

Invest.Wise

Quarterly Asset Allocation

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Market Commentary

Global equities have more than doubled since the lows of the global financial crisis and key US stock indices have broken historical highs. Notwithstanding the market's predictable "fear of heights", we are staying overweight equities.

Conditions continue to favour risk asset markets. 1) The global economy is growing despite pockets of weakness 2) Corporate earnings growth will likely sustain higher stock prices 3) Valuations are still moderate 4) Negative real interest rates and government bond yields and the yield gap between equities earnings and government securities favour stocks 5) Continued growth in global excess liquidity 6) Economic conditions are not robust enough yet for central bankers to tighten monetary conditions in developed economies 7) Central bankers have committed themselves as lenders of last resort in the US, Euro area and Japan, hence containing periodic bouts of fear related to the twin dysfunctions of debt and deficit in these economies.

The preoccupation with US indices trading above historical highs is superficial. It deals with only nominal rather than inflation-adjusted prices. It tells us nothing about the underlying index earnings and therefore, valuations. And it says nothing about broader economic dynamics driving the global search for yields.

That the S&P 500 has broken its historical high is not surprising. The index's adjusted operating earnings per share broke its own historical high 18 months ago. And this earnings growth has moderated valuation multiples expansion despite the index more than doubling from the low of 2009. US equities' price-to-earnings valuations are still at the middle of its cyclical range.

Meanwhile, monetary conditions continue to pressure investors out of cash and bonds. Fears of the US Federal Reserve staging an earlier-than-expected exit from quantitative easing have faded. There is insufficient evidence of strong, self-sustaining economic growth to justify the Fed pulling back on asset purchases anytime over the course of this year, much less raising its policy rate.

Indeed, at the global level, excess liquidity – defined as the growth of money supply in excess of economic growth – is likely to pick up again as the Bank of Japan accelerates quantitative easing and as the European Central Bank activates its Outright Monetary Transactions programme.

Asia ex-Japan equities could face continued downside pressures over the near-term because of the fear of policy tightening in China. But even here, the downside is likely limited as valuations are at the lower end of cyclical ranges. Meanwhile, fixed asset investment and other indicators of growth including the manufacturing purchasing managers' index suggest China should continue its growth momentum from last year.

Bonds remain poor value relative to equities. But the "Great Rotation" out of fixed income into equities is still not imminent and a collapse of the bond market is unlikely as long as interest rates remain low and risk-averse liquidity stays flush.



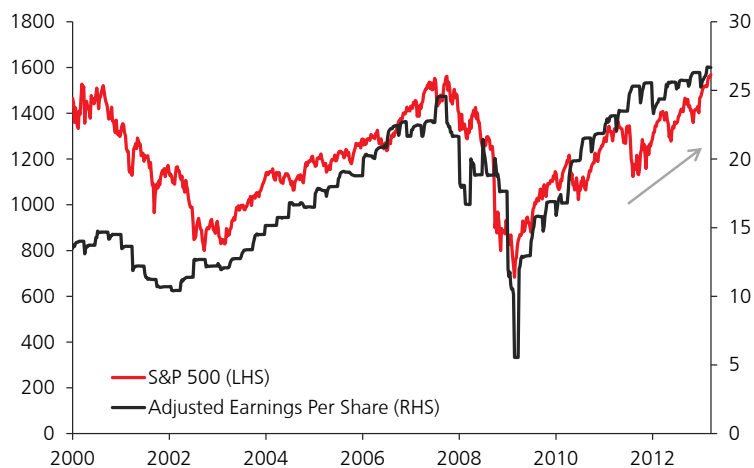
Equities

Stay overweight equities. Markets are understandably nervous as US equities break historical highs. Although a technical correction at historical resistances is possible, fundamental conditions continue to support further upside in stock prices over coming months.

The preoccupation with US equities index prices is superficial. It addresses only the numerator of price-to-earnings valuations, not the denominator. The S&P 500's adjusted operating earnings per share broke its 2007 high some 18 months ago. Indeed, the index had been lagging (Figure 1). Adjusted for inflation, the index is still some way below its 2007 high. Valuations are nowhere near the highs of October 2007 despite the index more than doubling from the lows of early 2009.

Taking an even longer view, in January 2000 – when the S&P 500 was also trading at around the levels of today – the operating earnings per share was only about half what it is today. In short, the market is today only paying about the same nominal price for almost double the earnings of early 2000.

Figure 1: S&P 500 Price Rises Backed By Earnings Growth



Source: Bloomberg, as of end March 2013

Monetary conditions are also very different today compared to the earlier peaks recorded in early 2000 and late 2007 – they are more supportive of even higher valuations than during these two earlier periods. In early 2000, the 10-year US Treasury yield peaked at 6.8% and the Fed policy rate stood at 6.5%. In late 2007, they were 5.0% and 5.25% respectively. This compares with only 1.85% and 0.25% today.

The keys to the sustainability of the rally are not nominal index price levels but economic growth, earnings growth and monetary conditions.

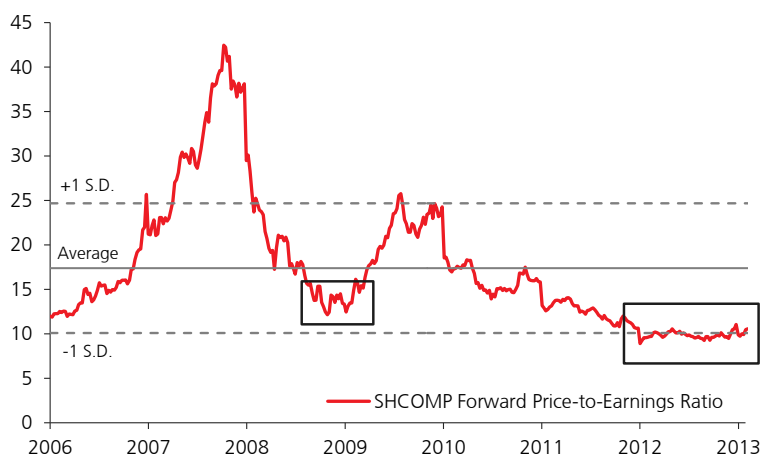
The global economy continues to grow notwithstanding pockets of weakness. The International Monetary Fund is forecasting 3.5% GDP growth for the global economy, slightly firmer than 3.2% for 2012. The US economy generally continues to surprise on the upside. Looking further out, the recovery in housing is likely to spill over to business investment, particularly given the current relatively low level of business investment to GDP.

As the US economy continues to firm, investors cannot take accommodative monetary conditions for granted. But unemployment at 7.7% is still a long way from the Fed's 6.5% condition for an end to its "exceptionally low" policy rate. And inflation remains significantly below the 2.5% that would cause the Fed concern. Meanwhile, given programmed government spending cuts and near zero interest rates, quantitative easing remains one of very few policy tools left. Ultra low rates and quantitative easing are likely to continue through the course of this year.

Indeed, global excess liquidity – defined as money supply growth in excess of economic growth – is likely to tick up again with the Bank of Japan expanding quantitative easing and the European Central Bank activating its Outright Monetary Transactions programme.

At some point in the growth cycle, when inflation becomes a greater concern, the cyclical uptrend in equities will end. But we are not at that point yet. Meanwhile, moderately higher inflationary expectations have historically tended to support equities. It is not inflation that ends equities rallies but monetary tightening.

Figure 2: Chinese Stock Valuations Are Back To Cyclical Lows



Source: Bloomberg, as of end March 2013

And so in Asia ex-Japan, it has been the fear of monetary tightening that has been driving the recent underperformance of equities in Greater China. But broad policy tightening is not likely at this stage. The focus has been on administrative controls, particularly in the property sector. In any event, the growth of instruments such as so-called “wealth management products” and “trust loans” should supplement bank credit, making loans growth ceilings less meaningful in China. Meanwhile, the Chinese economy is likely to soon confirm that it is picking up the growth momentum from 4Q-12, with fixed asset investment likely to again lead growth.

Valuations for Chinese equities – both in Shanghai and Hong Kong – have dipped again after a brief upturn. They are now back at global financial crisis lows. (Figure 2) At these levels, the downside is likely to be limited. We would be buying on the ongoing correction.



Fixed Income

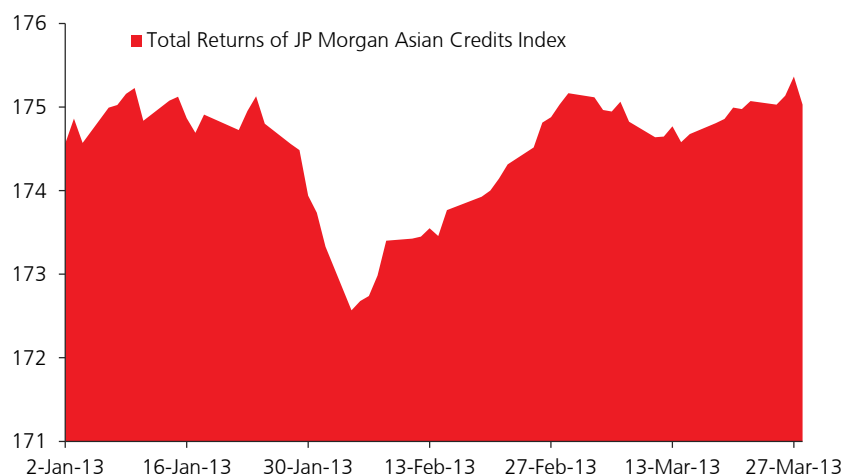
Bonds are likely to continue their lacklustre performance from the start of the year. Total returns for the JP Morgan Global Aggregate Bond Index have been marginally negative.

At risk of over-generalising, bonds continue to offer poor value relative to equities. This will continue to overhang their performance. Reflecting the gradual recovery in the US economy, the 10-year US Treasury yield has been edging up since the start of the year.

Meanwhile, for Asia ex-Japan credits, total returns year to date have been flat. (Figure 3) And at current valuations, further spread tightening will likely be modest. For Asian high grade credits, modest returns going forward are likely to be driven by carry. Indeed, supply risk could result in some spread widening, particularly if there is another risk-off episode driving fund outflows.

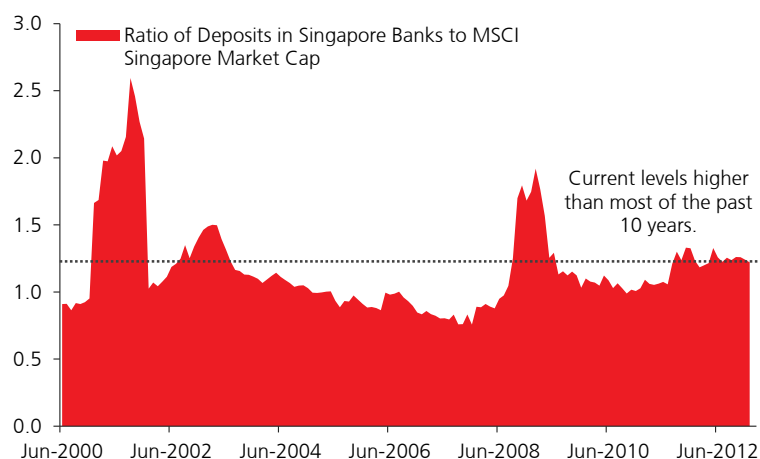
Continuing our theme from last quarter of seeking better risk adjusted returns from fixed income, we look to selected high yielders over high-grades which will struggle for further spread tightening.

Figure 3: Lacklustre Returns from Asian Credits



Source: Bloomberg, as of end March 2013

Figure 4: A Lot Of Cash Sitting On The Sidelines



Source: Bloomberg, as of January 2013

But notwithstanding our expectation of poor relative performance, demand for Asian credits is likely to remain resilient. Indeed, any sharp, event-driven, spread widening could be a buying opportunity, given our expectation of timely policy interventions to manage systemic risk in the Euro area and elsewhere.

Meanwhile, fundamentals remain generally strong for Asian credits. Corporate balance sheets are generally in good shape and the high yield default rate could edge lower compared 2012.

The risk of a "Great Rotation" away from bonds to higher risk assets is likely exaggerated. There remains a large pool of risk-averse liquidity sitting on the sidelines. We are likely to see a move out of cash first before we see a big move out of bonds into equities. (Figure 4)



Commodities

Commodities should generally do better this quarter on firming global growth, a weaker US dollar, and easing fears surrounding China's economic transition.

The divergence between stronger equities indices and stagnant to weaker commodity prices over the past quarter has been a disappointment. Industrial metals corrected in the latter half of the quarter after a rally in January and early February. And much of this underperformance boils down to market concerns over China's new economic growth model and more immediately, the possibility of broad monetary tightening. Longer-term, there are uncertainties over the extent to which Beijing's economic rebalancing from fixed asset investment towards consumption would slow its demand for commodities.

While there is some basis for these concerns, they appear exaggerated. Consumption expenditure accounts for little over a third of China's Gross Domestic Product. The overwhelming driver of China's economy is fixed asset investment. Rebalancing towards consumption will be a multi-year project. Meanwhile, the Chinese government cannot afford for economic and social reasons to crack down too hard on either credit or investment growth.

So it will apply administrative controls over the private property sector but at the same time, it will expand social housing construction as an offset. The Chinese central bank will maintain vigilance over money supply and bank credit growth. But it will allow non-bank sources of credit – through instruments such as wealth management products and trust loans – to continue to fund investments.

The Chinese central bank will likely maintain a neutral stance over coming months, as long as inflation remains below its tolerance threshold of 3.5%.

Over coming months, economic data coming out from China will likely confirm a GDP growth momentum of over 8.5% year-on-year and over 20% expansion in fixed asset investment. At current prices, industrial metals have likely exaggerated the risk to China's growth.

A likely correction in the US dollar index, DXY, in 2Q-13 will also help commodities, given the negative correlation between the two.



Currencies

The US dollar index, DXY, now trading at the top of its 12-month range, is likely to edge lower over coming months.

The US economy is not ready for a strong Dollar. The twin deficits are still too large. During the previous long-term bottoms for the US dollar in the late 1970s and early 1990s, the US eliminated its current account deficit. At around 3% of GDP, this deficit still calls for a weak USD. Indeed, the logic of quantitative easing is as much about suppressing the cost of funds as it is about the stimulatory effects of a weak Dollar. Further, the nominal trade weighted dollar is currently trading at its purchasing power parity, or PPP. In the late 1970s/early 1980s and early 1990s, it was trading more than 10% below its PPP.

So notwithstanding the possibility of near-term volatility, Asia ex-Japan currencies should end the year higher than current levels against the USD. In particular, for the Singapore dollar, we expect the Monetary Authority of Singapore to reaffirm at its next policy review in mid-April its stance of appreciating the SGD nominal effective exchange rate policy band at a modest and gradual pace.

In Indonesia, a current account deficit of around 2.5% of GDP is likely to keep downward pressure on the value of the Rupiah. We now expect USD/IDR to trade in the 9,500-10,000 range for the rest of the year.

Meanwhile, stronger growth later this year should drive a faster pace of appreciation for the Yuan this year compared to 2012.

Understanding Portfolio Strategies

Five “Deadly Sins” Of Investing In Funds

By Bryan Goh, Senior Vice President, DBS Bank

There’s a fair amount of disillusionment with funds in the market, and some of it for good reasons. Even amongst the still faithful, a frequent question is how one goes about evaluating managers? And at a broader level, how should an investor manage his strategies and emotions?

I myself actively invest in funds. I think it’s the smart thing to do, if you do it in a smart way. I don’t just invest in brand names. When it comes to fund managers, brand names are often asset gatherers who are better at getting your money than they are at managing it. I avoid brand names unless I can meet and interview the specific managers managing the relevant funds. Meeting and interviewing the managers is a necessary condition for me to invest with any fund. I need to assess for myself if the track record they have achieved is the product of skill or luck. I will only pay management (and very often performance fees) for skill.

I invest in funds for a number of reasons.

- **I can’t get the diversification I need for the amount I’d like to invest.** Funds pool investors’ money into a bigger pot which can be deployed in assets which the retail investor may not have the scale to access.
- **I don’t have the time to dedicate to a particular strategy.** I only have 24 hrs a day. I cannot engage in arbitraging interest rates, hedging convertible bonds, investing in merger arbitrage, trading credit correlation and structuring regulatory capital relief solutions all by myself.
- **I may not have sufficient skill.** This will most often be the case. Understanding an investment strategy and being able to execute it with the requisite skill are two different things. If one doesn’t understand a strategy, the best advice is to not invest. It is irrational to invest in any scheme or strategy that one doesn’t understand. On the other hand, just because you understand a strategy doesn’t mean you can do it. It just means you know how it’s done, that’s all. But with this understanding you can then delegate the investment to a professional who does it for a living.
- **I don’t have the scale for certain strategies.** Not every day trader in his basement can obtain the necessary terms to trade the instruments that a strategy may require.

What I never do is invest in funds for reasons such as:

- **A good track record.** A good track record is necessary but never enough. One needs to understand how the track record was achieved and if it can be repeated. One also has to know if the track record is real. Disgraced Ponzi schemer Bernie Madoff had an excellent but fake track record, yet so many clever investors invested with him. Due diligence is necessary.
- **A clever trade.** A clever trade does not a fund make. There are specialized closed ended private equity funds that take advantage of very specific opportunities but open-ended mutual funds need to be based on more than a single opportunity. I’m fine with those; in fact I think they are very interesting vehicles that are often launched to capture phenomenal opportunities. It worries me when managers launch funds to take advantage of the recovery post-2008. What happens when the trade is done? The manager is typically unwilling to return capital and will likely try their luck in another trade, one that you didn’t sign up for, one that the manager may not be experienced at. I would look at strategies that can last at least 7-8 yrs, because that’s how long, at least, I expect to leave my money in their hands.
- **The market is running and I want exposure.** If you want market returns, use an ETF, or buy the underlying instruments yourself. Funds are not cheap. You shouldn’t be using them as trading vehicles but as long-term investments. If you want exposure to a particular segment of the market and no ETFs are available, using funds is a legitimate way of buying exposure. Luxury goods companies for example are not represented by an ETF but can be accessed through a fund.
- **A brand name.** A brand name is not a bad thing but it shouldn’t be the only thing, and the brand should add no additional comfort. Each fund must be assessed on its merit and this means due diligence. I have never given my trust freely, and I certainly don’t give it to brand names. Trust has to be earned, and it takes time. Brands are often good from a due diligence perspective, however, since they provide the basis for the question: how did they build a successful brand? Usually, a high quality product or service is the answer. Due diligence seeks to confirm and verify the answer. There are no assumptions in due diligence, or at least there are very few. I have very strong views about due diligence and how it is to be conducted. You have to identify the manager, meet the manager, his team, his operations team, his service providers, speak to them about what they do.
- **I don’t know the strategy well and I want to outsource it to a professional.** This is an excellent way to lose money. If you don’t know the strategy well, how do you know whom to outsource it to? If one doesn’t know a strategy well, the first and best course of action is to learn all about it. The second best course of action is to stay away.

To Sum It Up...

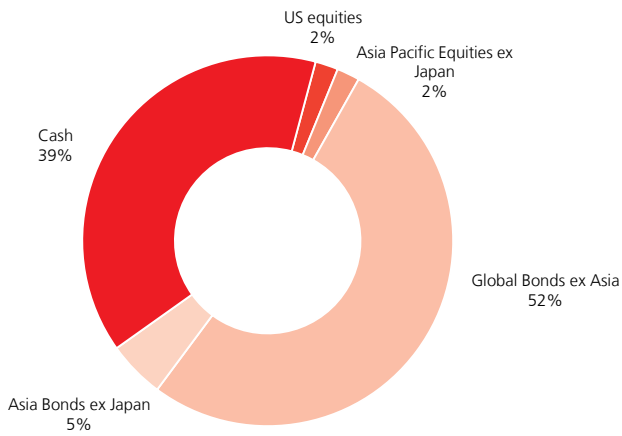
Investing is not easy. Whether one invests in funds or directly in securities, one is responsible for one’s own decisions. Using consultants is one way of delegating the research and due diligence but it means one has to research and perform due diligence on the consultant or intermediary.

Asset Allocation

DBS 3-Month Tactical Model Portfolio – Q2 2013

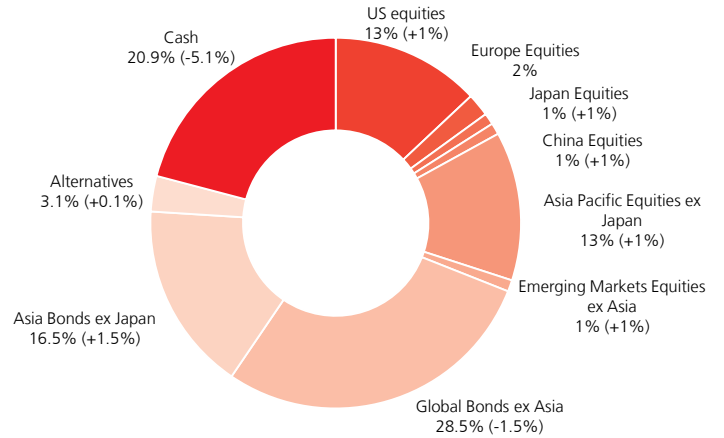
1. Defensive

Capital preservation with minimal risk exposure



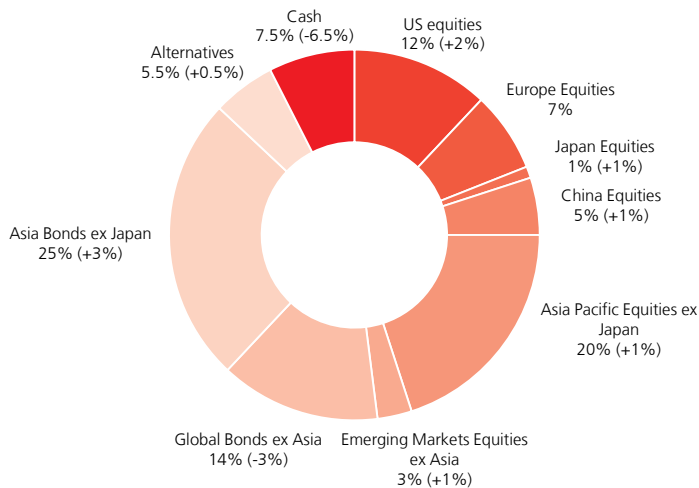
2. Conservative

Capturing some capital growth with low risk exposure



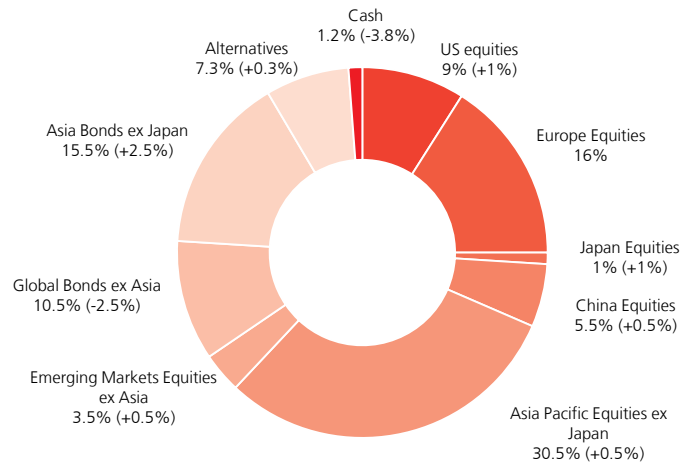
3. Balanced

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



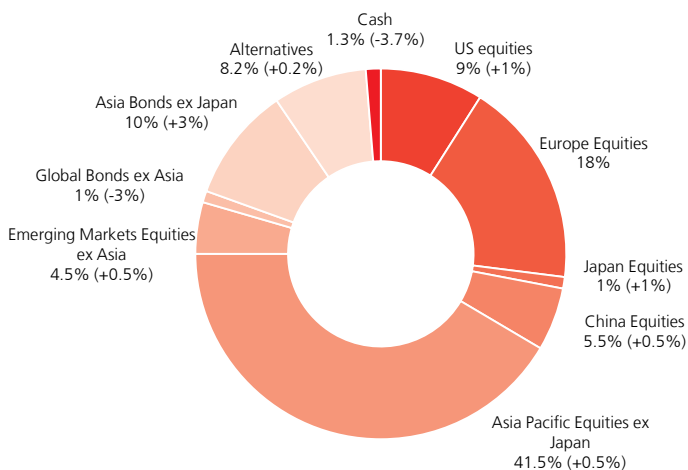
4. Growth

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 5% (+1%)" represents an overweight of 1% compared to the neutral weight of 4%.

Tactical Asset Allocation – Q2 2013

Asset Class	Region	3m view	12m view	Rationale
Equities	US	Overweight (Previous: Neutral)	Neutral	<ul style="list-style-type: none"> - We turn 3M OW from 3M Neutral on better-than-expected US economic data trend and passing of potential fiscal pitfalls (i.e. the fiscal cliff and sequester). - But slow-trickle effects of higher payroll taxes, onset of the sequester and declining corporate profit margins still make us hold a less constructive view on US equities over 12M.
	Europe	Neutral	Neutral	<ul style="list-style-type: none"> - Near term market turbulence possible from raised political uncertainty in Italy and damaged depositor confidence after Cyprus's bailout. - But unlimited bond purchase pledge by the ECB suggests a lower possibility of an European crisis flare-up. - Low earnings expectations could be revised up, but unlikely to match that in APxJ or other emerging markets.
	Japan	Overweight	Overweight	<ul style="list-style-type: none"> - Abe administration's push for aggressive monetary expansion is on track – new dovish BoJ leaders have been installed. - Aggressive easing measures were announced by BOJ in April. - A sustained period of weaker yen and a more accommodative policy environment for businesses (especially exporters) is likely to come true. - Japanese retail investors rotating out of foreign investments back into domestic equities also to provide support.
	China	Overweight	Overweight	<ul style="list-style-type: none"> - 1Q-13 GDP growth at 7.7% was below expectations. - Nevertheless, growth in 2Q-13 could improve on more project starts with recent strong credit expansion and smooth leadership transition. - Equities valuations remain attractive with Forward PE and P/BV around 1 standard deviation below their historical mean. - Catalysts: increasing signs of earnings recovery, progress on economic reforms.
	Asia Pacific ex- Japan	Overweight	Overweight	<ul style="list-style-type: none"> - Recovery in US and China should eventually help APxJ economic growth reaccelerate. - Catalysts: increasing signs of earnings recovery, firmer economic data as Lunar New Year distortions fade.
	Emerging Markets	Overweight	Overweight	<ul style="list-style-type: none"> - Economic recovery in US and China should eventually help EM economic growth to re-accelerate. - Risk is that monetary policy cycle is turning less favourable. Higher than expected inflation seen in key economies such as Russia, Brazil and Mexico.
Bonds	Global ex-Asia	Underweight	Underweight	- G3 rates are low and credit spreads tight. Little value in global bonds.
	Asia ex-Japan	Overweight	Overweight	<ul style="list-style-type: none"> - Strong Asian sovereign credit quality should remain supportive in attracting portfolio inflows into fixed income. - But tight credit spreads and a notable supply pipeline mean little upside in high grade credits. Seek better value in high yield credits.
Alternatives	N/A	Overweight	Overweight	<p>Property (3M Neutral; 12M Neutral) – Global REITs continue to benefit from the global thirst for yield, but a lot of positive expectations are priced in.</p> <p>Commodities (3M Overweight; 12M Overweight) – Strong US dollar and perceptions of weaker China growth momentum have weighed on performance. But weaker US dollar and confirmation of China growth recovery should support commodities in 2Q, particularly industrial metals.</p> <p>Gold (3M Underweight; 12M Underweight) – Breach of critical technical support has raised negative sentiment on gold. 1) Declining political/economic uncertainties, 2) rising potential for Fed to scale back QE in 2H-13 and 3) stronger USD as the US economy recovers dim longer term outlook for gold.</p> <p>Hedge Funds (3M Neutral; 12M Neutral) – Neutral weight to hedge funds for diversification.</p>
Cash	N/A	Underweight	Underweight	Negative real interest rates in many parts of the world make cash very unattractive.

Figures and estimates are as of 15 April 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
Equities	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%
	Equities	4%	26%	42%	62%	76%
Bonds	Global ex Asia	52%	30%	17%	13%	4%
	Asia ex Japan	5%	15%	22%	13%	7%
	Bonds	57%	45%	39%	26%	11%
Alternatives		0%	3%	5%	7%	8%
Cash		39%	26%	14%	5%	5%
Expected Return (%)		2.1	5.0	7.6	10.1	11.6
Expected Risk (%)		4.4	8.0	12.0	15.9	18.5

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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 2002 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 February 2013.
- 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 April to June 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 ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Aberdeen SP Pacific Eq SGD	05/12/1997	1,276.00	8.58	14.32	13.36	10.35	5.07	12.47	0.82	★★★★★	P4
	DWS Asia Premier Trust	31/10/1994	90.96	8.52	17.64	7.78	5.62	0.10	16.00	0.39	★★★★	P4
	Fidelity South East Asia A-SGD	15/05/2006	7,483.15	5.96	11.67	5.51	4.28	0.39	15.54	0.32	★★★★	P4
	First State Asian Growth	10/10/1984	71.70	3.27	9.85	8.99	9.86	3.23	11.32	0.85	★★★★★	P4
	First State Dividend Advantage	20/12/2004	1,310.90	6.15	12.59	13.86	8.63	4.58	10.56	0.80	★★★★★	P4
	Schroder Asian Equity Yield	03/01/2005	239.56	7.65	12.20	19.13	11.90	2.70	12.64	0.92	★★★★	P4
	Schroder Asian Growth SGD	08/05/1991	282.89	8.26	16.46	14.40	11.51	4.73	13.96	0.82	★★★★★	P4
	Templeton Asian Growth Acc SGD	25/10/2007	23,411.83	12.10	17.23	4.56	7.15	1.56	16.17	0.48	★★★	P4
	Nikko AM Shenton Hrnz S'pore Div Eq	12/07/1999	65.02	10.36	16.20	32.01	14.56	4.67	13.36	1.06	★★★★	P4
	Schroder S'pore Trust A	01/02/1993	953.79	6.14	6.58	11.08	7.33	3.94	14.71	0.52	★★★	P4


	China Equities	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	DWS China Equity A	04/01/2005	459.91	7.04	17.81	0.06	-2.84	-2.85	16.48	-0.12	★★★★	P4
	First State Regional China	01/11/1993	524.90	6.63	13.53	9.61	6.19	3.04	11.16	0.56	★★★★★	P4
	Schroder ISF China Opportunities SGD	31/01/2011	78.00	5.88	15.76	2.11	N/A	N/A	N/A	N/A	-	P4
	Templeton China A Acc SGD	25/10/2007	3,177.18	6.37	17.60	-3.03	0.37	-1.21	15.63	0.07	★★★★	P4

	Japan Equities	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Schroder ISF Japanese Eq Alpha A	27/02/2004	189.71	11.07	7.97	-8.51	-1.77	-3.54	14.83	-0.08	★★★	P4

	US Equities	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Allianz RCM US Eq Fund AT SGD	11/08/2009	599.63	7.26	5.37	3.01	3.62	N/A	13.54	0.30	★★	P4
	Franklin Mutual Beacon A SGD	25/10/2007	984.20	9.14	8.12	9.73	4.48	-1.05	10.78	0.42	★★★	P4
	Franklin US Opportunities A SGD	25/10/2007	3,342.80	9.85	8.30	3.70	7.14	3.54	14.81	0.51	★★★★	P4

	Europe Equities	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Henderson European	17/04/2000	12.23	5.48	11.59	10.00	0.44	-6.71	17.78	0.09	-	P4
	Schroder European Eq Alpha SGD	25/04/2005	35.86	6.75	11.77	10.00	-0.26	-5.52	19.25	0.06	★★	P4
	Templeton European A SGD	25/10/2007	198.12	8.71	15.13	11.43	1.77	-5.68	19.17	0.16	★★★	P4

	Emerging Market Equities	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Schroder BRIC	09/01/2006	182.59	5.25	9.54	-5.89	-3.80	-7.26	16.60	-0.18	★★★	P4
	Schroder ISF Emerging Mkt A Acc	09/03/1994	4,257.34	6.10	10.18	1.46	1.55	-3.04	15.90	0.15	★★★★	P4
	Templeton Latin America A SGD	25/10/2007	3,619.62	8.82	9.81	-6.99	-2.71	-2.56	17.53	-0.10	★★★	P4

	Global Bonds	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Schroder Strategic Bond	04/07/2005	7.69	1.90	4.19	5.96	3.77	2.20	4.02	0.83	★	P2
	Templeton Global Total Ret A SGD	25/10/2007	40,680.43	5.33	9.39	10.42	6.18	8.69	5.36	1.07	★★★★★	P3
	Templeton Global Bond A SGD	25/10/2007	57,853.90	4.32	7.01	7.13	3.18	6.40	4.70	0.60	★★★★★	P2

BONDS	Asia Pacific Bonds (ex Japan)	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Fidelity Asian High Yield USD A	02/04/2007	3,340.23	3.84	6.72	10.50	3.44	4.75	7.73	0.42	-	P3
	Nikko AM Shenton Asia Bond SGD A	01/08/2005	93.28	2.56	4.05	3.37	3.72	1.13	2.35	1.38	★★	P2
	Nikko AM Shenton Income SGD	31/01/1989	482.39	3.26	5.50	7.82	5.42	1.51	3.34	1.47	★★★	P2

	Alternative Investments	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	BGF World Gold SGD	08/07/2008	6,577.06	-18.71	-12.64	-31.41	-3.48	N/A	27.00	-0.01	-	P4
	First State Global Resources	05/09/2005	574.20	-2.37	-0.63	-23.80	-6.52	-10.39	23.68	-0.19	★★	P4
	Nikko AM Shenton Global Property Sec SGD	11/04/2005	45.86	7.75	6.63	15.70	10.60	-0.15	11.93	0.87	★★★	P4
	Schroders AS Gold and Precious Metals A SGD Hdg	07/07/2008	516.29	-12.68	-9.44	-20.37	2.11	N/A	20.07	0.18	-	P4

	Money Market Fund	Launch Date ¹ (D/M/Y)	Fund Size (Million)	Cumulative Performance ² (%)					3yr Ann Volatility ³ (%)	3yr Sharpe Ratio ⁴	Morningstar Overall Rating ⁵	Risk Level ⁶
				3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs				
	Nikko AM Shenton Short Term Bond SGD	29/09/2000	249.08	0.95	2.03	4.53	3.09	2.26	0.68	3.85	★★★	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 28 February 2013. 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 0.38% p.a. (as of 28 February 2013).
- 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 28 February 2013. 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.
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- 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 28 February 2013 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 1.24. Fund sizes denominated in JPY are converted to SGD at an exchange rate of 0.76. (Source: Bloomberg, as at 28 February 2013).

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