FUND PERFORMANCE UPDATE
June 2010

Overview: Risk-off

Risk aversion prevailed among investors in the month of May, driven by ongoing concerns over the debt crisis in Europe; regulatory changes in the U.S. financial sector; Germany's ban on naked short-selling of selected securities; and further economic tightening in China. Amid these developments, Asian credits, currencies and stocks declined, while Asian government bonds mostly gained.

Our key views are: that the debt crisis in peripheral Europe is likely to be containable; the recovery in the Asian economies remains intact; and that the Chinese economy will see a soft landing, with policy tightening likely to be relaxed. We are generally cautious in the short term, but see value in selected Asian local currency government bonds and believe that Asian currencies appear oversold. We also look to accumulate Asian stocks on weakness, and are positive on China and exporters from Korea.

Asian and Global Credits: We remain cautious

Spreads widened on Europe's debt woes and U.S. regulatory reforms
Spreads widened across global credit markets in May, driven by deepening concerns over the debt crisis in Europe, Germany's announcement of a ban on naked short-selling of selected securities, and uncertainty over the final form of the U.S. Financial Reform Bill. The announcement of the European Stabilization Plan on 10 May and disbursement of the first EUR20b of the EUR110b EU-IMF loan to Greece failed to provide more than temporary reprieve to financial markets, as concerns over longer-term solvency issues in Southern Europe took precedence. Asian credits were not spared, with Asian high-grade spreads ending the month 45bp wider.

Asia credits underperformed U.S. and European peers
On a total return basis, Asian credit markets underperformed its U.S. and European peers in May. We attribute this to the high-beta nature of Asian credits, and the good run this asset class has enjoyed against its counterparts this year, which subjected it to greater profit-taking. Given the spike in market volatility, the issuance calendar started to slow in May, with USD2.0b of high-grade and USD1.3b of high-yield bonds issued in Asia over the month, compared to the USD6.2b of high-grade and USD2.1b of high-yield bonds issued in April.

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Credit markets likely to stay vulnerable to events in Europe and U.S.
We expect global credit markets to remain choppy as investors watch ongoing developments surrounding the European Stabilization Plan. Investors are also likely to be kept on edge as the final form of the proposed U.S. Financial Reform Bill is worked out in the coming weeks. We expect the direct impact on Asian credit markets from the European debt crisis to be fairly contained, given the strong fundamentals and fiscal positions of most Asian countries. Moreover, balance sheet exposure to peripheral European credit is minimal.

Remain cautious on high-yield Asian credits
Amid the market's current risk-averse sentiment, we maintain a cautious stance. We will be cautious of higher-beta names, including USD-denominated high-yield Asian credits, especially those which underperformed in May. We think that these names will face further pressure from weak credit metrics. We see a slowing in new issuances in the near term, and will selectively participate in new issues which are attractive on both fundamental and technical grounds.

Asian Rates: UST rally unlikely to sustain

UST and most Asian sovereigns rallied
U.S. Treasuries (UST) rallied in May as investors grew more risk-averse over the month. The UST yield curve flattened significantly, with the 2-year yield falling by 19bp, and 10-year yield by 36bp. Despite the 25bp policy rate hikes by the Reserve Bank of Australia and Bank Negara of Malaysia, most Asian government bonds rallied through May. Troubles in the peripheral European countries led to a significant easing in tightening expectations, which provided support to Asian government bonds. Political tensions between North and South Korea led to selling pressures in the KRW as well as Korean government bonds. Indonesian government bonds, regarded by most to be high-beta, sold off as investors reduced their IDR positions.

European debt problems likely manageable; expect UST yields to rise
We do not expect last month's UST rally to continue into June. Instead, yields will likely trade in a rising range on the back of improving U.S. economic conditions, in our view. We believe that the debt crisis in peripheral Europe, though large in magnitude, is likely to be containable, unlike the 2008 credit crisis resulting from the Lehman bankruptcy. Although the cost of funding for major European banks has risen, as measured by the widening in USD LIBOR–OIS and CDS spreads, levels are nowhere near where they were during the Lehman crisis. Furthermore, Europe's asset quality problems relate to peripheral European government bond holdings and mortgages, which are more straightforward than the complicated credit structures that characterized the 2008 crisis.

Most Asian central banks likely to pause on tightening measures
Although some Asian central banks have moved ahead of the Fed in their policy normalization, we think that any further tightening from here will be put on hold. Worries over the Eurozone debt crisis have led to significant downward revisions in rate hike expectations globally. Expectations of the likely timing for a hike in the U.S. Fed Funds rate has been pushed back to early 2011, while no rate increases are expected for Europe and Japan this year as well. As such, we see value in 2-year to 3-year Asian local currency government bonds in countries which have over-discounted rate hike expectations, such as Australia, Korea and Malaysia.

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Asian FX: Remain positive on Asian currencies

EUR, Asian currencies hit in May

Asian currencies fell in May, with the AUD and KRW the worst hit, falling more than 2% against the USD. The EUR plunged 7.4% versus the dollar, as investors continued to sell off the currency on the back of heightened concerns over the fiscal problems in the Eurozone. In Asia, the KRW fell about 8.0% in May as geopolitical tensions between North and South Korea escalated over the sinking of a South Korean warship. The AUD weakened 9.1% against the dollar as investors continued unwinding their carry positions and commodity prices fell sharply. The DXY rose sharply to end the month at 86.5, a 14-month high.

Sell-off in Asian currencies appears to be overdone

The sell-off in Asian currencies in May appears overdone, in our view, and was driven primarily by risk aversion rather than any deterioration in fundamentals. We believe that the potential impact from Europe's fiscal crisis on the Asian economies should be limited. As seen from recent economic data, which has surprised on the upside, Asian economic growth remains strong. The region's long-term economic outlook also remains favourable on the back of rising domestic demand, growing inter-regional trade and the strong fiscal positions of most Asian countries. As such, we expect Asian currencies to recover at a modest pace when market conditions stabilize. We continue to see substantial upside against the USD in the medium term due to strong external balances and FX reserves.

Asian Equities: Look to accumulate on weakness

Asian bourses fell in May

Asian stock markets declined in May, with the MSCI Asia ex-Japan Index down 8.8%. Larger and more liquid markets like Taiwan, Singapore, Hong Kong, China and Korea bore the brunt of the selling, with cyclicals underperforming defensive stocks. Sentiment was affected by the ongoing debt crisis in Europe, which stoked worries over its impact on the nascent recovery in Asian exports. Investors were also cautious over policy tightening in China, which raised its Reserve Requirement Ratio unexpectedly by a further 50bp during the month. Political tensions between North and South Korea added further to risk aversion.

Asian economic fundamentals remain strong

We continue to believe that Asia's economic fundamentals remain strong. Even though growth momentum is likely to slow, especially in light of recent developments in Europe and China, there is little risk of a double-dip recession in Asia, in our view. In China, we believe that a hard landing for the economy is unlikely. In our opinion, the government is likely to lighten its aggressive stance on economic tightening, and show a greater tolerance towards inflation in the near term. While a tightening bias is likely to be maintained in the property sector, liquidity conditions are likely to remain loose, and investment in other sectors is likely to be given additional support.

Remain constructive on Asian equities; will accumulate on weakness

Recent declines in Asian equity markets have led valuations to retreat to attractive levels, in our view. We remain constructive on Asian stocks, even though near-term volatility could remain heightened due to ongoing global events. We take a cautious stance for now, with a view that risk appetite should take precedence over valuations or fundamentals in the near term. However, we will look to opportunistically accumulate positions on market weakness. We remain positive on China, on our view that economic tightening is likely to be relaxed. We also like Korean exporters as the weaker KRW in recent weeks has made them more competitive. We are also reducing our underweight position in Thailand, as months of political turmoil has ended for now. Moreover, valuations have become attractive and long-term economic prospects remain positive, in our view.

In light of this, we reviewed performance and provide our Investment Managers' strategy and outlook for the following funds:

- Shenton Thrift Fund
- Shenton Twin City Fund
- Shenton Income Fund
- Shenton Global Opportunities Fund
- Shenton Asia Pacific Fund
- DBS Asia Bond Fund
- DBS Asia Knowledge Fund
- DBS Enhanced Income Fund
- MyHome Fund – HomeGrowth

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SHENTON THRIFT FUND
June 2010

Highlights

- The Fund underperformed its benchmark in May 2010, as both sector allocation and stock selection weighed on returns. Our underweight and stock selection in consumer discretionary particularly hurt performance, and our holdings of non-Singapore companies also proved detrimental. On the other hand, our overweight in healthcare and higher cash level helped offset the negative performance somewhat.

- We continue to be overweight cyclicals with the potential for earnings revisions, while underweighting the defensive telco and policy-vulnerable property sectors, and are neutral on banks. We will maintain the overweight in IT but look to take some profit on our healthcare holdings. We have taken profit on and reduced our exposure to off-benchmark non-Singapore companies in the current uncertain investment environment.

- The STI fell 7.5% in May on negative sentiment arising from global events, particularly Europe's debt crisis and political tension in Korea. Commodity stocks leading the decline. Singapore's three biggest banks turned in strong results at the conclusion of first quarter earnings season, with some upside surprises. Data releases over the month confirmed that Singapore's economic growth continues to be strong.

- Recent data continues to suggest a broad-based and sustained recovery, but inflationary pressure could creep up on the back of the rapidly-closing output gap. In April, Singapore's CPI rose for the seventh consecutive month, by the most in 15 months. Near-term market direction will likely continue to be highly dependent on key global events, though we expect to see a rebound for Singapore equities in the medium-term.

Performance Review

	Currency	Performance	
		May 2010 (% change)	Year-to-Date (cumulative)
Shenton Thrift Fund	SGD	*-8.14%	*-5.46%
Benchmark (FSSTI Index)	SGD	*-7.46%	*-5.00%

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Underperformed benchmark due to sector allocation and stock selection

The Fund underperformed its benchmark in May 2010, as both sector allocation and stock selection weighed on returns. Our underweight and stock selection in consumer discretionary particularly hurt performance, and our holdings of non-Singapore companies also proved detrimental. On the other hand, our overweight in healthcare and higher cash level helped offset the negative performance somewhat. Our top-performing positions include Parkway Holding, SIA Engineering, Yanlord Land Group and our underweight in Singapore Exchange. CSE global, Hyflux, Ezra Holdings and the underweight in Genting Singapore were among the worst-performing positions.

Strategy

Overweight cyclicals versus telco and property sectors; neutral on banks

We continue to be overweight cyclicals with the potential for earnings revisions, while underweighting the defensive telco and policy-vulnerable property sectors. We are increasingly cautious on the property sector on the potential for more property curbs. As property share prices are not significantly below their revalued net asset values, we believe there could be further downside in the event of additional measures. We are neutral on bank stocks as they are trading at mid-cycle valuations.

Selectively stock-pick in IT and healthcare

Our stock picks in the IT and healthcare sectors have done well, and we will maintain the overweight in IT but look to take some profit in our healthcare holdings. We have taken profit on and reduced our exposure to off-benchmark non-Singapore companies in the current uncertain investment environment.

Market Review**

% Change^	Month	YTD
STI Index	-7.5	-5.0
FTSE STI Mid-Cap Index	-6.9	0.8
FTSE STI Small-Cap Index	-11.9	-12.4

Source: Bloomberg, 31 May 2010 (^In local currency, price return basis)

STI declined, led by weakness in commodity stocks

The STI fell 7.5% in May on negative sentiment arising from global events, particularly Europe's debt crisis and political tension in Korea. Commodity stocks led the decline on a combination of issues including tax evasion allegations (Wilmar), policy tightening in Asia and Europe's ongoing debt concerns. Wilmar fell by 7% in one day on 18 May as it grabbed the headlines for alleged tax evasion. The parent company faces a probe for possible tax fraud involving as much as USD187m, which is about 10% of Wilmar's annual profit. Other commodity stocks such as Noble and Olam also declined substantially on concerns over potentially slowing growth in Asia due to policy tightening and Europe's fiscal woes. Amid heightened market volatility, defensive stocks such as SIA Engineering and ST Engineering emerged the top-performing index stocks.

Singapore banks reported good results
Singapore's three biggest banks turned in strong results at the conclusion of first quarter earnings season, with OCBC and UOB surprising on the upside. OCBC reported a better-than-expected net profit of SGD676m, which was an increase of 35% and 24% from the previous quarter and year respectively. The earnings were driven mainly by higher non-interest income and stronger contribution from its 87%-owned subsidiary, GE Holdings. UOB also posted results that were above expectations with net profit rising by 34% to SGD700m from the previous quarter. Although net interest income was flat, the strong performance was driven mainly by much higher non-interest income from growth in fees & commissions and other non-interest income. DBS Group reported an 8% QOQ increase in net profit to SGD532m for 1Q10 that was in-line with expectations. Net interest income was below expectations, contracting 5% during the last quarter despite loans growth of 3%, although non-interest income was much higher.

Economic performance continues to be strong
Industrial production rose 24.3% MOM and 51.0% YOY in April. Biomedical manufacturing output increased 95.8% from a year ago. The electronics and precision engineering sectors also continued to record strong growth. Non-oil domestic exports (NODX) rose a stronger-than-expected seasonally-adjusted 2.1% month-on-month in April. This was the third consecutive month of increases. Year-on-year, NODX increased by 29.4%.

Market Outlook**

Economic growth continues to be strong but inflation risk is higher
Data releases on the country's economic growth continue to suggest a broad-based and sustained recovery. The Ministry of Trade and Industry's (MTI) full-year growth forecast of 7-9% could be revised upwards if growth in the second quarter is as strong as it was in the first quarter. However, inflationary pressure could creep up on the back of the rapidly-closing output gap. In April, Singapore's CPI rose for the seventh consecutive month by a seasonally-adjusted 0.5% month-on-month and 3.2% from a year ago (the biggest rise in 15 months).

External factors to determine market direction
Near-term market direction will likely continue to be highly dependent on key global events, such as the unfolding of the sovereign debt crisis in Europe, geopolitical tensions in the Korean Peninsula, China's monetary tightening, as well as intensifying anti-speculation property measures in Singapore and the rest of Asia. Nevertheless, we expect a rebound for Singapore equities in the medium-term, although the next few months could see a volatile and range-bound market.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*
** *Data Source: Bloomberg as of end May 2010.*

The CPF interest rate for the Ordinary Account ("OA") is based on the 12-month fixed deposit and month-end savings rates of the major local banks. The new interest rate for the Special, Medisave and Retirement Accounts ("SMRA") is pegged to the yield of the 10-year Singapore government bond plus 1%. The CPF Board pays a minimum interest of 2.5% p.a. for all accounts. From 1 January 2008, an extra interest rate of 1% p.a. is paid for the first S$60,000 of the CPF members' combined balance in the OA and Special Account ("SA"), including up to S$20,000 in the OA. From 1 April 2008, the first S$20,000 in the OA and SA will not be allowed to be invested under the CPF Investment Scheme ("CPFIS"). From 1 May 2009, CPF members must set aside S$30,000 in their SA before they can invest their SA monies under CPFIS. From 1 July 2010, the first S$40,000 of members' SA balance will no longer be allowed to be used for CPFIS investments.

SHENTON TWIN CITY FUND
June 2010

Highlights

- The Fund's NAV declined 6.2% in May, underperforming the benchmark by 10bp. Our underweight in the defensive telco and utility sectors hurt performance, while stock selection in the consumer discretionary and healthcare sectors, as well as the Fund's relatively high cash level, helped offset the losses somewhat.

- We continue to base our sector and stock selections on the growth outlook of Singapore and Hong Kong, which remains positive, in our view. We prefer cyclicals over the telco, utility and property sectors. Our cash level is now high after we took profit on some of our mid-cap counters, and is ready to be tactically re-deployed as opportunities arise.

- The STI fell 7.5% in May on negative sentiment arising from global events, with commodity stocks leading the decline. Data releases over the month confirmed that Singapore's economic growth continues to be strong. The HSI and H-Shares fell sharply in May, by 6.4% and 5.6%, respectively. Hong Kong continues to show signs of a strong economic recovery, with its 1Q10 GDP expanding 8.3% YOY.

- Singapore's recent data releases continue to suggest strong economic growth; however, the risk of inflation is now higher. We expect most markets, including Singapore and Hong Kong, to remain volatile and vulnerable to global events. We expect China to relax on its aggressive tightening in view of the recent sharp slowdown in housing transactions as well as the deepening debt crisis in Europe.

Performance Review

	Currency	Performance	
		May 2010 (% change)	**Year-to-Date** (cumulative)
Shenton Twin City Fund	SGD	*-6.15%	*-5.95%
Benchmark (FSSTI + HSI Composite Index)	SGD	*-6.05%	*-7.64%

Underperformed due to stock selection and higher cash allocation

The Fund's NAV declined 6.2% in May, underperforming the benchmark by 10bp. Our underweight in the defensive telco and utility sectors hurt performance as these sectors outperformed the broad market amid weak investor sentiment. However, stock selection in the consumer discretionary and healthcare sectors proved beneficial, and together with the relatively high cash level, helped offset the losses somewhat.

Strategy

Continue to favour cyclicals

We continue to base our sector and stock selections on the growth outlook of Singapore and Hong Kong, which remains positive, in our view. We still favour the cyclical sectors, especially selected commodity, industrial and consumer discretionary stocks. We are underweight the telco, utility and property sectors.

Emphasize sector and tactical allocation

We expect trading volatility to increase and the broad market to remain range-bound in the near term, and will continue to emphasize sector allocation in managing the portfolio. In view of the current uncertain market environment, we have raised cash by reducing some of our mid-cap counters. Our cash level is now high and ready to be tactically re-deployed as opportunities arise.

Market Review**

Singapore

% Change^	Month	YTD
STI Index	-7.5	-5.0
FTSE STI Mid-Cap Index	-6.9	0.8
FTSE STI Small-Cap Index	-11.9	-12.4

Source: Bloomberg, 31 May 2010 (^In local currency, price return basis)

STI declined, led by weakness in commodity stocks

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Economic performance continues to be strong
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Hong Kong

% Change^	Month	YTD
HSI Index	-6.4	-9.6
HSCEI Index	-5.6	-10.2

Source: Bloomberg, 31 May 2010 (^In local currency, price return basis)

HSI and H-Shares closed sharply lower in May
The sell-down in Hong Kong and China shares intensified in May; the HSI declined 6.4%, while the H-Shares dropped 5.6%. May proved to be the worst month in more than a year, as fears over slowing economic growth due to a combination of Europe's debt troubles, political tensions between North and South Korea and China's policy tightening severely aggravated investor risk appetite. Chinese property, banking, utility and telecommunication sectors held up relatively better than the broad market. The property sector saw some easing in new tightening measures, and investor interest started to return as valuations have become more attractive. The more defensive utility and telecommunication sectors also outperformed, amid weak market sentiment. The HSI's largest index stock, HSBC, was among the worst-performing index stocks for the month.

Strong economic growth for first quarter of the year
Hong Kong's first quarter GDP expanded 8.3% YOY, with exports and retail spending continuing their strong uptrend. Year-on-year, exports to China, U.S. and Japan, which typically account for two-thirds of Hong Kong's total exports, rose for the third consecutive month by 26%, 9% and 26%, respectively.

Chinese property and banking sectors held up better
Property stocks started to recover in May on more attractive valuations after the previous month's sharp price correction. Property transaction volumes plunged following a series of intensifying tightening measures, and raised expectations that the Chinese government will hold off on further substantive tightening. Banks, especially the larger ones, also did well due to better-than-expected first quarter results.

Market Outlook**

Singapore

Economic growth continues to be strong but inflation risk is higher
Data releases on the country's economic growth continue to suggest a broad-based and sustained recovery. The Ministry of Trade and Industry's (MTI) full-year growth forecast of 7-9% could be revised upwards if growth in the second quarter is as strong as it was in the first quarter. However, inflationary pressure could creep up on the back of the rapidly-closing output gap. In April, Singapore's CPI rose for the seventh consecutive month by a seasonally-adjusted 0.5% month-on-month and 3.2% from a year ago (the biggest rise in 15 months).

External factors to determine market direction

Near-term market direction will likely continue to be highly dependent on key global events, such as the unfolding of the sovereign debt crisis in Europe, geopolitical tensions in the Korean Peninsula, China's monetary tightening, as well as intensifying anti-speculation property measures in Singapore and the rest of Asia. Nevertheless, we expect a rebound for Singapore equities in the medium-term, although the next few months could see a volatile and range-bound market.

Hong Kong

Global events will likely drive near-term market direction

China's equity markets will likely remain volatile in the near term and be driven mainly by global events, especially Europe's ongoing debt concerns. China's aggressive tightening has also stifled economic activities across many industries and resulted in a downward revision in the growth outlook. We expect market sentiment and risk appetite to remain subdued for now.

Expect China to moderate further tightening

Sentiment in the Hong Kong market has typically been highly sensitive to China's policy stance. The series of property measures introduced in mid-April has achieved the desired result of taking the heat off housing transactions. Troubles in the peripheral European countries have led to a significant easing in tightening expectations and a slowing in growth globally. We expect that in view of this, and in order to achieve the country's 8% growth target, China will likely moderate its economic tightening in the coming months, especially in the property sector.

Valuation is below historical mean; earnings upgrades have peaked

Hong Kong's market valuation is currently below its historical mean, with the HSI trading at 13.0x FY10 PE. The historical PE range for the HSI is 8.8x to 21.3x over the last four years. Earnings upgrades appear to have peaked, in our view.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

SHENTON INCOME FUND
June 2010

Highlights

- The Fund posted a return of -1.8% in May 2010, as Europe's sovereign debt woes fueled the spread of risk aversion to Asia and the rest of the world. Credit markets, especially bank capital securities, succumbed to contagion from Europe's troubles and recorded significant losses for the month.

- We remain positive on Asian local currency sovereign bonds in countries which have over-inflated rate hike expectations. We continue to be cautious on USD-denominated high-yield Asian credits on concerns regarding supply and credit metrics. We look to maintain our exposure to Asian currencies as we remain constructive on the region longer term.

- U.S. Treasuries rallied and the yield curve flattened in May due to risk aversion over Europe's fiscal woes. Asian government bonds mostly rallied as tightening expectations eased significantly, and Asian currencies fell, with the AUD and KRW the worse hit. Credit spreads widened globally on fears over Europe's debt woes and U.S. regulatory reforms, with Asian credit markets underperforming its U.S. and European peers.

- Europe's debt crisis is largely containable, in our view. We expect UST yields to start rising again in June and see most Asian central banks pause on policy tightening. We think the recent sell-off in Asian currencies is driven primarily by risk aversion and likely overdone, and remain positive in our long-term economic outlook for the region. Credit markets are likely to stay volatile and vulnerable to Europe's debt troubles and financial reforms in the U.S., in our view. We see limited contagion risks due to the region's strong fundamentals and fiscal condition.

Performance Review

	Currency	Performance	
		May 2010 (% change)	Year-to-Date (cumulative)
Shenton Income Fund	SGD	*-1.78%	*+2.31%
Benchmark (DBS 12m SGD Fixed Deposit Rate for 20k to 50k)	SGD	*+0.04%	*+0.19%

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Fund posted negative return in May
The Fund posted a return of -1.8% in May 2010, as Europe's sovereign debt woes fueled the spread of risk aversion to Asia and the rest of the world. Asian currencies plummeted, and the Fund retreated despite having no exposure to peripheral European issuers or the EUR. Credit markets, especially bank capital securities, succumbed to contagion from Europe's troubles and recorded significant losses for the month. However, the Fund's holdings of Australian government bonds helped to offset the negative performance somewhat.

Strategy

Remain positive on selected local currency Asian sovereign bonds
We remain positive on Asian local currency sovereign bonds in countries which have over-inflated rate hike expectations. In view of the current market uncertainty amid the debt crisis in the Eurozone, Asian central banks will likely defer their policy normalization, we believe. We especially favour government bonds from Australia, Korea and Malaysia.

Remain cautious on high-yield Asian credits
We continue to be cautious on USD-denominated high-yield Asian credits, especially issues which underperformed in May. We think that these names will face further pressure from the impending heavy supply pipeline and weak credit metrics. We will only selectively participate in new issues which are attractive on both fundamental and technical grounds.

Maintain exposure to Asian currencies
We look to maintain our exposure to Asian currencies as we believe the Asian recovery story remains intact despite market weakness in Europe. In our view, Asian currencies still have substantial upside against the USD in the medium term due to strong external balances and FX reserves.

Market Review**

Asia Rates and FX

UST rallied as markets pared back risk appetite
U.S. Treasuries (UST) rallied in May on the back of heightened concerns over the fiscal troubles of the peripheral European countries. Risk assets continued to be sold off, despite initial gains, following the announcement of a massive EUR750b bailout package and other liquidity measures for peripheral Europe on 10 May. The rescue plan entails the European Central Bank's purchase of government bonds from the Euro-countries in need, expansion of refinancing facilities and re-establishment of USD swap lines with the U.S. Fed. Germany's announcement to ban naked short-selling of selected stocks, government bonds and related credit default swaps on 18 May, and the potential implementation of stringent U.S financial regulatory reforms further spooked global markets. The latest FOMC statement was mostly unchanged, and reiterated that rates would remain low for "an extended period". The UST yield curve flattened significantly, with the 2-year yield falling by 19bp, and 10-year yield by 36bp.

Asian government bond yields declined, except for Indonesia and Korea
Despite the 25bp policy rate hikes by the Reserve Bank of Australia and Bank Negara of Malaysia, Asian government bonds mostly rallied through May. Troubles in the peripheral European countries led to a significant easing in tightening expectations, which provided support to Asian government bonds, especially in markets which have priced in a significant amount of tightening. Political tensions between North and South Korea led to selling pressures in the KRW as well as Korean government bonds. Indonesian government bonds, regarded by most to be high-beta, sold off as investors reduced their IDR positions.

Asian currencies were hit in May

Asian currencies fell in May, with the AUD and KRW the worst hit, falling more than 2% against the dollar. The EUR plunged 7.4% versus the USD, as investors continued to sell off the currency on the back of heightened concerns over the fiscal problems in the Eurozone. In Asia, the KRW fell about 8% in May as geopolitical tensions between North and South Korea rose sharply over the sinking of a South Korean warship. Commodity currencies such as the AUD weakened about 9.1 % against the dollar as investors continued unwinding their carry positions and commodity prices fell sharply. The DXY rose sharply to end the month at 86.5, a 14-month high.

Table 1: MOM Change in Policy Rates, Government Yields and Currencies for Asia

	Policy Rate	Change in Policy Rate	Change in 2Y Yield	Change in 5Y Yield	Change in 10Y Yield	Currency Return vs USD
China	5.31	0	5	(17)	(18)	-0.04%
Taiwan	1.25	0	(6)	0	(5)	-1.97%
Korea	2.00	0	4	9	11	-7.99%
India	5.25	0	(3)	(6)	(54)	-4.32%
Indonesia	6.50	0	30	41	34	-1.85%
Vietnam	8.00	0	(59)	(50)	(43)	-0.17%
Thailand	1.25	0	(9)	(8)	(21)	-0.34%
Philippines	4.00	0	12	(11)	(11)	-3.91%
Singapore	-	-	3	(17)	12	-2.10%
Malaysia	2.50	25	12	(3)	(1)	-2.43%
Australia	4.50	25	(52)	(50)	(34)	-9.11%
New Zealand	2.50	0	(20)	(34)	(35)	-6.75%

Source: Bloomberg, 31 May 2010

Global Credit

Spreads widened on fears over Europe's debt woes and U.S. regulatory reforms

Deepening concerns over Europe's debt crisis and uncertainty over the final form of the U.S. Financial Reform Bill drove spreads wider across global credit markets in May. The announcement of the European Stabilization Plan on 10 May and successful disbursement of the first batch (EUR20b) of the EUR110b EU-IMF loan to Greece failed to provide more than temporary reprieve to financial markets. Investor concerns over the longer-term solvency issues of Southern Europe weighed on market sentiment, causing risk markets globally to head south again towards the latter part of the month. Asian credits were not spared, with Asian high-grade spreads ending the month 45bps wider.

Table 2: Global Credit Indices (Credit Spreads)

	Credit Spread Over Government Benchmark (Bp)						Change in Credit Spread (MoM)					
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD	USD	EUR	USD	USD	EUR	USD
1Q2010							(5)	(14)	(25)	(58)	(52)	(193)
31-May-10	151	134	218	704	476	812	42	35	45	133	123	174
30-Apr-10	109	99	173	571	352	638	(8)	12	(7)	(18)	6	(8)
31-Mar-10	117	87	180	589	346	646	(18)	(9)	(29)	(71)	(62)	(106)
26-Feb-10	135	96	209	660	409	752	(0)	3	5	21	24	(8)

Source: US (Credit Suisse), Europe and Asia (JP Morgan), 31 May 2010

Asia credits underperformed U.S. and European peers
On a total return basis, Asian credit markets underperformed its U.S. and European peers in May (see Table 3). We attribute this to the high-beta nature of Asian credits and the good run this asset class has enjoyed vis-à-vis its counterparts this year, thus subjecting it to greater profit-taking vulnerability in a de-risking environment. Given the spike in market volatility, the issuance calendar started to slow in May, with USD1.95b of high-grade and USD1.3b of high-yield bonds issued in Asia over the month, compared to the USD6.2b of high-grade and USD2.1b of high-yield bonds issued in April.

Table 3: Global Credit Indices (Total Return)

Total Returns (Respective Currency)						
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
1Q2010	2.32%	2.71%	3.00%	4.33%	5.40%	8.30%
31-May-10	(0.33%)	0.20%	(0.44%)	(3.47%)	(2.43%)	(4.51%)
30-Apr-10	1.94%	0.49%	1.11%	2.52%	0.67%	1.23%
31-Mar-10	0.20%	0.77%	0.98%	2.75%	3.06%	3.90%

Source: US (Credit Suisse), Europe and Asia (JP Morgan), 31 May 2010

Market Outlook**

Asia Rates and FX

Peripheral Europe's debt problems likely manageable; expect UST yields to rise
We believe that peripheral Europe's fiscal debt crisis, though large in magnitude, is likely to be containable, unlike the 2008 credit crisis resulting from the Lehman bankruptcy. Although the cost of funding for major European banks has risen, as measured by the widening in USD LIBOR–OIS and CDS spreads, levels are nowhere near where they were during the Lehman crisis. Furthermore, the asset quality problems relate to peripheral European government bond holdings and mortgages, which are relatively more straightforward unlike the complicated credit derivative structures that characterized the 2008 crisis. Therefore, we do not expect last month's strong UST rally to continue into June. Instead, yields are likely to rise in a range-bound manner on the back of improving U.S. economic conditions, in our view.

Most Asian central banks likely to pause on tightening measures
Although some Asian central banks have moved ahead of the Fed in their policy normalization, we think that any further tightening from here will be put on hold. Worries over the Eurozone debt crisis have led to significant downward revisions in rate hike expectations globally. Expectations of a rise in the U.S. Fed Fund rate has been postponed to early 2011, while no rate increases are expected for Europe and Japan this year as well. As such, we see value in 2-year to 3-year Asian government bonds in countries which have over-discounted rate hike expectations, such as Australia, Korea and Malaysia.

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Sell-off in Asian currencies appears to be overdone

The sell-off in Asian currencies in May appears overdone, in our view, and was driven primarily by risk aversion rather than any deterioration in fundamentals. We believe that the potential impact from the Eurozone fiscal crisis should be limited, and the Asian economies are unlikely to see a double-dip recession. As seen from recent upside-surprising economic data, Asia's growth remains strong, and we expect its currencies to recover at a modest pace when market conditions stabilize. While current market turbulence has put a dent in investor confidence, we think that the long-term economic outlook for Asia remains favourable on the back of rising domestic demand, growing inter-regional trade and strong fiscal positions. However, a further escalation of the Eurozone debt crisis and/or worsening geopolitical tensions in Korea could pose a major impediment to market stabilization.

Global Credit

Credit markets likely to stay volatile and vulnerable to events in Europe and U.S.

We expect credit markets globally to remain choppy as investors scrutinize the ongoing development of the European Stabilization Plan as well as the implementation of structural reforms and austerity measures in the troubled European economies. Additionally, investors are likely to be kept on the edge of their seats as the final form of the proposed U.S. financial reform bill is being worked out in the coming weeks. Amid the market's current risk-aversive sentiment, we will maintain a cautious stance and be especially wary of higher-beta names. We see a slowing in new issuances in the near term.

Limited contagion risk from Europe

Even as Europe's financial woes linger, we expect the direct impact to Asian credit markets to be fairly contained, given the strong fundamentals and fiscal positions of most Asian countries. Moreover, Asian sovereign credit trends have been improving, balance sheet exposure to peripheral European credit is minimal and the underlying growth trend for the region remains supportive.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

monthlyoutlook

DBS ASSET MANAGEMENT

SHENTON GLOBAL OPPORTUNITIES FUND
June 2010

Highlights

- The Fund's NAV fell 7.2%, while the MSCI DC World Index dropped more sharply by 8.0%. Almost all of the stocks in the portfolio closed lower, with our Europe and Taiwan equity positions emerging the worst performers, while Chinese banking and property stocks, and some of our blue-chip U.S. consumer names held up well.

- We have reduced our weightage in the developed markets (mainly U.S. and Japan), and will increase that in Asian equities due to cheap valuations and strong fundamentals. We maintain our positive view on consumer discretionary and IT stocks, with an Asian bias. We expect earnings growth to slow towards the second half of 2010 and going into 2011. In view of this, we will be increasingly focused on companies with stable cash flows and sound structural growth stories, which tend to do well in this type of environment.

- May proved to be the worst month in over a year for equity markets around the world. The announcement of a EUR750b package to stabilize the euro failed to provide more than temporary reprieve to financial markets, as concerns over longer-term solvency issues in Southern Europe took precedence. Escalating tensions on the Korean Peninsula and concerns over China's aggressive policy measures further dampened investor sentiment.

- The economic recovery in the U.S. and globally remains intact with the OECD raising its forecast for economic growth in 2010 and 2011. However, the Conference Board's Leading Economic Indicator (LEI) Index decelerated in April for the first time in a year. With continued uncertainty in Europe and a lack of positive catalysts in the near term, we expect market volatility to remain elevated into June.

Performance Review

	Currency	Performance	
		May 2010 (% change)	Year-to-Date (cumulative)
Shenton Global Opportunities Fund	SGD	*-7.15%	*-9.89%
Benchmark (MSCI DC World Index)	SGD	*-7.98%	*-7.91%

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Fund closed sharply lower in a difficult month for global equity markets

May proved to be the worst month in over a year for equity markets around the world. The Fund's NAV fell 7.2%, while the MSCI DC World Index dropped more sharply by 8.0%. Almost all of the stocks in the portfolio closed lower, with our Europe and Taiwan equity positions emerging the worst performers, while Chinese banking and property stocks fared relatively better. Some of our blue-chip U.S. consumer names also held up well. Top losers for the month were Transocean (-19.8%), Hon Hai Precision (-16.1%) and Ishares MSCI Spain (-13.4%).

Strategy

Reduce weightage in developed markets in favour of Asia

Valuations for the MSCI Emerging Markets and Asia Pacific Ex-Japan indices are looking more attractive after the recent market correction, and now stand at close to 10x and 11x their respective forward PEs. Both markets are trading at about one standard deviation below their long-term averages. We have reduced our weightage in the developed markets (mainly U.S. and Japan), and will increase that in Asian equities due to cheap valuations and strong fundamentals. The portfolio's exposure to the Asia Pacific region (including Japan) is currently around 50%.

Consumer discretionary and IT sectors remain the favourites

While we remain positive on the consumer discretionary and IT sectors in general, we have trimmed some of our positions, including Apple, Google and Amazon.com, to fund our purchases in the Asian consumer discretionary space. Expectations for China to delay interest rate hikes should improve consumer sentiment among the local Chinese, especially after the government's aggressive property and monetary-policy tightening over the last few months. We are underweight telcos, utilities, energy and consumer staples.

Focus on companies with stable cash flows and sound structural growth stories

The large number of upward earnings revisions earlier in the year can be mainly attributed to the low base effect from early-2009, and we expect earnings growth to slow towards the second half of 2010 and going into 2011. In view of this, we will be increasingly focused on companies with stable cash flows and sound structural growth stories, which tend to do well in this type of environment.

Market Review**

% Change^	Month	YTD
S&P 500 Index	-8.2	-2.4
MSCI Europe Index	-13.0	-17.6
MSCI Japan Index	-8.1	-1.6
MSCI Asia ex Japan	-8.4	-5.4

Source: Bloomberg, 31 May 2010 (^In USD, price return basis)

Global markets down sharply in May

The sell-down in global equities which started in mid-April intensified in May. The MSCI World Index began the month at 1199 points and declined sharply by 9.9% to close at 1080 points. The announcement of a EUR750b package to stabilize the euro failed to provide more than temporary reprieve to financial markets, as concerns over longer-term solvency issues in Southern Europe took precedence. In Asia, market sentiment was marred by tensions on the Korean Peninsula and concerns over the aggressive policy measures taken by the Chinese authorities to slow the pace of property price increases. U.S. equity markets were also dragged down by negative sentiment from global events, despite generally-positive economic data, though the watering down of the Financial Reform Bill lent some support to U.S. financial stocks.

Eurozone bailout plan evoked only temporary optimism

The announcement of the EU's EUR750b rescue package to avert a liquidity crisis in Europe triggered a brief rally in risk assets in mid-May. The EUR750b of potentially available funds (with EUR250b coming from the IMF) is about 8.2% of the euro area's 2010's GDP. The program includes short-term bridge loans, loan guarantees, and the ECB purchasing bonds issued by peripheral European countries. However, the market's optimism following the announcement was short-lived, as investors remained worried the longer-term solvency issues of the weaker European countries, and that the structural reforms and austerity measures may dampen economic growth. Investor confidence was further undermined after the German government unilaterally banned the naked short-selling of Eurozone government debt and shares of major financial companies. The ban, which was not imposed by the other countries, signalled a lack of coordination within the Eurozone. Investors were dealt a further blow at the close of the month when Fitch Ratings cut Spain's AAA credit rating by a notch to AA+.

Markets roiled over tensions on the Korean Peninsula

Tensions on the Korean peninsula ran high after South Korea blamed North Korea for the sinking of its warship. The situation escalated after North Korea stated that it would cut all ties with the South and further threatened the latter with military action. North Korea also stated that it will expel personnel from the Kaesong industrial park, a joint North-South venture close to its border, despite the park being an important source of revenue for Pyongyang. In the month of May, the KOSPI declined by 5.8%; the KRW declined by 8.5% against the USD and 6.2% against the SGD.

Market Outlook**

Global and U.S. economic recovery remains intact

In its twice-yearly outlook, the OECD forecasted that the thirty-one OECD countries' combined GDP will increase by 2.7% in 2010 and 2.8% in 2011. This was raised from the previous forecast in November which projected growth at 1.9% and 2.5% respectively. Growth forecasts for the global economy were also raised, with global GDP projected to increase by 4.6% in 2010 and 4.5% in 2011, versus November's forecast of 3.4% and 3.7% respectively. In the U.S., the Thomson Reuters / University of Michigan gauge of consumer sentiment increased to 73.6 in May, from 72.2 in April. Sales of single-family homes also rose 14.8% MOM in April, and 47.8% YOY. However, the U.S. labour market remains sluggish, with the number of new claims for jobless benefits increasing by 25,000 in the week ending 15 May.

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However, leading economic indicators appear to decelerate

The Conference Board's Leading Economic Indicator (LEI) Index decelerated in April for the first time in a year. This is not good news as the LEI has been growing significantly in the past year. Even if the LEI does not trend negative from here, hitting a plateau would imply a weak recovery going forward. In view of this, we are increasingly cautious on cyclical sectors, especially the highly-cyclical tech sector. The relative performance of most tech stocks tends to be very strongly correlated to leading indicators of the economy, and the LEI is just entering a deceleration phase, in our view.

Expect market volatility to persist in the near term

In the coming weeks, the European debt crisis, which remains far from over, and its impact on the real economy is likely to remain the focus of investors. The ability of Greece, Portugal and Spain to implement any austerity measures without resulting in significant social unrest will also be keenly watched. Signs of any continued belligerence from North Korea is also likely to further sour investor confidence. Without any major positive catalysts, market volatility is set to remain into June, in our view.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

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SHENTON ASIA PACIFIC FUND
June 2010

Highlights

- The Fund underperformed its benchmark in May, as both country allocation and stock selection weighed on returns. Our overweight in H-shares proved detrimental due to concerns over more tightening measures from the Chinese government. The portfolio's bias towards mid-cap stocks and cyclical sectors also hurt performance.

- We expect Asian markets to remain volatile in the near term, and be driven mainly by global events and will look to opportunistically accumulate selected stocks on market weakness. We remain positive on China as we see the government pushing back on its policy tightening. We favour Korean exporters and beneficiaries of capex-related spending. We are reducing our underweight on Thai stocks on attractive valuations.

- Asian markets plunged in May with most regional bourses declining by 4-7%. The larger and more liquid markets generally bore the brunt of the selling, and cyclicals continued to underperform defensive sectors. Thailand's stock market outperformed the region, despite the country's political turmoil. Singapore's 1Q10 GDP growth was revised up to 15.5% YOY. Indonesia fell on profit taking despite strong economic data. Malaysia hiked interest rates following strong 1Q10 GDP.

- Growth momentum may continue to slow, but a double-dip recession is unlikely for Asia, in our view. Though valuations have become attractive, we will maintain a cautious stance and focus on risk appetite and liquidity current volatile market conditions. We see limited risk of a hard landing for China's economy. The broad-based decline in Asian equity markets have led to attractive valuations, which should help underpin share prices, in our view. We are cautious that sentiment could turn more negative if Europe's debt woes worsen.

Performance Review

	Currency	Performance	
		May 2010 (% change)	Year-to-Date (cumulative)
Shenton Asia Pacific Fund	SGD	*-7.34%	*-6.78%
Benchmark (MSCI Asia x Japan Index)	SGD	*-6.42%	*-5.64%

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Fund underperformed its benchmark

The Fund underperformed its benchmark in May, as both country allocation and stock selection weighed on returns. Our overweight in H-shares proved detrimental due to concerns over more tightening measures from the Chinese government. The portfolio has been positioned more defensively on concerns over the possibility of a global double-dipped recession, and tilted towards mid-cap stocks and cyclical sectors (IT, consumer discretionary), which also hurt performance.

Strategy

Look to opportunistically accumulate positions on market weakness

We expect Asian markets to remain volatile in the near term, and be driven mainly by global events, particularly Europe's ongoing debt concerns, as well as monetary policy direction by central bankers around the world. We remain cautious but will look to opportunistically accumulate positions on market weakness, as we believe that macro fundamentals in Asia continue to look positive, and valuations attractive.

Remain positive on China

We remain positive on China. Despite the government's aggressive tightening in recent months and fears of contagion from Europe, we think that the risk of a hard landing in China is not high. We believe that the authorities will push back or relax its tightening as the ongoing debt crisis in Europe unfolds.

Favour Korean exporters and beneficiaries of capex-related spending

Weakness in the Korean Won has recently triggered a sharp reversal in the JPY/KRW cross rate to close to 14. This has put Korean exporters in a very favorable position vis-à-vis their Japanese competitors, and we expect to see upside earnings surprises for the former. Utilization ratios are rising and profit margins have been improving. Small and medium enterprises (SMEs) making equipment and components should also start to deliver strong earnings thanks to potential capex increases at large companies, in our view. We favour Korean exporters and beneficiaries of capex-related spending.

Increasingly positive on Thailand on attractive valuations

We remain positive on Thailand's long-term prospects, and are reducing our underweight on Thai stocks on attractive valuations. Despite the possibility of further unrest and short-term headline risks, the previous months' political standoff has ended for now and we are optimistic that the government will work on bringing about reconciliation. The Thai market trades at a PER of 10.8x on MSCI consensus forecasts, which we think is a very reasonable valuation given that it is at the start of an up-cycle with potentially strong earnings growth ahead. Consensus forecast is for GDP to grow at about 5% in 2010 and corporate earnings to grow at 19% and 18% respectively in 2010 and 2011.

Market Review**

MSCI AC Gross Return (% Change in SGD Terms)	May 2010	Year to May 2010
Thailand	-0.60%	7.07%
Philippines	-2.37%	5.34%
China	-3.32%	-7.47%
Hong Kong	-4.34%	-6.72%
Malaysia	-4.93%	5.53%
Indonesia	-5.57%	7.55%
India	-6.01%	-2.04%
AC Asia ex-Japan	-6.39%	-5.54%
AC Far East ex-Japan	-6.43%	-5.97%
Singapore	-6.91%	-5.14%
Taiwan	-7.87%	-11.36%
AC Asia Pacific ex Japan	-8.77%	-7.90%
Korea	-11.45%	-5.04%

Source: Bloomberg, 31 May 2010

Asian bourses plunged in May
The sell-down in Asia intensified in May with most regional bourses declining by 4-7%. The larger and more liquid markets generally bore the brunt of the selling, and cyclicals continued to underperform defensive sectors. Europe's fiscal concerns and worries over tightening in China led to a rapid cooling off in global growth expectations. In addition, investors turned increasingly uneasy about the possible repercussions from recent financial market re-regulation moves, such as the U.S. Senate's approval of the bank overhaul bill and Germany's restrictions on short-selling.

Thailand market outperformed on optimism that political conflict could end soon
Thailand's stock market outperformed the region, despite the ongoing standoff with the Red Shirts which exploded into violence in the latter part of the month. In recent months, Thailand appeared to have decoupled from the rest of the region, and valuations have been looking very cheap – possibly with political risks already priced in. Optimism that an end to the years of political conflict could be in sight underpinned share prices.

Singapore showed strong 1Q10 GDP
Singapore's 1Q10 GDP was revised up to 15.5% YOY, and 38.6% QOQ, with upward revisions generally seen across all sectors. Net exports contributed about two-thirds of the GDP growth number, aided by strength in the global electronics industry.

Profit taking in Indonesia followed months of outperformance
Following months of strong performance, the Indonesian market succumbed to profit taking on concerns that the departure of Sri Mulyani as Finance Minister could result in reform discontinuity. This was despite all-round positive economic data which saw a pick-up in investment spending, resilient private consumption growth, robust exports which boosted 1Q10 real GDP, and macro data remaining generally healthy.

Malaysia hiked interest rates following strong 1Q10 GDP

The Malaysian economy grew at its fastest pace in over a decade, with 1Q10 GDP growth registering over 10.1% YOY. The recovery was broad-based with stronger data reflected across most industry sectors. Growth was led by a rise in private consumption spending, which contributed 2.9 percent, and inventory re-stocking, which added 8 percent, to overall growth, though net exports shaved off 2.73 percent from it. The ongoing European debt crisis led to the drop in exports, as exports to the region had accounted for over 11% of total exports in 2009. In line with the strong economic data, Bank Negara hiked its overnight policy rate (OPR).

Market Outlook**

Asia may see slowing growth but double-dip recession unlikely

Asia's fundamentals remain strong in terms growth potential, external account, and fiscal outlook, and we believe that the sell-off in financial assets is a result of rising risk aversion due to global events. As fears of a double-dip recession resurfaced in May on heightened concerns over the implementation of the EU bailout package, over-tightening in China, and the softer tone to recent U.S. economic data, Asian stocks took a further beating to close significantly lower for the month. Nonetheless, we believe that though growth momentum may continue to slow, a double-dip recession would be unlikely for Asia.

Hard landing for China unlikely

We think that it is unlikely that China's economy will see a hard landing. On his trip to Tianjin in mid-May, Premier Wen made a statement which acknowledged the challenging global environment and the need for policies to be carefully adjusted to maintain stable economic growth. We see this as an indication that, since the crisis in Europe has taken the heat off global growth, China will likely relax on its aggressive tightening for now and show a greater tolerance for near-term inflation. In our view, Chinese policymakers will likely stay on a tightening bias in the property sector but promote investment in other sectors, and generally maintain loose liquidity conditions.

Valuations have become attractive

Amid rising uncertainty over global growth prospects, the broad-based decline in Asian equity markets have led to attractive valuations, which should help underpin share prices, in our view. The MSCI Asia ex-Japan Index currently trades at 11.4x forward earnings and 1.8x historical book value, which are below the past five years' average of 12.9x and 2.0x respectively. Consensus earnings growth in the region is running at close to 36% for 2010, but projected to slow to about 13% next year.

Market volatility to persist in the near term; focus on risk appetite and liquidity

We remain constructive on Asia, though we expect markets to continue to be volatile in the near term, and driven mainly by external global events, particularly Europe's ongoing debt concerns and policy direction from central bankers around the world. Hence, we will maintain a cautious stance for now, with the view that risk appetite and liquidity should take precedence over valuations or fundamentals. Having said that, we believe that recent caution shown by the Chinese authorities to prevent over-tighening, and data releases pointing to underlying global economic resilience, should help to stabilize markets in the coming months.

Loss of confidence due to Europe's woes a possible risk

Even as Europe's financial woes linger, we expect the direct impact to Asia to be fairly contained, given the strong fundamentals and fiscal positions of most Asian countries. Moreover, the peripheral European countries, Greece, Portugal, Ireland and Spain, which will be implementing austerity measures to pare down their debt, account for only about 3.2% of world GDP. However, we are cautious that the indirect impact on Asia could turn out to be less benign if sentiment turns more negative. Investor risk appetite could falter and lead to rising credit costs; and if businesses and consumers lose confidence, slowing growth and rising interest rates could ensue.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

monthlyoutlook

DBS ASSET MANAGEMENT

DBS ASIA BOND FUND
June 2010

Highlights

- The Fund posted a return of -1.5% in May 2010, as Europe's sovereign debt woes fueled the spread of risk aversion to Asia and the rest of the world. Credit markets, especially bank capital securities, succumbed to contagion from Europe's troubles and recorded significant losses for the month.

- We remain positive on Asian local currency sovereign bonds in countries which have over-inflated rate hike expectations. We continue to be cautious on USD-denominated high-yield Asian credits on concerns regarding supply and credit metrics. We look to maintain our exposure to Asian currencies as we remain constructive on the region longer term.

- U.S. Treasuries rallied and the yield curve flattened in May due to risk aversion over Europe's fiscal woes. Asian government bonds mostly rallied as tightening expectations eased significantly, and Asian currencies fell, with the AUD and KRW the worse hit. Credit spreads widened globally on fears over Europe's debt woes and U.S. regulatory reforms, with Asian credit markets underperforming its U.S. and European peers.

- Europe's debt crisis is largely containable, in our view. We expect UST yields to start rising again in June and see most Asian central banks pause on policy tightening. We think the recent sell-off in Asian currencies is driven primarily by risk aversion and likely overdone, and remain positive in our long-term economic outlook for the region. Credit markets are likely to stay volatile and vulnerable to Europe's debt troubles and financial reforms in the U.S., in our view. We see limited contagion risks due to the region's strong fundamentals and fiscal condition.

Performance Review

	Currency	Performance	
		May 2010 (% change)	Year-to-Date (cumulative)
DBS Asia Bond Fund	SGD	*-1.53%	*+2.43%

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Fund posted negative return in May
The Fund posted a return of -1.5% in May 2010, as Europe's sovereign debt woes fueled the spread of risk aversion to Asia and the rest of the world. Asian currencies plummeted, and the Fund retreated despite having no exposure to peripheral European issuers or the EUR. Credit markets, especially bank capital securities, succumbed to contagion from Europe's troubles and recorded significant losses for the month. However, the Fund's holdings of Australian government bonds helped to offset the negative performance somewhat.

Strategy

Remain positive on selected local currency Asian sovereign bonds
We remain positive on Asian local currency sovereign bonds in countries which have over-inflated rate hike expectations. In view of the current market uncertainty amid the debt crisis in the Eurozone, Asian central banks will likely defer their policy normalization, we believe. We especially favour government bonds from Australia, Korea and Malaysia.

Remain cautious on high-yield Asian credits
We continue to be cautious on USD-denominated high-yield Asian credits, especially issues which underperformed in May. We think that these names will face further pressure from the impending heavy supply pipeline and weak credit metrics. We will only selectively participate in new issues which are attractive on both fundamental and technical grounds.

Maintain exposure to Asian currencies
We look to maintain our exposure to Asian currencies as we believe the Asian recovery story remains intact despite market weakness in Europe. In our view, Asian currencies still have substantial upside against the USD in the medium term due to strong external balances and FX reserves.

Market Review**

Asia Rates & FX

UST rallied as markets pared back risk appetite
U.S. Treasuries (UST) rallied in May on the back of heightened concerns over the fiscal troubles of the peripheral European countries. Risk assets continued to be sold off, despite initial gains, following the announcement of a massive EUR750b bailout package and other liquidity measures for peripheral Europe on 10 May. The rescue plan entails the European Central Bank's purchase of government bonds from the Euro-countries in need, expansion of refinancing facilities and re-establishment of USD swap lines with the U.S. Fed. Germany's announcement to ban naked short-selling of selected stocks, government bonds and related credit default swaps on 18 May, and the potential implementation of stringent U.S financial regulatory reforms further spooked global markets. The latest FOMC statement was mostly unchanged, and reiterated that rates would remain low for "an extended period". The UST yield curve flattened significantly, with the 2-year yield falling by 19bp, and 10-year yield by 36bp.

Asian government bond yields declined, except for Indonesia and Korea
Despite the 25bp policy rate hikes by the Reserve Bank of Australia and Bank Negara of Malaysia, Asian government bonds mostly rallied through May. Troubles in the peripheral European countries led to a significant easing in tightening expectations, which provided support to Asian government bonds, especially in markets which have priced in a significant amount of tightening. Political tensions between North and South Korea led to selling pressures in the KRW as well as Korean government bonds. Indonesian government bonds, regarded by most to be high-beta, sold off as investors reduced their IDR positions.

Asian currencies were hit in May

Asian currencies fell in May, with the AUD and KRW the worst hit, falling more than 2% against the dollar. The EUR plunged 7.4% versus the USD, as investors continued to sell off the currency on the back of heightened concerns over the fiscal problems in the Eurozone. In Asia, the KRW fell about 8% in May as geopolitical tensions between North and South Korea rose sharply over the sinking of a South Korean warship. Commodity currencies such as the AUD weakened about 9.1 % against the dollar as investors continued unwinding their carry positions and commodity prices fell sharply. The DXY rose sharply to end the month at 86.5, a 14-month high.

Table 1: MOM Change in Policy Rates, Government Yields and Currencies for Asia

	Policy Rate	Change in Policy Rate	Change in 2Y Yield	Change in 5Y Yield	Change in 10Y Yield	Currency Return vs USD
China	5.31	0	5	(17)	(18)	-0.04%
Taiwan	1.25	0	(6)	0	(5)	-1.97%
Korea	2.00	0	4	9	11	-7.99%
India	5.25	0	(3)	(6)	(54)	-4.32%
Indonesia	6.50	0	30	41	34	-1.85%
Vietnam	8.00	0	(59)	(50)	(43)	-0.17%
Thailand	1.25	0	(9)	(8)	(21)	-0.34%
Philippines	4.00	0	12	(11)	(11)	-3.91%
Singapore	-	-	3	(17)	12	-2.10%
Malaysia	2.50	25	12	(3)	(1)	-2.43%
Australia	4.50	25	(52)	(50)	(34)	-9.11%
New Zealand	2.50	0	(20)	(34)	(35)	-6.75%

Source: Bloomberg, 31 May 2010

Global Credit

Spreads widened on fears over Europe's debt woes and U.S. regulatory reforms

Deepening concerns over Europe's debt crisis and uncertainty over the final form of the U.S. Financial Reform Bill drove spreads wider across global credit markets in May. The announcement of the European Stabilization Plan on 10 May and successful disbursement of the first batch (EUR20b) of the EUR110b EU-IMF loan to Greece failed to provide more than temporary reprieve to financial markets. Investor concerns over the longer-term solvency issues of Southern Europe weighed on market sentiment, causing risk markets globally to head south again towards the latter part of the month. Asian credits were not spared, with Asian high-grade spreads ending the month 45bps wider.

Table 2: Global Credit Indices (Credit Spreads)

	Credit Spread Over Government Benchmark (Bp)						Change in Credit Spread (MoM)					
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD	USD	EUR	USD	USD	EUR	USD
1Q2010							(5)	(14)	(25)	(58)	(52)	(193)
31-May-10	151	134	218	704	476	812	42	35	45	133	123	174
30-Apr-10	109	99	173	571	352	638	(8)	12	(7)	(18)	6	(8)
31-Mar-10	117	87	180	589	346	646	(18)	(9)	(29)	(71)	(62)	(106)
26-Feb-10	135	96	209	660	409	752	(0)	3	5	21	24	(8)

Source: US (Credit Suisse), Europe and Asia (JP Morgan), 31 May 2010

Asia credits underperformed U.S. and European peers
On a total return basis, Asian credit markets underperformed its U.S. and European peers in May (see Table 2). We attribute this to the high-beta nature of Asian credits and the good run this asset class has enjoyed vis-à-vis its counterparts this year, thus subjecting it to greater profit-taking vulnerability in a de-risking environment. Given the spike in market volatility, the issuance calendar started to slow in May, with USD1.95b of high-grade and USD1.3b of high-yield bonds issued in Asia over the month, compared to the USD6.2b of high-grade and USD2.1b of high-yield bonds issued in April.

Table 3: Global Credit Indices (Total Return)

Total Returns (Respective Currency)						
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
1Q2010	2.32%	2.71%	3.00%	4.33%	5.40%	8.30%
31-May-10	(0.33%)	0.20%	(0.44%)	(3.47%)	(2.43%)	(4.51%)
30-Apr-10	1.94%	0.49%	1.11%	2.52%	0.67%	1.23%
31-Mar-10	0.20%	0.77%	0.98%	2.75%	3.06%	3.90%

Source: US (Credit Suisse), Europe and Asia (JP Morgan), 31 May 2010

Market Outlook**

Asia Rates & FX

Peripheral Europe's debt problems likely manageable; expect UST yields to rise
We believe that peripheral Europe's fiscal debt crisis, though large in magnitude, is likely to be containable, unlike the 2008 credit crisis resulting from the Lehman bankruptcy. Although the cost of funding for major European banks has risen, as measured by the widening in USD LIBOR–OIS and CDS spreads, levels are nowhere near where they were during the Lehman crisis. Furthermore, the asset quality problems relate to peripheral European government bond holdings and mortgages, which are relatively more straightforward unlike the complicated credit derivative structures that characterized the 2008 crisis. Therefore, we do not expect last month's strong UST rally to continue into June. Instead, yields are likely to rise in a range-bound manner on the back of improving U.S. economic conditions, in our view.

Most Asian central banks likely to pause on tightening measures
Although some Asian central banks have moved ahead of the Fed in their policy normalization, we think that any further tightening from here will be put on hold. Worries over the Eurozone debt crisis have led to significant downward revisions in rate hike expectations globally. Expectations of a rise in the U.S. Fed Fund rate has been postponed to early 2011, while no rate increases are expected for Europe and Japan this year as well. As such, we see value in 2-year to 3-year Asian government bonds in countries which have over-discounted rate hike expectations, such as Australia, Korea and Malaysia.

Sell-off in Asian currencies appears to be overdone

The sell-off in Asian currencies in May appears overdone, in our view, and was driven primarily by risk aversion rather than any deterioration in fundamentals. We believe that the potential impact from the Eurozone fiscal crisis should be limited, and the Asian economies are unlikely to see a double-dip recession. As seen from recent upside-surprising economic data, Asia's growth remains strong, and we expect its currencies to recover at a modest pace when market conditions stabilize. While current market turbulence has put a dent in investor confidence, we think that the long-term economic outlook for Asia remains favourable on the back of rising domestic demand, growing inter-regional trade and strong fiscal positions. However, a further escalation of the Eurozone debt crisis and/or worsening geopolitical tensions in Korea could pose a major impediment to market stabilization.

Global Credit

Credit markets likely to stay volatile and vulnerable to events in Europe and U.S.

We expect credit markets globally to remain choppy as investors scrutinize the ongoing development of the European Stabilization Plan as well as the implementation of structural reforms and austerity measures in the troubled European economies. Additionally, investors are likely to be kept on the edge of their seats as the final form of the proposed U.S. financial reform bill is being worked out in the coming weeks. Amid the market's current risk-aversive sentiment, we will maintain a cautious stance and be especially wary of higher-beta names. We see a slowing in new issuances in the near term.

Limited contagion risk from Europe

Even as Europe's financial woes linger, we expect the direct impact to Asian credit markets to be fairly contained, given the strong fundamentals and fiscal positions of most Asian countries. Moreover, Asian sovereign credit trends have been improving, balance sheet exposure to peripheral European credit is minimal and the underlying growth trend for the region remains supportive.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

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DBS ASIA KNOWLEDGE FUND
June 2010

Highlights

- The Fund underperformed its benchmark in May, as both country allocation and stock selection weighed on returns. Our overweight in H-shares proved detrimental due to concerns over more tightening measures from the Chinese government. The portfolio's bias towards mid-cap stocks and cyclical sectors also hurt performance.

- We expect Asian markets to remain volatile in the near term, and be driven mainly by global events and will look to opportunistically accumulate selected stocks on market weakness. We remain positive on China as we see the government pushing back on its policy tightening. We favour Korean exporters and beneficiaries of capex-related spending. We are reducing our underweight on Thai stocks on attractive valuations.

- Asian markets plunged in May with most regional bourses declining by 4-7%. The larger and more liquid markets generally bore the brunt of the selling, and cyclicals continued to underperform defensive sectors. Thailand's stock market outperformed the region, despite the country's political turmoil. Singapore's 1Q10 GDP growth was revised up to 15.5% YOY. Indonesia fell on profit taking despite strong economic data. Malaysia hiked interest rates following strong 1Q10 GDP.

- Growth momentum may continue to slow, but a double-dip recession is unlikely for Asia, in our view. Though valuations have become attractive, we will maintain a cautious stance and focus on risk appetite and liquidity current volatile market conditions. We see limited risk of a hard landing for China's economy. The broad-based decline in Asian equity markets have led to attractive valuations, which should help underpin share prices, in our view. We are cautious that sentiment could turn more negative if Europe's debt woes worsen.

Performance Review

	Currency	Performance	
		May 2010 (% change)	**Year-to-Date** (cumulative)
DBS Asia Knowledge Fund	SGD	*-7.87%	*-9.70%
Benchmark (MSCI AC FE x Japan Index)	SGD	*-6.93%	*-7.04%

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Fund underperformed its benchmark
The Fund underperformed its benchmark in May, as both country allocation and stock selection weighed on returns. Our overweight in H-shares proved detrimental due to concerns over more tightening measures from the Chinese government. The portfolio has been positioned more defensively on concerns over the possibility of a global double-dipped recession, and tilted towards mid-cap stocks and cyclical sectors (IT, consumer discretionary), which also hurt performance.

Strategy

Look to opportunistically accumulate positions on market weakness
We expect Asian markets to remain volatile in the near term, and be driven mainly by global events, particularly Europe's ongoing debt concerns, as well as monetary policy direction by central bankers around the world. We remain cautious but will look to opportunistically accumulate positions on market weakness, as we believe that macro fundamentals in Asia continue to look positive, and valuations attractive.

Remain positive on China
We remain positive on China. Despite the government's aggressive tightening in recent months and fears of contagion from Europe, we think that the risk of a hard landing in China is not high. We believe that the authorities will push back or relax its tightening as the ongoing debt crisis in Europe unfolds.

Favour Korean exporters and beneficiaries of capex-related spending
Weakness in the Korean Won has recently triggered a sharp reversal in the JPY/KRW cross rate to close to 14. This has put Korean exporters in a very favorable position vis-à-vis their Japanese competitors, and we expect to see upside earnings surprises for the former. Utilization ratios are rising and profit margins have been improving. Small and medium enterprises (SMEs) making equipment and components should also start to deliver strong earnings thanks to potential capex increases at large companies, in our view. We favour Korean exporters and beneficiaries of capex-related spending.

Increasingly positive on Thailand on attractive valuations
We remain positive on Thailand's long-term prospects, and are reducing our underweight on Thai stocks on attractive valuations. Despite the possibility of further unrest and short-term headline risks, the previous months' political standoff has ended for now and we are optimistic that the government will work on bringing about reconciliation. The Thai market trades at a PER of 10.8x on MSCI consensus forecasts, which we think is a very reasonable valuation given that it is at the start of an up-cycle with potentially strong earnings growth ahead. Consensus forecast is for GDP to grow at about 5% in 2010 and corporate earnings to grow at 19% and 18% respectively in 2010 and 2011.

Market Review**

MSCI AC Gross Return (% Change in SGD Terms)	May 2010	Year to May 2010
Thailand	-0.60%	7.07%
Philippines	-2.37%	5.34%
China	-3.32%	-7.47%
Hong Kong	-4.34%	-6.72%
Malaysia	-4.93%	5.53%
Indonesia	-5.57%	7.55%
India	-6.01%	-2.04%
AC Asia ex-Japan	-6.39%	-5.54%
AC Far East ex-Japan	-6.43%	-5.97%
Singapore	-6.91%	-5.14%
Taiwan	-7.87%	-11.36%
AC Asia Pacific ex Japan	-8.77%	-7.90%
Korea	-11.45%	-5.04%

Source: Bloomberg, 31 May 2010

Asian bourses plunged in May

The sell-down in Asia intensified in May with most regional bourses declining by 4-7%. The larger and more liquid markets generally bore the brunt of the selling, and cyclicals continued to underperform defensive sectors. Europe's fiscal concerns and worries over tightening in China led to a rapid cooling off in global growth expectations. In addition, investors turned increasingly uneasy about the possible repercussions from recent financial market re-regulation moves, such as the U.S. Senate's approval of the bank overhaul bill and Germany's restrictions on short-selling.

Thailand market outperformed on optimism that political conflict could end soon

Thailand's stock market outperformed the region, despite the ongoing standoff with the Red Shirts which exploded into violence in the latter part of the month. In recent months, Thailand appeared to have decoupled from the rest of the region, and valuations have been looking very cheap – possibly with political risks already priced in. Optimism that an end to the years of political conflict could be in sight underpinned share prices.

Singapore showed strong 1Q10 GDP

Singapore's 1Q10 GDP was revised up to 15.5% YOY, and 38.6% QOQ, with upward revisions generally seen across all sectors. Net exports contributed about two-thirds of the GDP growth number, aided by strength in the global electronics industry.

Profit taking in Indonesia followed months of outperformance

Following months of strong performance, the Indonesian market succumbed to profit taking on concerns that the departure of Sri Mulyani as Finance Minister could result in reform discontinuity. This was despite all-round positive economic data which saw a pick-up in investment spending, resilient private consumption growth, robust exports which boosted 1Q10 real GDP, and macro data remaining generally healthy.

Malaysia hiked interest rates following strong 1Q10 GDP
The Malaysian economy grew at its fastest pace in over a decade, with 1Q10 GDP growth registering over 10.1% YOY. The recovery was broad-based with stronger data reflected across most industry sectors. Growth was led by a rise in private consumption spending, which contributed 2.9 percent, and inventory re-stocking, which added 8 percent, to overall growth, though net exports shaved off 2.73 percent from it. The ongoing European debt crisis led to the drop in exports, as exports to the region had accounted for over 11% of total exports in 2009. In line with the strong economic data, Bank Negara hiked its overnight policy rate (OPR).

Market Outlook**

Asia may see slowing growth but double-dip recession unlikely
Asia's fundamentals remain strong in terms growth potential, external account, and fiscal outlook, and we believe that the sell-off in financial assets is a result of rising risk aversion due to global events. As fears of a double-dip recession resurfaced in May on heightened concerns over the implementation of the EU bailout package, over-tightening in China, and the softer tone to recent U.S. economic data, Asian stocks took a further beating to close significantly lower for the month. Nonetheless, we believe that though growth momentum may continue to slow, a double-dip recession would be unlikely for Asia.

Hard landing for China unlikely
We think that it is unlikely that China's economy will see a hard landing. On his trip to Tianjin in mid-May, Premier Wen made a statement which acknowledged the challenging global environment and the need for policies to be carefully adjusted to maintain stable economic growth. We see this as an indication that, since the crisis in Europe has taken the heat off global growth, China will likely relax on its aggressive tightening for now and show a greater tolerance for near-term inflation. In our view, Chinese policymakers will likely stay on a tightening bias in the property sector but promote investment in other sectors, and generally maintain loose liquidity conditions.

Valuations have become attractive
Amid rising uncertainty over global growth prospects, the broad-based decline in Asian equity markets have led to attractive valuations, which should help underpin share prices, in our view. The MSCI Asia ex-Japan Index currently trades at 11.4x forward earnings and 1.8x historical book value, which are below the past five years' average of 12.9x and 2.0x respectively. Consensus earnings growth in the region is running at close to 36% for 2010, but projected to slow to about 13% next year.

Market volatility to persist in the near term; focus on risk appetite and liquidity
We remain constructive on Asia, though we expect markets to continue to be volatile in the near term, and driven mainly by external global events, particularly Europe's ongoing debt concerns and policy direction from central bankers around the world. Hence, we will maintain a cautious stance for now, with the view that risk appetite and liquidity should take precedence over valuations or fundamentals. Having said that, we believe that recent caution shown by the Chinese authorities to prevent over-tighening, and data releases pointing to underlying global economic resilience, should help to stabilize markets in the coming months.

Loss of confidence due to Europe's woes a possible risk

Even as Europe's financial woes linger, we expect the direct impact to Asia to be fairly contained, given the strong fundamentals and fiscal positions of most Asian countries. Moreover, the peripheral European countries, Greece, Portugal, Ireland and Spain, which will be implementing austerity measures to pare down their debt, account for only about 3.2% of world GDP. However, we are cautious that the indirect impact on Asia could turn out to be less benign if sentiment turns more negative. Investor risk appetite could falter and lead to rising credit costs; and if businesses and consumers lose confidence, slowing growth and rising interest rates could ensue.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

DBS ENHANCED INCOME FUND
June 2010

Highlights

- The Fund recorded a loss of 0.08% for the month of May 2010, against the benchmark's return of 0.04%. Year-to-date, the Fund gained 1.58% on a total return basis.
- We will maintain a defensive stance in the near term on concerns over Europe's deepening debt crisis, gradually reducing the Fund's current holdings in selected European banks and to high-beta positions in general. We retain our bias for Asia Pacific investment grade credits in the medium term.
- Credit spreads widened globally on fears over Europe's debt woes and U.S. regulatory reforms. Asian high-grade spreads ended the month 45bps wider; Asian credits generally underperformed its U.S. and European peers.
- Credit markets are likely to stay volatile and vulnerable to Europe's debt troubles and financial reforms in the U.S., in our view. However, we do not expect any significant direct impact on Asian credit markets due to the strong fundamentals and fiscal positions of most Asian countries. We see investor risk aversion persisting for a while longer, and will be especially cautious on higher-beta names.

Performance Review

	Currency	Performance	
		(% change)	Year-to-Date (cumulative)
DBS Enhanced Income Fund	SGD	*-0.08%	*+1.58%
Benchmark (3M SIBOR)	SGD	*+0.04%	*+0.21%

Fund marginally underperformed due to mark-to-market losses
The Fund recorded a loss of 0.08% for the month of May 2010, against the benchmark's return of 0.04%, due to a widening in credit spreads. Year-to-date, the Fund gained 1.58% on a total return basis.

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No major changes in the Fund's characteristics
As of 31 May 2010, the Fund's overall duration (see Note 1) decreased slightly to 1.03 years, while the estimated yield (see Note 2) was higher at 2.61% (hedged, in SGD terms), from 2.4% the month before. The average credit rating of the Fund remained unchanged at A. The Fund is diversified across 75 bonds, with 59 issuers from 11 countries, at an average weight of 1.95% per issuer. During the month, we increased our cash allocation to 7.4%. The total allocation to cash and non-credit AAA (see Note 3) issues stood at 9.1% of the Fund.

Strategy

Maintain defensive stance on concerns over Europe
We are increasingly concerned over Europe's deepening debt crisis in the near term. We will maintain a defensive stance, gradually reducing the Fund's current holdings in selected European banks and to high-beta positions in general. Over the medium term, we intend to keep the Fund's characteristics mostly unchanged, and retain our bias for Asia Pacific investment grade credits (of selected issuers).

Market Review**

Spreads widened on fears over Europe's debt woes and U.S. regulatory reforms
Deepening concerns over Europe's debt crisis and uncertainty over the final form of the U.S. Financial Reform Bill drove spreads wider across global credit markets in May. The announcement of the European Stabilization Plan on 10 May and successful disbursement of the first batch (EUR20b) of the EUR110b EU-IMF loan to Greece failed to provide more than temporary reprieve to financial markets. Investor concerns over the longer-term solvency issues of Southern Europe weighed on market sentiment, causing risk markets globally to head south again towards the latter part of the month. Asian credits were not spared, with Asian high-grade spreads ending the month 45bps wider.

Table 1: Global Credit Indices (Credit Spreads)

	Credit Spread Over Government Benchmark (Bp)						Change in Credit Spread (MoM)					
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD	USD	EUR	USD	USD	EUR	USD
1Q2010							(5)	(14)	(25)	(58)	(52)	(193)
31-May-10	151	134	218	704	476	812	42	35	45	133	123	174
30-Apr-10	109	99	173	571	352	638	(8)	12	(7)	(18)	6	(8)
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26-Feb-10	135	96	209	660	409	752	(0)	3	5	21	24	(8)

Source: US (Credit Suisse), Europe and Asia (JP Morgan), 31 May 2010

Asia credits underperformed U.S. and European peers
On a total return basis, Asian credit markets underperformed its U.S. and European peers in May (see Table 2). We attribute this to the high-beta nature of Asian credits and the good run this asset class has enjoyed vis-à-vis its counterparts this year, thus subjecting it to greater profit-taking vulnerability in a de-risking environment. Given the spike in market volatility, the issuance calendar started to slow in May, with USD1.95b of high-grade and USD1.3b of high-yield bonds issued in Asia over the month, compared to the USD6.2b of high-grade and USD2.1b of high-yield bonds issued in April.

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Table 2: Global Credit Indices (Total Return)

Total Returns (Respective Currency)						
Month	US HG	EU HG	ASIA HG	US HY	EU HY	ASIA HY
	USD	EUR	USD	USD	EUR	USD
1Q2010	2.32%	2.71%	3.00%	4.33%	5.40%	8.30%
31-May-10	(0.33%)	0.20%	(0.44%)	(3.47%)	(2.43%)	(4.51%)
30-Apr-10	1.94%	0.49%	1.11%	2.52%	0.67%	1.23%
31-Mar-10	0.20%	0.77%	0.98%	2.75%	3.06%	3.90%

Source: US (Credit Suisse), Europe and Asia (JP Morgan), 31 May 2010

Market Outlook**

Credit markets likely to stay volatile and vulnerable to events in Europe and U.S.

We expect credit markets globally to remain choppy as investors scrutinize the ongoing development of the European Stabilization Plan as well as the implementation of structural reforms and austerity measures in the troubled European economies. Additionally, investors are likely to be kept on the edge of their seats as the final form of the proposed U.S. financial reform bill is being worked out in the coming weeks. Amid the market's current risk-aversive sentiment, we will maintain a cautious stance and be especially wary of higher-beta names. We see a slowing in new issuances in the near term.

Limited contagion risk from Europe

Even as Europe's financial woes linger, we expect the direct impact to Asian credit markets to be fairly contained, given the strong fundamentals and fiscal positions of most Asian countries. Moreover, Asian sovereign credit trends have been improving, balance sheet exposure to peripheral European credit is minimal and the underlying growth trend for the region remains supportive.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

Note 1: Duration is defined as the weighted average of duration to maturity or call date, whichever is lower, of the Fund.

Note 2: Yield is defined as the weighted average of yield to maturity or call date, whichever is lower, of the Fund.

Note 3: Non-Credit AAA is defined as issuers that are AAA sovereigns, AAA Supranationals and Singapore statutory boards. Such issuers typically do not carry any meaningful credit spread component as their expected default risks are very low.

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MYHOME FUND – HomeGrowth
FUND PERFORMANCE UPDATE
June 2010

Highlights

- The Fund returned -3.9% for the month.

- The STI fell 7.5% in May on negative sentiment arising from global events, particularly Europe's debt crisis and political tension in Korea. Commodity stocks leading the decline. Singapore's three biggest banks turned in strong results at the conclusion of first quarter earnings season, with some upside surprises. Data releases over the month confirmed that Singapore's economic growth continues to be strong.

- Singapore Government Securities (SGS) rose in tandem with U.S. Treasuries (UST) in May on risk aversion, though the former's rally was more muted. The SGD weakened 2.3% against the USD as investor sentiment was dampened by growing uncertainty over the situation in Europe and escalating geopolitical tensions between North and South Korea.

Performance Review

	Currency	Performance	
		May 2010 (% change)	Year-to-Date (cumulative)
MyHome Fund - HomeGrowth	SGD	-3.91%	-1.49%

The Fund returned -3.9% for the month. In the month of May 2010, holdings in the DBS Singapore STI ETF contributed 4.78% negatively while ABF Singapore Bond Index Fund contributed 1.03% positively.

Strategy

MyHome Fund – HomeGrowth seeks capital growth through largely Singapore-dollar denominated assets. The investment focus is to passively invest the assets of the Fund in Singapore-dollar denominated fixed income securities and Singapore-listed equities (or in one or more different mutual fund(s) and unit trust(s) reflecting an underlying investment in such fixed income securities and equities) in the proportion of 20:80.

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Market Commentary**

% Change^	Month	YTD
Singapore Straits Times Index	-7.5%	-5.0%
iBoxx ABF Singapore	+0.6%	+1.9%

Source: Bloomberg, 31 May 2010 (^in local currency, price return basis)

Equity

STI declined, led by weakness in commodity stocks

The STI fell 7.5% in May on negative sentiment arising from global events, particularly Europe's debt crisis and political tension in Korea. Commodity stocks led the decline on a combination of issues including tax evasion allegations (Wilmar), policy tightening in Asia and Europe's ongoing debt concerns. Wilmar fell by 7% in one day on 18 May as it grabbed the headlines for alleged tax evasion. The parent company faces a probe for possible tax fraud involving as much as USD187m, which is about 10% of Wilmar's annual profit. Other commodity stocks such as Noble and Olam also declined substantially on concerns over potentially slowing growth in Asia due to policy tightening and Europe's fiscal woes. Amid heightened market volatility, defensive stocks such as SIA Engineering and ST Engineering emerged the top-performing index stocks.

Singapore banks reported good results

Singapore's three biggest banks turned in strong results at the conclusion of first quarter earnings season, with OCBC and UOB surprising on the upside. OCBC reported a better-than-expected net profit of SGD676m, which was an increase of 35% and 24% from the previous quarter and year respectively. The earnings were driven mainly by higher non-interest income and stronger contribution from its 87%-owned subsidiary, GE Holdings. UOB also posted results that were above expectations with net profit rising by 34% to SGD700m from the previous quarter. Although net interest income was flat, the strong performance was driven mainly by much higher non-interest income from growth in fees & commissions and other non-interest income. DBS Group reported an 8% QOQ increase in net profit to SGD532m for 1Q10 that was in-line with expectations. Net interest income was below expectations, contracting 5% during the last quarter despite loans growth of 3%, although non-interest income was much higher.

Economic performance continues to be strong

Industrial production rose 24.3% MOM and 51.0% YOY in April. Biomedical manufacturing output increased 95.8% from a year ago. The electronics and precision engineering sectors also continued to record strong growth. Non-oil domestic exports (NODX) rose a stronger-than-expected seasonally-adjusted 2.1% month-on-month in April. This was the third consecutive month of increases. Year-on-year, NODX increased by 29.4%.

Fixed Income

SGS rally muted compared to UST

Singapore Government Securities (SGS) rallied along with U.S Treasuries (UST) in May, but with relatively muted gains. While 10-year UST yields fell by 36bp on the back of concerns over Europe's fiscal troubles, the 10-year SGS yield dropped by only 7bp. Despite the announcement of a massive EUR750b bailout package and other liquidity measures on 10 May, risk assets continued their decline after initial gains. Germany's announcement to ban naked short-selling of selected stocks, government bonds and related credit default swaps on 18 May, and the potential implementation of stringent U.S financial regulatory reforms further spooked global markets. Growing risk-aversion provided support for the SGD1.8b 10-year SGS auction. The bid-to-cover ratio was 2.04 times and cutoff yield was 2.75%.

SGD weakened against USD in May

Asian currencies broadly weakened in May as investor confidence was further dampened by growing uncertainty over the situation in Europe. Escalating geopolitical tensions between North and South Korea over the sinking of a South Korea warship added to the negative sentiment. The SGD weakened about 2.3% against the USD, despite the release of positive data in May. Singapore's 1Q10 GDP growth was reported at an impressive 15.5% YOY, driven primarily by net exports, investments and consumption, and the output gap had moved into positive territory.

* *Data Source: DBS Asset Management Ltd as of 31 May 2010, all indicative returns in SGD NAV-NAV, calculated on cumulative basis.*

** *Data Source: Bloomberg as of end May 2010.*

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