

AIG International Funds

ANNUAL REPORT & FINANCIAL STATEMENTS

(For the year ended 31 December 2008)



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- *Please note that all figures shown in this report are as of 31 December 2008 unless otherwise stated.*

AIG International Funds – Singapore Bond Fund

Fund Manager's Review

Portfolio Performance

For 2008 the Singapore Bond Fund (the "Fund") returned minus 9.06% (before upfront sales charges) and minus 11.79% (net of upfront sales charge), while its benchmark JP Morgan Singapore Government Bond Index (All Sectors) returned 7.47%.

Overview

2008 was marred by extreme and unprecedented adverse events and will be remembered as the worst year for global financial markets since the Great Depression of the 1930's. Oil and commodities prices rocketed to record levels in the first half of the year causing global inflation even as investors grappled with the unfolding credit crisis. In the second half of the year, the financial crisis deepened with the failure of several large financial institutions, including the largest bankruptcy in US history when Lehman Brothers collapsed. Governments around the world cut interest rates aggressively, injected liquidity into their financial systems and took the unprecedented step to guarantee their domestic banks deposits over a specified period to unclog frozen credit markets that threatened to push global economies into depression. Market volatility rose to unprecedented levels while all risk assets suffered sharp price declines as investors fled to the safety of government bonds, which was about the only asset class posting a positive return for the year.

Market Review

During the first half of 2008, global central banks were faced with the dilemma of monetary tightening to combat surging inflation and monetary easing to prevent the spread of the credit crisis. Commodities prices continued to climb during the first half of the year, with oil prices hitting a record high of USD 147 per barrel

in July, leading to a surge in global inflation. In the meantime, the continued slide in US house prices, rising foreclosures, additional write-downs by financial institutions and contraction in bank credit raised fears of a downward spiral. In spite of inflationary pressures, the deterioration in credit and liquidity conditions led the US Fed to cut rates aggressively. The Fed unexpectedly cut its target rate by a large 75 basis points in January, before its next scheduled meeting. Doubts over the soundness of US financial institutions were raised when Bear Stearns was taken over by JP Morgan Chase in March with help from the Fed, at a massive discount to Bear Stearn's stated NAV. The Fed cut rates three more times by a total of 150 basis points, bringing the target rate to 2% by end June from last year's closing level of 4.25%. Heightened risk aversion, recessionary fears and aggressive Fed rate cuts led to investors fleeing risk assets to seek a safe haven in US Treasuries (UST).

The financial crisis deepened in the second half of the year. From September, several well-known major financial institutions either collapsed or were bailed out in quick succession. Shortly after Fannie Mae and Freddie Mac were taken over by the US government, Lehman Brothers shocked financial markets by filing for bankruptcy, the largest ever in US history. The contagion spread rapidly with the Fed bailout of AIG Inc, Washington Mutual filing for bankruptcy, the sale of Merrill Lynch of itself to Bank of America and the bailout of Wachovia Bank by Wells Fargo. Over in Europe, the three major Icelandic banks were nationalized while others including major names like UBS and Royal Bank of Scotland had to be rescued by their governments. The sharp deterioration in the credit crisis raised the spectre of a financial system collapse and global depression, prompting the US Treasury to propose a bailout plan with the setting up of the Troubled Asset Relief Program (TARP). After overcoming initial obstacles, the TARP was eventually approved by Congress but proved insufficient to stabilize markets as credit markets remained frozen. Volatility reached

AIG International Funds - Singapore Bond Fund *(continued)*

unprecedented levels in the fourth quarter as global equities, corporate credit and emerging market assets sold off sharply, triggered by liquidation of holdings by investment funds faced with redemptions from investors fleeing risk assets. The sell-off in emerging markets assets was exacerbated by falling commodities prices and debt refinancing risks. Global corporate credit spreads surged to record levels in November and again in December as uncertainty over the future of Citigroup pushed credit spreads of US banks wider. Credit spreads were also driven wider by weak economic data pointing to a deepening US recession, the unexpected decision by the US Treasury to abandon plans to use the TARP to buy assets from banks and fears over the potential collapse of the US auto industry. Corporate credit spreads staged a partial recovery toward year-end on coordinated global central banks' efforts to help ease liquidity and optimism that the auto industry will receive government aid. The US Fed continued to cut rates aggressively, reducing its target rate to an unprecedented level of 0 – 0.25% from third quarter-end's level of 2%. Risk aversion and aggressive US Fed rate cuts led to continued strong demand for USTs, resulting in a sharp decline in UST yields to record lows, with the yield on the 10-year benchmark UST Note closing the year at 2.21%, a decline of 181 basis points from previous year's close of 4.02%.

In Singapore, government bond yields and corporate credit spreads were driven mainly by external factors. Singapore Government Securities (SGS) yields took direction from US interest rates and inflation trends while corporate spreads were driven by credit events in the US. Inflationary pressures dominated the bond market's concerns in the first half of the year even as the US Fed cut interest rates aggressively. As in the region, domestic inflation surged in the first half of the year, pressured by high crude oil, commodities and food prices and a low unemployment rate. From 4.4% in Dec 2007, the CPI surged to a 26-year high of 7.5% in April, May and June. Inflation fears pushed the

benchmark 10-year SGS yield to 4% in June, a level not seen since 2003. Inflation moderated in the second half of the year on falling commodities and oil prices and the weakening of global and domestic economies. Singapore's economy entered into its first recession since 2002, with GDP contracting by 0.3% and 2.6% in the third and fourth quarters respectively. The shift in the balance of risk from inflation to weakening economic growth provided buying support for SGS. As the US financial crisis worsened from mid-September, risk aversion, extreme volatility and flight-to-quality were dominant features in Singapore markets. Corporate credit spreads in Asia widened substantially as global corporate spreads reached record wide levels in November and December. In contrast, SGS enjoyed strong demand as was the case for USTs. The flight to safety by investors led the benchmark 10-year SGS yield to a low of just below 2% in December the lowest for the year, before rebounding to close at 2.05% for a decline of 63 basis points from last year's close of 2.68%.

Portfolio Overview

The massive widening of corporate credit spreads, even for corporate issuers with the highest investment-grade rating and the series of failures of large investment-grade rated financial institutions have been unprecedented. The Fund which invests primarily in corporate bonds, suffered its worst performance since inception. The massive credit spread widening especially in the financial sector, the sell-down in REITs along with other risk assets and the default by Lehman led to the Fund's negative returns. Credit spreads of financial institutions, which were at the epicentre of the financial crisis have been one of the worst hit. The Fund had a relatively high allocation of 44.8% to the financial sector as at end Dec 2008 because the sector has been the largest issuer of SGD debt and the sector's high credit ratings. The Fund was also adversely affected by its holding of Lehman Brothers bonds which were previously rated A+ by Standard & Poors. At

AIG International Funds – Singapore Bond Fund *(continued)*

end August, the Fund's exposure to Lehman Brothers was approx 1.47% at market value. The US government's prior actions to bail-out Bears Stearns, Fannie Mae and Freddie Mac in order to prevent a systemic failure led investors including ourselves to take the view that Lehman Brothers would also be considered as "too-big-to-fail" and its failure would pose a systemic risk to the US financial system. Unfortunately this expectation did not materialize when Lehman Brothers shocked markets by filing for bankruptcy. The massive widening of credit spreads especially in financials, Lehman Brother's default and the sell-down in REITs resulted in Fund's negative returns and its underperformance relative to government bonds. The JP Morgan Singapore Government Bonds Index posted a positive return as government bonds benefited from flight-to-quality by investors and the collapse in interest rates. As a comparison, the JP Morgan Asia Credit investment-grade sub-index, which comprises investment-grade USD-denominated Asian corporate bonds, returned minus 6.3% in 2008 while USTs of similar duration return 12.3%, a gap of 18.6%. The Fund had maintained a prudently high level of cash (including near cash) of above 15% through mid-September.

Outlook

Global macroeconomic fundamentals remain weak. Major economies in the US, UK, Eurozone and Japan are facing the first simultaneous recession for the first time in decades, while China's growth is also slowing. There is still no sign of a bottoming out in the US housing market, the labour market continues to shrink and banks are still tight on lending. On the positive side, governments in major economies especially in the US are taking strong measures to unfreeze credit markets and stimulate their economies. In the near term, the opposite effects of poor macroeconomic fundamentals and strong policy measures by governments will result in uncertainty for financial markets and for corporate credit spreads. In the near term, the Fund will maintain its current defensive stance

with approx 13% in cash (including near cash) but will add to positions in high credit quality issues at attractive spreads, which are expected to tighten when the credit crisis passes the trough.

Asset Allocation

By Country

Refer to "Portfolio Statements - By Geography (Primary)"

By Industry

Refer to "Portfolio Statements – By Industry (Secondary)"

By Asset Class

Refer to "Portfolio Statements – By Geography (Primary)"

By Credit Rating

| Credit Rating (By Moody's) | Fair Value (S\$'000) | % of Fixed Income Instruments |
|-------------------------------|-------------------------|-------------------------------------|
| A2 | 18,245 | 4.97 |
| A3 | 69,958 | 19.04 |
| Aa1 | 8,033 | 2.19 |
| Aa2 | 46,244 | 12.58 |
| Aa3 | 6,786 | 1.84 |
| Aaa | 89,893 | 24.45 |
| B3 | 801 | 0.22 |
| Ba2 | 801 | 0.22 |
| Baa2 | 12,924 | 3.51 |
| NR | 113,899 | 30.98 |

Source: AIG Global Investment Corporation (Singapore) Ltd.

AIG International Funds – Singapore Bond Fund *(continued)*

| Top 10 Holdings (as at 31 December 2008) | | |
|---|---------------------------------|----------|
| | Fair Value (S\$'000) | % |
| Standard Chartered 5.25% 10 Apr 2023 | 43,001 | 8.40 |
| Singapore Govt Bond 4% 01 Sep 2018 | 36,812 | 7.19 |
| DBS Cap Funding 5.75% 29 May 2049 | 36,792 | 7.19 |
| OCBC 3.78% 28 Nov 2017 | 19,146 | 3.74 |
| OCBC Capital Corp Preferred 29 Aug 2049 | 18,354 | 3.58 |
| DBS Bank 4.47% 15 Jul 2021 | 14,683 | 2.87 |
| Singapore Govt Bond 3.625% 01 Jul 2014 | 13,534 | 2.64 |
| General Elec Cap Corp 3.65% 06 Apr 2009 | 13,168 | 2.57 |
| Queensley Hldgs Ltd 4.5% 05 Dec 2009 | 13,151 | 2.57 |
| Morgan Stanley 4% 23 Oct 2017 | 13,081 | 2.55 |

Source: AIG Global Investment Corporation (Singapore) Ltd.

| Top 10 Holdings (as at 31 December 2007) | | |
|---|---------------------------------|----------|
| | Fair Value (S\$'000) | % |
| Capitamall Trust | 20,338 | 3.49 |
| OCBC 3.78% 28 Nov 2017 | 20,110 | 3.46 |
| Morgan Stanley 4% 23 Oct 2017 | 17,904 | 3.07 |
| Ascendas Real Estate Investment Trust | 16,423 | 2.82 |
| DBS Bank 4.47% 15 Jul 2021 | 16,062 | 2.76 |
| HSBC Singapore 3.18% 24 Nov 2008 | 15,081 | 2.59 |
| Capitaland Treasury Ltd 4.35% 31 Oct 2019 | 14,878 | 2.56 |
| General Elec Cap Corp 3.65% 06 Apr 2009 | 13,241 | 2.28 |
| Queensley Hldgs Ltd 4.5% 05 Dec 2009 | 13,042 | 2.24 |
| Singapore Govt Bond 3.625% 01 Jul 2014 | 12,986 | 2.23 |

Source: AIG Global Investment Corporation (Singapore) Ltd.

Exposure to derivatives

| | S\$ | % |
|---|--------------|----------|
| Fair value of derivative contracts | 720,668.34 | 0.09 |
| Net gain/(loss) on derivative contracts realised for the period 01 Jan to 31 Dec 2008 | (577,978.72) | N/A |
| Net gain/(loss) on outstanding contracts marked to market | 720,668.34 | N/A |

Amount and percentage of NAV invested in other schemes

NIL.

Amount and percentage of borrowings to NAV

NIL.

Amount of subscriptions and redemptions for the period 1 January 2008– 31 December 2008

Refer to “Creation of units” and “Cancellation of units” in the Notes to the Financial Statements Report.

Amount of related-party transactions

Please refer to Notes to the Financial Statements.

Performance of fund and benchmark

| Period | Fund Performance | JP Morgan Sing Govt Bond Index |
|---|-------------------------|---------------------------------------|
| 3-month | -4.97 | 6.31 |
| 6-month | -6.63 | 8.87 |
| 1-year | -9.06 | 7.47 |
| 3-year [^] | -0.14 | 5.60 |
| 5-year [^] | 2.94 | 4.56 |
| Since Inception (26.03.02) [^] | 3.04 | 4.51 |

Source: AIG Global Investment Corporation (Singapore) Ltd. & Bloomberg.

Returns in S\$, bid-to-bid basis.

[^]Annualised returns.

AIG International Funds - Singapore Bond Fund *(continued)*

Expense Ratios[#]

Please refer to the Notes to the Financial Statements.

[#] The expense ratio of the fund does not include brokerage and other transaction costs, performance fees, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received.

Turnover Ratios

Please refer to the Notes to the Financial Statements.

The turnover ratio is calculated based on the lesser of purchases or sales of the underlying investments of a scheme expressed as a percentage of daily average NAV.

Soft Dollars

Not applicable.

AIG International Funds - Acorns of Asia Balanced Fund

Fund Manager's Review

Overview

The year 2008 will be remembered in history as one of the worst for financial markets globally.

It was a period of severe outcomes: failures and near collapses of key financial houses, a freeze-up in credit markets, significant falls in equity prices as investors visibly lost their appetite for any asset class considered risky, and government-led recapitalization of large swathes of the international financial system. These developments have left the world economy in the throes of recession, one that several commentators feel has echoes of the deep slump during the 1930s. Certainly, the economies of the US, Europe and Japan are undergoing their first simultaneous declines since World War II as a global credit crunch unfolds.

Against this sombre backdrop, the Asia ex-Japan (AeJ) region, represented by the MSCI Far East Free ex-Japan benchmark, fell 51.9% (in Singapore Dollar terms). This came after five consecutive years of double-digit gains.

Likewise, in a climate of heightened risk aversion among investors, which triggered significant repatriation of funds from emerging markets generally, the region was unable to extend its outperformance against its world equivalent (MSCI World) to an eighth successive year. As an illustration of the former point, based on data sourced from Citi Investment Research, offshore Asian funds saw total net redemptions of US\$19.6 billion in 2008. This was in contrast to net inflows of US\$16.4 billion in 2007.

Ironically, given the deflationary implications of the current crisis in the world financial system, investors had spent the first-half of 2008 worrying about surging inflation. Their concerns were prompted by sharp price increases at that time in key resources such as rice, steel and crude oil. Indeed, the latter was to climb

to a historic high of US\$147 per barrel in July, representing a near doubling in prices over the previous 12 months.

The view was that the various central banks would have to engineer a further uptrend in interest rates to contain these cost pressures, which could in the process have a detrimental impact on economic growth. Therefore, they adopted a generally cautious attitude toward investing in equity markets, including those in Asia ex-Japan, which retreated noticeably during this period.

However, these losses were to accelerate further in the second-half of the year, particularly from September onwards. That was when an on-going property market slump in the United States degenerated into a full-blown banking system crisis, as Lehman Brothers, then the fourth largest investment bank in America, went under, due to their exposure to sub-prime mortgage-backed debts. It was the largest bankruptcy filing in US corporate history.

Lehman Brothers' demise had the unfortunate consequence of causing a collapse in counterparty confidence, and a de-stabilization of credit markets. An immediate consequence, which further aggravated the situation, was the funding difficulties faced by AIG. The US government eventually stepped in with financial assistance, but this did not effectively calm the panic engulfing financial markets worldwide in the last months of 2008. Indeed, risk aversion rose significantly, credit conditions tightened significantly, and investors began a process of de-leveraging against a backdrop of banks becoming extremely reluctant to lend. These factors contributed to the recession that economies around the world are now grappling with.

As a telling reflection of the very difficult situation, hedge funds posted their biggest decline on record during 2008, losing about US\$350 billion globally, as the credit crunch crippled returns

AIG International Funds - Acorns of Asia Balanced Fund *(continued)*

and forced investors to pull money out. Roughly 90% of the money was lost in the three months to end-November.

Governments and central banks have responded, initially with aggressive policy easing. This was highlighted by the concerted interest rate cuts in October 2008, when the US Federal Reserve announced two reductions. Rates were also lowered, among others, in Australia, the European Union, the United Kingdom, China and India.

Along with monetary measures, official fiscal actions have also been taken to help resuscitate economic activity. For instance, in October 2008, the Troubled Assets Relief Program (TARP) was signed into law in the US to allow the government to purchase assets and equity from financial institutions in order to strengthen the overall financial sector and enable banks to rebuild its ability to extend credit. And in early November, China, currently the world's third-largest economy, announced a stimulus package totalling around S\$770 billion. More of such spending measures are expected from governments around the world as we move through 2009.

The Acorns of Asia Balanced Fund (the Fund), set against 2008's difficult environment, suffered a significant fall for the year of -44.80% (before upfront sales charges) and -46.46% (net of upfront sales charge), against its composite benchmark negative returns of -31.20%.

With investors' risk appetite extremely low, caused by worries about the severe impact on global growth stemming from the crisis afflicting the banking systems of major economies, there was an exodus from investing in stocks in general, and in emerging market equities in particular. The Fund's stock exposure in Korea, Indonesia, the Philippines and Taiwan suffered a visible de-rating. In addition, the Fund's fixed income investments also saw an adverse impact. Corporate credit spreads widened, even

in the sector with the highest investment-grade ratings. The Fund's relatively high cash level, averaging a little over 8% during the year, was not able to provide a meaningful offset.

Market Review

Equities:

As noted earlier, the Asia ex-Japan markets collectively registered a contraction of 51.9% in 2008, as investors took flight amidst serious worries about the health of the global economy. Initial concerns about the impact from higher inflationary pressures were subsequently replaced by fears that a global credit crunch and de-leveraging process would lead to a lengthy recession. Risk appetite waned.

Under such an environment, investors abandoned most asset classes and sought refuge either by investing in the government bonds of the major developed economies, or holding cash. As an illustration, US Treasuries returned 14% in 2008, their best performance since 1995.

All component markets within the Asia ex-Japan region experienced double-digit falls, with investors only able to find relative rather than absolute safety. The sharpest declines were suffered by Indonesia (-57.5%) and Korea (-55.8%).

Indonesia's fall was dramatic. It had actually ended the first half of 2008 in positive territory. However, the collapse in commodity prices beginning in July, aggravated by the credit crisis in the latter part of the year, caused investors to flee on concerns that the country's resource-based export sector would visibly suffer. The exit of funds also de-stabilized the Rupiah, leading to further turbulence in stocks.

Likewise, Korea, with its key export industries such as automobiles and consumer electronics geared to global demand, experienced an investor exodus as prospects for the world

AIG International Funds - Acorns of Asia Balanced Fund *(continued)*

economy dimmed. In addition, there were fears that corporate Korea's profitability would erode further as it faces higher borrowing costs stemming from the credit crunch.

The Philippines fell 53.8%, with the decline initially triggered by fears over escalating rice prices. Investors then turned their attention to the country's budget deficit situation, and how a tighter credit environment would complicate the government's plans to raise debt to fund the fiscal shortfall.

Hong Kong lost 52.8%, as pessimism grew over the impact to the domestic jobs market from the damage inflicted on major international banks, which have extensive operations in the territory. The local property market, a key underpinning of the economy, also reacted adversely. Sentiment was not helped by the challenges confronting the neighbouring Chinese economy during 2008, with first inflation and subsequently deflation undermining investor confidence. There were also unsettling developments relating to a series of natural disasters and a food safety scandal. For the year, the market in China slipped 51.9%.

Political issues were to preoccupy investors in Thailand in 2008, where the stock market registered a fall of 50.3%. Following the ouster of Thaksin Shinawatra, the country spent a period in impasse, which culminated in anti-government protesters occupying the airport in Bangkok, causing significant disruptions to Thailand's key tourism industry. Eventually, the country's 27th prime minister, Abhisit Vejjajiva, was chosen to form a new coalition government, Thailand's third in 4 months. Investors remained sceptical that enough political stability could be instilled to allow for some needed official actions to shore up the economy.

Singapore's open economy meant it would be among the first to feel the impact of the global recession. The stock market laboured under this fact, and retreated 49.5%, although it did relatively out-perform the region.

The two other noticeable relative out-performers were Taiwan (-48.6%) and Malaysia (-43.3%). Despite having a heavy representation of export-oriented high-technology companies in its equity market, investors in the former drew some encouragement from the emphatic electoral victory of the Kuomintang in general elections held in March. This paved the way for normalizing and deepening economic ties with China, which should benefit the domestic businesses through encouraging cross-border tourism and investments.

For Malaysia, it has typically been seen as having a relatively insulated economy. The main focus therefore was on the political implications of the return of former deputy prime minister Anwar Ibrahim to the political stage. Uncertainty prevailed for a time, but this cleared up to an extent with the anointing of defence minister Najib Tun Razak as the person to succeed the current prime minister.

Bonds:

Sentiment in the fixed income markets in 2008 struggled between strong inflationary pressures caused by high oil and commodities prices and the on-going credit crunch threatening global economic growth. Inflation concerns prevailed in the first half of the year as oil and commodities prices continued to climb, with the price of crude oil reaching a record high in July. Yields on US Treasuries (USTs) and Singapore Government Securities (SGS) climbed, reaching the year's high in June despite aggressive rate cuts by the US Fed. In the second half of the year, inflation pressures eased with oil and commodities prices falling sharply on weakened global demand as global economic conditions deteriorated. Inflation concerns gave way to fears of deepening recessions in the US and globally as the credit crisis worsened. Volatility reached unprecedented levels, especially in the last calendar quarter of the year, as equities, corporate credit issues and emerging market assets were sold off sharply following the demise

AIG International Funds - Acorns of Asia Balanced Fund *(continued)*

of Lehman Brothers and the attendant pressures on the US financial system. A heightening of risk aversion among investors, which triggered a "flight-to-safety" attitude, resulted in a visible decline in the yields of US government bonds, which reached record lows. Similarly, SGS took their cues from their USTs. With Singapore entering its first recession since 2002, the demand for relatively safe investments led to the benchmark 10-year government bond yield touching a level of just below 2% in December 2008, which was the lowest for the year.

Outlook

The coming year for stock-markets in Asia ex-Japan is likely to feature a tussle between continuing worries about global economic health and financial strains on one side, and determined pro-growth policy actions on the other.

As it stands, the mood among investors is still generally negative. US stocks, measured by the Standard & Poor's 500 index, has made its second-worst initial two-week start to a year, based on data compiled by Bloomberg going back to 1928.

News on the economic front has remained dire, with data indicating an intensifying recession. For instance, the US unemployment rate reached 7.2% in December 2008, the highest in almost 16 years. At the same time, retail sales there fell for a sixth month, the longest stretch since 1992. The American economy is projected to have contracted around 5% during the last quarter of last year, the most severe since 1982, and is expected to shrink 3% in the first quarter of 2009. Elsewhere, China reported that its export sales in November 2008 had fallen for the first time in seven years on an annualized basis. Toyota Motor Corp, the world's largest automobile producer, is on course for its first ever operating loss as global car sales slump. In line with some of the unprecedented events we have witnessed and are still witnessing, Toyota indicated that it could take the rare step of reducing the size of its full-

time employees. Likewise, Microsoft Corp has announced that it would cut as many as 5,000 jobs, the first company-wide retrenchment in its 34-year history, as sales and profits are expected to drop.

Investors' confidence has also been shaken by several corporate debacles, including alleged accounting irregularities discovered at Satyam Computer Services, India's fourth-largest software exporter, and which made its name by helping corporations globally tackle the Y2K problem back in 2000. The company founders admitted that they had fabricated US\$1 billion in cash and assets. Likewise, the US\$50 billion fraud unmasked at an established hedge fund run by Bernard Madoff has un-nerved investors, and could have further repercussions on the broader financial markets. There are also worries that more such revelations could surface as the decline in economies and asset prices continue.

In sympathy with the current tough situation, markets in the Asia ex-Japan region have also begun 2009 on a weak footing. Investors perceive most of them as being hostages to the economic fortunes of the industrialized countries. As has been mentioned in previous commentaries, a study by the Asian Development Bank (ADB) revealed that the US, Japan and the European Union still account for around 40% of Asia ex-Japan's total exports. Therefore, sentiment toward regional equities will ultimately take its cue from developments surrounding the major economies. Investors will also be monitoring the economic health of China in the process, given its importance to the Asian region.

In the meantime, governments and central banks are continuing to offer strong stimulus measures to revive the world economy. As cases in point, in mid-December of last year, the US Federal Reserve effectively set its fed funds rate at 0%. And in early January 2009, The Bank of England reduced its rate to the lowest since the central bank was founded in 1694. Additionally, these institutions have been offering vast amounts of

AIG International Funds - Acorns of Asia Balanced Fund *(continued)*

cash directly to banks.

Such actions appear to have had some effect on bringing financing costs down from recent record highs. For example, the LIBOR-OIS spread, a measure of cash scarcity, has slipped to around 117 basis points. This had reached a high of 366 basis points in early October of 2008, following the turbulence in the US financial sector. Nonetheless, it is still a distance away from the average of around 69 basis points in the year before the collapse of Lehman Brothers.

Thus, central banks are now considering more non-conventional measures as their next steps. They are pondering undertaking quantitative easing, which involves the direct purchase of fixed income securities to bring down funding costs. In the US, this would include buying into longer-dated government papers in an attempt to ease long-term borrowing costs at a time when short-term rates are already near or at zero. Doing so is not without the potential risk of igniting inflation. However, for the time being, central banks are more focused on regenerating growth than worried about rising price pressures.

Governments globally are also actively creating more spending packages to kick-start activity. One that is anticipated is new US President Barack Obama's \$1.23 trillion initiative, which would feature tax cuts totalling around \$410 billion, and funds given directly to facilitate the development of renewable energy, the offer of college tuition assistance and the provision of jobless benefits.

Overall, while the significant policy steps will undoubtedly require time to take effect, the key message is that the governments and financial authorities are determined to shore up growth, and will undertake more drastic initiatives to accomplish this if necessary.

In the Asia ex-Japan region, stimulus efforts are also in evidence. For example, facing its worst ever recession, the Singapore authorities have just unveiled an expansionary budget amounting to almost 6% of GDP. This features a cut in the corporate tax rate to 17%, in order to enhance the country's attractiveness as an investment destination, and a recession-relief package of around S\$19 billion aimed directly at saving jobs. To fund these measures, the government is resorting for the first time to dipping into its financial reserves.

In terms of the regional stock markets, investors are expected to remain non-committal in the near term, as they assess the effectiveness of the stimulatory efforts channelled into the global economy. Nonetheless, the Asia ex-Japan economies are seen as having several cards up their sleeves. For one, the region retains considerable macro-economic flexibility, given its significant foreign exchange reserves. Government debt-to-GDP ratios are also lower compared to the developed economies, and gross savings are still the highest in the world. Moreover, domestic corporate balance sheets are also relatively lowly leveraged, and the health of the banking system is comparatively intact. Additionally, inflation readings in Asia ex-Japan will broadly benefit from lower commodity prices, given that food in the consumer price index constitutes a high proportion.

A positive in the investment case is that valuations are extremely low relative to historical levels. While this factor alone may not suffice in acting as a trigger for the recovery of the regional stock markets, buying stocks at historical trough valuations help to compensate for the risks taken over a longer investment horizon.

With 2009 already shaping up to be another challenging and volatile year, the Fund will be adopting a cautious stance insofar as exposure to equities is concerned. Nonetheless, it will also be mindful of opportunities that offer strong re-rating potential in the event of a recovery in

AIG International Funds - Acorns of Asia Balanced Fund *(continued)*

global economic prospects. Similarly, for its fixed income investments, the Fund will be looking to build up its positions in high-quality credit issues when attractive spreads appear. These are subsequently expected to tighten when the credit crisis passes the trough.

Asset Allocation

By Country

Refer to "Portfolio Statements – By Geography (Primary)"

By Industry

Refer to "Portfolio Statements – By Industry (Secondary)"

By Asset Class

Refer to "Portfolio Statements – By Geography (Primary)"

By Credit Rating

| Credit Rating (By Moody's) | Fair Value (S\$'000) | % of Fixed Income Instruments |
|-------------------------------|-------------------------|-------------------------------------|
| A1 | 256 | 0.09 |
| A2 | 18,245 | 6.74 |
| A3 | 45,589 | 16.82 |
| Aa1 | 8,033 | 2.96 |
| Aa2 | 44,706 | 16.49 |
| Aaa | 49,891 | 18.41 |
| B1 | 829 | 0.30 |
| B3 | 101 | 0.04 |
| Ba2 | 400 | 0.15 |
| Baa2 | 5,382 | 1.98 |
| NR | 97,579 | 36.02 |

Source: AIG Global Investment Corporation (Singapore) Ltd.

Top 10 Holdings (as at 31 December 2008)

| | Fair Value (S\$'000) | % |
|---|-------------------------|------|
| Standard Chartered 5.25% 10 Apr 2023 | 36,386 | 4.62 |
| DBS Cap Funding 5.75% 29 May 2049 | 30,208 | 3.84 |
| Queensley Hldgs Ltd 4.5% 05 Dec 2009 | 24,279 | 3.08 |
| Singapore Govt Bond 3.625% 01 Jul 2014 | 22,557 | 2.86 |
| United Overseas Bank Ltd 4.1% 03 Sep 2019 | 18,433 | 2.34 |
| Singapore Govt Bond 3.75% 01 Sep 2016 | 17,206 | 2.19 |
| Hengan Intl Group Co Ltd | 16,012 | 2.03 |
| DBS Bank Singapore 4.47% 15 Jul 2021 | 14,683 | 1.86 |
| Morgan Stanley 4% 23 Oct 2017 | 13,081 | 1.66 |
| Capitaland Treasury Ltd 4.35% 31 Oct 2019 | 12,861 | 1.63 |

Source: AIG Global Investment Corporation (Singapore) Ltd.

Top 10 Holdings (as at 31 December 2007)

| | Fair Value (S\$'000) | % |
|--|-------------------------|------|
| China Shenhua Energy Co | 26,039 | 1.71 |
| Largan Precision Co Ltd | 25,532 | 1.68 |
| Queensley Hldgs Ltd 4.5% 05 Dec 2009 | 24,077 | 1.58 |
| Nine Dragons Paper Holdings Ltd | 23,513 | 1.55 |
| PT Astra Agro Lestari | 23,275 | 1.53 |
| Keppel Corporation Ltd | 22,868 | 1.51 |
| Singapore Govt Bond 3.75% 01 Sep 2016 | 21,901 | 1.44 |
| China Mengniu Dairy Co Ltd | 21,717 | 1.43 |
| Singapore Govt Bond 3.625% 01 Jul 2014 | 21,643 | 1.43 |
| AAC Acoustic Technology Holdings Ltd | 21,521 | 1.41 |

Source: AIG Global Investment Corporation (Singapore) Ltd.

Exposure to derivatives

| | S\$ | % |
|---|----------------|------|
| Fair value of derivative contracts | 1,140,848.96 | 0.22 |
| Net gain/(loss) on derivative contracts realized for the period 01 Jan to 31 Dec 2008 | (1,231,721.78) | N/A |
| Net gain/(loss) on outstanding contracts marked to market | 1,140,848.96 | N/A |

AIG International Funds - Acorns of Asia Balanced Fund *(continued)*

Amount and percentage of NAV invested in other schemes

NIL.

Amount and percentage of borrowings to NAV

NIL.

Amount of subscriptions and redemptions for the period 1 January 2008 – 31 December 2008

Refer to "Creation of units" and "Cancellation of units" in the Notes to the Financial Statements Report.

Amount of related-party transactions

Please refer to Notes to the Financial Statements.

Performance of fund and benchmark

| Period | Fund Performance | 60% MSCI All Country Far East Free Ex Japan (DTR Net) in SGD / 40% JP Morgan Sing Govt. Bond Index |
|---|------------------|--|
| 3-month | -18.52 | -9.51 |
| 6-month | -32.34 | -19.77 |
| 1-year | -44.80 | -31.20 |
| 3-year [^] | -9.58 | -2.17 |
| 5-year [^] | -1.59 | 3.27 |
| Since Inception (01.10.01) [^] | 4.87 | 7.22 |

Source: AIG Global Investment Corporation (Singapore) Ltd.

Returns in S\$, bid-to-bid basis.

[^]Annualised returns.

Expense Ratios[#]

Please refer to the Notes to the Financial Statements.

[#]The expense ratio of the fund does not include brokerage and other transaction costs, performance fees, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received.

Turnover Ratios

Please refer to the Notes to the Financial Statements.

The turnover ratio is calculated based on the lesser of purchases or sales of the underlying investments of a scheme expressed as a percentage of daily average NAV.

Soft Dollars

In the normal course of business, the Managers shall be entitled to receive soft dollar benefits from selected brokers, in relation to equity transactions, from whom products and services were received from third parties. These brokers may also execute trades for other clients managed by the Manager. The goods and services received generally benefit the entire Managers' clients and trades are executed on the best available terms with no excessive churning. Goods and services received can reasonably be expected to assist in the provision of the investment services and include research and advisory services, economic and political analyses, portfolio analyses, market analyses, data and quotation services, custodial services and computer hardware and software used in the support of the investment process of the Managers.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

ANNUAL REPORT

For the year ended 31 December 2008

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

ANNUAL REPORT

For the year ended 31 December 2008

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AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Report of The Trustee

The Trustee is under a duty to take into custody and to hold the assets of the sub-funds of the AIG International Funds, namely the Acorns of Asia Balanced Fund and Singapore Bond Fund (collectively the "Funds") in trust for the unitholders. In accordance with the Securities and Futures Act (Cap. 289), its subsidiary legislation and the Code on Collective Investment Schemes (collectively referred to as the "laws and regulations"), the Trustee shall monitor the activities of the Manager for compliance with the limitations imposed on the investment and borrowing powers as set out in the Trust Deed in each annual accounting period and report thereon to unitholders in an annual report which shall contain the matters prescribed by the laws and regulations as well as the recommendations of the Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore and the Trust Deed.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Funds during the year covered by these financial statements, set out on pages 20 to 62, comprising the Statements of Total Return, Balance Sheets, Portfolio Statements and Notes to the Financial Statements, in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed, laws and regulations and otherwise in accordance with the provisions of the Trust Deed.

For and on behalf of the Trustee
Citicorp Trustee (Singapore) Limited

Han Kwee Juan
Director

Lau Chee Kin
Director

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Statement By The Manager

In the opinion of the directors of the AIG Global Investment Corporation (Singapore) Ltd, (the "Manager"), the accompanying financial statements set out on pages 20 to 62, comprising the Statements of Total Return, Balance Sheets, Portfolio Statements and Notes to the Financial Statements are drawn up so as to present fairly, in all material respects, the financial position of the sub-funds of AIG International Funds, namely the Acorns of Asia Balanced Fund and Singapore Bond Fund (collectively the "Funds") as at 31 December 2008 and the total return for the year then ended in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore. At the date of this statement, there are reasonable grounds to believe that the Funds will be able to meet their financial obligations as and when they materialise.

For and on behalf of the directors of
AIG Global Investment Corporation (Singapore) Ltd.

Cheong Poh Kin
Director

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Independent Auditor's Report To The Unitholders of The Sub-Funds of AIG International Funds

(Constituted under a Trust Deed registered in the Republic of Singapore)

We have audited the financial statements of the sub-funds of AIG International Funds, namely the Acorns of Asia Balanced Fund and Singapore Bond Fund (collectively the "Funds") set out on pages 20 to 62, which comprise the Balance Sheets and Portfolio Statements as at 31 December 2008, the Statements of Total Return for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Manager's Responsibility for the Financial Statements

The Funds' Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore. This responsibility includes

- (a) devising and maintaining a system of internal accounting control sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair Statements of Total Return and Balance Sheets and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Funds' Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Funds as at 31 December 2008 and the total return for the year then ended in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore,

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Statements Of Total Return

For the year ended 31 December 2008

| | Acorns of Asia Balanced Fund | |
|---|---------------------------------|--------------|
| Note | 2008 | 2007 |
| | S\$ | S\$ |
| Investment income | | |
| Dividends | 26,646,961 | 21,950,496 |
| Interest on deposits with banks | 989,543 | 1,985,116 |
| Other | 255 | 1,787 |
| | 27,636,759 | 23,937,399 |
| Less: Expenses | | |
| Audit fee | 47,514 | 28,613 |
| Custody and related fees | 648,010 | 365,301 |
| Management fees | 17,243,753 | 19,643,518 |
| Registrar and related fees | 45,351 | 53,375 |
| Trustee fees | 499,762 | 556,046 |
| Other | 1,629,582 | 1,453,849 |
| | 20,113,972 | 22,100,702 |
| Net income | 7,522,787 | 1,836,697 |
| Net gains or losses on value of investments | | |
| Net realised (losses)/gains on investments | (64,162,195) | 180,390,310 |
| Net change in fair value on investments | (563,591,668) | 70,313,665 |
| Net realised (losses)/gains on forward foreign exchange contracts | (577,979) | 1,171,758 |
| Net change in fair value on forward foreign exchange contracts | 670,882 | (20,126) |
| Net foreign exchange losses | (70,708,018) | (37,727,350) |
| Net (losses)/gains on value of investments | (698,368,978) | 214,128,257 |
| Total return for the year before income tax | (690,846,191) | 215,964,954 |
| Less: Income tax | 3 (3,413,437) | (3,381,078) |
| Total return for the year | (694,259,628) | 212,583,876 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Statements Of Total Return

For the year ended 31 December 2008

| | | Singapore Bond Fund | |
|---|------|---------------------|-------------|
| | Note | 2008 | 2007 |
| | | S\$ | S\$ |
| Investment income | | | |
| Dividends | | 4,796,628 | 3,535,482 |
| Interest on deposits with banks | | 901,147 | 2,263,187 |
| Other | | 922 | 0 |
| | | 5,698,697 | 5,798,669 |
| Less: Expenses | | | |
| Audit fee | | 20,940 | 17,484 |
| Custody and related fees | | 74,199 | 57,406 |
| Management fees | | 6,015,575 | 4,919,567 |
| Registrar and related fees | | 26,764 | 24,791 |
| Trustee fees | | 252,881 | 219,197 |
| Other | | 623,645 | 447,459 |
| | | 7,014,004 | 5,685,904 |
| Net income | | (1,315,307) | 112,765 |
| Net gains or losses on value of investments | | | |
| Net realised gains on investments | | 16,212,338 | 9,252,530 |
| Net change in fair value on investments | | (68,096,014) | (191,184) |
| Net realised (losses)/gains on forward foreign exchange contracts | | (1,231,722) | 1,549,512 |
| Net change in fair value on forward foreign exchange contracts | | 1,077,792 | (4,204) |
| Net foreign exchange losses | | (689,430) | (2,387,067) |
| Net (losses)/gains on value of investments | | (52,727,036) | 8,219,587 |
| Total return for the year before income tax | | (54,042,343) | 8,332,352 |
| Less: Income tax | 3 | (505,039) | (566,832) |
| Total return for the year | | (54,547,382) | 7,765,520 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Balance Sheets

As at 31 December 2008

| | | Acorns of Asia Balanced Fund | |
|--|--------------------|---------------------------------|--|
| Notes | 2008 | 2007 | |
| | S\$ | S\$ | |
| ASSETS | | | |
| Investments | 769,037,240 | 1,300,953,440 | |
| Cash and bank balances | 9 6,911,028 | 11,152,170 | |
| Fixed deposits with financial institutions | 12,625,261 | 209,639,222 | |
| Receivables | 4 528,707 | 9,545,661 | |
| Financial derivatives, at fair value | 6 720,669 | 49,786 | |
| Total assets | 789,822,905 | 1,531,340,279 | |

LIABILITIES

| | | | |
|--|----------------------|---------------|--|
| Payables | 5 2,462,830 | 11,074,444 | |
| Net assets attributable to unitholders | 7 787,360,075 | 1,520,265,835 | |
| Total liabilities | 789,822,905 | 1,531,340,279 | |

| | | Singapore Bond Fund | |
|--|--------------------|---------------------|--|
| Notes | 2008 | 2007 | |
| | S\$ | S\$ | |
| ASSETS | | | |
| Investments | 469,640,407 | 459,220,160 | |
| Cash and bank balances | 9 946,209 | 3,162,002 | |
| Fixed deposits with financial institutions | 40,825,578 | 121,079,489 | |
| Receivables | 4 456,647 | 4,008,627 | |
| Financial derivatives, at fair value | 6 1,140,849 | 63,057 | |
| Total assets | 513,009,690 | 587,533,335 | |

LIABILITIES

| | | | |
|--|----------------------|-------------|--|
| Payables | 5 1,000,098 | 5,542,120 | |
| Net assets attributable to unitholders | 7 512,009,592 | 581,991,215 | |
| Total liabilities | 513,009,690 | 587,533,335 | |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements

As at 31 December 2008

| Acorns of Asia Balanced Fund | | | |
|--|------------------------------|---|------|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 | |
| | S\$ | % | |
| By Geography (Primary) | | | |
| Quoted Equities | | | |
| China | | | |
| Angang Steel Co Ltd | 1,970,000 | 3,161,034 | 0.40 |
| Anhui Conch Cement Co Ltd | 830,000 | 5,413,346 | 0.69 |
| Beijing Enterprises Hldgs | 1,060,000 | 6,206,375 | 0.79 |
| China Ground Source Energy Ltd | 155,000,000 | 1,321,097 | 0.17 |
| China Jin Hui Mining Corp Ltd | 5,000,000 | 365,942 | 0.05 |
| China Mengniu Dairy Co Ltd | 3,974,000 | 7,422,213 | 0.94 |
| China Petroleum & Chemical | 5,000,000 | 4,344,981 | 0.55 |
| China Railway Group Ltd | 6,730,000 | 6,683,822 | 0.85 |
| China Resources Land Ltd | 5,700,000 | 9,927,679 | 1.26 |
| China Shenhua Energy Co Ltd | 1,200,000 | 3,628,661 | 0.46 |
| China Telecom Corp Ltd | 6,250,000 | 3,335,167 | 0.42 |
| CNOOC Ltd | 5,900,000 | 7,903,789 | 1.00 |
| Cosco Holdings Ltd | 3,390,000 | 3,385,583 | 0.43 |
| Denway Motors Ltd | 17,500,000 | 7,814,481 | 0.99 |
| Hengan International Group Co Ltd | 3,520,000 | 16,011,764 | 2.03 |
| Lenovo Group Ltd | 6,000,000 | 2,334,617 | 0.30 |
| Mainland Headwear Holdings Ltd | 5,500,000 | 794,881 | 0.10 |
| Petrochina Co Ltd | 4,750,000 | 5,967,169 | 0.76 |
| Shanghai Electric Group Ltd | 10,000,000 | 5,818,013 | 0.74 |
| Shanghai Jin Jiang International Hotel Co Ltd | 16,138,000 | 2,691,146 | 0.34 |
| Shenzhou International Group | 6,000,000 | 1,389,653 | 0.18 |
| Zhuzhou Csr Times Elec Co Ltd | 2,100,000 | 2,424,110 | 0.31 |
| Zijin Mining Group Co Ltd | 3,500,000 | 3,041,487 | 0.39 |
| Total China | 111,387,010 | 14.15 | |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements (continued)

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | | |
|---|------------------------------|---|------|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 | |
| | S\$ | % | |
| By Geography (Primary) (continued) | | | |
| Quoted Equities (continued) | | | |
| Hong Kong | | | |
| AAC Acoustic Technology Holdings Ltd | 16,850,000 | 10,334,106 | 1.31 |
| ASM Pacific Technology | 350,000 | 1,624,504 | 0.21 |
| Cheung Kong Infrastructure | 1,850,000 | 9,992,067 | 1.27 |
| Foxconn International Holdings Ltd | 3,750,000 | 1,778,756 | 0.23 |
| Hopewell Holdings Ltd | 743,000 | 3,462,357 | 0.44 |
| Huabao International Holdings Ltd | 9,080,000 | 8,546,624 | 1.09 |
| Hysan Development Co Ltd | 2,000,000 | 4,580,295 | 0.58 |
| Kingboard Chemical Holdings Ltd | 1,265,500 | 3,207,697 | 0.41 |
| Pacific Basin Shipping Ltd | 4,161,000 | 2,713,847 | 0.34 |
| Shangri-La Asia Ltd | 1,410,000 | 2,327,780 | 0.30 |
| Total Hong Kong | 48,568,033 | 6.18 | |
| Indonesia | | | |
| PT Astra Agro Lestari | 4,254,000 | 5,492,077 | 0.70 |
| PT Bank Mandiri | 9,000,000 | 2,400,936 | 0.30 |
| PT Bumi Resources | 33,520,000 | 3,974,290 | 0.50 |
| PT Medco Energi International | 23,234,000 | 5,601,291 | 0.71 |
| PT Mitra Adiperkasa | 21,000,000 | 968,279 | 0.12 |
| PT Ramayana Lestari Sentosa | 40,000,000 | 2,582,077 | 0.33 |
| PT Sampoerna Agro | 24,401,000 | 3,825,319 | 0.49 |
| PT Tambang Batubara Bukit Asam | 9,800,000 | 8,908,165 | 1.13 |
| PT United Tractors | 12,350,000 | 7,118,002 | 0.90 |
| Total Indonesia | 40,870,436 | 5.18 | |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | |
|--|--------------------------------------|--|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | S\$ | % |
| <u>By Geography (Primary)</u> (continued) | | |
| <u>Quoted Equities</u> (continued) | | |
| Malaysia | | |
| Naim Cendera Holdings Bhd | 3,950,000 | 0.29 |
| SP Setia Bhd | 2,060,000 | 0.33 |
| Ta Ann Holdings Bhd | 4,225,000 | 0.75 |
| YTL Corporation Bhd | 1,400,000 | 0.52 |
| YTL Power International Bhd | 6,355,000 | 0.63 |
| Total Malaysia | 19,868,455 | 2.52 |
| Philippines | | |
| Alliance Global Group Inc | 32,000,000 | 0.21 |
| Banco De Oro Unibank Inc | 4,500,000 | 0.41 |
| Filinvest Land Inc | 96,500,000 | 0.14 |
| First Gen Corporation | 7,600,000 | 0.28 |
| International Container Terminal Services Inc | 5,200,000 | 0.25 |
| Total Philippines | 10,261,525 | 1.29 |
| Singapore | | |
| Jaya Holdings Ltd | 2,000,000 | 0.07 |
| Keppel Corporation Ltd | 1,260,000 | 0.69 |
| Sembcorp Marine Ltd | 620,000 | 0.13 |
| Total Singapore | 7,067,400 | 0.89 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | | |
|---|---------------------------------------|--------------------------------------|--|
| | Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | | S\$ | % |
| By Geography (Primary) (continued) | | | |
| Quoted Equities (continued) | | | |
| South Korea | | | |
| Cape Industries Ltd | 200,000 | 1,972,443 | 0.25 |
| Cheil Industries Inc | 209,500 | 9,494,664 | 1.21 |
| CJ Homeshopping | 73,700 | 3,277,106 | 0.42 |
| Daishin Securities Co Ltd | 130,000 | 2,038,001 | 0.26 |
| DC Chemical Co Ltd | 14,330 | 3,602,576 | 0.46 |
| Dongbu Insurance Co Ltd | 70,000 | 1,161,233 | 0.15 |
| Doosan Heavy Industries & Construction | 63,950 | 4,564,291 | 0.58 |
| GS Engineering & Construction Co Ltd | 58,742 | 3,924,685 | 0.50 |
| Hansol Paper Co Ltd | 330,000 | 3,800,089 | 0.48 |
| Hanwha Chemical Corp | 200,000 | 1,370,449 | 0.17 |
| Hyundai Dept Store Co Ltd | 65,000 | 4,617,000 | 0.59 |
| Hyundai Development Co Ltd | 100,000 | 3,705,457 | 0.47 |
| Hyundai Engineering & Construction | 60,000 | 3,919,804 | 0.50 |
| Hyundai Mobis | 68,180 | 4,889,518 | 0.62 |
| Hyundai Steel Co Ltd | 50,000 | 2,149,165 | 0.27 |
| Hyunjin Materials Co Ltd | 125,517 | 3,191,287 | 0.41 |
| KCC Corp | 11,615 | 3,721,208 | 0.47 |
| LIG Non Life Insurance Co Ltd | 384,800 | 5,198,905 | 0.66 |
| Namhae Chemical Corp | 100,000 | 2,069,355 | 0.26 |
| NHN Corp | 51,000 | 7,471,912 | 0.95 |
| Samsung C&T Corp | 89,000 | 4,053,827 | 0.51 |
| Samsung Engineering Co Ltd | 86,500 | 4,309,789 | 0.55 |
| Samsung Fire & Marine Insurance | 19,646 | 4,166,252 | 0.53 |
| Samsung Techwin Co Ltd | 210,140 | 6,852,250 | 0.87 |
| Ssangyong Motor Co Ltd | 2,200,000 | 2,407,977 | 0.31 |
| Yuhan Corporation | 22,574 | 5,585,045 | 0.71 |
| Total South Korea | | 103,514,288 | 13.16 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | | |
|--|---------------------------------------|--------------------------------------|--|
| | Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | | S\$ | % |
| <u>By Geography (Primary)</u> (continued) | | | |
| <u>Quoted Equities</u> (continued) | | | |
| Taiwan | | | |
| Acer Inc | 2,329,000 | 4,335,747 | 0.55 |
| Advanced Semiconductor Engineering | 5,000,000 | 2,578,320 | 0.33 |
| Ambassador Hotel | 3,040,000 | 4,477,013 | 0.57 |
| Compal Communications Inc | 4,467,000 | 3,455,207 | 0.44 |
| Compal Electronics | 6,000,000 | 4,522,985 | 0.57 |
| Formosa Chemical & Fibre | 1,410,000 | 2,464,699 | 0.31 |
| Formosa Plastics Corp | 1,750,000 | 3,334,336 | 0.42 |
| High Tech Computer Corp | 509,000 | 7,273,616 | 0.92 |
| Largan Precision Co Ltd | 530,000 | 4,713,300 | 0.60 |
| Mediatek Inc | 593,500 | 5,718,922 | 0.73 |
| Merry Electronics Co Ltd | 2,000,000 | 2,018,956 | 0.26 |
| Quanta Computer Inc | 4,342,480 | 6,537,503 | 0.83 |
| Taiwan Fertilizer Co Ltd | 2,330,000 | 5,315,098 | 0.68 |
| Vanguard International Semiconductor Corp | 3,000,000 | 976,703 | 0.12 |
| Wistron Corporation | 4,815,694 | 5,219,097 | 0.66 |
| Total Taiwan | | 62,941,502 | 7.99 |
| Thailand | | | |
| Banpu Public Co Ltd – Foreign | 354,000 | 3,365,984 | 0.43 |
| PTT Exploration & Prod – Foreign | 960,000 | 4,246,547 | 0.54 |
| PTT Public Co Ltd – Foreign | 770,000 | 5,538,866 | 0.70 |
| Thoresen Thai Agencies – Foreign | 5,900,000 | 4,097,719 | 0.52 |
| Total Thailand | | 17,249,116 | 2.19 |
| Total Equities | | 421,727,765 | 53.55 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements (continued)

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | |
|---|--------------------------------------|--|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | S\$ | % |
| By Geography (Primary) (continued) | | |
| Quoted Debt Securities | | |
| Germany | | |
| Deutsche Bank 3.25% 10 Oct 2012 | 8,000,000 | 1.02 |
| Dresdner Bank AG 5.3% 18 Feb 2010 | 250,000 | 0.03 |
| Total for Germany | 8,288,704 | 1.05 |
| Hong Kong | | |
| HK Land Treasury 3.65% 05 Oct 2015 | 10,000,000 | 1.05 |
| Total for Hong Kong | 8,249,000 | 1.05 |
| India | | |
| Bank of Baroda 6.625% 25 May 2022 | 1,000,000 | 0.13 |
| ICICI Bank Ltd 3.3% 03 May 2012 | 2,000,000 | 0.20 |
| Total for India | 2,568,937 | 0.33 |
| Indonesia | | |
| Lippo Karawaci Finance 8.875% 09 Mar 2011 | 1,000,000 | 0.10 |
| PT Bank Lippo 7.375% 22 Nov 2016 | 500,000 | 0.05 |
| Total for Indonesia | 1,229,584 | 0.15 |
| Russia | | |
| Transcapit 8.7% 07 Aug 2018 | 1,000,000 | 0.12 |
| Total for Russia | 954,306 | 0.12 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | |
|---|--------------------------------------|--|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | S\$ | % |
| By Geography (Primary) (continued) | | |
| Quoted Debt Securities (continued) | | |
| United Arab Emirates | | |
| Emirates Airlines 4.28% 21 Jun 2011 | 2,500,000 | 0.32 |
| Total for United Arab Emirates | 2,510,931 | 0.32 |
| United Kingdom | | |
| Standard Chartered 5.25% 10 Apr 2023 | 33,000,000 | 4.62 |
| Standard Chartered 6.409% 31 Dec 2049 | 1,600,000 | 0.12 |
| Standard Chartered 7.014% 30 Dec 2049 | 2,500,000 | 0.24 |
| Total for United Kingdom | 39,198,639 | 4.98 |
| United States | | |
| General Electric Cap Corp 3.65% 06 Apr 2009 | 10,000,000 | 1.29 |
| Lehman Brothers Holdings 0% 26 Sep 2014 | 1,000,000 | 0.01 |
| Morgan Stanley 3.585% 23 Oct 2012 | 6,250,000 | 0.66 |
| Morgan Stanley 4% 23 Oct 2017 | 18,750,000 | 1.66 |
| Total for United States | 28,474,519 | 3.62 |
| Total Debt Securities | 271,011,132 | 34.42 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | | |
|---|--------------------------------------|--|--------|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 | |
| | S\$ | % | |
| By Geography (Primary) (continued) | | | |
| Others | | | |
| China | | | |
| Capitaretail China Trust | 200,000 | 120,000 | 0.02 |
| Total China | 200,000 | 120,000 | 0.02 |
| India | | | |
| Ascendas India Trust | 250,000 | 113,750 | 0.01 |
| Total India | 250,000 | 113,750 | 0.01 |
| Malaysia | | | |
| Amanah Raya Reit | 1,000,000 | 298,132 | 0.04 |
| Total Malaysia | 1,000,000 | 298,132 | 0.04 |
| Singapore | | | |
| Ascendas Real Estate Investment Trust | 7,442,000 | 10,195,540 | 1.29 |
| Ascott Residence Trust | 978,000 | 567,240 | 0.07 |
| Capitacommercial Trust | 1,100,000 | 984,500 | 0.13 |
| Capitamall Trust | 6,395,000 | 10,104,100 | 1.28 |
| Cityspring Infrastructure | 580,000 | 287,100 | 0.04 |
| DBS Cap Funding 5.75% 29 May 2049 | 31,200,000 | 30,208,481 | 3.84 |
| DBS Group Hldgs 6% Non Cum Pref Shs | 100,000 | 9,580,000 | 1.22 |
| First Ship Lease Trust | 2,000,000 | 970,000 | 0.12 |
| Frasers Centrepoint Trust | 5,000,000 | 3,125,000 | 0.40 |
| Macquarie Prime Reit | 3,500,000 | 1,802,500 | 0.23 |
| OCBC 5.1% 31 Dec 2049 | 20,000 | 1,824,000 | 0.23 |
| OCBC Capital Corp Preferred 29 Aug 2049 | 70,000 | 6,118,000 | 0.78 |
| Total Singapore | 7,442,000 | 75,766,461 | 9.63 |
| Total Others | | 76,298,343 | 9.70 |
| Portfolio of investments | | 769,037,240 | 97.67 |
| Other net assets | | 18,322,835 | 2.33 |
| Net assets attributable to unitholders | | 787,360,075 | 100.00 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

By Geography (Summary) (continued)

Total Debt Securities

Others

China
India
Malaysia
Singapore

Total Others

Portfolio of investments

Other net assets

Net assets attributable to unitholders

| Acorns of Asia Balanced Fund (continued) | |
|--|---|
| Percentage of total net assets attributable to unitholders at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2007 |
| % | % |
| 34.42 | 19.63 |
| 0.02 | 0.03 |
| 0.01 | 0.02 |
| 0.04 | 0.03 |
| 9.63 | 4.42 |
| 9.70 | 4.50 |
| 97.67 | 85.57 |
| 2.33 | 14.43 |
| 100.00 | 100.00 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements (continued)

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | |
|---|--|--|
| Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2007 |
| S\$ | % | % |
| By Industry (Secondary) | | |
| Quoted Equities | | |
| Agribusiness | 9,317,396 | 1.19 |
| Auto | 15,111,976 | 1.92 |
| Chemicals | 21,877,721 | 2.77 |
| Coal | 19,877,100 | 2.52 |
| Conglomerates | 14,318,107 | 1.82 |
| Construction Material | 11,291,511 | 1.44 |
| Consumer Product | 23,433,977 | 2.97 |
| Electric Power | - | - |
| Electronics | 80,954,198 | 10.29 |
| Engineering & Construction | 20,424,026 | 2.60 |
| Finance | 7,668,611 | 0.97 |
| Food | 10,209,887 | 1.30 |
| Hotel | 9,495,939 | 1.21 |
| Industrial Others | 6,776,897 | 0.86 |
| Infrastructure | 12,416,177 | 1.58 |
| Insurance | 10,526,390 | 1.34 |
| Machinery | 7,118,002 | 0.90 |
| Manufacturing | 9,494,664 | 1.21 |
| Mining | 3,407,429 | 0.44 |
| Oil & Gas Services | 29,257,662 | 3.71 |
| Others | 5,818,013 | 0.74 |
| Paper | 3,800,089 | 0.48 |
| Pharmaceutical | 5,585,045 | 0.71 |
| Property | - | - |
| Real Estate | 20,577,946 | 2.60 |
| Refining | 4,344,981 | 0.55 |
| Retail | 11,444,462 | 1.46 |
| Shipbuilding | 6,205,330 | 0.79 |
| Steel | 5,310,199 | 0.67 |
| Telecommunications | 3,335,167 | 0.42 |
| Textiles & Apparel | 2,184,534 | 0.28 |
| Transportation | 22,916,859 | 2.90 |
| Utilities | 7,227,470 | 0.91 |
| Total Equities | 421,727,765 | 53.55 |
| | | 61.44 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Acorns of Asia Balanced Fund (continued) | | | |
|---|--------------------------------------|--|---|
| | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2007 |
| | S\$ | % | % |
| <u>By Industry (Secondary)</u> (continued) | | | |
| <u>Quoted Debt Securities</u> | | | |
| Airlines | 2,510,931 | 0.32 | 0.17 |
| Banks | 97,426,919 | 12.38 | 5.25 |
| Electric Power & Gas | - | - | 0.64 |
| Finance | 28,474,519 | 3.62 | 2.49 |
| Government | 39,762,048 | 5.05 | 5.08 |
| Hotels | 3,044,297 | 0.39 | 0.20 |
| Industrial Others | 15,212,168 | 1.93 | 0.67 |
| Others | 954,306 | 0.12 | - |
| Real Estate | 78,294,830 | 9.93 | 5.06 |
| Utilities | 5,331,114 | 0.68 | - |
| Telecommunications | - | - | 0.07 |
| Total Debt Securities | 271,011,132 | 34.42 | 19.63 |
| <u>Others</u> | | | |
| Banks | 47,730,481 | 6.07 | 0.71 |
| Infrastructure | 287,100 | 0.04 | 0.03 |
| Real Estate | 27,310,762 | 3.47 | 3.60 |
| Shipping | 970,000 | 0.12 | 0.16 |
| Total Others | 76,298,343 | 9.70 | 4.50 |
| Portfolio of investments | 769,037,240 | 97.67 | 85.57 |
| Other net assets | 18,322,835 | 2.33 | 14.43 |
| Net assets attributable to unitholders | 787,360,075 | 100.00 | 100.00 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Singapore Bond Fund | | |
|------------------------------------|------------------------------|---|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | S\$ | % |
| By Geography (Primary) | | |
| Quoted Debt Securities | | |
| Germany | | |
| Deutsche Bank 3.25% 10 Oct 2012 | 8,000,000 | 8,032,978 |
| Total Germany | | 1.57 |
| | 8,032,978 | 1.57 |
| Hong Kong | | |
| Cathay Pacific 3.0575% 23 Feb 2010 | 2,400,000 | 2,351,735 |
| Cathay Pacific 3.82% 09 Nov 2011 | 5,000,000 | 4,716,211 |
| HK Land Treasury 3.01% 04 Oct 2010 | 9,000,000 | 8,829,355 |
| HK Land Treasury 3.65% 05 Oct 2015 | 10,000,000 | 8,249,000 |
| Total Hong Kong | | 24,146,301 |
| | | 4.72 |
| India | | |
| Bank of Baroda 6.625% 25 May 2022 | 2,000,000 | 2,028,898 |
| ICICI Bank Ltd 3.3% 03 May 2012 | 7,000,000 | 5,440,707 |
| Total India | | 7,469,605 |
| | | 1.46 |
| Indonesia | | |
| PT Bank Lippo 22 Nov 2016 | 1,000,000 | 800,979 |
| Total Indonesia | | 800,979 |
| | | 0.16 |
| Russia | | |
| Transcapit 8.7% 07 Aug 2018 | 2,000,000 | 1,908,611 |
| Total Russia | | 1,908,611 |
| | | 0.37 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Singapore Bond Fund <i>(continued)</i> | | | |
|--|-------------------------------|------------------------------|---|
| | Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | | S\$ | % |
| By Geography (Primary) <i>(continued)</i> | | | |
| Quoted Debt Securities <i>(continued)</i> | | | |
| Singapore | | | |
| Ascott Capital 3.085% 27 Apr 2010 | 8,000,000 | 8,000,751 | 1.56 |
| Capitaland Commercial 4.4% 03 Mar 2011 | 1,750,000 | 1,732,579 | 0.34 |
| Capitaland Commercial 3.98% 07 May 2010 | 1,000,000 | 986,288 | 0.19 |
| Capitaland Treasury 4.08% 15 Mar 2011 | 5,000,000 | 4,949,803 | 0.97 |
| Capitaland Treasury 4.35% 31 Oct 2019 | 15,000,000 | 12,860,548 | 2.51 |
| DBS Bank 4.47% 15 Jul 2021 | 16,000,000 | 14,683,147 | 2.87 |
| Fraser & Neave Ltd 3.38% 15 Apr 2011 | 12,000,000 | 12,153,965 | 2.37 |
| Fraser & Neave Ltd 3.41% 12 Aug 2010 | 5,000,000 | 5,083,864 | 0.99 |
| Hotel Properties 3.42% 06 Jul 2010 | 5,000,000 | 5,073,829 | 0.99 |
| HSBC Singapore 3.36% 22 Nov 2010 | 5,000,000 | 5,040,911 | 0.98 |
| Mapletree Treasury 4.45% 07 Mar 2018 | 8,000,000 | 6,856,964 | 1.34 |
| OCBC 3.78% 28 Nov 2017 | 20,000,000 | 19,146,351 | 3.74 |
| Power Seraya Ltd 3.97% 30 Sep 2010 | 3,000,000 | 3,030,920 | 0.59 |
| Public Utilities 3.095% 08 Oct 2014 | 6,000,000 | 6,397,336 | 1.25 |
| Queensley Holdings Ltd 4.5% 05 Dec 2009 | 13,000,000 | 13,150,871 | 2.57 |
| Sengkang Mall Ltd 4.88% 20 Nov 2012 | 2,400,000 | 2,333,716 | 0.46 |
| Singapore Govt Bond 2.5% 01 Oct 2012 | 7,000,000 | 7,345,450 | 1.43 |
| Singapore Govt Bond 3.625% 01 Jul 2014 | 12,000,000 | 13,533,918 | 2.64 |
| Singapore Govt Bond 3.75% 01 Sep 2016 | 10,000,000 | 11,470,345 | 2.24 |
| Singapore Govt Bond 4% 01 Sep 2018 | 31,100,000 | 36,812,142 | 7.19 |
| SP Power Assets 4.84% 22 Oct 2018 | 1,750,000 | 1,778,669 | 0.35 |
| SPARC II Ltd 5% 07 Sep 2011 | 1,000,000 | 1,078,153 | 0.21 |
| Suntec Real Estate 3.25% 30 Mar 2013 | 3,000,000 | 2,584,883 | 0.50 |
| UOB Ltd 4.1% 03 Sep 2019 | 8,000,000 | 7,373,337 | 1.44 |
| UOL Ltd 3.34% 15 May 2012 | 9,000,000 | 8,641,884 | 1.69 |
| Wing Tai Holdings 4.98% 25 Apr 2011 | 7,500,000 | 7,538,834 | 1.47 |
| Total Singapore | | 219,639,458 | 42.88 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| Singapore Bond Fund (continued) | | |
|---|------------------------------|---|
| Holdings as at 31 Dec 2008 | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 |
| | S\$ | % |
| By Geography (Primary) (continued) | | |
| Others | | |
| China | | |
| Capitaretail China Trust | 1,120,000 | 672,000 |
| Total China | 672,000 | 0.13 |
| India | | |
| Ascendas India Trust | 450,000 | 204,750 |
| Total India | 204,750 | 0.04 |
| Malaysia | | |
| Amanah Raya Reit | 1,200,000 | 357,758 |
| Total Malaysia | 357,758 | 0.07 |
| Singapore | | |
| Ascendas Real Estate Investment Trust | 6,676,000 | 9,146,120 |
| Ascott Residence Trust | 978,000 | 567,240 |
| Capitacommercial Trust | 550,000 | 492,250 |
| Capitamall Trust | 6,895,000 | 10,894,100 |
| CDL Hospitality Trust | 1,150,000 | 833,750 |
| Cityspring Infrastructure Trust | 650,000 | 321,750 |
| DBS Cap Funding 5.75% 29 May 2049 | 38,000,000 | 36,792,381 |
| DBS Group Hldgs 6% Non Cum Pref Shs | 106,850 | 10,236,230 |
| First Ship Lease Trust | 6,000,000 | 2,910,000 |
| Frasers Centrepoint Trust | 5,633,000 | 3,520,625 |
| Frasers Commercial Trust Reit | 1,162,000 | 273,070 |
| Macquarie Prime Reit | 5,500,000 | 2,832,500 |
| OCBC 5.1% 31 Dec 2049 | 40,000 | 3,648,000 |
| OCBC Capital Corp Preferred 29 Aug 2049 | 210,000 | 18,354,000 |
| Total Singapore | 100,822,016 | 19.69 |
| Total Others | 102,056,524 | 19.93 |
| Portfolio of investments | 469,640,406 | 91.72 |
| Other net assets | 42,369,186 | 8.28 |
| Net assets attributable to unitholders | 512,009,592 | 100.00 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| | Singapore Bond Fund (continued) | |
|---|--|---|
| | Percentage of total net assets attributable to unitholders at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2007 |
| | % | % |
| <u>By Geography (Summary)</u> | | |
| <u>Quoted Debt Securities</u> | | |
| Germany | 1.57 | 1.37 |
| Hong Kong | 4.72 | 4.52 |
| India | 1.46 | 1.54 |
| Indonesia | 0.16 | 1.54 |
| Japan | - | 0.51 |
| Pakistan | - | 0.68 |
| Philippines | - | 0.33 |
| Russia | 0.37 | - |
| Singapore | 42.88 | 37.19 |
| South Korea | - | 1.04 |
| Sweden | - | 1.83 |
| United Kingdom | 9.46 | 1.87 |
| United States | 11.17 | 13.35 |
| Total Debt Securities | 71.79 | 65.77 |
| <u>Others</u> | | |
| China | 0.13 | 0.13 |
| India | 0.04 | 0.10 |
| Malaysia | 0.07 | 0.09 |
| Singapore | 19.69 | 12.81 |
| Total Others | 19.93 | 13.13 |
| Portfolio of investments | 91.72 | 78.90 |
| Other net assets | 8.28 | 21.10 |
| Net assets attributable to unitholders | 100.00 | 100.00 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Portfolio Statements *(continued)*

As at 31 December 2008

| | Singapore Bond Fund (continued) | | |
|---|---------------------------------|---|---|
| | Fair value at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2008 | Percentage of total net assets attributable to unitholders at 31 Dec 2007 |
| | S\$ | % | |
| <u>By Industry (Secondary)</u> | | | |
| <u>Quoted Debt Securities</u> | | | |
| Airlines | 7,067,946 | 1.38 | 1.29 |
| Banks | 120,051,701 | 23.45 | 21.64 |
| Electric Power & Gas | - | - | 2.82 |
| Finance | 41,596,657 | 8.13 | 10.28 |
| Government | 69,161,855 | 13.50 | 11.48 |
| Government Agency | 7,563,053 | 1.48 | 1.29 |
| Hotel | 5,073,829 | 0.99 | - |
| Industrial Others | 17,237,829 | 3.36 | 1.91 |
| Others | 1,908,611 | 0.37 | - |
| Real Estate | 86,715,476 | 16.94 | 14.93 |
| Telecommunications | - | - | 0.13 |
| Utilities | 11,206,925 | 2.19 | - |
| Total Debt Securities | 367,583,882 | 71.79 | 65.77 |
| <u>Others</u> | | | |
| Banks | 69,030,611 | 13.48 | 2.00 |
| Hotel | 833,750 | 0.16 | 0.46 |
| Infrastructure | 321,750 | 0.06 | 0.10 |
| Real Estate | 28,960,413 | 5.66 | 9.34 |
| Shipping | 2,910,000 | 0.57 | 1.23 |
| Total Others | 102,056,524 | 19.93 | 13.13 |
| Portfolio of investments | 469,640,406 | 91.72 | 78.90 |
| Other net assets | 42,369,186 | 8.28 | 21.10 |
| Net assets attributable to unitholders | 512,009,592 | 100.00 | 100.00 |

The accompanying notes form an integral part of these financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements

For the financial year ended 31 December 2008

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General

AIG International Funds is a Singapore umbrella fund constituted under a Trust Deed dated 15 February 1999 (and the "Supplemental Deeds") between AIG Global Investment Corporation (Singapore) Ltd (the "Manager") and Citicorp Trustee (Singapore) Limited (the "Trustee"). The Trust Deed is governed by the laws of the Republic of Singapore.

These financial statements cover the following sub-funds under AIG International Funds:

- Acorns of Asia Balanced Fund
- Singapore Bond Fund

The sub-funds are unit trusts included under the Central Provident Fund Investment Scheme ("CPFIS").

The registered office of the Manager and the Trustee are 1 Robinson Road, #13-00, AIA Tower, Singapore 048542; and 3 Temasek Avenue, #12-00 Centennial Tower, Singapore 039190, respectively.

The sub-funds investors are mainly from Singapore, with subscription and redemptions of the units denominated in Singapore dollars.

The performance of the sub-funds is measured and reported to the investors in Singapore Dollar. The Manager considers the Singapore Dollar as the functional currency which most faithfully represents the economic effects of the underlying transactions, events and conditions. These financial statements are expressed in Singapore Dollar, which is the sub-funds' functional and presentation currency.

2 Significant accounting policies

(a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of quoted investments and financial derivatives at fair value, and in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" ("RAP7") issued by the Institute of Certified Public Accountants of Singapore ("ICPAS").

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

2 Significant accounting policies (continued)

(b) Investment income recognition

Dividend income from investments is recognised when the right to receive payment is established.

Interest income arising from fixed deposits and debt securities is recognised in the Statement of Total Return on a time-proportion basis using the effective interest method.

(c) Charging of operating expenses against the value of the sub-funds

All direct operating expenses are attributable to the sub-funds and charged to the Statements of Total Return for each sub-fund. Certain shared expenses are allocated to each sub-fund based on the respective sub-fund's net asset values. From time to time, the Manager may at its own discretion, choose to absorb certain expenses of the sub-funds.

(d) Investments

The sub-funds' portfolio of investments comprise investments in debt securities and equities which are recognised at fair value. These investments are designated by the Manager as investments at fair value through profit and loss with realised and unrealised gains and losses from changes in fair values of investments included in the Statement of Total Return.

(e) Fair value

Fair values of investments are based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price. Accrued interest or discount and premium on debt securities at the balance sheet date are incorporated in the fair value of the debt securities. The carrying amount of current receivables (including cash and bank balances) and payables approximate their fair values.

(f) Foreign currency translation

Foreign currency monetary assets and liabilities are converted to Singapore dollars at rates of exchange prevailing at the date of the balance sheet. Transactions in foreign currencies during the year are converted into Singapore dollars for the respective sub-funds at the rates of exchange prevailing on the transaction dates. Differences on exchange are included in the respective Statements of Total Return.

Amounts receivable and payable denominated in foreign currencies are translated into Singapore dollars at exchange rates prevailing at the balance sheet date. All translation gains or losses are recognised in the Statements of Total Return.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

2 Significant accounting policies (continued)

(g) Derivative financial instruments

Derivatives including forwards and swaps are entered into for the purposes of efficient portfolio management, tactical asset allocation or specific hedging of financial assets held as determined by the Manager and in accordance with the provisions of the Trust Deed.

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including forward rates, recent market transactions and valuation techniques, as appropriate. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative. Subsequent changes in the fair value of any derivative instrument are recognised immediately in the Statements of Total Return.

3. Tax

The Fund is a unit trust under the Central Provident Fund Investment Scheme. Accordingly, the Fund is accorded the following Singapore income tax treatment:

(a) General

No tax is withheld from distributions made by the Fund.

(b) Tax of the Fund

The following types of income/gains earned by the Fund are exempt from Singapore income tax in accordance with Section 35(12) of the Income Tax Act:

- interest (other than interest for which has been deducted under Section 45 of the Singapore Income Tax Act);
- distribution from foreign unit trusts and dividends derived from outside Singapore and received in Singapore; and
- gains or profits derived from Singapore or elsewhere from the disposal of securities and transactions in foreign exchange, forwards, swaps and options relating to securities, financial indices, interest rates and currencies.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

3. Tax (continued)

(b) Tax of the Fund (continued)

| | Acorns of Asia Balanced Fund | | Singapore Bond Fund | |
|----------------------|---------------------------------|-------------|---------------------|-------------|
| | 2008 S\$ | 2007 S\$ | 2008 S\$ | 2007 S\$ |
| Singapore income tax | 475,375 | 582,346 | 500,273 | 559,642 |
| Overseas income tax | 2,938,062 | 2,798,732 | 4,766 | 7,190 |
| Total income tax | 3,413,437 | 3,381,078 | 505,039 | 566,832 |

4. Receivables

| | Acorns of Asia Balanced Fund | |
|--|---------------------------------|-------------|
| | 2008 S\$ | 2007 S\$ |
| Amounts receivable for creation of units | 363,981 | 9,342,241 |
| Accrued interest receivables | 443 | 72,926 |
| Other receivables | 164,283 | 130,494 |
| | 528,707 | 9,545,661 |

| | Singapore Bond Fund | |
|--|---------------------|-------------|
| | 2008 S\$ | 2007 S\$ |
| Amounts receivable for creation of units | 454,874 | 3,961,957 |
| Accrued interest receivables | 1,772 | 35,949 |
| Other receivables | - | 10,721 |
| | 456,647 | 4,008,627 |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

5. Payables

| | Acorns of Asia Balanced Fund | |
|--|---|------------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Payable to unitholders for cancellation of units | 1,338,773 | 9,012,247 |
| Accrued expenses | 1,124,057 | 2,062,197 |
| | 2,462,830 | 11,074,444 |

| | Singapore Bond Fund | |
|--|----------------------------|-----------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Payable to unitholders for cancellation of units | 513,857 | 4,999,970 |
| Accrued expenses | 486,241 | 542,149 |
| | 1,000,098 | 5,542,120 |

6. Financial derivatives, at fair value

- (a) Financial derivative contracts comprise forward foreign exchange contracts. The contracted or underlying principal amounts of these financial derivatives and their corresponding gross fair values at the balance sheet date are analysed below.

| | Contractual or underlying principal amount | Fair value gains | Fair value losses |
|---|---|-----------------------------|------------------------------|
| | S\$ | S\$ | S\$ |
| 2008 | | | |
| Acorns of Asia Balanced Fund [see (b) below] | 13,087,200 | 720,669 | - |
| Singapore Bond Fund [see (b) below] | 20,717,600 | 1,140,849 | - |
| 2007 | | | |
| Acorns of Asia Balanced Fund [see (b) below] | 25,012,800 | 49,786 | - |
| Singapore Bond Fund [see (b) below] | 31,680,000 | 63,057 | - |

- (b) The forward foreign exchange contracts were entered into with Citibank Singapore, a member of Citigroup and a related party of the Trustee.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

7. Net assets attributable to unitholders

| | Acorns of Asia Balanced Fund | |
|--|---|---------------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| At the beginning of financial year | 1,520,265,835 | 1,062,405,794 |
| Operations | | |
| Change in net assets attributable to unitholders resulting from operations | (694,259,628) | 212,583,876 |
| Unitholders' contributions/(withdrawals) | | |
| Creation of units | 440,539,790 | 740,696,916 |
| Cancellation of units | (479,185,922) | (495,420,751) |
| Change in net assets attributable to unitholders resulting from net creation and cancellation of units | (38,646,132) | 245,276,165 |
| Total (decrease)/increase in net assets attributable to unitholders | (732,905,760) | 457,860,041 |
| At the end of financial year | 787,360,075 | 1,520,265,835 |
| Units in issue (see note 8) | 559,626,665 | 596,955,499 |
| Net asset attributable to unitholders per unit | 1.407 | 2.547 |

Reconciliation of Net Assets Attributable to Unitholders per Unit for issuing/redeeming units at financial year end and the Net Asset Attributable to Unitholders per Unit per the financial statements:

| | Acorns of Asia Balanced Fund | |
|--|---|---------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Net assets attributable to unitholders per unit for issuing/redeeming units | 1.412 | 2.558 |
| Effect of adopting bid prices as fair value | (0.005) | (0.011) |
| Net assets attributable to unitholders per unit per the financial statements | 1.407 | 2.547 |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

7. Net assets attributable to unitholders (continued)

| | Singapore Bond Fund | |
|--|----------------------------|---------------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| At the beginning of financial year | 581,991,215 | 413,157,029 |
| Operations | | |
| Change in net assets attributable to unitholders resulting from operations | (54,547,382) | 7,765,520 |
| Unitholders' contributions/(withdrawals) | | |
| Creation of units | 433,890,031 | 304,701,348 |
| Cancellation of units | (449,324,272) | (143,632,682) |
| Change in net assets attributable to unitholders resulting from net creation and cancellation of units | (15,434,241) | 161,068,666 |
| Total (decrease)/increase in net assets attributable to unitholders | (69,981,623) | 168,834,186 |
| At the end of financial year | 512,009,592 | 581,991,215 |
| Units in issue (see note 8) | 418,191,188 | 433,389,198 |
| Net asset attributable to unitholders per unit | 1.224 | 1.343 |

Reconciliation of Net Assets Attributable to Unitholders per Unit for issuing/redeeming units at financial year end and the Net Asset Attributable to Unitholders per Unit per the financial statements:

| | Singapore Bond Fund | |
|--|----------------------------|---------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Net assets attributable to unitholders per unit for issuing/redeeming units | 1.225 | 1.347 |
| Effect of adopting bid prices as fair value | (0.001) | (0.004) |
| Net assets attributable to unitholders per unit per the financial statements | 1.224 | 1.343 |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

8. Units in issue

| | Acorns of Asia Balanced Fund | |
|----------------------------|---|---------------|
| | 2008 | 2007 |
| Units at beginning of year | 596,955,499 | 503,284,472 |
| Units created | 199,976,579 | 291,499,511 |
| Units cancelled | (237,305,413) | (197,828,484) |
| Units at end of year | 559,626,665 | 596,955,499 |

| | Singapore Bond Fund | |
|----------------------------|----------------------------|---------------|
| | 2008 | 2007 |
| Units at beginning of year | 433,389,198 | 314,358,208 |
| Units created | 326,540,057 | 225,342,659 |
| Units cancelled | (341,738,066) | (106,311,668) |
| Units at end of year | 418,191,189 | 433,389,198 |

9. Related party disclosures

- (a) As at 31 December 2008, the Manager and Trustee of AIG International Funds are AIG Global Investment Corporation (Singapore) Limited, a subsidiary of American International Group, Inc.; and Citicorp Trustee (Singapore) Limited, a subsidiary of Citigroup, respectively. Management fees and trustee fees paid or payable by the respective sub-funds to the Manager and Trustee are shown in the Statement of Total Return and are on terms set out in the Trust Deed. All other related party transactions are disclosed elsewhere in the financial statements.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

9. Related party disclosures (continued)

(b) As at 31 December 2008 and during the financial year then ended, the following significant transactions took place between the sub-funds and related parties at terms agreed between the parties and within the provisions of the Trust Deed:

| | Acorns of Asia Balanced Fund | |
|---|---|---------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Income derived/(expenses incurred) for the financial year | | |
| - Current account | 30,544 | 99,433 |
| - Bank charges | (1,738) | (5,893) |

| | Singapore Bond Fund | |
|---|----------------------------|----------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Income derived/(expenses incurred) for the financial year | | |
| - Current account | 905 | 2,901 |
| - Bank charges | (2,913) | (10,368) |

(ii) As at the end of the financial year, the sub-funds maintained current accounts with Citibank N.A. as follows:

| | Acorns of Asia Balanced Fund | |
|--------------------------------------|---|------------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Balance at end of the financial year | | |
| - Current account | 6,911,028 | 11,152,170 |

| | Singapore Bond Fund | |
|--------------------------------------|----------------------------|-----------|
| | 2008 | 2007 |
| | S\$ | S\$ |
| Balance at end of the financial year | | |
| - Current account | 946,209 | 3,162,002 |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management

The investments held by each sub-fund are subject to market price risk, interest rate risk, credit risk, liquidity risk and currency risk. The sub-funds' overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on performance.

Specific guidelines on exposures to individual securities, single entity, groups of related companies and certain industries are in place at any time for each sub-fund as part of the overall financial risk management to reduce their risk exposures.

The sub-funds' assets consist primarily of financial instruments such as equity investments, fixed income (including hybrid) investments, money market investments, fixed deposits and cash in accordance with the sub-funds' stated investment objectives. The allocation of assets among the various types of investments is determined by the Manager so as to achieve the sub-funds' investment objectives.

(a) Market risk

Market risk is the risk of loss from uncertainties and fluctuations in the market prices of financial instruments due to changes in interest rates, credit spreads, exchange rates and other indirect factors such as volatility and correlations. Each sub-funds' investments are substantially dependent on changes in market prices and are monitored by the Manager on a regular basis so as to assess changes in fundamentals and valuation. Although the Manager makes reasonable efforts in the choice of investments, events beyond reasonable control of the Manager could affect the prices of the underlying investments and hence the asset value of the sub-funds.

Each sub-fund distinguishes the following components of market risk:

- Price risk
- Interest rate risk
- Currency risk

(i) *Price risk*

The portfolio managers of each sub-fund, together with in-house analysts are engaged in research activity and a range of internal and external formal and informal meetings and discussions, the purpose of which is to identify, analyse and mitigate market risks. Internal meetings focus on the review and outlook of macro-economic fundamentals, interest rates, fixed income, equity and currency markets and asset allocation. These meetings are held on a periodic basis ranging from weekly to monthly. Stock and sector allocations for equities are constantly monitored to determine whether any of the evaluated factors have changed or if an individual stock has hit valuation targets. If valuation targets are achieved and fair values are met, then the investment criteria will be re-examined to ascertain whether or not the security has met evaluation criteria (used to make buy and sell decision) and should be exited.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(a) Market risk (continued)

(i) *Price risk* (continued)

The sub-funds do not attempt to track a particular benchmark. Benchmark comparisons are carried out for performance measurement and illustrative purposes only, as there are considerable differences between the sub-funds' investment objectives and their respective benchmarks. This is due to the lack of suitable benchmarks which are similar to the sub-fund's investments objectives.

While the benchmark of the equities component of the Acorns of Asia Balanced sub-fund is the MSCI AC FE ex Japan DTR Net Index whose constituents are stocks with certain minimum levels of market capitalisation, the sub-fund invests in stocks of growth companies with lower levels of market capitalisation but with the potential to grow into large companies. Hence, there would be considerable differences between the equities holdings in the sub-fund compared to the components of its equity benchmark.

As of 31 December 2008, the historical 1-year beta for Acorns of Asia Balanced sub-fund (for equities and REITS only) is estimated to be 1.22. The benchmark for equities portion is MSCI AC FE ex Japan DTR Net.

The table below summarises the impact of increases/decreases from the sub-fund's underlying investments in equities and REITS on the sub-fund's net asset attributable to unitholders as at 31 December 2008 and 2007. The analysis is based on the assumption that the estimated 1-year beta of 1.22 is applied to the closing net asset values for every 5% movement in the underlying benchmark index.

| Fund | Benchmark component | Impact of 5% (2007: 5%) increase in benchmark on net assets attributable to unitholders | |
|---------------------------------|-----------------------------|---|----------------------|
| | | 31 Dec 2008 (\$m) | 31 Dec 2007 (\$m) |
| Acorns of Asia Balanced Fund | MSCI AC FE ex Japan DTR Net | 27.47 | 60.49 |

The market prices of the debt securities held by the sub-funds are highly affected by the volatility of the interest rate and credit spread movements as the sub-funds debt securities investments are primarily in bonds issued by corporations, both Singapore and non-Singapore. Consequently, no separate price risk sensitivity analysis is prepared for the debt securities component of the Acorns of Asia Balanced sub-fund and the Singapore Bond sub-fund, as this is covered as part of interest risk and credit risk sensitivity analyses.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(a) Market risk (continued)

(ii) *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in changes in market interest rates. As each sub-fund invests in debt securities whose values are driven by changes in interest rates, each sub-fund is subject to interest rate (duration) risk. When interest rates rise, the price of previously acquired debt securities will normally fall because new debt securities acquired will pay higher rate of interest, and vice-versa. Interest rate risks are managed by the portfolio managers utilising the output of an internal Duration Committee. The Committee uses a systematic framework to take into account fundamental, valuation and technical influences on interest rates. This framework is used as the basis for discussion of interest rate risk and qualitative conclusions. The output from this Committee is used as an input by portfolio managers in managing the interest rate risk of fixed income holdings. The fast moving nature of markets necessitates that portfolio managers be authorised to initiate fixed income trades within the stated investment objectives and guidelines of each sub-fund, with discretion to manage the day-to-day duration risk.

The tables below summarise the sub-funds' exposures to interest rate risks.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(a) Market risk (continued)

(ii) *Interest rate risk* (continued)

Acorns of Asia Balanced Fund:

| | Variable rates S\$ | Fixed Rates S\$ | Non-interest bearing S\$ | Total S\$ |
|---|--------------------------|--------------------|--------------------------------|----------------------|
| As at 31 Dec 2008 | | | | |
| Assets | | | | |
| Investments | - | 271,011,132 | 498,026,108 | 769,037,240 |
| Receivables | - | - | 528,707 | 528,707 |
| Cash and bank balances | 6,911,028 | - | - | 6,911,028 |
| Fixed deposits with financial institutions | - | 12,625,261 | - | 12,625,261 |
| Financial derivatives, at fair value | - | - | 720,669 | 720,669 |
| Total Assets | 6,911,028 | 283,636,393 | 499,275,484 | 789,822,905 |
| Liabilities | | | | |
| Payables | - | - | 2,462,830 | 2,462,830 |
| Net assets attributable to unitholders | - | - | 787,360,075 | 787,360,075 |
| Total liabilities | - | - | 789,822,905 | 789,822,905 |
| As at 31 Dec 2007 | | | | |
| Assets | | | | |
| Investments | - | 298,409,223 | 1,002,544,217 | 1,300,953,440 |
| Receivables | - | - | 9,545,661 | 9,545,661 |
| Cash and bank balances | 11,152,170 | - | - | 11,152,170 |
| Fixed deposits with financial institutions | - | 209,639,222 | - | 209,639,222 |
| Financial derivatives, at fair value | - | - | 49,786 | 49,786 |
| Total Assets | 11,152,170 | 508,048,445 | 1,012,139,664 | 1,531,340,279 |
| Liabilities | | | | |
| Payables | - | - | 11,074,444 | 11,074,444 |
| Net assets attributable to unitholders | - | - | 1,520,265,835 | 1,520,265,835 |
| Total liabilities | - | - | 1,531,340,279 | 1,531,340,279 |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(a) Market risk (continued)

(ii) *Interest rate risk* (continued)

Singapore Bond Fund:

| | Variable rates S\$ | Fixed Rates S\$ | Non-interest bearing S\$ | Total S\$ |
|--|--------------------------|--------------------|--------------------------------|--------------------|
| As at 31 Dec 2008 | | | | |
| Assets | | | | |
| Investments | - | 367,583,883 | 102,056,524 | 469,640,407 |
| Receivables | - | - | 456,647 | 456,647 |
| Cash and bank balances | 946,209 | - | - | 946,209 |
| Fixed deposits with financial institutions | - | 40,825,578 | - | 40,825,578 |
| Financial derivatives, at fair value | - | - | 1,140,849 | 1,140,849 |
| Total Assets | 946,209 | 408,409,461 | 103,654,020 | 513,009,690 |
| Liabilities | | | | |
| Payables | - | - | 1,000,098 | 1,000,098 |
| Net assets attributable to unitholders | - | - | 512,009,592 | 512,009,592 |
| Total liabilities | - | - | 513,009,690 | 513,009,690 |
| As at 31 Dec 2007 | | | | |
| Assets | | | | |
| Investments | - | 382,785,132 | 76,435,028 | 459,220,160 |
| Receivables | - | - | 4,008,627 | 4,008,627 |
| Cash and bank balances | 3,162,002 | - | - | 3,162,002 |
| Fixed deposits with financial institutions | - | 121,079,489 | - | 121,079,489 |
| Financial derivatives, at fair value | - | - | 63,057 | 63,057 |
| Total Assets | 3,162,002 | 503,864,621 | 80,506,712 | 587,533,335 |
| Liabilities | | | | |
| Payables | - | - | 5,542,120 | 5,542,120 |
| Net assets attributable to unitholders | - | - | 581,991,215 | 581,991,215 |
| Total liabilities | - | - | 587,533,335 | 587,533,335 |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(a) Market risk (continued)

(ii) *Interest rate risk* (continued)

| <u>Fund</u> | Impact of 50 bps (2007: 50bps) decrease in interest rates on net assets attributable to unit holders | |
|----------------------------------|---|-----------------------|
| | 31 Dec 2008 (S\$m) | 31 Dec 2007 (S\$m) |
| Acorns of Asia Balanced sub-fund | 7.39 | 8.27 |
| Singapore Bond sub-fund | 9.80 | 9.77 |

(iii) *Currency risk*

Each sub-fund invests in securities denominated in currencies other than Singapore Dollar and may be affected favourably or unfavourably by movements in the exchange rate between the Singapore Dollar and the foreign currencies. The sub-funds may enter into forward foreign currency contracts to hedge some or all of these currency exposure.

The following sets out the total exposure to foreign currencies for the sub-funds:

Acorns of Asia Balanced Fund as at 31 December 2008:

| Currency | Gross S\$ | Hedges S\$ | Net S\$ |
|-----------------|----------------------|-----------------------|--------------------|
| HKD | 159,955,098 | - | 159,955,098 |
| IDR | 40,870,436 | - | 40,870,436 |
| KRW | 103,514,287 | - | 103,514,287 |
| MYR | 20,330,870 | - | 20,330,870 |
| PHP | 10,261,526 | - | 10,261,526 |
| THB | 17,249,116 | - | 17,249,116 |
| TWD | 68,484,455 | - | 68,484,455 |
| USD | 6,291,193 | (13,084,625) | (6,793,432) |
| | 426,956,981 | (13,084,625) | 413,872,356 |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(a) Market risk (continued)

(iii) *Currency risk* (continued)

Acorns of Asia Balanced Fund as at 31 December 2007:

| Currency | Gross S\$ | Hedges S\$ | Net S\$ |
|-----------------|----------------------|-----------------------|--------------------|
| HKD | 257,135,486 | - | 257,135,486 |
| IDR | 96,336,697 | - | 96,336,697 |
| KRW | 270,707,215 | - | 270,707,215 |
| MYR | 32,252,220 | - | 32,252,220 |
| PHP | 56,891,638 | - | 56,891,638 |
| THB | 16,243,204 | - | 16,243,204 |
| TWD | 180,905,758 | - | 180,905,758 |
| USD | 28,532,883 | (25,020,891) | 3,511,992 |
| | <u>939,005,101</u> | <u>(25,020,891)</u> | <u>913,984,210</u> |

Singapore Bond Fund as at 31 December 2008:

| Currency | Gross S\$ | Hedges S\$ | Net S\$ |
|-----------------|----------------------|-----------------------|--------------------|
| MYR | 357,758 | - | 357,758 |
| USD | 10,717,692 | (20,713,524) | (9,995,832) |
| | <u>11,075,450</u> | <u>(20,713,524)</u> | <u>(9,638,074)</u> |

Singapore Bond Fund as at 31 December 2007:

| Currency | Gross S\$ | Hedges S\$ | Net S\$ |
|-----------------|----------------------|-----------------------|--------------------|
| MYR | 508,979 | - | 508,979 |
| USD | 34,459,795 | (31,690,247) | 2,769,548 |
| | <u>34,968,774</u> | <u>(31,690,247)</u> | <u>3,278,527</u> |

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(a) Market risk (continued)

(iii) *Currency risk* (continued)

The following table shows the sub-funds' sensitivity to foreign currency exposure should those currencies increase or decrease by 1% against the Singapore Dollar with all other variables held constant

| Sub-Fund | Currency | Impact of 1% (2007: 1%) increase in foreign currency exchange rates against Singapore Dollar on net asset attributable to unit holders | |
|-------------------------------------|----------|---|-----------|
| | | 31-Dec-08 | 31-Dec-07 |
| Acorns of Asia Balanced Fund | HKD | 1,599,551 | 2,571,355 |
| | IDR | 408,704 | 963,367 |
| | KRW | 1,035,143 | 2,707,072 |
| | MYR | 203,309 | 322,522 |
| | PHP | 102,615 | 568,916 |
| | THB | 172,491 | 162,432 |
| | TWD | 684,845 | 1,809,058 |
| | USD | (67,934) | 35,120 |
| Singapore Bond Fund | MYR | 3,578 | 5,090 |
| | USD | (99,958) | 27,695 |

(b) Credit risk

Credit risk is the risk that one party to a financial instrument or transaction will cause a financial loss for the other party by failing to discharge an obligation when it falls due. This includes issuer (or investment) risk and counterparty risk. Issuer risks involve the loss of principal if the issuer of debt securities defaults on their payment obligation. Issuer risks also arise from the widening of credit spread on debt securities which results in a decline in the price of the securities. The impact of a 50 basis points widening/narrowing in credit spreads on all the fixed income securities held by the sub-funds is the same as the impact of a 50 basis points increase/decrease in interest rates shown in Note 10(a)(ii).

Counterparty risk involves the risk of non-performance of a counterparty in a transaction resulting in the inability to complete the transaction which may result in a loss.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(b) Credit risk (continued)

Each sub-fund invests in debt securities and is subject to issuer risks. Substantial research tools are available to the portfolio managers for use in the management of credit risk. These include an internal proprietary Credit Risk System (CRS), which provides individual company and industry research done by a team of in-house credit analysts, internal credit risk ratings, external ratings agencies' credit risk ratings, rating agency reports, purchased research databases and other advanced credit risks management tools. Issuer risk for each sub-fund is also mitigated by the following limits:

- exposure to debt securities issued by any single issuer cannot exceed 10% of each sub-funds' assets
- exposure to debt securities issued by any one group of companies cannot exceed 20% of each sub-funds' assets
- debt securities issued by non-Singapore entities which are rated non-investment grade cannot exceed 5% of each sub-funds' assets

Counterparty risk is managed by the following:

- transactions can be executed with only brokers included in the internal approved broker list. The list is updated on a quarterly basis or more frequently if circumstances demand it.
- all trades with counterparties are executed on Delivery Versus Payment basis. This is a securities industry procedure in which the buyers' payment for securities is due upon delivery of securities.

The sub-funds do not engage in securities lending.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(b) Credit risk (continued)

The table below analyses the credit ratings of the debt securities held by the sub-funds.

| | S&P or Moody's Rating of debt securities credit ratings as at 31 December 2008 | | | | | | Total |
|---|--|---------------|-------------|-----------------|---------------|--------------|--------|
| | S&P AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Not rated | |
| Moody's | Aaa | Aa1 to Aa3 | A1 to A3 | Baa1 to Baa3 | Below Baa3 | Not rated | |
| Acorns of Asia Balanced sub-fund | | | | | | | |
| - SGD millions | 49.89 | 10.05 | 98.53 | 12.62 | 2.24 | 97.68 | 271.01 |
| - % of portfolio | 6.34 | 1.28 | 12.51 | 1.60 | 0.29 | 12.41 | 34.42 |
| Singapore Bond sub-fund | | | | | | | |
| - SGD millions | 89.89 | 24.24 | 112.33 | 27.97 | 2.83 | 110.32 | 367.58 |
| - % of portfolio | 17.56 | 4.73 | 21.94 | 5.46 | 0.55 | 21.55 | 71.79 |

The table below shows the credit ratings of financial institutions which the sub-funds place fixed deposits and hold cash bank accounts with.

| | Amount (S\$m) | Credit rating as at 31 December 2008 | Credit rating as at 31 December 2007 |
|---|------------------|--|--|
| Acorns of Asia Balanced sub-fund | | | |
| - Citigroup | 6.8 | A | A |
| - ABN Amro | 12.6 | A+ | A+ |
| Singapore Bond sub-fund | | | |
| - Citigroup | 1.0 | A | A |
| - OCBC | 27.8 | A+ | A+ |
| - ABN Amro | 13.0 | A+ | A+ |

As at 31 December 2008, all deposits with banks licensed in Singapore are guaranteed by the Singapore government, which is rated AAA, until 31 December 2010.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

10. Financial risk management (continued)

(b) Credit risk (continued)

Citibank N.A., Singapore Branch is the custodian of the 2 sub-funds and was rated "A" as at 31 December 2008.

(c) Liquidity risk

Liquidity risk is the risk that a sub-fund will encounter difficulty in selling any of its investments in order to settle a liability including a redemption request. The sub-funds are exposed to daily cash redemption of units. Liquidity risk is mitigated by investing in debt issues which are at least SGD100 million in size, restricting exposure to any one single debt issue to a maximum of 10% of issue size and ensuring that the sub-funds invest a significant portion of assets in investments that can be traded in the market and maintaining a prudent level of cash and short-term securities that can be utilised to meet redemptions when needed.

The sub-funds' holdings of assets which can be converted to cash without any difficulties are as follows:

| | Cash and short-term fixed deposits | Singapore Government Securities | Corporate bonds maturing within 12 months |
|----------------------------------|---|--|--|
| | (\$m) | (\$m) | (\$m) |
| Acorns of Asia Balanced sub-fund | | | |
| - 31 December 2008 | 19.4 | 39.76 | 34.41 |
| - 31 December 2007 | 220.8 | 62.75 | 18.18 |
| Singapore Bond sub-fund | | | |
| - 31 December 2008 | 41.8 | 69.16 | 20.71 |
| - 31 December 2007 | 124.0 | 56.92 | 40.85 |

Payables, which comprise amounts due to unitholders for cancellation of units and accrued expenses, are due within 3 months from the balance sheet date.

(d) Capital management

The Fund's capital is represented by the net assets attributable to unitholders. The Fund strives to invest the subscriptions of redeemable participating units in investments that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholder redemptions.

AIG INTERNATIONAL FUNDS

(Constituted under a Trust Deed registered in the Republic of Singapore)

Notes to the Financial Statements *(continued)*

For the financial year ended 31 December 2008

11. Financial ratios

| | Acorns of Asia Balanced Fund | |
|---------------------------------------|---|-------|
| | 2008 | 2007 |
| | % | % |
| Expense ratio ¹ | 1.65 | 1.71 |
| Portfolio turnover ratio ² | 68.21 | 51.67 |

| | Singapore Bond Fund | |
|---------------------------------------|----------------------------|-------|
| | 2008 | 2007 |
| | % | % |
| Expense ratio ¹ | 1.14 | 1.11 |
| Portfolio turnover ratio ² | 36.47 | 51.01 |

¹ Expense ratio as at 31 December 2008 is calculated in accordance with IMAS Guidelines on disclosure of expense ratios issued on 25 May 2005.

The expense ratio does not include (where applicable) brokerage and other transaction costs, performance fee, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received. The Fund does not pay any performance fees.

² Portfolio turnover ratio is calculated in accordance with the formula stated in the Code on Collective Investment Schemes.

Important Notice:

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