

# Unit Trusts and Investment-Linked Insurance Products Included Under CPFIS

Performance and Risk Monitoring Reports  
as of 30 June 2001

Prepared by:

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

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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.

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 30 June 2001.

## Product Summary

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

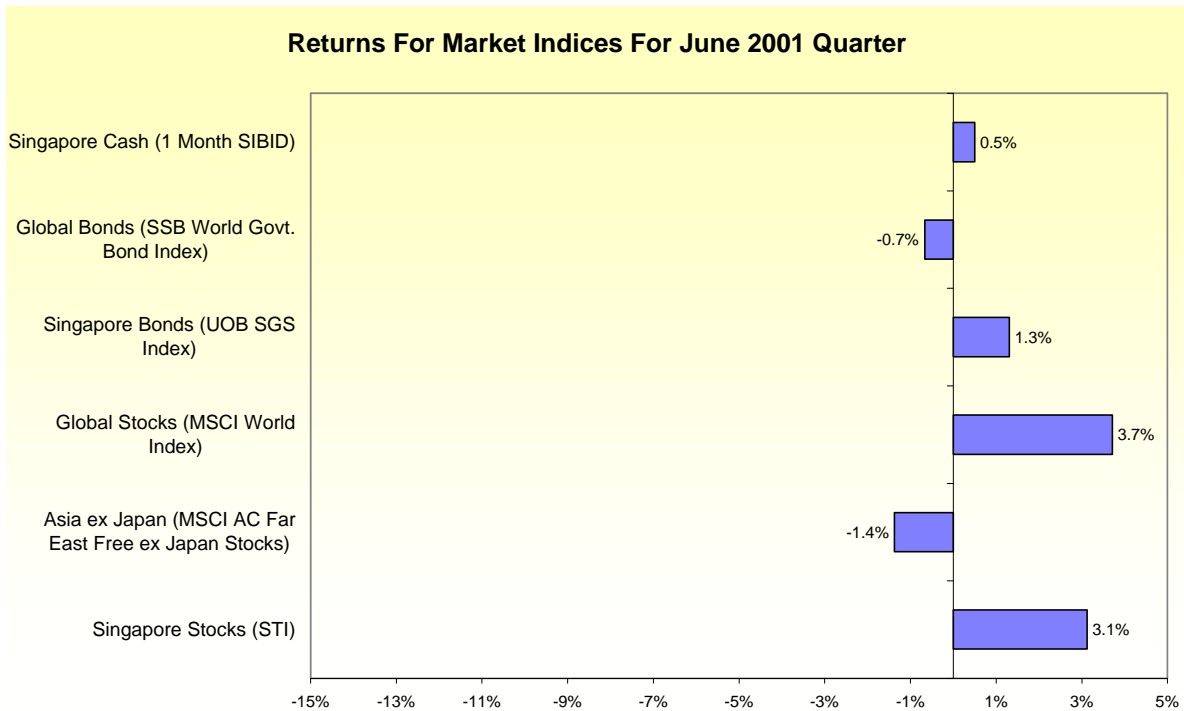
- As of 30 June 2001, there were 123 unit trusts and 98 investment-linked insurance products (ILPs) included under the CPF Investment Scheme (CPFIS).
- 12 new unit trusts and 22 new ILPs were made available to CPF members during the 2nd quarter of 2001. The names of these additional products are included in Appendix 2 to this report.
- 2 unit trusts were withdrawn by DBS Asset Management from the CPFIS during this quarter. They are the DBS Horizon Global Bond US\$ Hedged Fund and the DBS Horizon Continental Europe Fund.
- In total, all the 123 unit trusts and 98 ILPs had been made available to CPF members as of the end of June.

## Market Environment

- Global equity markets started the second quarter of 2001 on a noticeably upbeat note as most of the major markets were up strongly in the month of April. European markets in general were up by 6%-8% over the previous month and the Dow Jones Industrial Index was up by 9%. The next two months, however, proved to be lacklustre as the markets began to subsequently trade sideways and this continued to the end of the quarter. The lowering of interest rates did not seem to help. In the US, investors appeared to be expecting more than the latest 25 basis points rate cut at the end of June. In Europe, the surprise 25 basis points cuts by the European Central Bank and the Bank of England in May were practically non-events for the equity markets which ended the month generally unchanged from the previous month. One of the better quarterly performances was the NASDAQ Composite Index, which was up by 17% over the previous quarter. The markets in Malaysia, the Philippines, and Taiwan were down for the quarter. The rest of Asia was generally positive with strong performances by Korea and Australia. Singapore was up for the quarter by 3.1%.
- Global bond markets were generally down in the second quarter of 2001. In the US, the bond market as measured by the SSB US Government Bond Index weakened by 0.4% over the quarter in local currency terms. At the end of June, the US Federal Reserve cut the Federal Funds Rate yet again by 25 basis points to 3.75%. From 6.5% in January, this is the sixth attempt thus far this year by the Federal Reserve to give a boost to the sluggish US economy. In Europe, the lowering of rates in the month of May by the

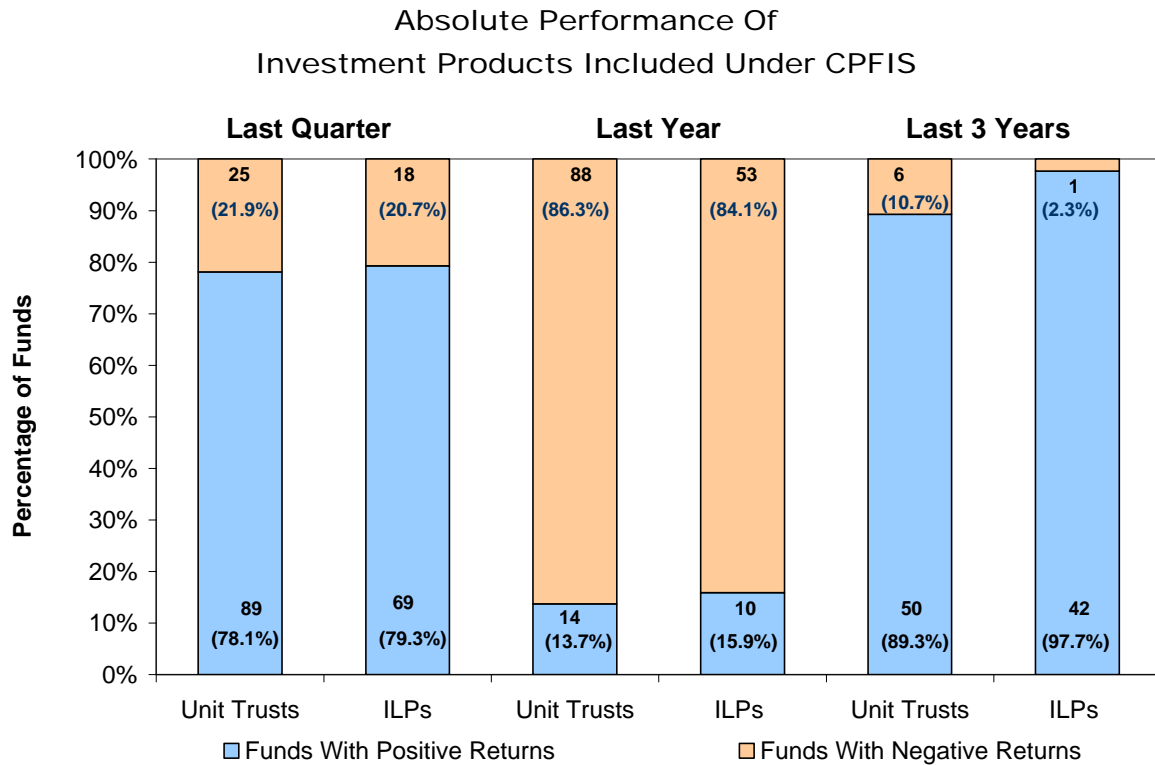
European Central Bank and the Bank of England by 25 basis points also did not seem to help the bond markets. The immediate concern was that the lowering of rates would have a considerably negative effect in contributing to a scenario of high inflation. In Asia, the Singapore bond market performed well in each of the three months for the quarter. On a quarter-on-quarter basis, the UOB SGS All Index was up by 1.3%. For Japan, the SSB Japan Government Bond Index was up by 0.9% (local currency terms) over the same period.

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



## Summary of Absolute Performance

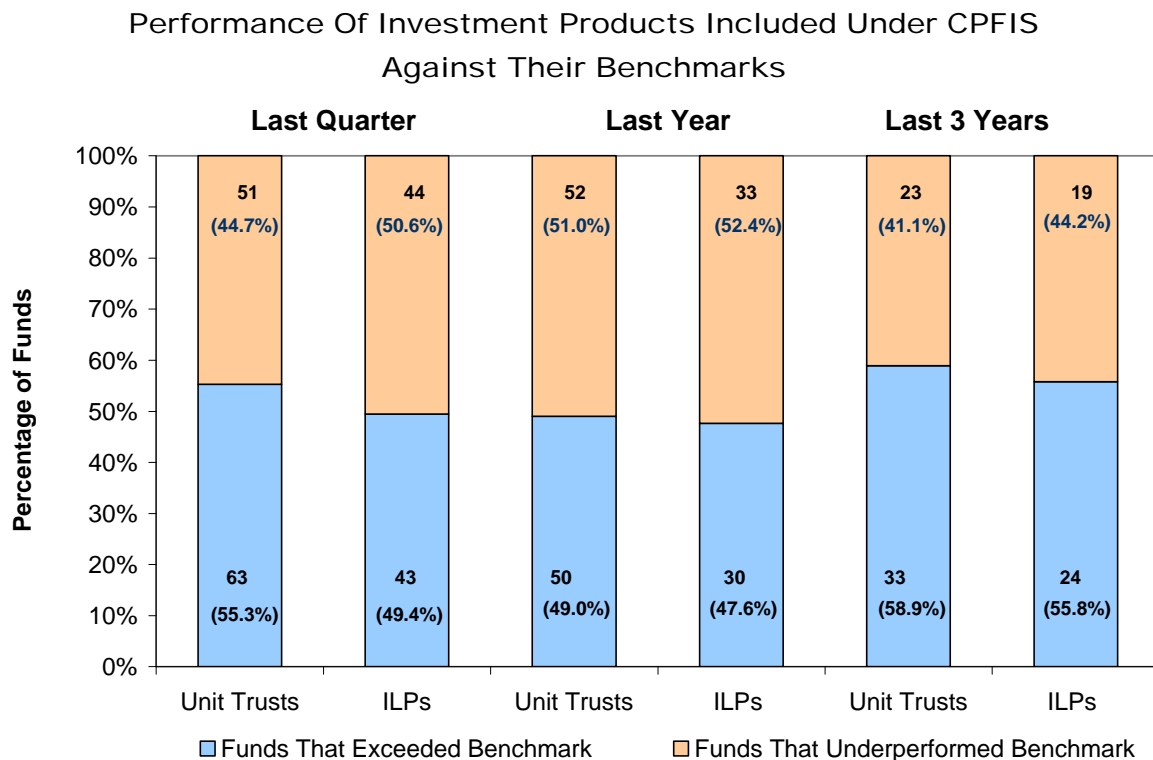
- The following chart summarises the performance of unit trusts and ILPs included under CPFIS over various periods ended 30 June 2001.



- In line with the modest rebound experienced by many stock markets in the June 2001 quarter, about three-quarters of the funds achieved positive returns for this second quarter. Funds investing in the technology, life sciences, healthcare and the smaller Asian markets had relatively strong performances during the quarter.
- As the above chart illustrates, most products have achieved positive absolute returns over the second quarter and over three-year periods.

## 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 30 June 2001.



- On average, about half the investment products outperformed their various benchmarks during the June quarter. Generally funds that outperformed their benchmarks invested in Singapore-centered and Asian equities.
- The above chart also illustrates that more than half the products outperformed their benchmarks over the three-year period.

## 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 2nd quarter of 2001, 66 out of 123 unit trusts and 44 out of 98 ILPs met the criteria of a minimum three-year relevant track record.

### **Unit Trusts Included Under CPFIS**

<b>Rating</b>	<b>No. This Quarter</b>	<b>No. Last Quarter</b>
A	20	16
B	11	11
C	13	12
D	22	19
NR+	15	14
NR-	33	34
NA	9	7

### **ILPs Included Under CPFIS**

<b>Rating</b>	<b>No. This Quarter</b>	<b>No. Last Quarter</b>
A	8	6
B	11	6
C	9	12
D	16	13
NR+	16	13
NR-	27	16
NA	11	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 2nd 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. These can be found in Appendix 3 and 4 of this report for the unit trusts and ILPs included under the CPFIS respectively.
- 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 June 2001 quarter;
  - Appendix 3 contains the Summary Table of the performance evaluation report of unit trusts included under the CPFIS for periods ending 30 June 2001;
  - Appendix 4 contains the Summary Table of the performance evaluation report of ILPs included under the CPFIS for periods ending 30 June 2001;
  - Appendix 5 contains additional information and definitions on some of the terms referred to in this report and in the various performance tables available in the reports that can also be downloaded from Mercer's website; and
  - Appendix 6 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.
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- 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 5 of this report.)
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## Developments Relating To Unit Trusts and ILPs Included Under CPFIS During June 2001 Quarter

### New Unit Trusts and ILPs Included Under CPFIS

12 new unit trusts and 22 new ILPs were made available to CPF members during the quarter.  
2 unit trusts were withdrawn from the CPFIS during the quarter.

#### The new unit trusts

- Aberdeen China Opportunities Fund
- Aberdeen Indonesia Equity Fund
- Aberdeen Malaysian Equity Fund
- Aberdeen Philippine Equity Fund
- Aberdeen Thailand Equity Fund
- ABN AMRO Star Europe Fund
- DBS UP Guaranteed Fund – 5.0/3
- DBS UP Guaranteed Fund – 7.0/3
- Keppel Capital Guaranteed Funds – Singapore Market Series 2
- Prudential Unit Trust – European Blue Chip Equity Fund
- Prudential Unit Trust – Global Technology Fund
- Schroders S\$ Protected – June 2004

#### The new ILPs

- GE GreatLink Global Optimum Fund
  - John Hancock Capital Preservation Fund
  - John Hancock Worldwide Equity Fund
  - Keppel Global Diversified Funds – Balanced
  - Keppel Global Diversified Funds – Conservative
  - Keppel Global Diversified Funds – Growth
  - Keppel Global Diversified Funds – High Growth
  - Keppel Global Diversified Funds – Stable
  - PruLink European Blue Chip Equity Fund
  - PruLink Global Technology Fund
  - UOB Life Asia Fund
  - UOB Life Asia Top 50 Fund
  - UOB Life European Equity Fund
  - UOB Life Greater China Fund
  - UOB Life Growth Fund
  - UOB Life International Growth Fund
  - UOB Life Japan Growth Fund
  - UOB Life Millennium Trust I
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- UOB Life Millennium Trust II
- UOB Life Millennium Trust III
- UOB Life Regional Growth Fund
- UOB Life UniFund

The withdrawn unit trusts

- DBS Horizon Global Bond US\$ Hedged Fund
  - DBS Horizon Continental Europe Fund
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Summary Table of the Performance Evaluation  
Report of Unit Trusts Included under the CPFIS  
for periods ending 30 June 2001

Summary Table of the Performance Evaluation  
Report of ILPs Included under the CPFIS  
for periods ending 30 June 2001

## 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 30 June 2001:

<b>Risk Classification</b>	<b>Unit Trusts</b>	<b>ILPs</b>
Higher Risk	92	51
Medium to High Risk	9	24
Low to Medium Risk	18	19
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.

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## 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.

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## Roadmap for Investing in Unit Trusts/ILPs Included Under CPFIS

