CPF-Approved Unit Trusts and Investment-Linked Insurance Products

Performance and Risk Monitoring Reports as of 30 September 2000

Executive Summary (For Public Dissemination)

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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.

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 30 September 2000.

Product Summary

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

- As of 30 September 2000, the CPF Board had approved 105 unit trusts, 59 investment-linked insurance products (ILPs).

- 5 new CPF-approved unit trusts and 10 new ILPs were made available to CPF members during the 3rd quarter of 2000. The names of these additional products are included in Appendix 2 to this report.

- In total, 95 approved unit trusts and 56 ILPs had been made available to CPF members as of the end of September. An additional 10 approved unit trusts and 3 ILPs had yet to be made available to CPF members as of the end of September.

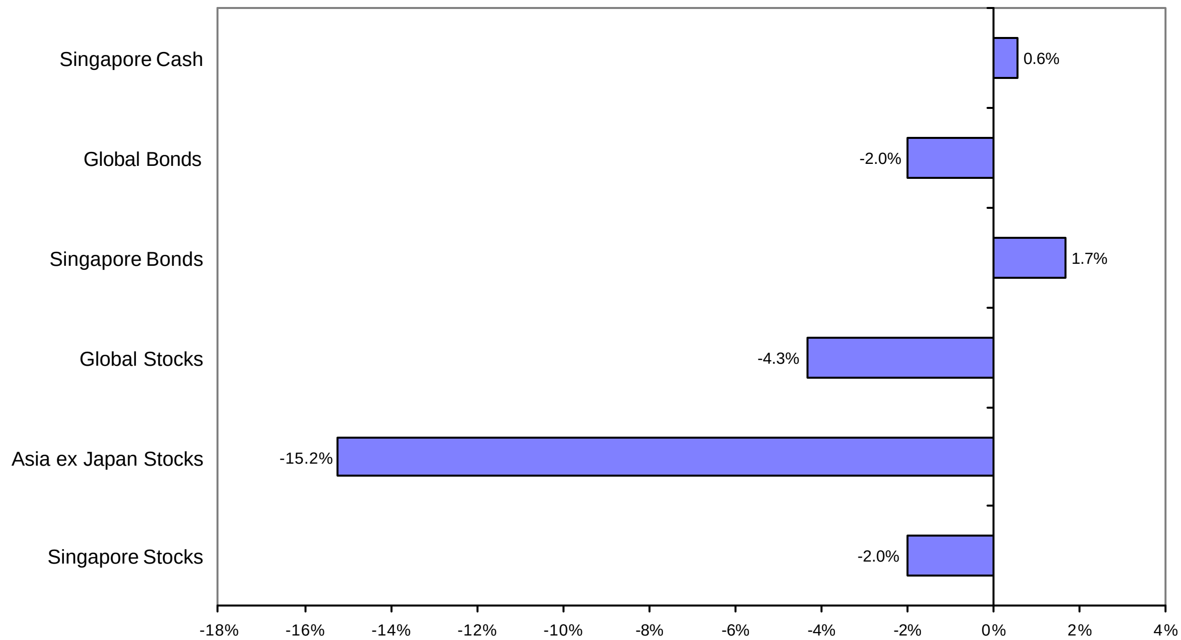
Market Environment

- Fears of a slowdown in the US economy and the rise in oil prices continued to remain concerns of the global economies. The Singapore stock market as well as other Asian markets suffered as investors lost confidence. Within Asia, Thailand and Korea showed signs that problems arising from the Asian crisis have yet to be resolved, with the banking sectors having significant non-performing loans.

- Global bond markets generally produced positive returns for the quarter in the local currencies. However, due to a fall in the Yen and the Euro relative to the Singapore dollar, the global bond returns from those markets were negative to unhedged Singapore investors.

- The chart at the top of the next page shows the returns for various market indices during the September 2000 quarter. All returns are shown in Singapore dollar terms on an unhedged basis.

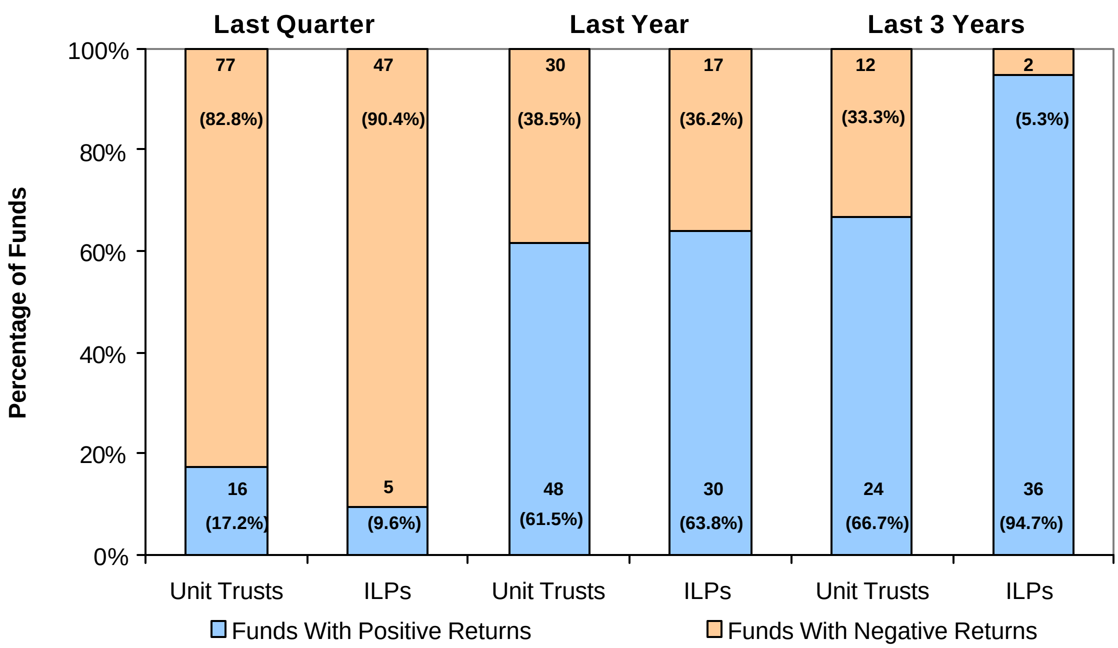
Returns For Market Indices For September 2000 Quarter



Summary of Absolute Performance

- The following chart summarises the performance of CPF-approved unit trusts and ILPs over various periods ended 30 September 2000.

Absolute Performance Of
CPF-Approved Investment Products



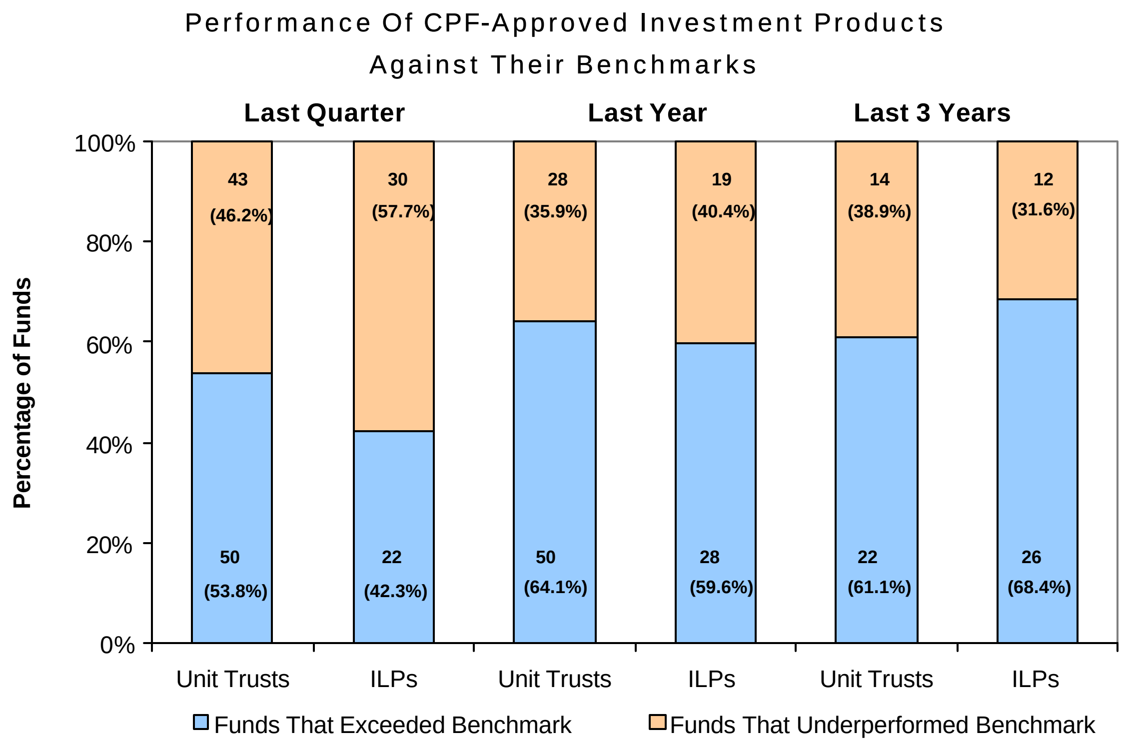
- In line with the negative returns experienced by stock markets, most funds achieved negative returns for the September 2000 quarter. In general, the only funds that managed to achieve positive returns were those investing primarily in short-term deposits or the technology, healthcare and life sciences sectors.

- As the above chart illustrates, most products have achieved positive absolute returns over longer time 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.

- Four ILP sub-funds were unable to submit data in time for the preparation of our reports.

Summary of Performance Relative to Benchmarks

- The following chart summarises the performance of CPF-approved unit trusts and ILPs relative to the benchmark selected by their fund manager over various periods ended 30 September 2000.



- On average, about half the investment products outperformed during the September quarter. Most of the equity products outperform the market benchmark indices while the majority of the global bond products underperformed.

- The above chart illustrates that, while many products underperformed their benchmarks during the September quarter, the majority of products have exceeded their benchmarks over longer time periods.

Performance Rating System

Mercer has developed a Performance Rating System for CPF-approved unit trusts and ILPs, 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 CPF-approved 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.

- As of the end of the 3rd quarter of 2000, 49 out of 95 CPF-approved unit trusts and 37 out of 56 CPF-approved ILPs met the criteria of a minimum three-year relevant track record. 4 ILPs could not submit the data in time for this report and was given "NA". The distribution of Mercer performance ratings was as follows:

CPF-approved Unit Trusts

Rating	No. This Quarter	No. Last Quarter
A	13	9
B	11	9
C	9	5
D	16	10
NR+	25	28
NR-	21	25

CPF-approved ILPs

Rating	No. This Quarter	No. Last Quarter
A	6	2
B	8	8
C	11	7
D	12	8
NR+	9	8
NR-	6	12
NA	4	–

- It should be noted that the primary reason for the increase in the number of A-rated unit trusts is the inclusion of additional track record for feeder funds. The increase in the number of A-rated ILPs is partially the result of some new ILPs fully investing into existing A-rated unit trusts.

- Please refer to Appendix 1 for a fuller description of the Mercer performance rating system for CPF-approved investment products.

For Further Information

- The Summary Tables in the Performance and Risk Monitoring Reports present the Performance Evaluation summary for the 3rd quarter of 2000 and Mercer's rating of all CPF-approved unit trusts/ILPs for which at least a full quarter of relevant performance track record is available. Additional details regarding the investment of these CPF-approved unit trusts/ILPs are available at Mercer's website:

  - for unit trusts at: http://www.wmmercer.com/singapore/cpf/utperf
  - for ILPs at: http://www.wmmercer.com/singapore/cpf/ilpperf

- Additional information can also be found in the appendices to this report. In particular:

  - Appendix 2 contains additional information in regard to developments affecting CPF-approved investment products during the September 2000 quarter;
  - Appendix 3 contains an analysis that Mercer has undertaken on the relative performance of some of the other options that are available to CPF members under the CPF Investment Scheme;
  - Appendix 4 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 5 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 FMCs/Insurer or the trustees for the CPF-approved unit trusts and ILPs. 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 in CPF-approved unit trusts and ILPs. 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 CPF-approved 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 CPF-approved Unit Trusts and ILPs

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 CPF-approved unit trusts/ILPs. 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 an approved 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 4 of this report.)

Developments Relating To CPF-Approved Unit Trusts and ILPs During September 2000 Quarter

New CPF-approved Unit Trusts and ILPs

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

The new unit trusts

- Dresdner Global Multimedia Fund
- Dresdner Global Internet Fund
- Henderson Pacific Dragon Fund
- Schroder Emerging Markets Fund
- Aberdeen Continental Europe Fund

The new ILPs

- NTUC Technology Sub-Fund
- NTUC European Equities Sub-Fund
- NTUC Fixed Income Investment-Linked Fund
- NTUC Japan Equities Fund
- OUB Manulife Golden Regional China Fund
- OUB Manulife Golden Singapore Growth Fund
- OUB Manulife Golden Southeast Asia Special Situation Fund
- GE Greatlink European Equity Fund
- GE Greatlink Global Growth Fund
- GE Greatlink Pan Asia Fund

Organisational Changes

Departure of Henderson Global Technology Fund Managers

Brian Ashford-Russell, David Magliocco and Tim Woolley – portfolio managers of the Henderson Global Technology Fund will be leaving Henderson Investors at the end of the year to start their own boutique firm. We understand from Henderson Investors that they have launched a worldwide search for replacements but in the meantime Iain Clark, who is the Chief Investment Officer, International Equities, supported by Nitin Mehta, senior fund manager, and the respective geographical teams will be managing the fund during the transition. Mercer understands that the new firm is likely to have the mandate to manage the Henderson Technology Trust, but not the Henderson Global Technology fund in which the Singapore product invests.

Aberdeen Asset Management to buy Murray Johnstone

In middle of October, Aberdeen Asset Management (Aberdeen) signed a deal to acquire Glasgow-based Murray Johnstone. With this acquisition, Aberdeen boosts its asset under management from £24 billion by another £4.3 billion. Although Murray Johnstone has an investment office in Singapore, it is not CPF-Approved and does not offer any retail products in the Singapore market.

Departure of the Templeton Director of Global Equity Research

Sandy Nairn, the former Templeton Director of Global Equity Research has left Templeton to join Scottish Widows Investment Partnership in UK as their Chief Investment Officer. Norman Boersma, will be taking over the responsibilities of Sandy Nairn, which include management of the Franklin Templeton Global Fund. Boersma, 42, has been with Templeton since 1991. He is a portfolio manager and research analyst with global research responsibility for the electrical equipment industry and Japan, and currently manages several offshore funds and institutional accounts.

New Hire at CMG First State

Tan Eng Teck joined CMG First State Investments in August 2000 as an Assistant Fund Manger. He has three years of investment experience and was previously with OUB Optimix Funds Management, POSBank and Pheim Asset Management.

New Hire at DBS Asset Management / Departure from Rothschild

Roy Phua joined DBS Asset Management in July 2000 as Senior Manager. He was previously Assistant Director with Rothschild Asset Management and has four years of investment experience.

Analysis Of Returns Of CPF Ordinary Account and Investment in Individual Stocks

CPF members are currently actively investing in individual stocks listed on the Singapore stock exchange. Mercer picked five Straits Times Index (STI) index stocks at random in order to provide an illustrative analysis of the risk and return characteristics of investing in individual stocks as opposed to unit trusts or ILPs. The stocks selected were those of Singapore Airlines (SIA), Singapore Telecommunications Ltd (SingTel), United Overseas Bank (UOB), Creative Technology (Creative) and DBS Land.

Our analysis showed that 4 of these stocks, namely SIA, UOB, SingTel and Creative, outperformed the STI during the most recent five years, while DBS Land underperformed.

We also analysed the returns a CPF member would have earned if their money were left in the CPF Ordinary Account.

Mercer also "risk classified" and "rated" these stocks and the CPF Ordinary Account based on the same methodology as for our ratings of CPF-approved unit trusts and ILPs. The results are as follows:

	5-year			
Name	**Excess Returns (% p.a.)**	**Tracking Error (% p.a.)**	**Mercer Rating**	**Risk Classification**
Creative	13.2%	71.6%	B	Higher Risk – Narrowly Focused (Singapore-Centred Securities)
DBS Land	-8.1%	29.4%	D	" "
SIA	17.6%	28.9%	A	" "
SingTel	-0.4%	34.5%	C	" "
UOB	9.2%	27.9%	B	" "
CPF Ordinary Account	0.6%	0.4%	A	Lower Risk

In the calculations of the **excess returns** and **tracking error**, Creative, DBS Land, SIA, SingTel and UOB are compared against the Straits Times Index, while the CPF Ordinary Account is compared against the 1-month Singapore Inter-Bank Bid Rate (SIBID).

This analysis lends support to Mercer's view that, all else equal, CPF members are better off investing in CPF-approved unit trusts and ILPs rather than investing in individual stocks. It also lends support to our view that the CPF Ordinary Account is a strong investment option for CPF Members wishing to invest in the Lower Risk category.

Definitions

Risk Classification

Please see the handbook titled "CPF Investment Scheme Risk Classification System: Investing in Unit Trusts" for a full discussion of the CPFIS Risk Classification System. You can obtain a copy of this handbook from any CPF office, CPF-approved FMC 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 September 2000:

Risk Classification	**Unit Trusts**	**ILPs**
Higher Risk	76	32
Medium to High Risk	7	13
Low to Medium Risk	9	7
Low Risk	3	4

Performance Comparisons

Various measures of the historical investment performance of the CPF-approved unit trusts and ILPs 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 CPF-approved unit trusts/ILPs, 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 CPF-approved unit trusts and ILPs 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 Return** 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 CPF-Approved Unit Trusts and ILPs

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 CPF-approved Unit Trusts/ILPs. 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 CPF-approved Unit Trusts/ILPs

Determine whether to invest in unit trusts or ILPs

Deciding whether you wish to purchase insurance coverage together with your investment

Look at relevant Table

Decide which Risk Class to invest in by looking at

1. Risk Tolerance

- Amount of risk you will be comfortable with and can afford to take.

2. *Investment Time Horizon*

- How long will your money be invested?
- Usually the longer the investment time horizon, the more risk you can afford to take.

3. *Overall Financial Situation*

- How much will be needed to sustain your lifestyle during retirement?
- How are your other assets invested?
- What are your other financial commitments?
- Usually, the lower your other financial commitments and the higher the provision you have made for your retirement, the more risk you can afford to take.

Decide on Risk Class, i.e., Higher, Medium to High, Low to Medium or Lower Risk

- Also, need to decide between Narrowly Focused and Broadly Diversified. All else equal, it is better to diversify.
- Asset class(es) chosen will determine the benchmark return.
- Bear in mind, an asset class currently doing well may not necessarily do well in the future.
- Base your decision on which asset classes you think will perform well in the future.

Look at Rating of Unit Trusts/ILPs within your chosen Risk Class

All else equal, the higher the Rating the better the risk-adjusted past performance of the Unit Trust/ILP

If two or more Unit Trusts/ILPs have the same Rating?

Look at the Information Ratio

The higher the Information Ratio, the more the manager has outperformed the benchmark relative to the risk the manager has taken versus the benchmark.

Invest in the chosen Unit Trust(s)/ILP(s)

Note: Picking the appropriate Risk Class(es) in which to invest will generally be more important as a determinant of investment results than picking the right unit trust(s)/ILP(s) within a given Risk Class.