

# Lipper FundMarket Insight Reports



**Taiwan Fund Market Summary  
Month End Analysis  
October 31, 2005**

2005



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**INFLATION CONCERNS CAUSE BROAD DECLINES**

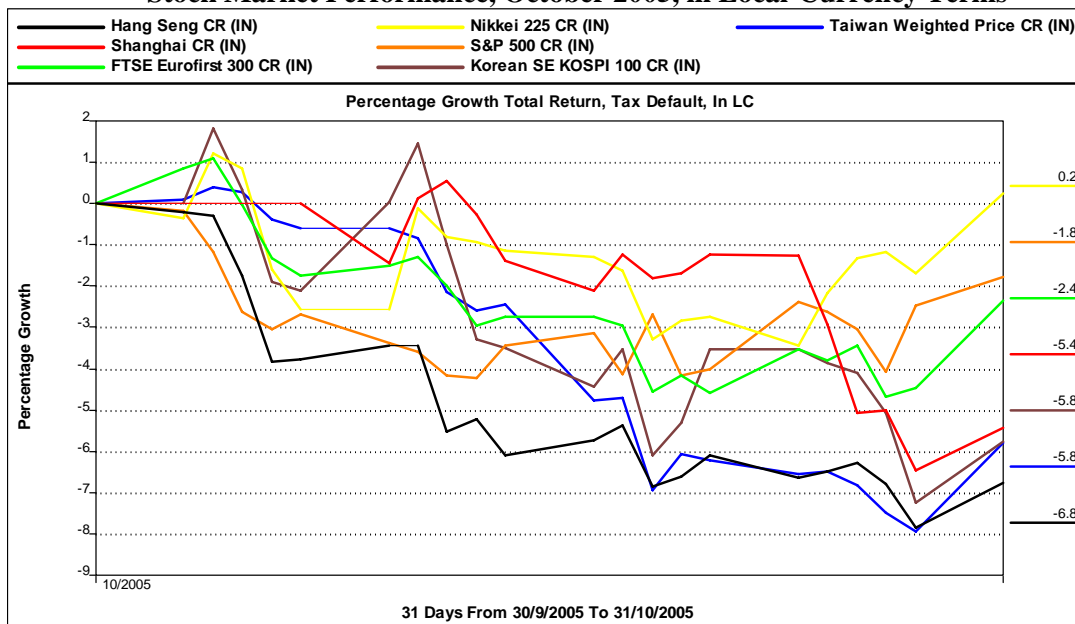
- Both equity and bond funds fell across the board in October.
- Equity India gave back its previous gains and fell 9.36%.
- Utility, natural resources, and gold funds were hurt by falling oil prices.
- International money market funds benefited from a weaker Taiwanese dollar.
- Equity Taiwan lost 6.64%, underperforming the TAIEX index.

**Market Performance**

The Taiwan stock market dropped steeply, down 5.8% in October, together with those of its neighbors such as Korea (-5.8%), Hong Kong (-5.8%), and Mainland China (-5.4%). On the other hand, Japan (+0.2%) did better than the U.S. (-1.8%) and Europe (-2.4%) in October.

October was a depressing month for the stock markets around the globe, mainly because of concerns about the drag on the global economy by inflation caused by high oil prices. Hurricanes Katrina and Rita damaged refinery facilities in the Gulf Coast in the past two months and caused spikes in oil prices, which resulted in higher inflation in the U.S. On the other hand, the U.S. Fed is quite determined to further hike interest rates to rein in inflation, bringing the Fed fund rate to 4.00%, and it is expected to go even higher. Higher inflation and higher interest rates may slow down consumer spending in the U.S., especially before the upcoming holiday season, when a major part of total sales are made for the whole year. Shrinking U.S. spending would be a drag on global economies.

**Stock Market Performance, October 2005, in Local-Currency Terms**



Source: Lipper

**Money Market Fund Performance**

The Taiwan dollar continued its decline against major currencies in October. The Taiwan dollar has been losing value against the U.S. dollar for six months by a total of 6.8%. Strengthening of the U.S. dollar, capital flows out of Taiwan, and inaction by the Taiwan central bank are part of the reasons behind the falling Taiwanese currency.

The depreciating Taiwan dollar helped the money market fund classifications in October, except for CAD and AUD. Reduced demand for raw materials provided less support to Canadian and Australian currencies, which have rallied for the past few months.

The best performer among the money market classifications was the GBP, helped by both the currency appreciation against the Taiwan dollar and relatively high interest rates in the U.K.

**Money Market Fund Performance, October 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	1.29	2			
Single Currency	Money Market GBP	1.49	3	UK Pound Sterling	1.17	0.32
	Money Market HKD	1.44	2	Hong Kong Dollar	1.17	0.26
	Money Market USD	1.35	25	US Dollar	1.10	0.25
	Money Market CHF	0.98	3	Swiss Franc	0.96	0.02
	Money Market EUR	0.54	15	Euro	0.44	0.10
	Money Market CAD	-0.34	1	Canadian Dollar	-0.52	0.18
	Money Market AUD	-0.71	2	Australian Dollar	-1.08	0.38

Source: Lipper

### **Bond Fund Performance**

Domestic bond fund classification Bond TWD returned 0.11% for October, while Bond Global lost 0.36% despite the support from a weaker Taiwanese dollar. Caution is needed when interpreting the performance figures for domestic Taiwanese bond funds because the reported NAVs may not reflect the true market values of the bond holdings and the related interest rate risks and credit risks. The Taiwanese government has realized the problem with this practice and has started to restructure the bond fund sector and to reform the valuation practices according to international standards.

Opposite of September's results, all international bond fund classifications posted losses in local currency terms in October, with corporate bond and convertible bond fund classifications claiming the bottom of each classification group. Even in Taiwanese dollar terms, only a few classifications were positive. Bond USD Short-Term (+1.04%) had the highest return, and Bond JPY (-1.94%) had the lowest return in Taiwanese currency terms, while Bond Convertibles Europe posted the worst return of minus 1.37% in local currency terms.

Concerns about inflation globally not only dragged down the equity markets but also hurt the bond markets. Higher inflation incurs higher interest rates and declines in bond prices, especially prices of bonds with longer durations. Interestingly, high-yield bond fund classifications were less impacted by the inflation concerns than their investment-grade counterparts, as shown in the performance table. For example, Bond Europe High Yield (+0.19%) had the highest return in the Europe classification group. Higher inflation forces investors to search for higher yield, increasing demand for high-yield bonds.

**Bond Fund Classification Performance in October 2005**

Class Group	Classification	Average Return	Fund Count	Currency	Currency Return	Return in LC
Emerging Markets	Bond Emerging Markets Global	-0.21	8			
	Bond Emerging Markets Europe	-0.34	1			
Global	Bond Global Short Term	0.35	2			
	Bond Global USD Hedged	0.31	1	US Dollar	1.10	-0.78
	Bond Global High Yield	-0.02	8			
	Bond Global EUR Hedged	-0.31	1	Euro	0.44	-0.75
	Bond Global	-0.36	40			
	Bond Global Corporates	-0.41	1			
	Bond Convertibles Global	-0.87	2			
Asia Pacific	Bond Asia Pacific	0.12	5			
	Bond Convertibles Other	-1.90	1			
Europe	Bond Europe High Yield	0.19	3	Euro	0.44	-0.25
	Bond EuroZone	-0.48	2	Euro	0.44	-0.92
	Bond Europe	-0.69	8	Euro	0.44	-1.13
	Bond Convertibles Europe	-0.94	1	Euro	0.44	-1.37
	Bond Europe Other	-1.41	1			
US Dollar	Bond USD Short Term	1.04	4	US Dollar	1.10	-0.06
	Bond USD	0.30	27	US Dollar	1.10	-0.79
	Bond USD High Yield	0.13	12	US Dollar	1.10	-0.96
	Bond USD Corporates	-0.24	2	US Dollar	1.10	-1.33
Euro	Bond EuroZone Short Term	0.18	1	Euro	0.44	-0.26
	Bond EUR Short Term	0.10	1	Euro	0.44	-0.34
	Bond EUR High Yield	-0.02	3	Euro	0.44	-0.45
	Bond EUR Medium Term	-0.20	1	Euro	0.44	-0.64
	Bond Other EUR Hedged	-0.32	1	Euro	0.44	-0.76
	Bond EUR	-0.46	13	Euro	0.44	-0.89
	Bond EUR Corporates	-0.67	2	Euro	0.44	-1.11
Single Currency	Bond GBP	1.02	5	UK Pound Sterling	1.17	-0.15
	Bond TWD	0.11	90	Taiwan Dollar		
	Bond CHF	-0.01	2	Swiss Franc	0.96	-0.96
	Bond AUD	-1.33	1	Australian Dollar	-1.08	-0.25
	Bond JPY	-1.94	1	Japanese Yen	-1.56	-0.39

Source: Lipper

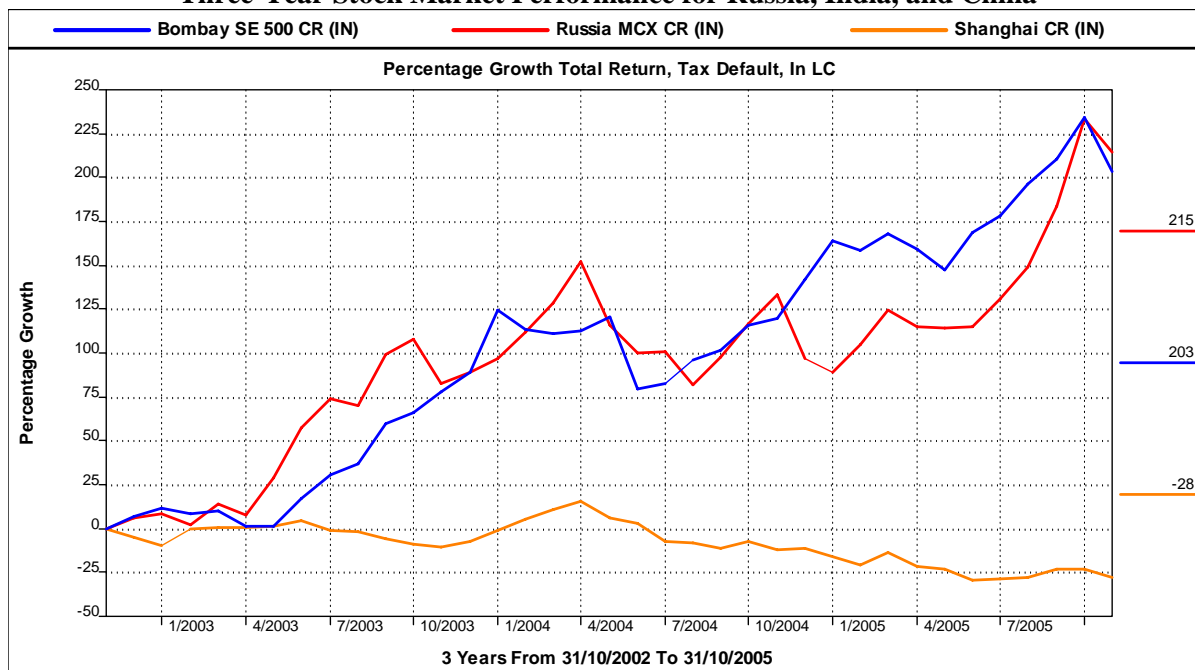
**Equity Fund Performance**

Equity funds fell across the board in October in sharp contrast to the many double-digit gains in September. Among all 60 Lipper equity fund classifications available in Taiwan, only three turned out positive: Equity Philippines (+5.40%), Equity Indonesia (+0.42%), and Equity Japan (+0.21%). The three biggest losers for the month were Equity India (-9.36%), Equity India Sub-continent (-9.14%), and Emerging Markets Europe (-8.65%).

Equity India and Equity India Sub-continent pretty much gave back all their gains of September. This came as a result of profit taking after the tremendous recent gains. Even with the huge loss in October, the Equity India classification has still gained 17.84% on a year-to-date basis. For the past 36 months the Equity India classification has gained a total of 228.82% or almost 50% per year. It seems that outsourcing did an amazing job in pumping up the stock market in India. We can see from the following graph that both Russia's and India's stock markets have been soaring, but China's stock market has fallen far behind in the past three years, despite the high economic growth rate.

The sector fund performance chart also turned upside down in October, with the September high fliers such as Equity Sector Utilities (-7.48% in October), Equity Sector Natural Resources (-7.39% in October), and Equity Sector Gold and Precious Metals (-5.80% in October) sinking all the way to the bottom. The fall of these sectors related to an easing demand for oil and stabilized oil prices. The oil price dropped to the US\$60/barrel range, and the market was less nervous about further hikes of oil prices in the short term, although the inflationary effect of a higher oil price level is here to stay. Falling oil prices also drove the losses in oil-rich emerging markets fund classifications in October.

**Three-Year Stock Market Performance for Russia, India, and China**



Source: Lipper/Reuters

**Equity Fund Classification Performance in October**

Class Group	Classification	Average Return	Fund Count	Currency	Currency Return	Return in LC
Emerging Markets	Equity Emerging Mkts Latin Am	-3.65	9			
	Equity Emerging Mkts Global	-5.15	9			
	Equity Emerging Mkts Far East	-5.25	2			
	Equity Emerging Mkts Europe	-8.65	10			
Regional	Equity North America	-1.11	58	US Dollar	1.10	-2.18
	Equity Global	-2.26	58			
	Equity Global ex US	-2.60	1			
	Equity Asia Pacific	-2.66	11			
	Equity Europe	-2.67	53	Euro	0.44	-3.10
	Equity Europe ex UK	-3.21	8	Euro	0.44	-3.63
	Equity EuroZone	-3.49	15	Euro	0.44	-3.92
	Equity Asia Pacific Ex Japan	-4.62	17			
Single Market	Equity Philippines	5.40	2	Philippine Peso	3.23	2.10
	Equity Indonesia	0.42	2	Indonesia Rupiah	2.85	-2.36
	Equity Japan	0.21	39	Japanese Yen	-1.56	1.80
	Equity Switzerland	-0.13	4	Swiss Franc	0.96	-1.08
	Equity Malaysia	-0.73	6	Malaysian Ringgit	0.94	-1.65
	Equity Malaysia/Singapore	-2.44	4			
	Equity UK	-2.59	9	UK Pound Sterling	1.17	-3.71
	Equity Netherlands	-2.83	2	Euro	0.44	-3.25
	Equity Germany	-2.88	3	Euro	0.44	-3.31
	Equity Singapore	-3.29	5	Singapore Dollar	0.74	-4.00
	Equity Spain	-3.72	3	Euro	0.44	-4.15
	Equity Korea	-3.74	8	South Korean Won	1.23	-4.91
	Equity France	-4.48	3	Euro	0.44	-4.90
	Equity Australasia	-4.60	5	Australian Dollar	-1.08	-3.56
	Equity Thailand	-4.91	7	Thai Baht	1.77	-6.56
	Equity Greater China	-5.71	3	Hong Kong Dollar	1.17	-6.80
	Equity Canada	-5.99	1	Canadian Dollar	-0.52	-5.50
	Equity Hong Kong	-6.04	3	Hong Kong Dollar	1.17	-7.13
	Equity Nordic	-6.13	1			
	Equity Taiwan	-6.64	129	Taiwan Dollar		
	Equity Italy	-6.67	4	Euro	0.44	-7.08
	Equity Indian Sub-Continent	-9.14	2			
	Equity India	-9.36	5	Indian Rupee	-1.45	-8.03

**Equity Fund Classification Performance in October (Continued)**

Class Group	Classification	Average Return	Fund Count	Currency	Currency Return	Return in LC
Small//Mid	Equity Japan Sm&Mid Cap	3.12	12	Japanese Yen	-1.56	4.75
	Equity Nth America Sm&Mid Cap	-2.28	22	US Dollar	1.10	-3.34
	Equity Swiss Sm&Mid Cap	-2.98	1	Swiss Franc	0.96	-3.90
	Equity Global Sm&Mid Cap	-3.43	6			
	Equity UK Sm&Mid Cap	-3.45	1	UK Pound Sterling	1.17	-4.57
	Equity Asia Pacific Sm&Mid Cap	-4.30	4			
	Equity Europe Sm&Mid Cap	-4.97	15	Euro	0.44	-5.39
	Equity EuroZone Sm&Mid Cap	-5.96	2	Euro	0.44	-6.37
	Equity Taiwan Sm&Mid Cap	-6.68	21	Taiwan Dollar		
Industry	Equity Sector Cyclical Service	-1.94	2			
	Equity Sector Non Cyclical Con	-2.56	2			
	Equity Sector Cyc Cons Goods	-4.25	2			
	Equity Sector Basic Industries	-5.24	1			
	Equity Sector General Industry	-5.96	1			
Sector	Equity Sector Real Est N Am	-0.01	2			
	Equity Sector Banks&Financial	-0.67	8			
	Equity Sector Pharma&Health	-1.43	9			
	Equity Sector Telecom Srvcs	-1.56	3			
	Equity Sector Biotechnology	-3.05	9			
	Equity Sector Tech Media&Tele	-3.84	2			
	Equity Sector Information Tech	-4.05	76			
	Equity Sector Real Est Europe	-4.73	1			
	Equity Sector Gold&Prec Metals	-5.80	4			
	Equity Sector Natural Resource	-7.39	9			
Equity Sector Utilities	-7.48	2				

Source: Lipper

### Mixed-Asset Fund Performance

#### Mixed-Asset Fund Classification Performance in October

Conservative	Mixed Asset USD Conservative	0.21	1	US Dollar	1.10	-0.88
	Mixed Asset EUR Cons - Global	-0.51	2	Euro	0.44	-0.95
	Mixed Asset Other Conservative	-1.21	3			
Balanced	Mixed Asset USD Bal - N Am	-0.15	1	US Dollar	1.10	-1.24
	Mixed Asset USD Bal - Global	-0.75	9	US Dollar	1.10	-1.83
	Mixed Asset EUR Bal - Global	-1.20	3	Euro	0.44	-1.63
	Mixed Asset Other Balanced	-1.63	40			
	Mixed Asset CHF Balanced	-1.76	1	Swiss Franc	0.96	-2.69
	Mixed Asset HKD Balanced	-2.03	1	Hong Kong Dollar	1.17	-3.16
	Mixed Asset TWD Balanced	-2.45	82	Taiwan Dollar		
	Mixed Asset SGD Balanced	-2.46	2	Singapore Dollar	0.74	-3.18
	Mixed Asset EUR Bal - Europe	-2.66	2			
Aggressive	Mixed Asset USD Aggressive	-0.48	4			
	Mixed Asset EUR Agg - Global	-1.53	3			
	Mixed Asset Other Aggressive	-2.71	1			

Source: Lipper

### Outlook

The fourth quarter of 2005 started with a bleak October for investors across the board. The inflation shadow is now hovering all over the globe, brought about by a higher level of oil prices. But the good news is that oil prices seem to be stabilizing, so they won't choke the global economy all together. In the meantime the 3.8% third quarter GDP growth rate hinted the U.S. economy is still strong, which may keep the momentum going until the fourth quarter. Whether the widely eyed holiday season sales are going to be affected by higher oil prices remains to be seen, and whether bird flu can be contained around the global is also significant, especially for those areas affected.

On the fixed income side, the newly appointed U.S. Fed chairman Ben Bernanke is likely to continue on the rate hike path set by his predecessor Alan Greenspan, especially at a time inflation is in the headlines. Rate hikes may be instituted by central banks in Asia to avoid fund flows out of the region. So, the long-term bond prices may continue to be under pressure as funds shift toward the short-term. But the direction may change if the growth in the U.S. shows signs of slowing down or inflation pressure lessenes.

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