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Equity Funds and Market – Assessing the Damage

Executive Summary

- Equity markets and the mutual funds industry experienced sharp sell-off on concerns regarding ongoing Europe debt and slowing global growth.
- Most regional funds such as Asia Pacific ex Japan, Europe and emerging markets outperformed their respective indices on a year-to-date basis. North America funds performed in-line with the S&P 500 Index.
- Southeast Asia: Thailand, Malaysia & Singapore funds outperformed, while Philippines and Indonesia funds lagged indices based on year-to-date performance.
- Korean funds was most affected by the recent sell-off and underperformed the KOSPI Index. (YTD)

Introduction

The ongoing Europe debt crisis and concern over slowing global growth have been hitting the headlines, affecting the stock markets and the asset management industry adversely. For the week ending 10 Aug, equity funds posted collective outflows of \$26.1 billion, their worst showing since late second quarter 2008, according to EPFR.

The recent sell-off affected Europe, Korea and US equity more severely, while Southeast Asia remain less harmed. On a year-to-date basis, most equity indices are down, except Southeast Asia countries such as Indonesia, Thailand and Philippines. (Table 1)

Prior to the sell-off, most funds were already down on a year-to-date basis, and the retracement further aggravated the returns. To assess the damage to equity funds, we have identified 22 Jul 2011 as the peak before equity started retracing and aim to compare the market and funds' performance since then and on a year-to-date basis to assess the overall damage.



Table 1: Market Roundup

Equities	Prev Close	YTD % Change*	22 Jul – 10 Aug % Change*
Euro Stoxx 50 Pr	2203.45	-21.10	-22.32
MSCI Europe Index	77.33	-18.92	-17.76
KOSPI Index	1817.44	-11.39	-16.81
NASDAQ Composite Index	2381.05	-10.25	-16.71
S&P 500 Index	1120.76	-10.88	-16.67
MSCI World Index	1130.33	-11.70	-16.19
FTSE 100 Index	5096.77	-13.61	-15.63
Dow Jones Indus. Avg Index	10719.94	-7.41	-15.47
MSCI Emerging Markets Index	980.74	-14.82	-14.95
MSCI Asia Pac ex Japan Index	422.96	-11.68	-13.50
Hang Seng Index	19595.14	-14.93	-11.86
Taiwan TAIEX Index	7719.09	-13.97	-11.74
FTSE Straits Times Index	2796.22	-12.35	-11.37
Nikkei 225 Index	8981.94	-12.19	-10.79
S&P/ASX 200 Index	4140.80	-12.74	-10.03
Shanghai SE Composite Index	2581.51	-8.07	-8.00
Jakarta Composite Index	3869.37	4.48	-5.92
Stock Exch of Thai Index	1062.10	2.84	-5.43
FTSE Bursa Malaysia KLCI Index	1476.46	-2.79	-5.40
PSEi – Philippine SE Index	4311.02	2.62	-4.20
Commodities			
WTI Crude Oil (USD/bbl.)	83.26	-11.74	-17.00
Rogers Commodity Energy Index	751.75	-2.77	-13.24
Rogers Commodity Index	3771.44	-3.21	-8.82
Rogers Commodity Metals Index	2921.18	0.68	-6.99
Rogers Commodity Agriculture Index	1261.17	-6.94	-4.23
Gold 100 OZ (USD/t oz.)	1786.25	25.72	11.98
Bonds			
US Government 5 Year Yield	0.98	-51.15	-39.09
US Government 10 Year Yield	2.23	-32.39	-28.90
MAS Benchmark Government 5 Year Yield	0.55	-60.71	-23.53
MAS Benchmark Government 10 Year Yield	1.81	-33.21	-17.08
JPM Global Aggregate Bond Index	525.11	7.16	1.65
JPMorgan Emerging Markets Bond Index	554.54	6.08	0.05

On a year-to-date basis, most indices are down, except for Southeast Asia countries such as Indonesia, Thailand and Philippines. The recent sell-off further contributed to the negative returns.

Commodities were mostly down, with gold being the exception, up 25.7 percent year-to-date.

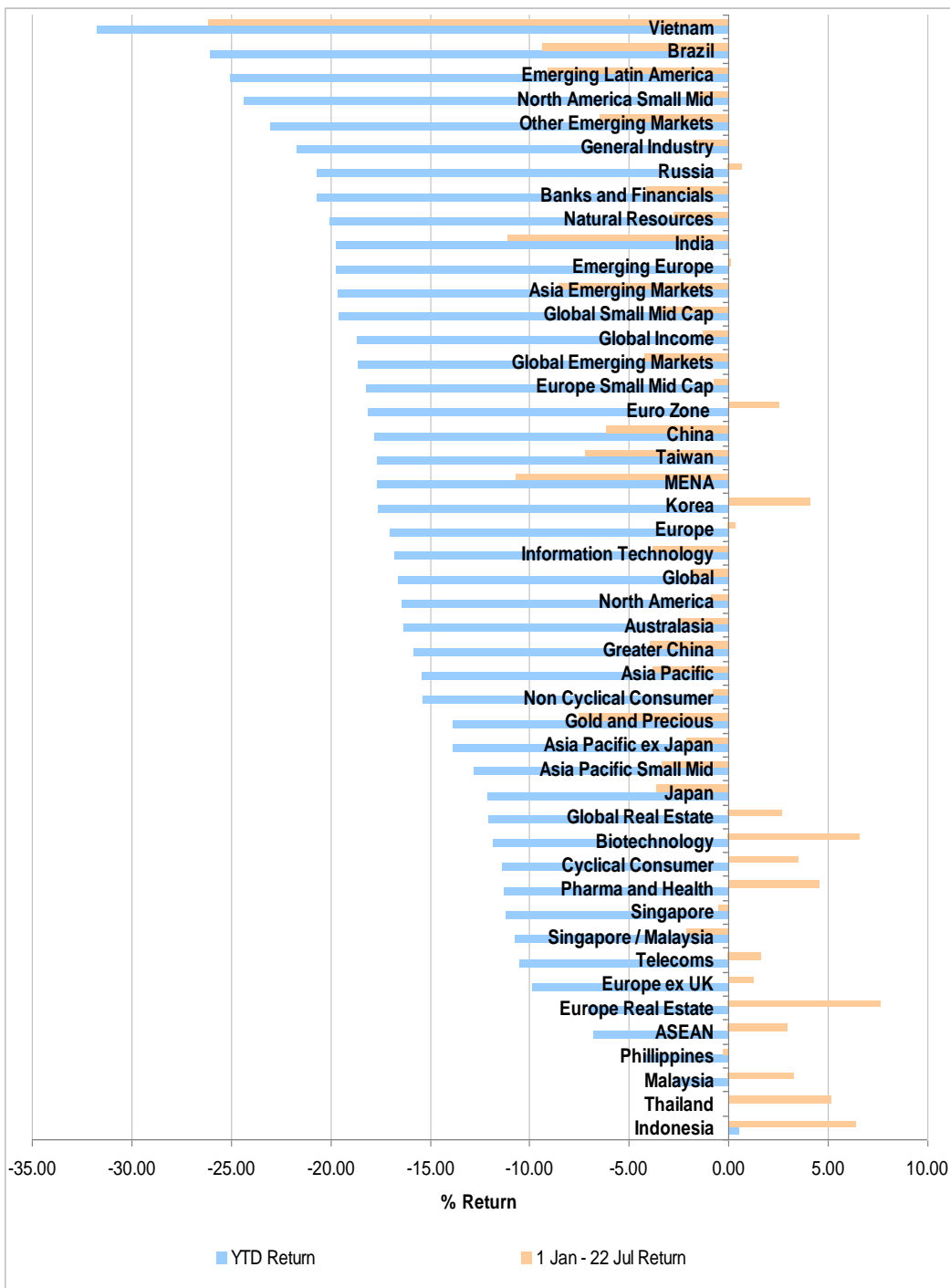
Bonds generally outperformed equity on a year-to-date basis.

Source: Bloomberg, as of 11 Aug 2011

*Returns are calculated in local currency terms



Chart 1: Equity Funds Performance (%)



On a year-to-date basis, equity funds are negative across the board, except for Indonesia.

Southeast Asia countries performed better than developed nations such as US and Europe.

Korea funds were significantly affected by the recent sell-off, falling from the one of the better performing markets to the negative territory after the sell-off.

Source: Financial Express, prices as of 10 Aug 2011
*Returns are rebased in SGD, assuming dividends are reinvested.



Most Regional Funds Outperformed Equity Indices

Comparing regional equity markets, Asia and emerging market performed better than US and Europe on a year-to-date basis and experienced less impact from the sell-off. This is not surprising as investors' concern over possible double-dip in US and worsening contagion in Europe were main factors fuelling the equity retracement.

Table 2: Regional Funds and Equity Performance

Funds	YTD % Return*	22 Jul – 10 Aug Return*	Funds vs Indices^
North America Funds (Average#)	-16.41	-15.53	N
S&P 500 Index	-16.40	-15.97	
Europe Funds (Average#)	-16.98	-17.33	O
MSCI Europe Index	-19.00	-18.08	
Asia Pacific ex Japan Funds (Average#)	-13.85	-11.78	O
MSCI Asia Pac ex Japan Index	-16.93	-12.77	
Global Emerging Markets Funds (Average#)	-18.58	-14.37	O
MSCI Emerging Markets Index	-20.03	-14.24	

Europe, Asia Pacific ex Japan and Global Emerging Markets funds outperformed their respective indices on average, based on year-to-date returns.

North America funds' performance is inline with the S&P 500 Index.

Source: Financial Express and Bloomberg, as of 10 Aug 2011

*Funds and indices returns are rebased in SGD

^Comparison of average funds performance against indices on a year-to-date basis. U = Underperform, O = Outperform, N=Neutral

#Refers to average performance with respect to funds distributed on Phillip Capital Platform

In terms of funds' performances, US funds are largely inline with the S&P 500 index while other regional funds outperformed their respective indices on a year-to-date basis when returns are rebased in SGD. Outperformance against the benchmark is one attribute that we look out for, and below are some selected funds which outperformed both the benchmark and peers most of the time, in the longer periods.

North America (10 Funds): **Franklin Templeton - Franklin US Opportunities A**

Asia Pacific ex Japan (34 Funds): **Legg Mason - Southeast Asia Special Situations**, and **Lion Global - South East Asia**

Emerging Markets (10 Funds): **Aberdeen - Global Emerging Market**



Southeast Asia: Thailand, Malaysia & Singapore Funds Outperformed Indices

Southeast Asia equity market generally outperformed the developed countries on both a year-to-date basis and in terms of the sell-off. (Table 1) We have highlighted in our August Focus of the Month that the Southeast Asian economies are largely dependant on domestic consumption for growth and Asia for exports, therefore partially shielding them from the slower growth in developed economies, possibly contributing to their outperformance.

Table 3: Southeast Asian Funds Performance

Funds	YTD % Return*	22 Jul – 10 Aug Return*	Funds vs Indices^
Indonesia Funds (Average#)	0.53	-5.86	U
Jakarta Composite Index	3.49	-5.38	
Thailand Funds (Average#)	-0.01	-5.15	O
Stock Exch of Thai Index	-2.18	-4.98	
Malaysia Funds (Average#)	-2.71	-6.00	O
FTSE Bursa Malaysia KLCI Index	-6.64	-5.59	
Philippines Funds (Average#)	-4.29	-4.01	U
PSEi – Philippine SE Index	-0.54	-3.36	
Singapore Funds (Average#)	-11.20	-10.71	O
FTSE Straits Times Index	-12.82	-11.37	

Thailand, Malaysia and Singapore funds outperformed their respective indices.

Source: Financial Express and Bloomberg, as of 10 Aug 2011

*Funds and indices returns are rebased in SGD

^Comparison of average funds performance against indices on a year-to-date basis. U = Underperform, O = Outperform, N=Neutral

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Looking at fund performances, Southeast Asia countries on a whole also outperformed developed countries on a year-to-date basis. (Table 1) Individual country-focused funds such as Thailand, Malaysia and Singapore outperformed, while that of Indonesia and Philippines underperformed the respective country indices. Coincidentally, the two underperforming countries have lesser available funds as compared to the other countries, so the underperformance might be due to the lack of choice of funds for the specific countries. Again, we have identified below some funds which outperformed both the benchmark and peers most of the time, in the longer periods.

Thailand (6 Funds): **Fidelity - Thailand A** and **Aberdeen - Thailand Equity**

Malaysia (3 Funds): **Fidelity - Malaysia A**

Singapore (10 Funds): **Aberdeen - Singapore Equity** and **DWS - Singapore Small Mid Cap A**



Korean Funds Most Affected by Recent Sell-off and Underperformed Index

Korean equity declined sharply since 22 Jul, partially attributable to net foreign selling pressure, short selling and arbitrage transactions. Consequently, the average year-to-date return for Korean funds declined sharply from 4.08 percent before 22 Jul to -17.6 percent as of 10 Aug.

Table 4: Korean Funds Performance

Funds	YTD % Return*	22 Jul – 10 Aug Return*	Funds vs Indices^
Franklin Templeton - Templeton Korea A SGD	-24.12	-24.33	U
Lion Global - Korea Acc SGD	-19.44	-20.3	U
Fidelity - Korea A SGD	-13.49	-21.01	U
Korean Funds (Average#)	-17.61	-21.68	U
KOSPI Index	-13.12	-18.47	

Korean Funds mostly underperformed the KOSPI Index during the recent sell-off. Fidelity – Korea A outperformed peers on the year-to-date basis and its benchmark in the longer term periods.

Source: Financial Express and Bloomberg, as of 10 Aug 2011

*Funds and indices returns are rebased in SGD

^Comparison of average funds performance against indices on a year-to-date basis. U = Underperform, O = Outperform, N=Neutral

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The Korean funds, on an average, generally underperformed the KOSPI Index during the recent sell-off, possibly due to less diversification as compared to the index and sectors plays focusing at industrials and consumer discretionary. However, the Fidelity - Korea A SGD outperformed its peers and is on par with the KOSPI Index on the year-to-date basis. Moreover, the fund also outperformed its benchmark consistently in the past 5 years according to the latest factsheet. Therefore, we believe it is still possible to identify outperforming funds within a category in the longer term periods.

Conclusion

Most equity funds outperformed their respective indices on the year-to-date basis while Korean funds underperformed and was more affected by the recent market sell-off. While funds may underperform their indices from time-to-time, we believe that it is possible to find outperforming funds within various categories as identified in this article. Although past performance does not indicate future performance, we feel that it does demonstrate the fund manager’s skills in portfolio positioning to a certain extent. However, investors should also take into consideration other factors such as risks and portfolio allocation in determining the suitability of the fund.



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