

**CPF-Approved Unit Trust Performance and Risk Monitoring Report
as at 30 June 1999 (2nd Quarter 1999)**

**Executive Summary
(for Public Dissemination)**

The Central Provident Fund Board has appointed Mercer to develop the Risk Classification System and Performance and Risk Monitoring System to help CPF members make informed investment decisions.

- As of 30 June 1999, the CPF Board had approved 59 unit trusts and 25 fund management companies under the CPF Investment Scheme.
- 3 new CPF-Approved unit trusts were made available to CPF members during the second quarter of 1999.
- 57 approved unit trusts had been made available to CPF members as of the end of June. 2 approved unit trusts had yet to be launched for CPF members.
- 45 of 54 CPF-Approved unit trusts for which a full quarter of results were available provided positive absolute returns to investors in the second quarter of 1999.
- Mercer has developed a Performance Rating System for CPF-Approved unit trusts, under which ratings are assigned to CPF-Approved unit trusts 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.
- For CPF-Approved unit trusts with less than a three year track record, a rating of “Non-Rated-plus” or “Non-Rated-minus” is assigned based on whether the unit trust has achieved positive or negative performance relative to benchmark during the period for which track record is available.
- The Summary Table presents the Performance Evaluation summary for the second quarter of 1999 and Mercer’s rating of all CPF-Approved unit trusts. Additional details regarding the investment of all CPF-Approved unit trusts are available at Mercer’s website. (<http://www.wmmercer.com/singapore/cpf/utperf>)
- Mercer has also developed a “Roadmap for Investing in CPF-Approved Unit Trusts” to assist CPF members in analysing unit trust performance and making investment decisions.

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.

Current Line-up of CPF-Approved Fund Management Companies (FMCs) and Unit Trusts

The total number of CPF-Approved FMCs is 25. As at 30 June 1999, the CPF Board had approved 59 unit trusts under the CPF Investment Scheme (CPFIS). All but two of the approved unit trusts had been launched for investment by CPF members as of the end of June 1999, with launch of the remaining two products pending.

Market Environment

All but 9 of the 54 CPF-approved unit trusts which were available to CPF members provided positive returns to investors during the 2nd quarter of 1999. The Singapore stock market along with most other Asian regional stock markets continued to recover during the quarter. The Straits Times Index of Singapore stocks returned 42.8% during the quarter. Positive investment returns were also provided by local stock markets in most Asian countries. In Singapore-dollar terms, the Morgan Stanley Capital International (MSCI) All Countries (AC) Far East Free ex-Japan Index of Asian stocks returned 35.8%, and the MSCI World Index of global stocks returned 3.2%.

Contents of This Report

Following this executive summary, the following tables are presented in this report:

Summary Table – Performance Evaluation Summary for Periods Ending 30 June 1999

Table 1 – Index of CPF-Approved Unit Trusts by Fund Management Company

Table 2 – Performance Analysis for CPF-Approved Unit Trusts for Periods Ending 30 June 1999

Table 3 – Summary of Relative Performance versus Benchmark Over 1-Year and 3-Year Periods as of 30 June 1999

Table 4 – Return/Risk Analysis of CPF-Approved Unit Trusts as of 30 June 1999

Table 5 – Analysis of Tracking Error and Information Ratio for CPF-Approved Unit Trusts as of 30 June 1999

Table 6 – Detailed Asset Allocation Summary as of 30 June 1999

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Performance Rating System for CPF-Approved Unit Trusts

The Summary Table includes absolute and relative performance measures for 57 CPF-Approved unit trusts for the past quarter, one year and three year periods ending 30 June 1999, together with information on expense ratios and fund sizes.

As an additional aid aimed at helping CPF Members evaluate the strength of past performance across unit trusts with a similar investment mandate, Mercer has developed a performance rating system for CPF-Approved unit trusts. The methodology for this performance rating system is as follows:

- Ratings are assigned based on analysis of past performance relative to a benchmark considered relevant by Mercer.
- 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 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 which 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 relative to its benchmark, because they do not take these qualitative factors into account.
- Ratings should only be used to evaluate the strength of past performance across unit trusts which invest in the same set of markets and in similar types of securities.
- Ratings of 'A', 'B', or 'C' may be assigned to a unit trust with strong past performance versus benchmark, with the 'A' rating being given to unit trusts 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 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 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 has achieved positive or negative performance 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 should not be considered to be relevant. In such a case, the portion of the historical track record for the fund which is deemed to be irrelevant will not be considered in Mercer's evaluation. This may result in an approved unit trust 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 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, the easier it will be for that unit trust to achieve a higher rating, subject to its achievement of consistent outperformance.
- The benchmark applied in evaluating a unit trust's performance shall be selected by Mercer based on our evaluation of the types of investments which we believe 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 than that suggested by the fund manager.
- One specific measure of performance to which Mercer will refer in determining the ratings will be the **Information Ratio**. (Reference to explanation on page 10)

Results of Initial Application of Performance Rating System

As the end of the 2nd quarter of 1999, 22 out of 57 CPF-Approved unit trusts met the criteria of a minimum three year relevant track record. The distribution of Mercer performance ratings was as follows:

A	3
B	5
C	9
D	5.

Roadmap for Investing in CPF-Approved Unit Trusts

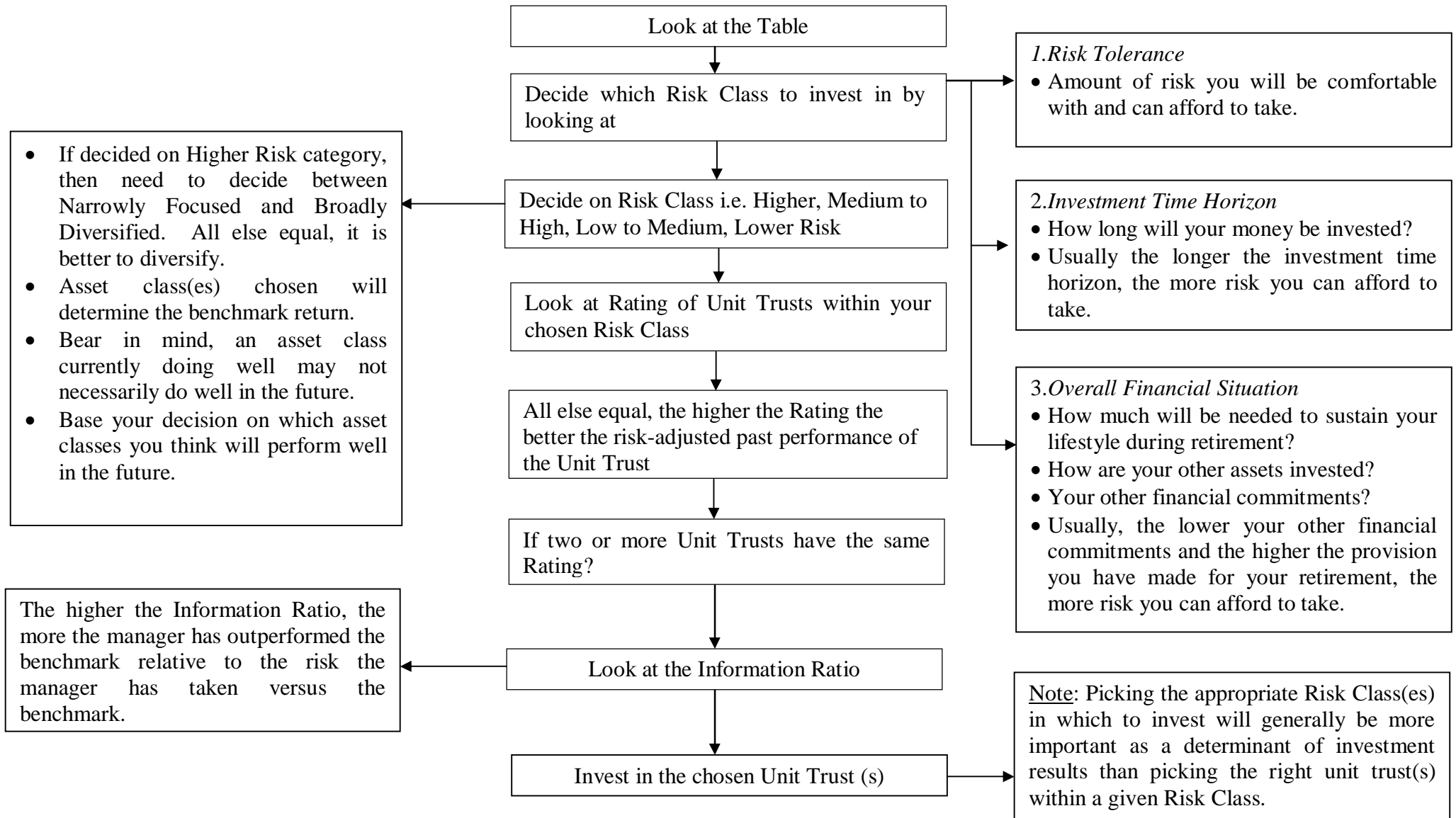
In order to assist CPF members in understanding the Summary Table and using it as part of a step-by-step process to making unit trust investment decisions, Mercer has developed the Roadmap for Investment in CPF-Approved Unit Trusts. The Roadmap provides a framework to address questions that are likely 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 must be answered by investors before making long term investment.

- Do I want to invest?
- 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) do I want to invest in?

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

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Roadmap for Investing in CPF-Approved Unit Trusts



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>

Currently, under the CPFIS Risk Classification System, 44 unit trusts are classified in the Higher Risk category (which in turn is split into four sub-categories), 5 in the Medium to High Risk category, 5 in the Low to Medium Risk category and 3 in the Lower Risk category.

New CPF-Approved Unit Trusts

Three new unit trusts were made available to CPF members during the 2nd quarter of 1999. These three unit trusts were the Schroder Global Smaller Companies Fund, UOB Greater China Fund and Henderson European Equity Fund.

Organizational Changes Related to Nicholas Applegate Capital Management Asia (NACMA)

In February, 1999, Nicholas Applegate Capital Management, Inc. (NAUS) agreed to sell the firm’s U.S. mutual fund division to Pilgrim American Capital Corp. and its international mutual fund division to Colonial First State Investments (Colonial). Mercer understands that the Nicholas-Applegate Regional China Fund and Nicholas-Applegate Singapore Growth Fund will continue to be managed by the Singapore-based team at what had been Nicholas Applegate Capital Management Asia (NACMA) Singapore office. These funds have been renamed CMG First State Regional China Fund and CMG First State Singapore Growth Fund respectively.

NACMA has indicated that the Nicholas Applegate Global Balanced Fund and Global 100 Growth Fund will be managed by Colonial’s London-based global investment team going forward. These unit trusts were recommended by Mercer for CPF-approval based on Mercer’s evaluation of the global equity investment capability of NAUS, not that of Colonial. In this context, the past performances of Global Balanced Fund and Global 100 Growth Fund are not necessarily relevant as an indicator of the future performance prospects of these funds.

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Performance Comparisons

Various measures of the historical investment performance of the 57 CPF-approved unit trusts covered in this report are provided. Where appropriate, comparisons are made to the performance of benchmark indices. Despite the risk classification of the unit trusts and the recently instituted requirement that FMCs adopt a formal index benchmark for their CPF-approved unit trusts, CPF Members will still need to exercise substantial care in making performance comparisons across unit trusts. Mercer hopes that over time there will be a shift by FMCs to utilisation of a common benchmark, or at least a less varied group of benchmarks, for unit trusts 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 with similar benchmarks, or whether to focus on each unit trust's relative performance versus its stated benchmark. Over the long-term, Mercer believes it is generally appropriate to focus on **Performance Relative to Benchmark** rather than absolute performance. This is because the benchmark represents the performance of the asset class the unit trust invests in and so provides a useful point of reference.

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 57 CPF-approved unit trusts covered by this report.

Mercer measures unit trust 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 which are calculated by means of this methodology.

This report also includes information on expense ratios. These expense ratios are calculated by the FMCs. While we have attempted to check these figures for reasonableness, Mercer cannot take responsibility for the accuracy of the FMC's calculations of these figures. Mercer has requested that the FMCs include marketing and advertising charges in calculating the expense ratios for their unit trusts. The expense ratio is thus defined in principle as the total annual expenses of a unit trust divided by its average net assets. Given this definition, expense ratio figures are only available for unit trusts which have been in existence for at least one year. Also, expense ratios will depend in part on the level of investment management and other fees associated with each unit trust as well as its total asset size.

Definitions of Technical Terms

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Performance Relative to Benchmark is the difference between the return to a unit trust and the return to its index benchmark. If the unit trust has outperformed its benchmark, the relative performance figure will be positive. If the unit trust has underperformed its benchmark, the relative performance figure 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 which has been added by the manager per unit of risk taken. 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. 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 has demonstrated some past skill in managing investments.

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 or trustees for the CPF-approved unit trusts. 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. However, none of the information supplied herein should be considered to be a recommendation either for or against any particular unit trust. 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 in which they may be interested in investing. However, Mercer strongly recommends that a CPF Member obtain and thoroughly read the prospectus for any unit trust in which they are seriously considering making an investment. Additional information regarding any individual fund management company (FMC) and the investment process and investment team associated with the management of one of its CPF-approved unit trusts can and in Mercer's opinion should be requested from that 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 a very poor predictor of future performance.

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