

Lipper FundMarket Insight Reports



**Taiwan Fund Market Summary
Month End Analysis
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2005



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Oil Concerns Push Up Oil-Rich Funds

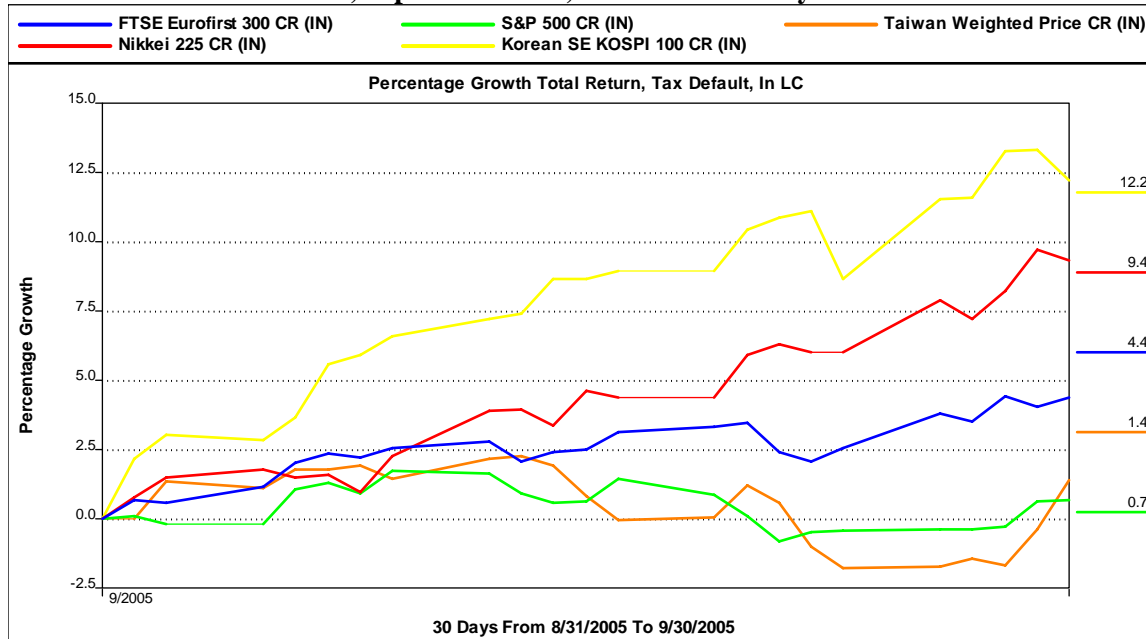
- The Gold and Precious Metals Funds classification was at the top, with a 20.04% return.
- Concerns about oil pushed up Natural Resources Funds 10.29%.
- Latin American Funds snapped up a 17.56% gain.
- Taiwan domestic equity funds beat the market index.
- Korea Funds was the champion of the single-market fund classifications with 13.00%.

Market Performance

The Taiwan stock market (+1.4%) followed the U.S. stock market (+0.7%) up in September but lagged behind Europe (+4.4%) and its neighbors Korea (+12.2%) and Japan (+9.4%).

Right after Hurricane Katrina’s visit in August, Hurricane Rita hit the Gulf Coast of the U.S. in September—adding to the economic losses in the U.S., pushing up oil prices, and driving down the U.S. and Taiwan stock markets. The stock market rallies in Japan and Korea were mainly due to their improved domestic economies, so they were less affected by what happened in the U.S. In Europe the markets were up because of encouraging corporate earnings and prospects.

Stock Market Performance, September 2005, in Local-Currency Terms



Source: Lipper

Money Market Fund Performance

The U.S. dollar continued to strengthen against the Taiwan dollar, which helped the Money Market USD classification post a 1.58% gain in September and 5.69% in the third quarter. Unloading of Taiwan dollar-denominated assets by foreign investors and increased investment overseas by domestic investors suppressed the Taiwan dollar.

Disappointing stock market performance, low fixed income yield, inflation concerns, and a declining currency made Taiwan-dollar assets less attractive compared to other more-rewarding alternative markets such as Korea. The TAIEX index return is minus 0.34% so far this year, compared to the 35.35% return of the KOSPI 100 Index.

Despite the stock market rallies in Europe, the euro was on the weak side in September, causing a decline of 0.56% in the Money Market Euro classification. But the classification still returned a decent 4.90% for investors in the third quarter.

The best performer among money market classifications was the Canadian dollar, although there is only one fund in the classification. The classification posted a 3.91% return in September and 11.33% in the third quarter. Money Market AUD, with only two funds, was the second best; the classification had a 3.42% gain in September and 6.40% in the third quarter.

Money Market Fund Performance, September 2005, in Taiwan Dollars Except for LC

Class Group	Classification	Average Return	Fund Count	Currency	Currency Return	Return in LC
Mixed Currency	Money Market Global	0.61	3			
Single Currency	Money Market CAD	3.91	1	Canadian Dollar	3.73	0.17
	Money Market AUD	3.42	2	Australian Dollar	3.02	0.38
	Money Market HKD	1.75	2	Hong Kong Dollar	1.52	0.22
	Money Market USD	1.58	24	US Dollar	1.33	0.24
	Money Market GBP	-0.02	3	UK Pound Sterling	-0.33	0.31
	Money Market EUR	-0.56	15	Euro	-0.67	0.11
	Money Market CHF	-1.07	3	Swiss Franc	-1.09	0.02

Source: Lipper

Bond Fund Performance

Bond TWD returned 0.10% in September and a mere 0.33% in the third quarter. In contrast, its global counterpart Bond Global returned minus 0.12% and 2.79% for the month and the quarter, respectively—obviously influenced by the Taiwanese currency movement. Bond Emerging Markets Global continued to outperform its developed sisters by a large margin in both the month (+3.04%) and the quarter (+8.37%).

Among single-currency international bond fund classifications, Bond USD (+0.60%) and Bond EUR (-0.70%) mirrored their money market cousins in direction but had lower returns. Bond USD actually lost 0.70% in dollar terms and Bond Europe lost 0.03% in euro terms in September. As neither Katrina nor Rita was able to stop the U.S. Fed from raising the benchmark rate by another 25 basis points in September, U.S. bond prices had no choice but to fall. In Europe excitement in stock

markets might have drawn investors away from bonds. In the third quarter both Bond USD (+4.50%) and Bond EUR (+4.80%) benefited from the depreciation of the Taiwan dollar.

Convertibles and high-yield bond funds investing in Europe and Asia outperformed their regular bond fund brothers. Equity rallies in these market benefited convertibles and high-yield bonds. The Bond Convertibles Asia classification, with only one fund, topped the bond fund classifications with a 4.18% return in September. Convertibles, high-yield, and emerging markets bond classifications were all at the top of the bond fund performance chart in the third quarter, with Bond Convertible Europe (only one fund) taking the first spot with a 9.90% return.

Bond Fund Classification Performance in September

Class Group	Classification	Average Return	Fund Count	Currency	Currency Return	Return in LC
Emerging Markets	Bond Emerging Markets Global	3.04	7			
	Bond Emerging Markets Europe	-0.87	1			
Global	Bond Convertibles Global	2.12	2			
	Bond Global USD Hedged	0.96	1	US Dollar	1.33	-0.37
	Bond Global High Yield	0.88	8			
	Bond Global Short Term	0.72	2			
	Bond Global Corporates	0.58	1			
	Bond Global	-0.12	40			
	Bond Global EUR Hedged	-1.46	1	Euro	-0.67	-0.80
Asia Pacific	Bond Convertibles Other	4.18	1			
	Bond Asia Pacific	1.67	5			
Europe	Bond Convertibles Europe	2.03	1	Euro	-0.67	2.72
	Bond Europe High Yield	-0.28	3	Euro	-0.67	0.39
	Bond Europe	-0.69	8	Euro	-0.67	-0.02
	Bond Europe Other	-0.70	1			
	Bond EuroZone	-0.76	2	Euro	-0.67	-0.09
US Dollar	Bond USD Short Term	1.23	4	US Dollar	1.33	-0.10
	Bond USD High Yield	0.63	11	US Dollar	1.33	-0.70
	Bond USD	0.60	26	US Dollar	1.33	-0.72
	Bond USD Corporates	0.24	2	US Dollar	1.33	-1.08
Euro	Bond EUR High Yield	-0.45	4	Euro	-0.67	0.22
	Bond EUR	-0.70	12	Euro	-0.67	-0.03
	Bond EUR Corporates	-0.75	2	Euro	-0.67	-0.08
	Bond EUR Short Term	-0.83	1	Euro	-0.67	-0.16
	Bond EUR Medium Term	-0.92	1	Euro	-0.67	-0.25
Single Currency	Bond AUD	2.23	1	Australian Dollar		
	Bond TWD	0.10	90	Taiwan Dollar		
	Bond GBP	-0.34	6	UK Pound Sterling	-0.33	-0.01
	Bond JPY	-1.21	1	Japanese Yen	-0.64	-0.57
	Bond CHF	-1.23	2	Swiss Franc	-1.09	-0.14

Source: Lipper

Equity Fund Performance

Both Equity Taiwan (+3.70%) and Equity Taiwan Small-/Mid-Cap (+4.63%) gained in September, taking back the lost ground in August and outperforming the TAIEX index (+1.40%) by a large margin. They also did fairly well in the third quarter with returns of 9.10% and 13.15%, respectively, compared to a 1.98% loss of the TAIEX index. The outperformance of Taiwan domestic equity funds could be a result of more diversification among different sectors compared to the technology-laden TAIEX index. The 27% of the US\$492 Taiwan market cap (July figure) held by foreign investors could be more concentrated in large-cap technology stocks.

For funds investing overseas Equity Global returned 4.17% in September and 11.83% in the third quarter. Looking at different regions, Equity Asia Pacific (+8.22%) beat Europe (+3.34%) and North America (+2.51%) in September. That order applied to performance in the third quarter as well, with returns of 17.02%, 12.84%, and 8.88%, respectively. It seems the Asia Pacific region has been a favorite choice for investors because of its high economic growth, especially the recovery of Japan.

Emerging markets funds continued to catch attention with their dazzling double-digit returns in September. Emerging Markets Latin America (+17.56%) was the second best among all fund classifications in September, and its third quarter and year-to-date performance were astonishing—34.97% and 49.89%, respectively. Emerging Markets Global (+10.29%) and Emerging Markets Europe (11.92%) were quite impressive as well. Although hurricanes and oil price hikes may be hurting other economies, oil-rich emerging markets are the beneficiaries.

For single-market equity funds, Korea (+13.00%), Japan (+11.02%), and India (+9.31%) continued to be the darlings. Korea and Japan are driven by internal demand, while India is mainly benefiting from outsourcing. Korea funds were the top performers for the quarter and the year to date as well, posting 25.52% and 45.85%, respectively.

Among sector equity funds Gold and Precious Metals was the best performer among all fund classifications, posting a 20.04% return. Natural Resource gained 10.29% in September and was the champion among all sector fund classifications in the third quarter (+28.49%) and year-to-date (+47.17%) periods. With hurricanes hitting the Gulf Coast, limited oil supply, increasing oil demand, and high-flying oil prices, it is not a surprise to see that natural resources funds' performance was boosted. Fear of inflation might have driven up gold prices in September.

Equity Fund Classification Performance in September

Class Group	Classification	Average Return	Fund Count	Currency	Currency Return	Return in LC
Emerging Markets	Equity Emerging Mkts Latin Am	17.56	9			
	Equity Emerging Mkts Europe	11.92	10			
	Equity Emerging Mkts Global	10.29	9			
	Equity Emerging Mkts Far East	5.90	2			
Regional	Equity Asia Pacific	8.22	11			
	Equity Asia Pacific Ex Japan	5.95	17			
	Equity Global ex US	5.19	1			
	Equity Global	4.17	58			
	Equity Europe ex UK	3.71	7	Euro	-0.67	4.41
	Equity EuroZone	3.40	15	Euro	-0.67	4.10
	Equity Europe	3.34	51	Euro	-0.67	4.03
	Equity North America	2.51	55	US Dollar	1.33	1.17
Single Market	Equity Korea	13.00	8	South Korean Won	1.23	11.63
	Equity Japan	11.02	38	Japanese Yen	-0.64	11.74
	Equity India	9.31	5	Indian Rupee	1.62	7.57
	Equity Indian Sub-Continent	8.78	2			
	Equity Australasia	8.32	5	Australian Dollar	3.02	5.14
	Equity Spain	7.72	3	Euro	-0.67	8.45
	Equity Canada	7.43	1	Canadian Dollar	3.73	3.57
	Equity Indonesia	6.48	2	Indonesia Rupiah	1.43	4.98
	Equity Thailand	6.11	7	Thai Baht	1.92	4.11
	Equity Nordic	4.93	1			
	Equity Switzerland	4.24	4	Swiss Franc	-1.09	5.39
	Equity France	4.01	3	Euro	-0.67	4.71
	Equity Germany	4.01	3	Euro	-0.67	4.71
	Equity Hong Kong	3.97	3	Hong Kong Dollar	1.52	2.41
	Equity Italy	3.88	4	Euro	-0.67	4.58
	Equity Taiwan	3.70	128	Taiwan Dollar		
	Equity Malaysia/Singapore	3.64	4			
	Equity Malaysia	3.20	6	Malaysian Ringgit	1.41	1.76
	Equity Singapore	2.69	5	Singapore Dollar	1.06	1.61
	Equity Netherlands	2.54	2	Euro	-0.67	3.23
	Equity UK	2.02	9	UK Pound Sterling	-0.33	2.36
	Equity Philippines	0.81	2	Philippine Peso	1.81	-0.99
	Equity Greater China	0.80	3	Hong Kong Dollar	1.52	-0.71

Equity Fund Classification Performance in September (Continued)

Class Group	Classification	Average Return	Fund Count	Currency	Currency Return	Return in LC
Small//Mid	Equity Asia Pacific Sm&Mid Cap	6.07	4			
	Equity Japan Sm&Mid Cap	5.24	12	Japanese Yen	-0.64	5.92
	Equity EuroZone Sm&Mid Cap	5.16	2	Euro	-0.67	5.86
	Equity Global Sm&Mid Cap	4.78	6			
	Equity Taiwan Sm&Mid Cap	4.63	21	Taiwan Dollar		
	Equity Europe Sm&Mid Cap	3.83	14	Euro	-0.67	4.53
	Equity Nth America Sm&Mid Cap	2.34	22	US Dollar	1.33	1.00
	Equity UK Sm&Mid Cap	0.33	1	UK Pound Sterling	-0.33	0.66
Industry	Equity Sector Basic Industries	13.60	1			
	Equity Sector General Industry	8.26	1			
	Equity Sector Cyc Cons Goods	2.66	2			
	Equity Sector Non Cyclical Con	1.93	2			
	Equity Sector Cyclical Service	0.53	2			
Sector	Equity Sector Gold&Prec Metals	20.04	4			
	Equity Sector Natural Resource	10.29	9			
	Equity Sector Utilities	7.95	2			
	Equity Sector Real Est Europe	5.05	1			
	Equity Sector Banks&Financial	4.84	8			
	Equity Sector Information Tech	4.61	75			
	Equity Sector Biotechnology	2.90	10			
	Equity Sector Tech Media&Tele	2.78	2			
	Equity Sector Pharma&Health	2.40	9			
	Equity Sector Telecom Srvcs	2.35	3			
Equity Sector Real Est N Am	1.63	2				

Source: Lipper

Mixed-Asset Fund Performance

Mixed-Asset Fund Classification Performance in September

Conservative	Mixed Asset USD Conservative	1.19	1	US Dollar	1.33	-0.14
	Mixed Asset EUR Cons - Global	0.20	2	Euro	-0.67	0.88
	Mixed Asset Other Conservative	0.14	2			
Balanced	Mixed Asset HKD Balanced	4.04	1	Hong Kong Dollar	1.52	2.48
	Mixed Asset CHF Balanced	3.89	1	Swiss Franc	-1.09	5.03
	Mixed Asset USD Bal - Global	2.69	8	US Dollar	1.33	1.34
	Mixed Asset SGD Balanced	2.31	2	Singapore Dollar	1.06	1.23
	Mixed Asset EUR Bal - Europe	1.93	2	Euro	-0.67	2.62
	Mixed Asset USD Bal – N Am	1.80	1	US Dollar	1.33	0.46
	Mixed Asset Other Balanced	1.80	40			
	Mixed Asset EUR Bal - Global	1.14	3	Euro	-0.67	1.82
	Mixed Asset TWD Balanced		82	Taiwan Dollar		
Aggressive	Mixed Asset Other Aggressive	4.66	1			
	Mixed Asset USD Aggressive	4.13	4			
	Mixed Asset EUR Agg - Global	2.59	3			

Source: Lipper

Outlook

September happened to be the end of the third quarter, and that is usually a time to ponder what has happened for the year to date and what is ahead for the remainder of the year.

It seems that the year 2005 so far has been dominated by oil, and the focus probably won't move away until the end of the year or even later. High oil prices may result in a slowdown of the economies that consume more oil, on the one hand, but on the other hand may allocate a larger slice of the world wealth to economies that produce more oil.

Another hot spot has been the extraordinary growth of emerging economies, especially those in Latin America and Eastern Europe. Funds investing in these two regions have posted returns of more than 200% in the past three years, but those investing in Asia returned less than 100% on average. Except for India other Asian emerging markets, such as Korea, China, and Malaysia, have yet to catch up.

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