

Unit Trusts and Investment-Linked Insurance Products Included Under CPFIS

Performance and Risk Monitoring Reports
as of 31 March 2001

Executive Summary (For Public Dissemination)

Prepared by:

**WILLIAM M.
MERCER**
William M. Mercer (S) Pte Ltd

April 2001

Important Disclaimers: Past performance is not a reliable indicator of future performance. Past performance is no guarantee of future success. This report should not be used as the sole basis for any investment decisions. William M. Mercer (S) Pte Ltd (Mercer) has prepared this report based on data believed by us to be reliable. However, Mercer makes no warranties of any kind as to the accuracy of the data contained herein. Mercer will not be liable for any reliance for purposes of investment decisions on the data presented in this report.

Executive Summary

The Central Provident Fund (CPF) Board has appointed Mercer to develop the Risk Classification System and Performance and Risk Monitoring System to help CPF members make informed investment decisions. The purpose of this report is to provide a summary of the performance and risk monitoring for periods ending 31 March 2001.

Product Summary

The range of choices available to CPF members has continued to increase during the most recent quarter.

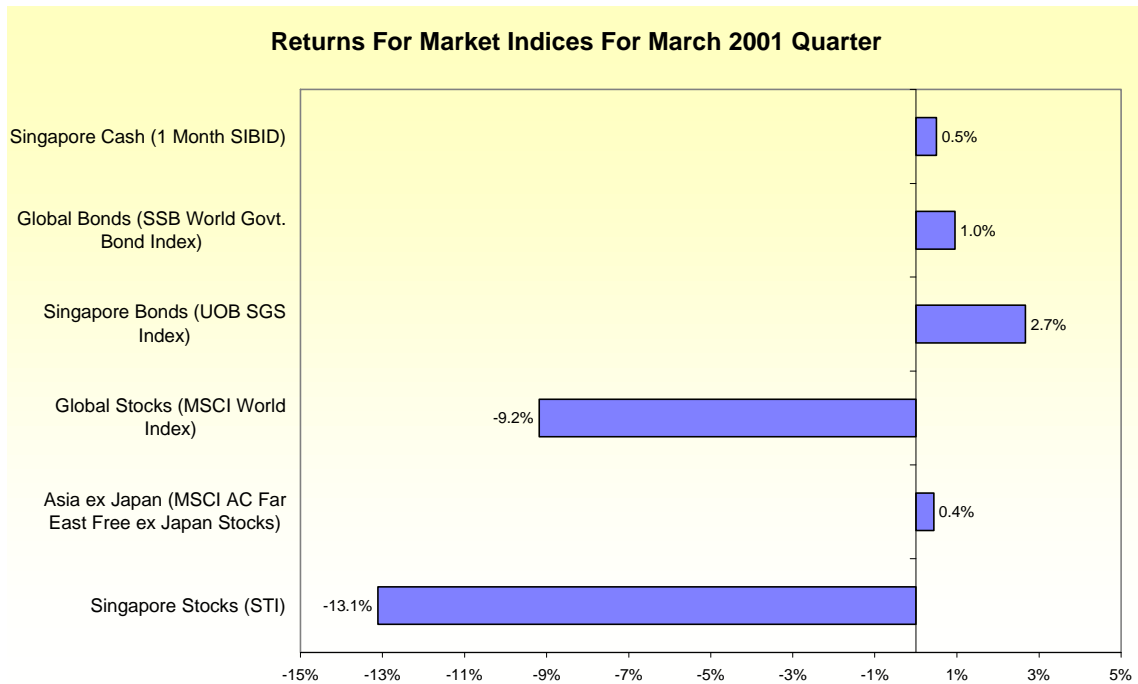
- As of 31 March 2001, there were 113 unit trusts and 76 investment-linked insurance products (ILPs) included under the CPF Investment Scheme (CPFIS).
- 7 new unit trusts and 10 new ILPs were made available to CPF members during the 1st quarter of 2001. The names of these additional products are included in Appendix 2 to this report.
- In total, all the 113 unit trusts and 76 ILPs had been made available to CPF members as of the end of March.

Market Environment

- In the first week of 2001, the US Federal Reserve surprised financial markets by cutting the Federal Funds Rate by 50 basis points. This rate cut, the first of three rate cuts for the first quarter of 2001, was intended by the Federal Reserve to keep the US economy out of a recession. Global equity markets reacted very positively and strongly by rebounding from their low levels in December. Most global equity markets, notably in Asia, posted positive returns for the month of January. However, the euphoria proved to be short-lived. By the end of February, equity markets had weakened significantly and the NASDAQ lost 22% from its January-end level, pulling other equity markets downwards. Towards the end of the March quarter, the US economy continued to show further signs of slowing down. Continued profit warnings by major companies, including technology and telecommunications companies, and declining US consumer confidence contributed to the adverse market sentiment. The downward spiral for global equity markets continued for the month of March.
- With the slowing down of the US economy and the subsequent interest rate cuts by the Federal Reserve early in the year, global bond markets started the month of January on a positive note. The two early cuts, one a surprise move between Federal Open Market Committee (FOMC) meetings, sparked rallies in the fixed income as well as equity markets. At the March 20 FOMC meeting, the Federal Reserve cut rates yet again, bringing in total overall cuts of 150 basis points in less than three months. Asian fixed income markets have generally performed well in the first quarter of the year. In Singapore, the bond market has approximately followed the US bond market trend by

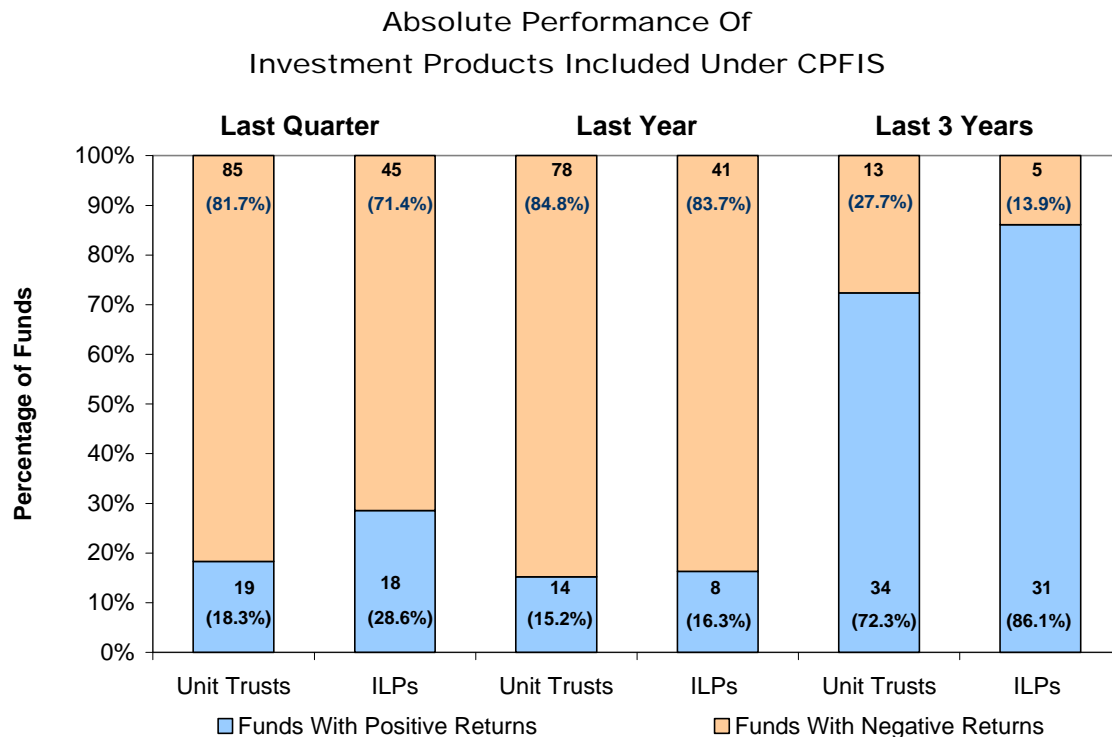
performing strongly in the first two months and weakening slightly in the month of March.

- The chart shows the returns for various market indices during the March 2001 quarter. All returns are shown in Singapore dollar terms on an unhedged basis.



Summary of Absolute Performance

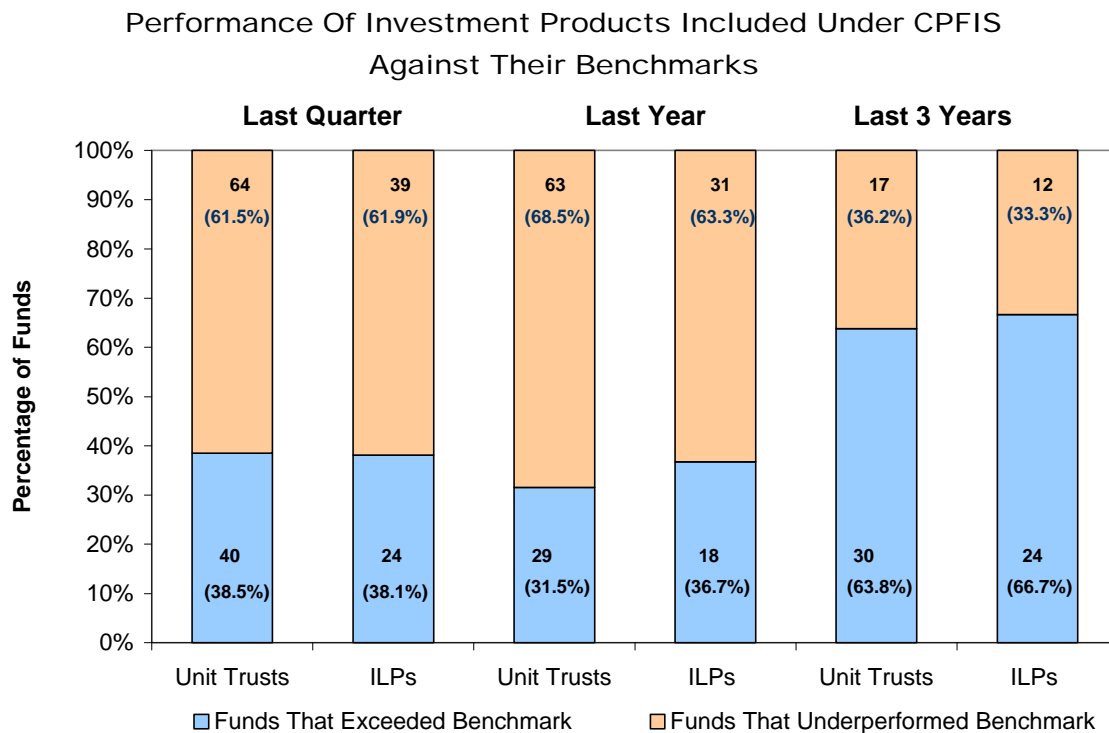
- The following chart summarises the performance of unit trusts and ILPs included under CPFIS over various periods ended 31 March 2001.



- In line with the negative returns experienced by stock markets, most funds achieved negative returns for the March 2001 quarter. In general, the only funds that managed to achieve positive returns were those investing primarily in short-term deposits and global bond funds. The same situation applies for the past 12 months.
- As the above chart illustrates, most products have achieved positive absolute returns over three year periods. In general, the only products that have not achieved positive returns over the past 3 years have been those with significant exposure to the smaller Asian stock markets. These markets generally suffered most from the impact of the Asian financial crisis and in many cases have yet to fully recover.

Summary of Performance Relative to Benchmarks

- The following chart summarises the performance of unit trusts and ILPs included under CPFIS relative to the benchmark selected by their fund manager over various periods ended 31 March 2001.



- On average, less than half the investment products outperformed their various benchmarks during the March quarter. Many of the equity funds that underperformed were generally in global equity and Asian equity.
- The above chart illustrates that, while many products underperformed their benchmarks during the March quarter, the majority of products have exceeded their benchmarks over three year periods.

Performance Rating System

Mercer has developed a Performance Rating System for unit trusts and ILPs included under CPFIS, under which ratings are assigned based on analysis of past performance relative to a benchmark considered relevant by Mercer.

- A minimum three-year track record is required for an A, B, C or D rating to be assigned. Where Mercer deems it appropriate, this could include the track record for a feeder fund.
- For unit trusts/ILPs with less than a relevant three year track record, a rating of “Non-Rated-plus” (NR+) or “Non-Rated-minus” (NR-) is assigned based on whether the unit trust/ILP has achieved positive or negative excess returns during the period for which a relevant performance track record is available. NA denotes funds that have less than a full three months of performance track record or where performance data was not supplied and hence the funds were not rated.
- As of the end of the 1st quarter of 2001, 58 out of 113 unit trusts and 37 out of 76 ILPs met the criteria of a minimum three-year relevant track record.

Unit Trusts Included Under CPFIS

Rating	No. This Quarter	No. Last Quarter
A	16	14
B	11	13
C	12	10
D	19	17
NR+	14	21
NR-	34	28
NA	7	3

ILPs Included Under CPFIS

Rating	No. This Quarter	No. Last Quarter
A	6	5
B	6	8
C	12	12
D	13	12
NR+	13	10
NR-	16	11
NA	10	10

- Please refer to Appendix 1 for a fuller description of the Mercer performance rating system for investment products included under CPFIS.

For Further Information

- The Summary Tables in the Performance and Risk Monitoring Reports present the Performance Evaluation summary for the 1st quarter of 2001 and Mercer's rating of all unit trusts/ILPs included under CPFIS for which at least a full quarter of relevant performance track record is available. Additional details regarding the investment of these unit trusts/ILPs are available at the following website <http://www.MercerFundWatch.com/CPF>.
- Additional information can also be found in the appendices to this report. In particular:
 - Appendix 2 contains additional information in regard to developments affecting the investment products included under CPFIS during the March 2001 quarter;
 - Appendix 3 contains additional information on some of the terms referred to in this report and in the various performance tables available in the reports that can be downloaded from Mercer's website; and
 - Appendix 4 contains details of a roadmap that Mercer has prepared to assist CPF members in understanding the Summary Tables and using them as part of a step-by-step process to making investment decisions.

Disclaimers and Notes on Recommended Usage of the Information Presented in This Report

All data contained in this report has ultimately been provided to Mercer by the Fund Management Companies (FMCs)/Insurers for the unit trusts and ILPs included under CPFIS. While Mercer has checked this data for reasonableness, ultimately we cannot take any responsibility for the accuracy of this data.

The information contained in this report is intended to be helpful to CPF members as they consider making investments unit trusts and ILPs included under CPFIS. However, none of the information supplied herein should be considered to be a recommendation either for or against any particular unit trust or ILP. Moreover, none of the information provided herein should be considered to represent investment advice or to constitute an investment recommendation.

CPF members may choose to utilise the information presented herein to help narrow down the group of unit trusts or ILPs in which they may be interested in investing. However, Mercer strongly recommends that a CPF member obtains and thoroughly reads the prospectus or corresponding material for any unit trust or ILP in which they are seriously considering making an investment. Additional information regarding any individual Insurer/FMC and the investment process and investment team associated with the management of one of its unit trusts or ILPs can and in Mercer's opinion should be requested from that Insurer/FMC and reviewed by a CPF member prior to an investment being made. Despite the information provided herein, CPF members remain ultimately responsible for

becoming fully informed about their investments and for making their own investment decisions.

In considering the information presented in this report or other information with which they may be provided, CPF members should bear in mind that past performance provides no guarantee of future success. In fact, past performance by itself is generally a very poor predictor of future performance.

Performance Rating System for Unit Trusts and ILPs Included Under CPFIS

As an aid aimed at helping CPF members evaluate the strength of past performance across unit trusts or ILPs with a similar investment mandate, Mercer has developed a performance rating system for unit trusts/ILPs included under CPFIS. The methodology for this performance rating system is as follows:

- Ratings are assigned based on analysis of past excess returns relative to a benchmark considered relevant by Mercer.
 - Ratings should only be used to evaluate the strength of past performance across unit trusts/ILPs that invest in the same set of markets and in similar types of securities.
 - Because ratings are assigned based on analysis of past performance only, they should not be taken to be indicative of a comprehensive evaluation by Mercer of the unit trust's/ILP's prospects for future success. Past performance is not a good predictor of future success. Qualitative factors -- the investment philosophy, the investment process, the team of investment professionals and other resources that support the implementation of the process -- are also important. The ratings do not necessarily reflect Mercer's view of the probability of future outperformance by a given unit trust/ILP relative to its benchmark, because they do not take these qualitative factors into account.
 - Ratings of 'A', 'B', or 'C' may be assigned to a unit trust/ILP with strong past performance versus benchmark, with the 'A' rating being given to unit trusts/ILPs with the strongest past performance versus benchmark. A minimum three-year track record deemed relevant by Mercer is necessary for a rating to be assigned. A rating of 'D' is given to unit trusts/ILPs which have a long enough track record to meet the criteria for a rating, but which fall below the criteria established for award of the 'C' rating.
 - For unit trusts/ILPs with less than a three-year track record deemed relevant by Mercer, a rating of 'NR+' or 'NR-' is assigned based on whether the unit trust/ILP has achieved positive or negative excess returns relative to benchmark during the period for which a relevant track record is available. (The initials NR stand for 'Not Rated'.)
 - In some instances, substantial changes in organisation, process or investment personnel may cause Mercer to conclude that some period of the past performance of a unit trust/ILP should not be considered to be relevant. In such a case, the portion of the historical track record for the fund that is deemed to be irrelevant will not be considered in Mercer's evaluation. This may result in a unit trust/ILP with longer than a three-year track record being assigned a different rating than might otherwise be the case, including an NR+ or NR- rating.
-

- Where more than three years of track record are available, the unit trust's/ILP's longer-term track record will be taken into account in assigning a rating, up to some limit in terms of maximum length of track record deemed relevant by Mercer. Up to this limit, the longer the track record deemed relevant by Mercer which is available for a unit trust/ILP, the easier it will be for that unit trust/ILP to achieve a higher rating, subject to its achievement of consistent outperformance.
 - The benchmark applied in evaluating a unit trust's/ILP's performance shall be selected by Mercer based on Mercer's evaluation of the types of investments which Mercer believes are likely to be generally made by the fund manager for the unit trust. This may result in use of a different index benchmark by Mercer for purposes of this analysis for a given unit trust/ILP than that suggested by the fund manager.
 - One specific measure of performance to which Mercer refers in determining the ratings will be the **Information Ratio**. (Please refer to the definition in Appendix 3 of this report.)
-

Developments Relating To Unit Trusts and ILPs Included Under CPFIS During March 2001 Quarter

New Unit Trusts and ILPs Included Under CPFIS

7 new unit trusts and 10 new ILPs were made available to CPF members during the quarter.

The new unit trusts

- CMG First State Asia Pacific Growth Fund
- ABN AMRO Star Behavioral Finance Japan Fund
- DBS UP Guaranteed Fund – 5.0/2
- DBS UP Guaranteed Fund – 7.0/2
- SGY S\$ Capital Guaranteed Global Growth Fund
- SGY S\$ Return Guaranteed Fund
- SGY Dynamic Tri-Sector Fund

The new ILPs

- PruLink Global Life Sciences Guaranteed Fund II
 - PruLink Technology Guaranteed Fund II
 - PruLink Japan Equity Guaranteed Fund
 - OUB Manulife Golden Worldwide Equity
 - John Hancock Life Sciences Discovery Fund
 - John Hancock Global Balanced Fund
 - GE Greatlink Global Technology Fund
 - GE Greatlink Global Supreme Fund
 - Keppel Balanced Fund
 - Keppel Dynamic Tri-Sector Fund
-

Definitions

Risk Classification

Please see the handbook titled “CPF Investment Scheme Risk Classification System: Investing in Unit Trusts” for a full discussion of CPFIS Risk Classification System. You can obtain a copy of this handbook from any CPF office, FMC included under CPFIS or agent bank. You can also download the handbook at the CPF Board’s website at:

<http://www.cpf.gov.sg/publication/riskclas.asp>

The following table provides a summary of the risk classifications of the unit trusts and ILPs available to CPF members as of 31 March 2001:

Risk Classification	Unit Trusts	ILPs
Higher Risk	84	37
Medium to High Risk	10	18
Low to Medium Risk	15	17
Low Risk	4	4

Performance Comparisons

Various measures of the historical investment performance of the unit trusts and ILPs included under CPFIS covered in this report are provided herein. Where appropriate, comparisons are made to the performance of benchmark indices. Despite the risk classification of the unit trusts/ILPs and the requirement that Insurer/FMCs adopt a formal index benchmark for their unit trusts/ILPs included under CPFIS, CPF members will still need to exercise substantial care in making performance comparisons across unit trusts/ILPs. Mercer hopes that over time there will be a shift by Insurers/FMCs to utilisation of a common benchmark, or at least a less varied group of benchmarks, for unit trusts/ILPs with similar investment mandates.

In the meantime, one question a CPF member might consider in evaluating past performance is whether to focus on absolute performance among unit trusts/ILPs with similar benchmarks, or whether to focus on each unit trust’s/ILP’s relative performance versus its stated benchmark. Over the long-term, Mercer believes it is generally appropriate to focus on excess returns relative to benchmark rather than absolute performance. This is because the benchmark generally represents the performance of the class of investments the unit trust/ILP invests in and so provides a useful point of reference in evaluating whether the manager has skill.

In Mercer’s opinion, short-term results in general should be given little attention in investment-decision making.

Calculations and Methodology

The following outlines the methodology used by Mercer to evaluate the performance and risk of the unit trusts and ILPs included under CPFIS covered by our reports.

Mercer measures unit trust/ILP investment performance by comparing net asset value (NAV) at the beginning and end of the measurement period and with dividends reinvested. Quantitative measures of risk, such as the standard deviation of returns, are computed based on the underlying return figures that are calculated by means of this methodology.

This report also includes information on **Expense Ratios**. These expense ratios are calculated by the Insurers/FMCs. Mercer has requested that the Insurers/FMCs calculate the expense ratio based on IMAS guidelines. For further information, please refer to <http://www.imas.org.sg>. While Mercer has attempted to check these figures for reasonableness, Mercer cannot take responsibility for the accuracy of the Insurers'/FMCs' calculations of these figures. Also, expense ratios will depend in part on the level of investment management and other fees associated with each unit trust/ILP as well as its total asset size.

Definitions of Technical Terms

Excess return is the difference between the return of a unit trust/ILP and the return of its index benchmark. If the unit trust/ILP has outperformed its benchmark, the excess return figure will be positive. If the unit trust/ILP has underperformed its benchmark, the excess return will be negative.

The **Risk-Adjusted Ratio** is calculated as the annualised return divided by the annualised standard deviation (risk). It is a measure of the trade-off between return and risk. The higher the result the greater the level of return per unit of risk taken.

The **Information Ratio** is a measure of the value that has been added by the manager per unit of risk taken relative to the benchmark. All else equal, the higher the information ratio, the better.

The information ratio might reasonably be considered to represent a measure of the past skill demonstrated by (or luck experienced by) the FMC/Insurer. If the information ratio is large and is measured over a reasonably long period of time, then this may be an indication that the FMC/Insurer has demonstrated some past skill in managing investments.

Tracking error is a measure of a portfolio's risk or volatility compared to its benchmark. It is a relative measure and does not attempt to measure absolute return or absolute risk. In essence, it measures the risk of significant departures from the benchmark. For the purposes of our reports, it is calculated as the standard deviation of monthly relative performance figures.

Roadmap For Investing in Unit Trusts and ILPs Included Under CPFIS

In order to assist CPF members in understanding the Summary Table and using it as part of a step-by-step process to making investment decisions, Mercer has developed the Roadmap for Investment in Unit Trusts/ILPs included under CPFIS. The Roadmap provides a framework to address questions that are likely to surface when making investment decisions. To fully utilise the Roadmap, investors are required to answer questions including the following. These are personal questions and should in Mercer's view be answered by investors based on their own personal circumstances before making long term investment decisions.

- Do I want to invest?
- Do I want to purchase insurance coverage together with my investment?
- How much do I want to invest?
- How long will the money be invested?
- How well diversified do I want to be?
- What unit trust(s)/ILPs do I want to invest in?

The Ratings and Roadmap are provided to assist CPF members in choosing unit trusts/ILPs that have outperformed their respective benchmarks in the past.

Roadmap for Investing in Unit Trusts/ILPs Included Under CPFIS

