

# Invest.Wise

Quarterly Asset Allocation

6 March 2013

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## Market Commentary

Unprecedented monetary expansion around the world has created conditions for continued gains in risk asset prices in 2013 despite structural problems in the global economy.

There will be volatility and periodic bouts of fear. The US, Japan and Europe continue to struggle with debt and deficit problems. But central banks are acting as lenders of last resort, and the risk of another global financial crisis has been greatly reduced. Equities risk premiums are close to cyclical highs and should ease as market focus shifts from "tail risk" to "normal" business cycle risks.

Over recent years, periodic bouts of fear have been repeatedly managed sideways by policy interventions. Meanwhile, economies and earnings have continued to grow, driving an uptrend in share prices. As we approach the end of 2Q-13, there are renewed concerns over US spending cuts and the political gridlock in Italy. But as before, these problems are likely to pass without a major meltdown. The programmed spending cuts will likely to be reduced through negotiations. In Europe, if matters do come to a head, Italians will still choose to stay in the Euro.

Meanwhile on the economic front, the US should perform reasonably well in 2013 and could even surprise on the upside further down the road. House prices have stabilised; the inventory of existing homes has worked down to pre-crisis levels; and home building has picked up. Corporate investment should pick up in response to housing sector improvement and increased consumer confidence. The turnaround in US energy production from shale oil and gas technologies should further boost investment, jobs and productivity down the line.

The strengthening of the Chinese economy will also boost global growth and market confidence. With leadership transition out of the way, Beijing can focus on an economy now in the early stages of a cyclical upturn.

The Euro area recession is likely to have been "priced in" and the economy should work past its maximum contraction in 1H-13. In Japan, promised aggressive fiscal and monetary stimulus should boost both the economy and equities.

Meanwhile, quantitative easing by central banks in the developed economies will keep yields low in targeted asset classes, driving up prices of riskier asset classes through yield relativities.

Equities should be the best performing asset class in 2013 as fear and cyclically high risk premiums ease. Corporate bonds will also benefit, with high-yielders likely to perform better as spreads compress even further.

Commodities, particularly base metals, should recover with the Chinese economy.

Although the US dollar could weaken later in the year, the near-term outlook is for US dollar strength. The questions now weighing on the markets are whether US quantitative easing is already in the price of the dollar and whether the central banks of other major currencies could take their turns at monetary easing?



### Equities

Politics and the equities risk premium will be critical to stocks in 2013. At a time of unprecedented policy intervention in asset markets, these two factors are inextricably intertwined.

As the curtain fell on 2012, markets appear to be reading political events positively for risk assets. Since the arrival of open-ended quantitative easing (QE) by the Federal Reserve and the promise of unlimited government bond market intervention by the European Central Bank (ECB) in the third quarter of 2012, there is growing confidence that politicians and policymakers will do whatever it takes to support economies and asset markets. The language from the Fed and the ECB says as much. The Prime Minister of Japan, Shinzo Abe, has also promised aggressive fiscal and monetary expansion.

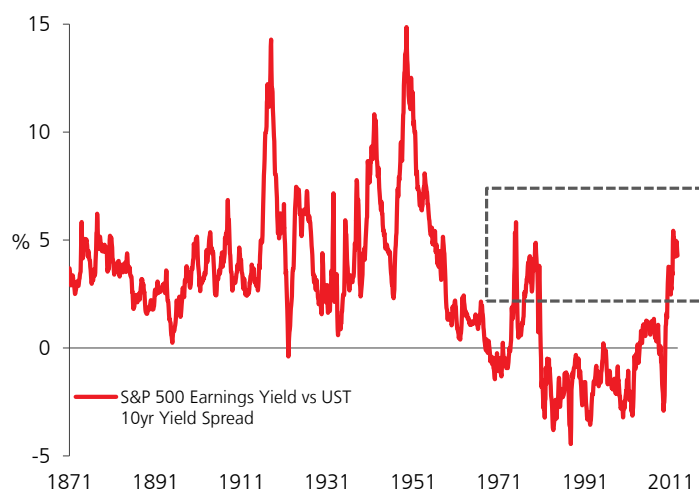
Politics will also play an important role in determining economic growth. In the US, markets had been calm in the lead-ups to the so-called "fiscal cliff" and "sequestration" in the US. They have seen this "movie" before in earlier debt and deficit negotiations over the past two years. The final scene was always one of

compromise. And although the spending cuts under “sequestration” have started, we remain confident of two things. One, the cuts are not a game changer for the markets - they will shave only 0.6 percentage points off GDP growth. Two, it is still likely that US lawmakers will compromise to moderate the impact of the cuts over coming weeks.

Similarly, there is now talk of a new threat to the Euro from the Italian political gridlock. While the Italians may renegotiate the terms of austerity, they will in the end choose to stay in the Euro.

With market fears of another global financial crisis easing, equities risk premiums – which manifest themselves in high equities earnings yields relative to yields on government bonds – are likely to ease around the world. The risk premium associated with the MSCI World Index remains close to its 2008 high. The levels are similar for Asia ex-Japan and European indices. The risk premium for the S&P500 index goes even further back, to the stagflationary turmoil of the 1970s. (Figure 1) As economic and financial troubles go, the 1970s – which saw the US dollar de-pegged from its gold standard, the breakdown of the Bretton Woods system, and the Federal Reserve’s policy rate surge to 20 per cent – sets a pretty high bar.

Figure 1: S&P 500 Risk Premiums Back to 1970 Highs

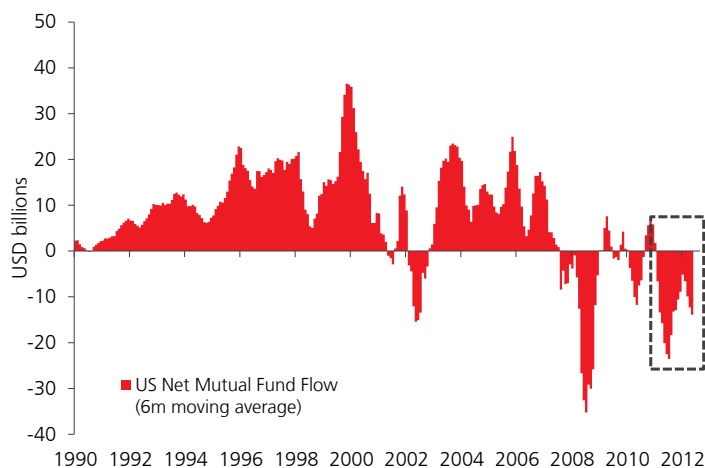


Source: Robert Shiller, as of end September 2012

The twin structural problems of government debt and deficit should be contained. The global economy should grow, pushing corporate earnings higher. Net flows into US equity mutual funds remain negative, hovering around the levels of mid-2009. (Figure 2) Net flows into bond and income funds remain elevated, rivalling levels recorded in late 2008-early 2009.

Still, we may have seen the peak of US equities outperformance for this cycle. Leadership should continue to shift from the US to Asia ex-Japan, as fears of a hard economic landing in China have dissipated. A range of indicators tell us that China’s business cycle is turning. While politics were a drag on Chinese equities through much of 2012, they should do the opposite in 2013. Leadership distractions are over. Fiscal and monetary support should gather momentum.

Figure 2: Net Flows To US Equity Funds Stay Negative



Source: Datastream, data as of end January 2013



## Fixed Income

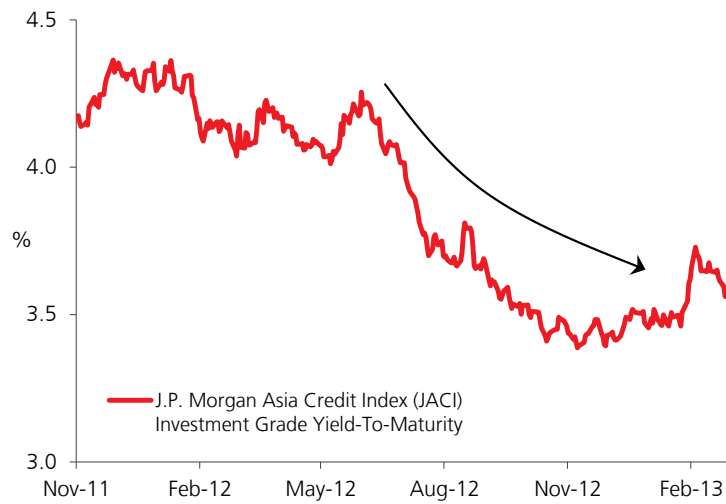
The flipside of the argument that equities risk premiums are too high is that bonds are fully valued or perhaps even overvalued.

With the benchmark 10-year yield trading around levels last seen in the 1950s, there is little compelling value in US Treasuries. From a contrarian perspective, the huge net inflows into bond funds in the US – which have been approaching levels last seen during the global financial crisis – suggest bonds may be overbought.

For Asian credits, yields on USD-denominated bonds have reached historical lows. They currently yield around 4% compared with 6% a year ago, and are under the 2011 low of 4.65%. There are valuation issues here too.

There remains ample liquidity to absorb the record supply of new issuances. Spreads for Asian credits narrowed in 2012 in a year of record new issuances. (Figure 3)

Figure 3: Asian Credit Spreads Narrowed in 2012



Source: Bloomberg, data as of end February 2013

Aggressive quantitative easing are keeping yields down on government and other targeted securities, and bond markets are unlikely to collapse. This is the logic of the US Federal Reserve “portfolio balance channel”. Quantitative easing – working through yield relativities – should suppress yields across most asset classes, including corporate credits, this year.

We maintain a neutral weight for fixed income for diversification. In recent times, market and portfolio performances have tended to be binary in nature – with most assets moving up in “risk-on” periods and down in risk-off episodes. But an easing of fear of high impact/low probability events such as a break-up of the Euro should see further divergence in asset class correlations, making diversification a more effective strategy.

We prefer Asia ex-Japan credits over developed market bonds. While we have a preference for investment grade corporates, we would look for spread widening to reposition selectively into better quality high yielders.



## Commodities

In a complex as large as commodities, there are differences in how they are likely to perform in 2013 but we believe commodities driven by Chinese demand – particularly base metals – should do well.

DBS Bank expects China’s economic growth to surprise the market consensus on the upside for 2013. Fixed asset investment growth will likely continue to lead the economy. Infrastructure development and property construction are picking up again. Recoveries are also evident in the production of steel, cement, asphalt, and other materials. And while there have been restrictions against property speculation, these curbs are unlikely to spread to broader policy tightening given the current benign inflation outlook. (Figure 4)

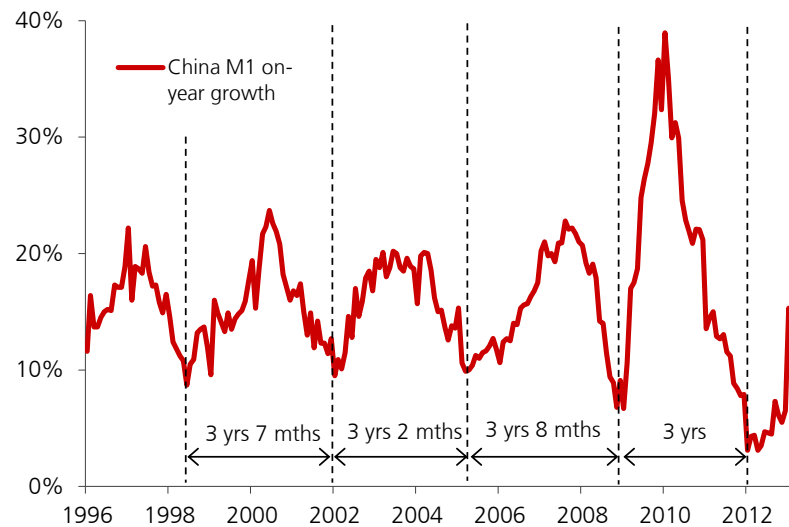
The base metals recovery should continue, initially on confirmation of China’s rebound and eventually when the world’s 2nd largest economy better the consensus estimate of 8.1% growth. The Hang Seng China Enterprise Index (HSCEI) – which usually tracks the London Metals Exchange (LMEX) Index – has recently outperformed base metals by a significant margin. This divergence is likely to be closed with

metal prices moving higher as China bears retreat. The LME Index tracks the prices of copper, lead, nickel, aluminium, zinc and tin.

Crude oil prices should stay reasonably stable in 2013 . The threat of upside shocks is easing with a lowering of geopolitical tensions involving Iran. Slightly stronger global demand should be offset by a small increase in supply, primarily from North America and Iraq.

Gold will at best trade in a sideways range given the current US dollar strength. There is a risk of further gold price weakness if US dollar strength persists.

Figure 4: China In Early Stages of New Cycle



Source: Bloomberg, CIO Office, data as of end February 2013



## Currencies

Two themes will dominate in 2013. One is an old theme - competitive quantitative easing/devaluation between the major currencies and directional strength for Asia ex-Japan. The other is the normalisation of risk perceptions. The second should support growth related currencies, such as the Aussie and the Kiwi, as the risk-adjusted carry on these currencies against the US dollar rises from lower volatility.

The US Federal Reserve's open-ended quantitative easing programme - which recently more than doubled to USD85 billion a month - argues for a weaker Dollar. But this may not be universally applicable because what may be more important are marginal changes in other QE programmes. The promise of more aggressive QE by Japan's Liberal Democratic Party government has changed the dynamics in global currency markets, with markets wary of competitive devaluation/quantitative easing as other central banks play catch up with the Fed. Near-term, the dollar could remain resilient to stronger against other major currencies.

# Understanding Portfolio Strategies

## Credit Ratings Simplified

Investors all over the world rely on credit ratings issued by credit agencies. Despite the doubt surrounding some of these ratings in the aftermath of the 2008 global financial crisis, it is still widely used as a risky business benchmark.

Credit ratings provide a sense of how safe a debt investment is. That is, whether they will get their money back. A better rating means investors are more likely to get back the amount they lent, with interest on top.

For companies, credit ratings affect borrowing costs. A good credit rating means a company can issue debt at lower interest rates, as the risk of holding the debt is judged to be lower. The converse is true.

For countries, the impact extends to the other asset markets. As some investors can only invest in countries with an investment-grade rating, an upgrade from speculative to investment-grade status could see funds flow in.

### A measure of creditworthiness

Credit ratings measure how able a country or company is to repay its debt. In other words, its creditworthiness. Ratings agencies are paid to form an opinion of how likely the country or company is to default. The world's three largest agencies are Standard & Poor's (S&P), Moody's Investors, and Fitch Ratings.

### Going beyond the hard numbers

The analysis is not a pure science, as analysts have to look beyond the hard numbers to determine an appropriate credit rating.

When issuing a sovereign debt rating, agencies look at how stable the political climate and economy are, and if the country has a history of default. A country may be able to pull itself out of debt woes, but if the debt card is flashed too easily, it may not try as hard to make their debt and interest payments. In a recurring and ongoing debt nightmare, Europe - and how it exits its debt crisis - appears to be held hostage over how Greek debt is repaid and rated.

For companies, the evaluation includes the industry and markets it operates in, the strength of the business itself, and specific risk factors such as clauses in the bond's structure that may provide added protection against default, or the quality and reliability of future cash flows (e.g. toll road fees) to fund debt repayments.

Analysts then assign a rating based on an alphabetical scale, with AAA (by S&P) the top rating, and D the lowest. More broadly, the ratings can be seen as investment grade and speculative or 'junk'. (Figure 1).

Figure 1: Credit Ratings Scale

	S&P's Rating*	Moody's Rating	
Investment grade	AAA	Aaa	Highest quality, lowest credit risk ↓ Credit quality diminishes down the scale. ↓ Issuer in default
	AA	Aa	
	A	A	
	BBB	Baa	
Non-investment grade / Speculative / "junk"	BB	Ba	
	B	B	
	CCC	Caa	
	CC	Ca	
	C	C	
	D	C	

\* Method developed by Fitch Ratings, but later purchased and licensed by S&P.

Source: DBS CIO Office, S&P, Moody's

### Credit ratings are not...

There are some common misconceptions about credit ratings, and we try to address them here. In short, credit ratings are not...

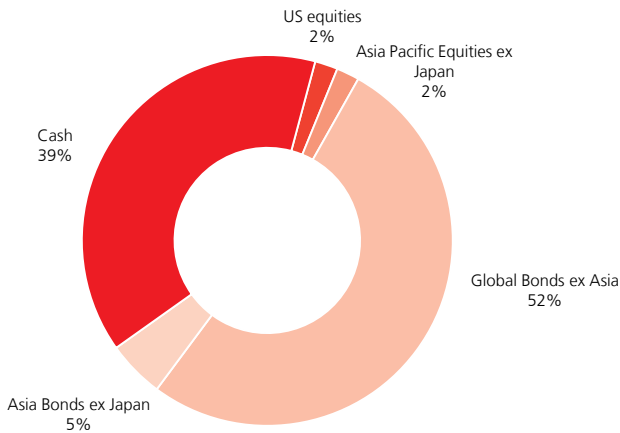
- **buy/hold/sell recommendations.** Risk profile, existing investment portfolio, investment goal, and time horizon matter too. For instance, most investors fled Ireland bonds when its debt woes hogged headlines. But some who believed Ireland would pull through, and had the resources and time to ride through the volatility, stocked up on Irish bonds. Yields fell from 8.4% at the start of 2012 to 4.6% in November, translating into handsome profits.
- **absolute predictors of default.** A top-rated company or country can still default due to unexpected developments. Lehman Brothers declared bankruptcy on 15 September 2008, and major insurance company AIG accepted a US government bailout the next day despite both commanding top quality credit ratings. This was virtually unthinkable then.
- **guarantees of future valuations.** In the lead-up to the US housing bubble, subprime mortgages were bundled and sold with AAA credit rating tags, as analysts thought there was a slim chance that all the mortgages would default at the same time. Investment funds flooded these assets. But as the bubble unraveled, these bundles were swiftly downgraded, and the values of the investment dropped drastically.
- **a prerequisite for creditworthiness.** It's not always the case that the issuer of a non-rated bond has cash problems. Issuers may find it enough to rely on another party's rating, or may not want to pay the rating fee. For example, bonds issued by Singapore's statutory boards are not rated, but yet are seen as safe because of the Singapore government's AAA rating.
- **an indication of liquidity risk,** which is the possibility of being unable to sell an asset quickly enough to avoid a loss. Financial markets froze when Lehman Brothers collapsed; buying and selling in debt markets practically ground to a halt, and even the bonds issued by companies with solid cash balances found no takers.

# Asset Allocation

## DBS 3-Month Tactical Model Portfolio – Q1 2013

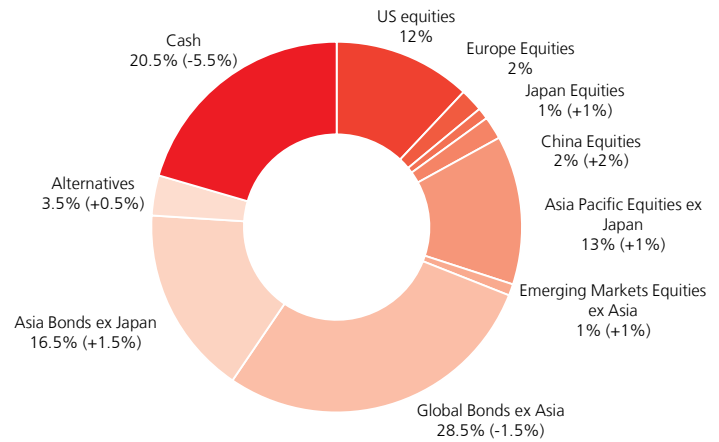
### 1. Defensive

Capital preservation with minimal risk exposure



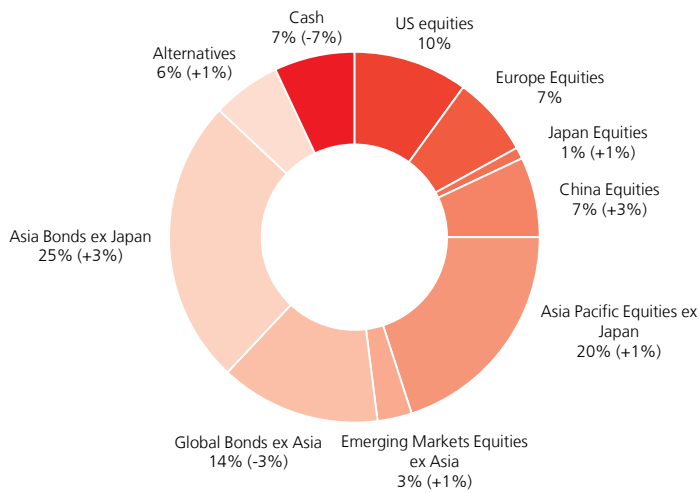
### 2. Conservative

Capturing some capital growth with low risk exposure



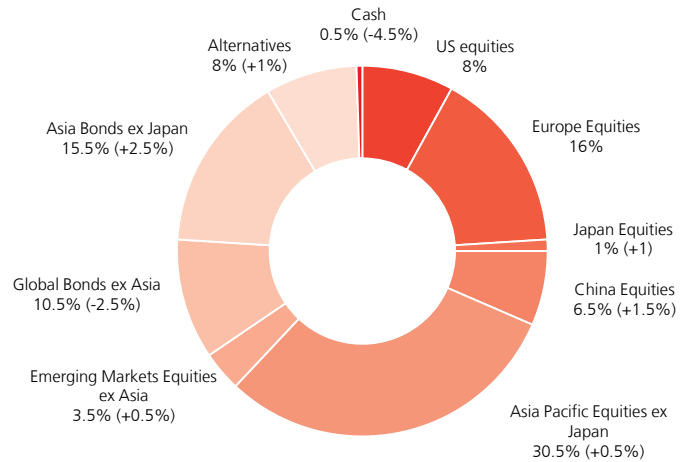
### 3. Balanced

Capturing modest capital growth through a balanced risk-and-return approach



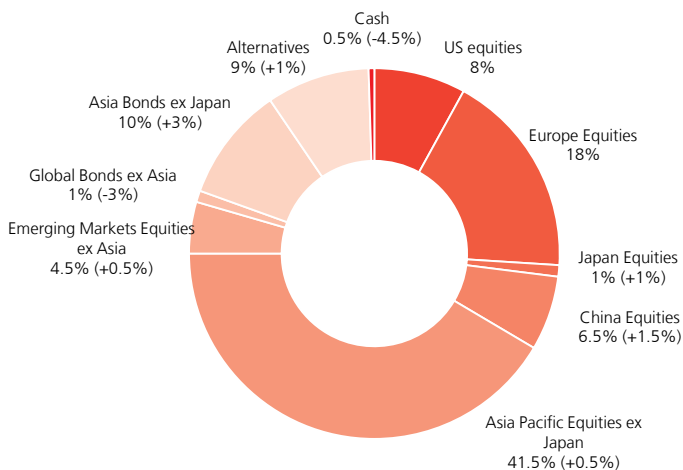
### 4. Growth

Higher wealth enhancement through greater exposure to risky assets



### 5. Aggressive

Maximising capital growth potential through exposure to a large portion in risky assets



#### Notes:

Percentages denote actual tactical asset allocation weights for a 3 month time horizon.

Asia Pacific ex Japan equities excludes both Japan and China equities.

Figures in brackets refer to the tactical weight shifts versus the strategic allocation. Taking the Balanced model as an example, "China Equities 7% (+3%)" represents an overweight of 3% compared to the neutral weight of 4%.

## Tactical Asset Allocation – Q1 2013

Asset Class	Region	3m view	12m view	Rationale
Equities	US	Neutral	Neutral	<ul style="list-style-type: none"> <li>- US sequestration (automatic government spending cuts) and weaker consumer spending growth due to higher payroll taxes. These present 2013 growth downgrade risks.</li> <li>- The growth trajectory should tick up in 2H-13 as headwinds recede.</li> <li>- Housing rebound and loose monetary policy backs a medium-term recovery.</li> <li>- Valuation is fair but an improving corporate profit margin trend appears to be flattening out.</li> </ul>
	Europe	Neutral (Previous: Underweight)	Neutral (Previous: Underweight)	<ul style="list-style-type: none"> <li>- Near -term market turbulence from political uncertainty in Italy.</li> <li>- But unlimited bond purchase pledge by the ECB suggests a lower possibility of an European crisis flare-up.</li> <li>- Economy has likely bottomed. Should exit recession in 2013.</li> <li>- Low earnings expectations could be revised up but unlikely to match APxJ or other emerging markets.</li> </ul>
	Japan	Overweight (Previous: Neutral)	Overweight	<ul style="list-style-type: none"> <li>- Some near-term consolidation possible given sharp rally, lack of immediate positive catalysts and concerns over currency wars.</li> <li>- PM Shinzo Abe pursuing expansionary fiscal and monetary policy. Change in BOJ leadership in March likely to bring about further easing and catalyze higher moves in equities.</li> <li>- Japanese retail investors rotating out of foreign investments back into domestic equities also provide support.</li> </ul>
	China	Overweight	Overweight	<ul style="list-style-type: none"> <li>- Equities valuations attractive. Economy likely bottomed in 3Q-12 for this cycle.</li> <li>- Catalysts: modest economic growth recovery, a smooth leadership transition and a focus on reform.</li> </ul>
	Asia Pacific ex- Japan	Overweight (Previous: Neutral)	Overweight	<ul style="list-style-type: none"> <li>- Modest recovery in US and China should benefit APxJ economies.</li> <li>- Data from Jan/Feb suggests economic activity is indeed slowly picking up.</li> <li>- Strong 2013 earnings per share (EPS) growth suggest outperformance.</li> </ul>
	Emerging Markets	Overweight (Previous: Neutral)	Overweight (Previous: Neutral)	<ul style="list-style-type: none"> <li>- Improving economic data, recovering EM corporate profit margins, and rising portfolio inflows into EM equities argues for an EM Overweight despite higher-than-expected inflation in Jan/Feb 2013</li> </ul>
	Bonds	Global ex-Asia	Underweight (Previous: Neutral)	Underweight
Asia ex-Japan		Overweight	Overweight	<ul style="list-style-type: none"> <li>- We favour AxJ local currency bonds because of potential returns from long-term local currency appreciation and attractive yields.</li> <li>- Strong Asian sovereign credit quality should remain supportive in attracting portfolio inflows into Asian fixed income</li> </ul>
Alternatives	N/A	Overweight	Overweight	<p><b>Property</b> (3M Neutral; 12M Neutral) – REITs continue to benefit from the global thirst for yield, but a lot of positive expectations are priced in.</p> <p><b>Commodities</b> (3M Overweight; 12M Overweight) – Growth-sensitive commodities consolidating near term. But tight market fundamentals in crude oil and copper and a recovering global economy likely to drive sentiment up for commodities over 2013.</p> <p><b>Gold</b> (3M Neutral; 12M Neutral) – Declining political / economic uncertainties, rising growth expectations and US dollar resilience balance out gold-bullish factors of ongoing Fed QE and central bank purchase.</p> <p><b>Hedge Funds</b> (3M Neutral; 12M Neutral) – Neutral weight to hedge funds for diversification.</p>
Cash	N/A	Underweight	Underweight	<ul style="list-style-type: none"> <li>- Negative real interest rates in many parts of the world make cash very unattractive.</li> </ul>

Figures and estimates are as of end February 2013  
Asia Pacific ex Japan equities excludes both Japan and China equities.

## Strategic Asset Allocation Models

### Investment Objectives of the Model Portfolios

The DBS Strategic Model Portfolios have been developed in consultation with Morningstar Associates, LLC based on a set of capital market assumptions. Morningstar Associates, LLC, the industry leader in fund of funds management, investment consulting and retirement advisory services, has developed five portfolios for DBS Bank.

Each portfolio is diversified across many types of asset classes and investment styles in order to benefit from the top performing asset classes and reduce the impact of lower performing asset classes.

- **Defensive** - This model is ideally suited for investors who are seeking to preserve their capital and are uncomfortable sustaining losses. Its 4% allocation to equities means the portfolio will have lower returns while striving to reduce risk exposure over the medium to long term. To help minimize risk; this model has a sizeable allocation to cash, global and Asia ex-Japan bonds.
- **Conservative** - This model is ideally suited for investors who are fairly risk adverse and are seeking more stable returns. Its 26% allocation to equities strives to capture some growth potential, without assuming too much risk over the medium to long term.
- **Balanced** - This portfolio is ideally suited for investors who are seeking to strike a balance between risk and returns. Although the 42% allocation to equities and 5% allocation to alternative investments give this model a riskier profile than either the Defensive or Conservative models, it is better positioned for modest growth over the medium-to-long term.
- **Growth** - This model is ideally suited for investors seeking to grow their capital and who can tolerate higher risk and considerable market volatility over the medium-to-long term. Although its 62% allocation to equities (with a sizeable bias to Asian equities) and 7% exposure to alternative investments position the model for growth, it also exposes the investor to potentially high losses.
- **Aggressive** - This model is ideally suited for investors who are seeking to maximize growth and can tolerate losses and market fluctuations over the medium-to-long term. Its 76% allocation to equities and 8% exposure to alternative investments position the investor to capture the upside of the market, but also expose them to the potential of sustaining extensive losses on the downside. This model has the highest allocation to Asia Pacific and China equities, while still maintaining some exposure to bonds and cash.

The target investment horizon of a Strategic Asset Allocation Model portfolio is five years.

### Strategic Asset Allocation Models for 2013

		Defensive	Conservative	Balanced	Growth	Aggressive
<b>Equities</b>	US	2%	12%	10%	8%	8%
	Europe	0%	2%	7%	16%	18%
	Japan	0%	0%	0%	0%	0%
	China	0%	0%	4%	5%	5%
	Asia Pacific ex Japan	2%	12%	19%	30%	41%
	Emerging Markets ex Asia	0%	0%	2%	3%	4%
	<b>Equities</b>	<b>4%</b>	<b>26%</b>	<b>42%</b>	<b>62%</b>	<b>76%</b>
<b>Bonds</b>	Global ex Asia	52%	30%	17%	13%	4%
	Asia ex Japan	5%	15%	22%	13%	7%
	<b>Bonds</b>	<b>57%</b>	<b>45%</b>	<b>39%</b>	<b>26%</b>	<b>11%</b>
<b>Alternatives</b>		<b>0%</b>	<b>3%</b>	<b>5%</b>	<b>7%</b>	<b>8%</b>
<b>Cash</b>		<b>39%</b>	<b>26%</b>	<b>14%</b>	<b>5%</b>	<b>5%</b>
<b>Expected Return (%)</b>		<b>2.1</b>	<b>5.0</b>	<b>7.7</b>	<b>10.2</b>	<b>11.8</b>
<b>Expected Risk (%)</b>		<b>4.4</b>	<b>8.0</b>	<b>12.1</b>	<b>16.1</b>	<b>18.8</b>

To find out more, talk to any of our Relationship Managers now!

#### Notes:

- The expected annual return of the strategic portfolio is based on capital market assumptions derived from Morningstar's econometric model that relies on historic, current and forecasted data on the indices highlighted below. The information is for reference only.
- The expected risk (or annual standard deviation) of the strategic portfolio represents the expected risk level of the portfolio based on historical asset class relationships (correlations) and volatility, using monthly returns from 2001 to 2012 based on the indices highlighted below. The information is for reference only.
- Morningstar Associates' model portfolios started on 1 October 2010. Morningstar reviews the strategic asset allocation on an annual basis. The current Strategic Asset Allocation (SAA) is as of end November 2012.
- Based on the model portfolios, the Aggressive model has the highest risk, followed by Growth, Balanced and Conservative, with Defensive being the least risky. The risk consideration that was used in formulating the Strategic Asset Allocation was the annualized quarterly average drawdown. A maximum annualized average quarterly drawdown constraint is in place for the different portfolios, with the defensive portfolio having the most restrictive and the aggressive portfolio having the most accommodative risk constraints.
- The investor type classification for the portfolio has no direct relationship with the Financial Needs Analysis customer risk profile types and the portfolios are not assigned any product risk rating based on the bank's proprietary risk rating methodology.
- The above model portfolios are effective from January to March 2013 and are subject to change.
- Asia Pacific ex Japan equities excludes both Japan and China equities.
- The expected return and expected risk are based on the following indices for calculation:
  - o Equity: US - Russell 3000 TR USD; Europe - FTSE World Europe TR EUR; Japan - Topix TR JPY; Asia Pacific ex Japan - MSCI Pacific Ex Japan NR USD; Emerging Market ex China - MSCI EM  
Ex Asia NR USD; China - MSCI AC Zhong Hua NR USD
  - o Bond: Global Aggregate - BarCap Global Aggregate TR USD; Asia Pacific - BarCap Asian Pac non Japan TR USD
  - o Alternatives: 10% S&P Global REIT TR USD (Property), 30% DJ UBS Commodity TR USD (Commodities), 30% S&P GSCI Gold TR (Gold) and 30% Greenwich Global HF (Hedge Funds)
  - o Cash: BofAML HKD LIBOR 1 Mon CM TR

#### Morningstar Associates' Asset Allocation Approach:

A hallmark of Morningstar Associates' asset allocation approach is to broadly diversify the models across investment styles, sectors, sub-asset classes, market caps, and regions. This approach aims to ensure that some part of the portfolio will be performing well in most markets, while the long-term gains of all parts will accrue to investors over time.

In determining the asset allocation targets, Morningstar Associates uses a multifaceted approach that features of a number of sophisticated mathematical models to forecast returns on various asset classes. The modelling process is designed to provide asset targets appropriately aligned with current market conditions and investor expectations. Morningstar Associates also subjects the asset allocation models to 10,000 simulations to determine how well or poorly they stand up to different market conditions over a five-year period and then make any necessary adjustments.

Morningstar Associates refines the asset allocation targets based on local market characteristics and behaviours. This results in significant overweight to the Asian markets, both equity and fixed income, in the DBS Strategic Asset Allocation Models, although each model retains varying degrees of exposure to the global markets.

In determining the most efficient asset targets for the DBS Strategic Asset Allocation Models, Morningstar Associates also factored in a couple of client considerations. First, a maximum "annualized average quarterly drawdown" constraint was imposed for each model. The maximum annualized average quarterly drawdown is the largest average quarterly percentage loss (on an annualized basis) that Morningstar Associates will tolerate for each model, based on calculations using data over the past 10 years. By accommodating the drawdown, the asset mix can be optimised to better meet investor's long-term performance and risk expectations, as well as better understand each model's risk potential. In addition, Morningstar Associates maintained a minimum 5% strategic allocation to cash in each model to provide a buffer against market volatility.

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# Funds Select List


	Asia Pacific Equities (ex Japan)	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Aberdeen SP Pacific Eq SGD	05/12/1997	1,168.40	5.29	10.66	16.75	8.32	1.50	13.03	0.64	★★★★★	P4
	DWS Asia Premier Trust	31/10/1994	83.24	8.41	11.03	15.52	2.82	-4.64	16.97	0.22	★★★	P4
	Fidelity South East Asia A-SGD	15/05/2006	7,765.10	5.39	7.03	8.45	1.93	-4.55	16.32	0.17	★★★	P4
	First State Asian Growth	10/10/1984	71.80	6.37	13.54	15.72	8.62	1.08	12.31	0.70	★★★★★	P4
	First State Dividend Advantage	20/12/2004	1,232.10	6.07	12.90	17.71	7.15	2.17	11.24	0.63	★★★★★	P4
	Schroder Asian Equity Yield	03/01/2005	146.69	4.23	13.07	22.08	9.09	0.46	13.23	0.69	★★★★	P4
	Schroder Asian Growth SGD	08/05/1991	255.65	7.58	8.95	19.73	8.16	0.52	14.47	0.58	★★★★★	P4
	Templeton Asian Growth Acc SGD	25/10/2007	20,566.31	4.58	4.86	1.57	4.04	-3.47	16.27	0.29	★★★	P4


	China Equities	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	DWS China Equity A	04/01/2005	427.26	10.07	4.31	7.84	-6.89	-7.85	17.28	-0.35	★★★★	P4
	First State Regional China	01/11/1993	447.10	6.47	8.14	13.52	4.48	-0.60	11.63	0.39	★★★★★	P4
	Schroder ISF China Opportunities SGD	31/01/2011	70.44	9.33	5.22	10.03	N/A	N/A	N/A	N/A	-	P4
	Templeton China A Acc SGD	25/10/2007	2,872.45	10.56	2.83	0.58	-2.26	-5.38	15.75	-0.10	★★★	P4

	Japan Equities	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Schroder ISF Japanese Eq Alpha A	27/02/2004	172.16	-2.79	-7.01	-13.95	-2.15	-8.92	14.49	-0.11	★★★	P4

	US Equities	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Allianz RCM US Eq Fund AT SGD	11/08/2009	567.78	-1.76	0.72	7.41	2.25	N/A	12.97	0.20	★★	P4
	Franklin Mutual Beacon A SGD	25/10/2007	880.76	-0.93	4.20	7.83	3.14	-5.46	10.49	0.30	★★★	P4
	Franklin US Opportunities A SGD	25/10/2007	3,041.68	-1.40	-0.94	0.12	5.40	-2.48	15.33	0.39	★★★★	P4

	Europe Equities	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Henderson European	17/04/2000	10.47	5.80	14.06	14.06	-3.80	-10.48	17.87	-0.15	-	P4
	Schroder European Eq Alpha SGD	25/04/2005	34.99	4.71	15.91	12.82	-4.40	-9.17	18.88	-0.17	★★	P4
	Templeton European A SGD	25/10/2007	182.15	5.90	19.33	8.30	-2.64	-10.09	18.78	-0.07	★★★	P4

	Emerging Market Equities	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Schroder BRIC	09/01/2006	182.33	4.08	5.44	1.75	-7.10	-10.01	16.69	-0.39	★★★	P4
	Schroder ISF Emerging Mkt A Acc	09/03/1994	3,897.44	3.85	6.53	8.29	-1.21	-5.99	16.49	-0.02	★★★	P4
	Templeton Latin America A SGD	25/10/2007	3,426.77	0.90	0.00	-3.22	-5.41	-4.37	17.58	-0.26	★★★	P4

	Alternative Investments	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	BGF World Gold SGD	08/07/2008	8,392.00	7.47	13.99	-14.21	-1.36	N/A	26.91	0.07	-	P4
	First State Global Resources	05/09/2005	597.60	1.78	1.52	-13.51	-6.30	-8.97	24.16	-0.17	★★★	P4
	MAN AHL Trend SGD	07/12/2010	277.18	-0.91	-2.36	-3.69	N/A	N/A	N/A	N/A	-	P4
	Nikko AM Shenton Global Property Sec SGD	11/04/2005	45.35	-1.04	5.21	15.95	8.76	-4.48	12.59	0.69	★★★	P4
	Schroders AS Gold and Precious Metals A SGD Hdg	07/07/2008	604.31	3.71	9.08	-6.61	5.29	N/A	19.62	0.34	-	P4

BONDS	Global Bonds	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Schroder Strategic Bond	04/07/2005	7.85	2.25	3.88	6.62	3.70	2.67	4.17	0.78	★	P2
	Templeton Global Total Ret A SGD	25/10/2007	34,154.83	3.85	9.43	12.63	6.46	8.08	5.52	1.08	★★★★★	P3
	Templeton Global Bond A SGD	25/10/2007	53,867.79	2.58	7.04	8.98	3.28	5.98	4.81	0.60	★★★★★	P2

BONDS	Asia Pacific Bonds (ex Japan)	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Fidelity Asian High Yield USD A	02/04/2007	2,895.53	2.77	4.69	14.39	5.34	2.68	8.37	0.61	-	P3
	Legg Mason WA Asian Opp Income USD	07/01/2010	1,070.12	2.28	3.86	5.56	N/A	N/A	N/A	N/A	-	P3
	Nikko AM Shenton Asia Bond SGD A	01/08/2005	94.25	1.45	1.90	3.03	3.69	0.62	2.31	1.39	★★	P2
	Nikko AM Shenton Income SGD	31/01/1989	473.83	2.17	4.82	8.16	5.16	0.91	3.30	1.41	★★★	P2

BONDS	Money Market Fund	Launch Date <sup>1</sup> (D/M/Y)	Fund Size (Million)	Cumulative Performance <sup>2</sup> (%)					3yr Ann Volatility <sup>3</sup> (%)	3yr Sharpe Ratio <sup>4</sup>	Morningstar Overall Rating <sup>5</sup>	Risk Level <sup>6</sup>
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Nikko AM Shenton Short Term Bond SGD	29/09/2000	237.19	1.06	2.80	4.65	3.16	2.23	0.72	0.82	★★★	P2

#### Notes:

- Fund launch dates are sourced from fund manager fact sheets.
  - Fund performance and fund sizes are sourced from Morningstar Workstation. 3-month, 6-month and 1-year performance returns are cumulative, while 3-year and 5-year performance returns are annualized. All data presented are as of 30 November 2012. Cumulative and annualized performance data are bid-to-bid, in SGD.
  - Volatility is a statistical measure of risk. 3 year Annual Volatility is calculated here by using the annualised standard deviation of the previous 36 monthly returns. The higher the standard deviation, the greater the volatility, therefore, the risk is higher. Approximately 68% of the annual total return of the fund is expected to range between +1 and -1 standard deviation from the annual average return, assuming a fund's return falls in a standard normal distribution.
  - The Sharpe ratio is calculated for the past 36-month period by dividing a fund's monthly annualized excess returns (measured by a fund's performance in excess of the 3-month SIBOR rate) by the standard deviation of a fund's monthly annualized excess returns. The higher the positive ratio, the higher is the historical risk-adjusted performance of the fund. The risk free rate in the Sharpe ratio calculation is the 3-month SIBOR of 0.31% p.a. (as of 30 November 2012).
  - The rating is assigned by Morningstar Asia Limited in accordance with the principle of NAV-to-NAV or bid-to-bid, based on the NAV or Bid price of the relevant fund captured by it on 30 November 2012. No rating will be assigned for the funds which have been established for less than three years or with performance data less than three years; for investment market sector with less than five funds, no rating will be assigned to the funds in such group. Within each investment market sector, five stars will be assigned to the top 10% of the funds in such sector, the next 22.5% of the funds will be assigned four stars, the next 35% of the funds will be assigned three stars, the next 22.5% of the funds will be assigned two stars, and the remaining 10% of the funds will be assigned one star. A fund with high rating does not mean that it is suitable for all investors, nor does it suggest that it will continue to provide good performance as it has in the past.
- The Morningstar Overall Rating attempts to provide investors with a tool for a simplified screening process for fund selection and should not be considered as recommendations to buy or sell the relevant funds.
- The risk level is assigned to a fund by DBS Bank Limited based on its assessment of the risk level of the respective fund, data as of 30 November 2012 and is for information and reference only. DBS Bank Limited may revise the risk level assigned to a fund from time to time without prior notice. P1 refers to the lowest risk rating while P5 is the highest.
  - Fund sizes denominated in USD are converted to SGD at an exchange rate of 1.22. Fund sizes denominated in JPY are converted to SGD at an exchange rate of 0.68. (Source: Bloomberg, as at 30 November 2012).

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