

# Schroders

## Monthly Fund Update

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### 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 years<sup>1</sup> 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 outperformed its benchmark (MSCI Singapore, net dividends).

Outperformance was mainly attributable to positive stock selection in the **Consumer Discretionary** and **Industrial** sectors. However, the underweight in the **Consumer Discretionary** and the overweight in the **Consumer Staples** sectors weighed on relative performance gains.

Within the **Consumer Discretionary** sector, the portfolio’s underweight in *Singapore Press Holdings* added value. Other key contributors also included nil holdings in selected **Industrial** names such as *Cosco Corporation* and high-beta cyclical stock *Neptune Orient Lines*, which had underperformed over the month. Our overweight in *Fraser & Neave* also helped portfolio performance, given the defensive nature of the stock while the overweight in property play *City Developments* contributed further to relative performance, due to its exposure to the mass market residential sector which continued to see strong demand.

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

The European sovereign debt crisis continued to unfurl over the month of May, dragging down equity markets across the region on the back of higher risk aversion. Singapore was no exception – May 2010 saw the MSCI Singapore Index tumbling 6.92%<sup>2</sup> (in SGD terms). The broad Singapore market was weighed down by its Consumer Staples, Financial and Industrial sectors, while the Consumer Discretionary sector emerged as the best performing sector in relative terms.

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<sup>1</sup> Source: Schroders, as at May 2010

<sup>2</sup> Source: Schroders



Over the month of May, Non-Oil Domestic Exports remained relatively unchanged, falling marginally by 0.1% MoM (seasonally adjusted, in SGD terms), while April Industrial Production advanced strongly by 24.3% MoM due to the strength in the Biomedicals sector. Inflation for the month of April increased faster than expected by 0.5% MoM (seasonally adjusted), primarily on the back of higher transportation costs. However, it must be said that while recent economic indicators for Singapore are positive, we would not be surprised to see a sharp downturn in these numbers over the coming months, given the developing sovereign debt crisis in the Eurozone.

### **What is the outlook for the market?**

Given the rebound in the Singapore economy and the improving domestic economic outlook, the MAS announced in April 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%<sup>3</sup> from an earlier forecast range of 4.5-6.5%<sup>3</sup>. Accordingly, a survey released by the MAS earlier this month showed that economists believe Singapore's GDP may expand by approximately 9% (median forecast) in 2010. 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. Should the weakness in the Euro continue further, we could potentially see a reduction in exports given that intermediate goods are obtained from Singapore enroute to Europe - such a situation could possibly result 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.

### **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 on the back of earnings upgrades and potential asset value revisions. We 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.

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<sup>3</sup> Source: Monetary Authority of Singapore Website

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 June 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.

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