global environment will experience a double-dip, given the weak economic data still flowing out from the US and Europe. A recent survey by the BofA Merrill Lynch shows that investor confidence has fallen, with a net 12 percent of respondents predicting that the global economy will worsen in the next year. This would be the first negative forecast for this survey since February of last year. In the event of a double-dip materializing in the developed economies, the subsequent question raised would be whether Asia or Singapore will be as significantly impacted as they were, in the past. Given such a scenario, we would expect the tourism and construction sectors to take up the slack and cushion any negative impact on the Singapore economy. Further, there is also the peripheral issue of the weakness in the Euro, which might pose a slight threat to growth, in terms of reducing the competitiveness of Asian exports.

With the second quarter earnings season ahead of us, there is a chance that company results may be mixed. The relative ratio of earnings upgrades to downgrades has become less overwhelmingly positive. Due to the low base effects in 2009, year-on-year company figures have been extremely positive for 1Q10 and may still be so for 2Q10. However, as we move into the next 6 to 12 months, these favourable earnings expectations are expected to run off and flatten over the rest of the year as the low base effect in 2009 fades. Thus, the potential boost from the upside in possible earnings surprises will start to taper off, and be less of a positive driver for the equity market as a whole.

In conclusion, although there is a growing number of potential negative factors which may impact the market in the short-term, these are balanced out by a large number of positive ones. Over the next few months, markets may trade in a wide range with little directional movement as investors rue the uncertain impact of these conflicting factors. However, we think that the downside risk to Singapore economic growth may be cushioned by the structural evolution of growth drivers, which have moved from the reliance on electronics exports to tourism revenues, new services segments and non-traditional manufacturing industries.

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 economic recovery. 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 be sustained in the longer-term.

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.

16 July 2010

Important Information:

This document is prepared by Schroders 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 the particular needs of any specific person who may receive this document. Investors may wish to seek advice from a financial adviser before purchasing units of any Schroders Fund (the "Fund"). In the event that the investor chooses not to seek advice from a financial adviser, he should consider whether the Fund in question 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 the income accruing to the units, if any, from the Fund, may fall as well as rise. Investors should read the prospectus, available from Schroder Investment Management (Singapore) Ltd or its distributors, before deciding to subscribe for or purchase units in any Fund. Funds may carry a sales charge of up to 5%.

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. Under the CPF Act, the Board pays a minimum interest of 2.5% per annum when this interest formula yields a lower rate.

The interest rate for the CPF Special, Medisave and Retirement Accounts (SMRA) will be pegged to the 12-month average yield of 10-year Singapore government securities plus 1%. For 2010, the minimum interest rate for the SMRA is 4.0% per annum. After 31 December 2010, the 2.5% per annum minimum interest rate, as prescribed by the CPF Act, will apply to the SMRA.

In addition, the CPF Board pays an extra interest rate of 1% per annum on the first \$60,000 of a CPF member's combined balances, including up to \$20,000 in the OA. The first \$20,000 in the Ordinary Account and the first \$30,000 in the Special Account are not allowed to be invested under the CPF Investment Scheme (CPFIS). With effect from 31 July 2010, the first \$40,000 in the Special Account will not be allowed to be invested under the CPFIS.

Investors should note that the applicable interest rate for each of the CPF accounts may be varied by the CPF Board from time to time.

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