CPF-Approved Unit Trust Performance and Risk Monitoring Report as at 30 September 1999 (3rd 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 September 1999, the CPF Board had approved 64 unit trusts and 25 fund management companies under the CPF Investment Scheme.

- Three new CPF-Approved unit trusts were made available to CPF members during the 3rd quarter of 1999.

- In total, 60 approved unit trusts had been made available to CPF members as of the end of September. An additional four approved unit trusts had yet to be made available to CPF members.

- 20 of 57 CPF-Approved unit trusts for which a full quarter of results were available provided positive absolute returns to investors in the 3rd quarter of 1999.

- 26 of 57 CPF-Approved unit trusts for which a full quarter of results were available outperformed the benchmark selected by their fund manager during the quarter.

- 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" (NR+) or "Non-Rated-minus" (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 performance track record is available.

- The Summary Table presents the Performance Evaluation summary for the 3rd quarter of 1999 and Mercer's rating of all CPF-Approved unit trusts 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 are available at Mercer's website. (http://www.wmmercer.com/singapore/cpf/utperf)

- Overall, the ratings of the unit trusts have improved since the last quarter. Two unit trusts have been upgraded to B ratings this quarter from C ratings. One unit trust has moved from a B rating to an A rating. Two unit trusts with track records of less than three years have improved their ratings from NR- to NR+. None of the unit trusts experienced a downgrade in rating as a result of their performance during the quarter.

- 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. This is provided as an attachment to this Executive Summary.

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

There are currently 25 CPF-Approved FMCs, unchanged from last quarter. As at 30 September 1999, the CPF Board had approved 64 unit trusts under the CPF Investment Scheme (CPFIS). All but four of the approved unit trusts had been launched for investment by CPF members as of the end of September 1999, with launch of the remaining four products pending.

Market Environment

37 of the 57 CPF-approved unit trusts which were available to CPF members over the full quarter provided negative returns to investors during the quarter. Most Asian markets provided negative returns during the 3rd quarter of 1999 as developments in Korea and Indonesia gave investors an excuse to take profits after a rally that had lasted for much of this year. The Straits Times Index of Singapore stocks fell by 6.7% during the quarter. In Singapore dollar terms, the Morgan Stanley Capital International (MSCI) All Countries (AC) Far East Free ex-Japan Index of Asian stocks fell by 10.2%. In the U.S. and Europe, concern about the prospect of higher interest rates caused the markets to finish on a weak note with the MSCI World Index of global stocks returning -1.5% in Singapore dollar terms for the quarter.

Explanation of Significant Underperformance

The KIML Keppel Singapore Balanced Fund underperformed its benchmark by 8.5% this quarter. In Mercer's opinion, this significant underperformance can be attributed mainly to the high allocation to equity (65% as of quarter end) against the allocation to bonds (30%) and cash (5%) during a quarter when Singapore stocks returned –6.7%. The benchmark for this fund is 50% CPF Ordinary Account Interest Rate and 50% Straits Times Index.

The DBS Shenton Global Opportunities Fund underperformed its benchmark by 7.3% during the quarter. In Mercer's opinion, this underperformance can be attributed primarily to the high cash holding of the fund (18% as of quarter end) and the relatively high allocation to investments in Singapore (19%) as compared to the benchmark, the MSCI World Index, during a period in which Singapore stocks underperformed.

Contents of This Report

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

Performance Rating System for CPF-Approved Unit Trusts

The Summary Table includes (where available) absolute and relative performance measures for 57 CPF-Approved unit trusts for the past quarter, one year and three year periods ending 30 September 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.

- 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**. (Please refer to definition on page 11)

Results of Performance Rating System

As of the end of the 3rd quarter of 1999, 22 out of 57 CPF-Approved unit trusts met the criteria of a minimum three year relevant track record. Overall the ratings of the unit trusts have improved this quarter compared to last quarter. The distribution of Mercer performance ratings was as follows:

Rating	No. This Quarter	No. Last Quarter
A	4	3
B	6	5
C	7	9
D	5	5
NR+	20	17
NR-	15	15

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.

Roadmap for Investing in CPF-Approved Unit Trusts

Look at the 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?
- 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, Lower Risk

- If decided on Higher Risk category, then 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 within your chosen Risk Class

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

If two or more Unit Trusts 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)

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) within a given Risk Class.

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, of the 60 unit trusts available to CPF members, 47 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 at the end of the quarter. As their launch date was very close to the end of the quarter, their performance figures have not been included in this performance and risk monitoring report but will be included in the next quarterly report. These three unit trusts were the Aberdeen UK Blue Chip Fund, Aberdeen Global Technology Fund and Aberdeen Japan Equity Fund.

Organizational Changes

In September, HSBC reported that Ian Burden, HSBC's Chief Investment Officer (CIO) for Asia Pacific, left the firm. Mr. Burden was replaced by David Stuart, who was previously HSBC's CIO for Australia. Mr. Stuart has 18 years international investment experience while working in the UK and Australia. Simultaneously, Chung Man Wing was appointed CIO of Asia ex Japan and Australia while Damien Hennessy assumed the role of Deputy CIO for Australia.

Mercer has discussed these personnel changes with HSBC. In our subjective opinion we do not anticipate any serious effect of these organisational changes on the future performance of the HSBC Asian Growth Fund.

Change of Benchmark

The UOB United Greater China Fund changed its benchmark this quarter from the CLSA Greater China World Index to a composite benchmark in order to better reflect the investment mandate of the fund. The new composite benchmark consists of 50% Hang Seng Index, 5% Hang Seng China Enterprise Index, 5% Hang Seng China Affiliated Index, 2.5% Shanghai B Index, 2.5% Shenzen B index and 35% Taiwan Weighted Index.

Change of Name

Keppel Investment Management changed the names of its unit trusts this quarter to better reflect the investment mandate of each fund. This change applied purely to the name of the fund and did not affect the mandate of the fund. The old name and the corresponding new name of each unit trust is given below:

Old Name	**New Name**
KIML Keppel Basic Fund	KIML Keppel Singapore Balanced Fund
KIML Keppel Enhanced Fund	KIML Keppel Asia Blue Chip Fund
KIML Orientrust Fund	KIML Keppel Asia Fund
KIML TatLee Basic Value Fund	KIML Keppel South East Asia Fund

Performance Comparisons

Various measures of the historical investment performance of the 57 CPF-approved unit trusts 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 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 generally represents the performance of the class of investments 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 FMCs' 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

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 the 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.