

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 outperformed its benchmark (MSCI Singapore, net of dividends) and delivered a positive return over the month. Outperformance was primarily attributable to stock picks within the **Financial** and **Industrial** sectors, although performance was mitigated by the Fund's underweight in the **Consumer Discretionary** sector.

The Fund benefitted from its underweight in *Capitamalls Asia*, and overweights in *Allgreen Properties*, *Capitaland* and *Yanlord Land Group* within the **Financial** sector. Amongst **Industrials**, positive contributions came from the likes of the Fund's underweight in *Singapore Technologies* and its overweight in *Keppel Corp*. Conversely, key detractors for the Fund include its underweights in *Singapore Press Holdings*, *Genting Singapore* and *Jardine Cycle and Carriage*, as well as its overweight in *Noble Group*.

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

In July, equity markets benefited from better-than-expected European economic data and from hopes that China would halt further tightening measures. However, US macroeconomic data continued to remain weak, with figures disappointing consensus forecasts. Against this mixed backdrop, Singapore equities climbed, buoyed by strong corporate earnings, macroeconomic data and a resurgence in risk appetite. The broad Singapore market, as represented by the MSCI Singapore Index (net of dividends, in SGD terms) rose 5.1%² over the month. From a sectoral perspective, the Consumer Discretionary and Consumer Staples sectors outperformed, while the Telecommunication Services sector lagged.

¹ Source: Schroders, as at June 2010

² Source: Schroders



Key Singapore macroeconomic indicators were strong but may indicate a peaking trend, albeit at very robust levels of economic activity. Industrial Production fell 23.4%³ MoM (seasonally adjusted) in June, versus a 5.2% rise the previous month, while Non-Oil Domestic Exports (NODX) declined 3.9% MoM (seasonally adjusted) in July against a slight 0.1% decrease in June. The MoM slowdown in NODX was chiefly due to the volatile pharmaceutical sector, which contracted 35.67% MoM in July following the 93.71% MoM surge in June. Other indicators for Singapore's economy continued to look healthy, with the Purchasing Managers' Index edging higher to 52.2 in July, up from 51.3 in June, helped primarily by a rebound in Electronics and Employment. Latest tourism figures for Singapore also continued to climb, with Visitor Arrivals reaching a peak of 950,000 for the month of June.

What is the outlook for the market?

Amidst a slew of varied macroeconomic newsflow from the Eurozone and US regions, the debate still rages on over whether a global double-dip will ultimately eventualise. Macroeconomic data within Europe continues to be mixed, while concerns still linger over consumer spending in the US, and if consumption can be sustained once unemployment benefits start to unwind. In the event of a global double-dip materializing, the subsequent question raised would be whether Asia or Singapore will be as significantly impacted as they were, in the past. Although we believe that Singapore GDP growth has likely peaked given the extremely strong set of 2Q10 GDP data, the consensus is that there may not be a sharp fall-off in economic numbers moving forward, as the tourism and construction sectors may take up the slack and cushion the negative impact on the Singapore economy should a global double-dip occur. With the recent earnings season behind us, we note that year-on-year company earnings have been extremely positive for 1Q10 and 2Q10, due to the low base effects in 2009. However, as we move into the next 6 to 12 months, these favourable base comparisons are expected to flatten out in the absence of new strong growth catalysts.

Looking forward, although there are a number of potential headwinds which may impact the market in the short-term, these are balanced out by a number of positive factors. Earnings expectations and valuations may remain capped by several concerns, such as those over US consumption (as unemployment benefits run-off for the long-term unemployed), fiscal austerity measures in Europe, possible spillover effects from China's property market measures to other sectors of the economy, as well as the potential slowdown in Chinese manufacturing. However, 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 Fund 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

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

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 opportunities in the mid and small cap space, as valuations within this space have come down quite a bit.

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.

18 August 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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