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Dexter Tan, Investment Analyst

TAIWAN

It is our view that Taiwanese equities are attractive. The Taiwan weighted index has lost about 31% since Oct 2007. The current index level is about 6815.32 and the prior high in October 2007 was about 9859.65. (Figure 1) There has been much optimism about the country given the recent election win. Things could change for Taiwan if the country will develop warmer ties with China, this would only bring about positive changes for the Taiwanese people. The recent index valuation of trailing P/E of 11.52 is an attractive valuation in our opinion. (Figure 2)

Potential in Taiwan

More tourists from Mainland China will visit Taiwan. From July 18, up to 3000 mainland tourists will be allowed to travel directly to the island per day. Previously only 1000 people were allowed to travel to the island and had to stop over in Hong Kong before proceeding to Taiwan. By allowing Chinese to visit Taiwan, this is a first sign that China is opening itself to further the relationship with Taiwan. According to the Taipei Airline Association, the airline industry has lost about US\$33 billion over the past decade because of the restriction on direct cross strait flights. With the regain of the lost opportunity costs, the Taiwan airline industry is set to benefit after already suffering from the high costs of jet fuel, which could also add to the Gross domestic product of Taiwan.

A possible closer integration between the two countries -

Election victor President Ma Ying Jeou had indicated that he would pursue closer ties with China. This might come in form of greater liberalization of financial dealings between the two countries. Fubon Financial, a Taiwanese financial institution is already seeking to take a 20% stake in Chinese bank Xiamen City Commercial Bank and is seeking permission from the regulators about the deal. If the deal is authorized, it may spell more such deals ahead for Taiwan and China and we might see more integration between the financial institutions across the straits.



Figure 1: Taiwan Weighted index

Source: Bloomberg



Figure 2: Taiwan Weighted P/E Chart

Source: Bloomberg

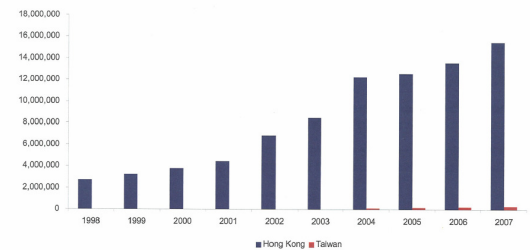


Figure 3: Number of Tourist to Taiwan from China pales in comparison with those going to Hong Kong

Source: Fidelity Asset Management, Merrill lynch research

Potential in Taiwan

Sound Economic Fundamentals – Taiwan’s latest current account surplus of 8662 USD million is its second highest reading for more than 20 years. (Figure 4) This comes on the back of robust exports to countries such as China and Hong Kong and foreign investments into the country. The unemployment rate had been kept stable at slightly below 4% while GDP grew about 6.06% year on year at constant prices. Although CPI stood at 4.91% in June 2008 and has been in an uptrend since 2001, the central bank had been increasing interest rates since 2003, which would help to keep inflation at bay. With commodity prices also moderating, we expect to see inflation simmering in the later half of the year.



Figure 4: Taiwan Current Account
Source: Bloomberg

Risks in Taiwan

High cost of raw materials reduce the current account surplus – Taiwan companies export electrical products to China and the US and the high cost of commodities such as base metals would erode the manufacturing profit margins of the products. This would translate to less profits for these companies which contribute about slightly less than 50% of the exports in 2007. This would therefore negate GDP growth in the short term.

High Taxes on income– Taiwan’s corporate tax rate is less competitive compared to its peers in the Asia Pacific region. (Figure 5) The rate which has been unchanged for the past 10 years and although lower than the global standard, is still less favorable for foreign investment. This was proven in a recent study by the European Chamber of Commerce and KPMG. According to the report, a favorable tax environment would bid well for Taiwanese investors when choosing whether to invest in Taiwan or whether to continue existing operations in Taiwan.

Withholding tax rates in selected countries

Country	Types of withholding tax		
	Dividends	Interests	Royalties
Taiwan	20%	20%	20%
China	0% or 10%	0% or 10%	10%
Hong Kong	Nil	Nil	5.25%
Korea	25%	14% or 25%	25%
Malaysia	Nil	15%	10%
Singapore	Nil	15%	10%

Figure 5: Withholding tax rates in Asian countries
Source: European chamber of Commerce, 2007

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Growth projection in Taiwan

Real GDP YOY%	2008	2009
Bloomberg	4.3%	5.0%

Table 1: Bloomberg quarterly survey
Source: Bloomberg

Based on a survey conducted by Bloomberg, most economists expect growth in Taiwan to grow modestly into 2009. This comes on the back of a weaker global outlook this year and for a recovery toward the end of the year and for ties to improve between China and Taiwan.

Fund Recommendation

While there are other funds that invest in Taiwan such as greater china funds, we like to adopt a greater exposure to Taiwanese assets and not dilute the performance of the portfolio with other equities.

We can see that from Figure 6, the exposure of the fund positions to Taiwanese assets. We favor the funds that are most dedicated to investing in Taiwanese equities, which leaves us with the Fidelity Taiwan Fund and the Lion Global Taiwan Fund. Looking at historical returns, the Fidelity Taiwan Fund had a very close performance with the MSCI Taiwan Index, but the Lion Global Taiwan Fund had recently outperformed due to the fund manager's discretion to hold more cash in the fund. This had resulted in the Lion Global Taiwan fund outperforming the benchmark as well as its peers. It is for this reason that we prefer the Lion Global Taiwan Fund as our choice fund for investing in Taiwan.

Fund	Returns	
	YTD	1 Year
LionGlobal Taiwan Fund	(2.17)	(18.016)

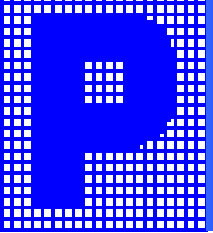
Source: POEMS, as of 23 July 2008

Fund	Exposure to Taiwan (%) (Negative indicates a net short position)	As of
Fidelity Taiwan Fund	94.80	31-Mar-08
First State Regional China Fund	26.40	31-May-08
Lion Global China Growth Fund	18.40	June-08
Henderson Horizon Fund - China Fund	-14.00	31-May-08
Fidelity Greater China Fund	27.90	31-Mar-08
Schroder Greater China Fund	31.60	31-May-08
DBS Shenton Greater China Fund	35.24	31-May-08
UOB Greater China Fund	13.81	30-May-08
Templeton China Fund	18.00	30-Jun-08
LionGlobal Taiwan Fund	71.00	June-08

Figure 6: Fund Exposure to Taiwanese Equities
Source: Factsheets



Figure 7: Fidelity Taiwan Fund vs MSCI Taiwan Index vs Lion Global Taiwan Fund
Source: Bloomberg



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Hillary Ho, Investment Analyst

Gold

Equities continued its downward spiral. Dow Jones, an index much tracked by investors around the world, registered its fourth straight weekly decline on 11th July 2008. It traded below 11000 on that day before recovering to end above 11000. It last traded below 11,000 on July 25, 2006. S&P 500 and Nasdaq also logged declines on that day.

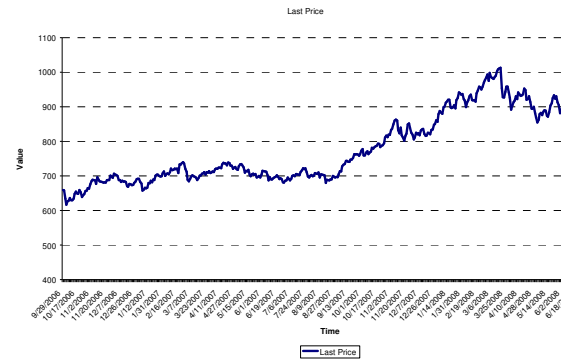
Tumbling stock market led jittery investors to sought safety with hard assets, namely gold. Collapse of Bear Stearns helped pushed Gold above the \$1000 threshold earlier this year. It has since corrected. As of 11th July 2008, gold for August delivery settled at \$960.60 an ounce on the New York Mercantile Exchange. YTD, gold has risen by approximately 9.4 percent. Figure 1 depicts how gold prices have moved for the past two years.

Why Gold?

Continue devaluation of US dollar – Several issues are contributing to the depreciation of the US dollar. Firstly, the US national debt is on the increase. This unfunded liability could drag the US dollar lower. Secondly, US continue to lend support to distress financial companies. The latest aid was rendered to mortgage giants Fannie Mae and Freddie Mac. Such aid will cause the dollar to be more vulnerable. Indeed, Mr. George Soros said “The US government drastic measures could keep the dollar under pressure¹.” Thirdly, inflation is eroding the purchasing power of the green note. All these factors drive the value of the dollar lower. This is the trend which we feel will last at least till the end of this year.

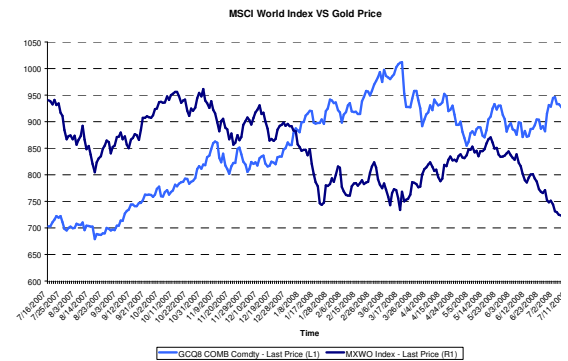
Negatively correlated to equities - This asset class is negatively correlated to equities. As shown in figure 2, gold prices trend higher when equities are lower.

Figure 1: GOLD PRICES



Source: Bloomberg, Phillip Securities Research

Figure 2: Negative correlation between Gold and Equities



Source: Bloomberg, Phillip Securities Research

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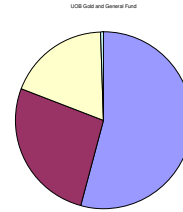
Why Gold?

Alternative store of value – Devaluation of the US dollar cause gold to be an attractive alternate store of account. It fulfills the necessary prerequisite as a store of account – tool of exchange, reserve value and standard of value – and has always been perceived to be a safe-haven investment. These hard assets provide some stability to an investment portfolio.

How to invest in Gold?

There are a couple of funds which invests into gold. These funds are shown in appendix. A comparison of their performance is also shown in the appendix. We prefer the UOB United Gold and General fund. This fund invest primarily in securities of corporations whose business is substantially in the mining or extraction of gold, silver or precious metals, bulk commodities, base metals of all kind and other commodities. As of 30th June 2008, 54.14 percent of the fund is invested into gold and precious metals, 26.75 percent into materials, 18.51 percent into energy and the remaining amount is held in cash. This allocation is also depicted in diagram 3. Performance of the fund is shown in the table 1.

Figure 3: Sector allocation for UOB United Gold and General Fund



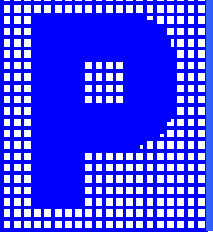
Gold & Precious Metal: 54.14%
Materials: 26.75%
Energy: 18.51%
Cash: 0.60%

*Information correct as of 30th June 2008
Source: UOB*

Table 1: Performance of UOB United Gold & General Fund

Period	Return (Percent)
1 Month	0.88
3 Months	4.92
1 Year	10.63
3 Years	133.72
Year-To-Date	4.72

Source: Phillip Securities Pte Ltd



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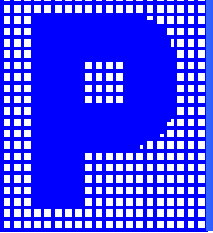
Appendix

Fund	Sector Allocation	Performance	
		YTD	1 Year
DWS Noor Precious Metal Fund (USD/SGD)	<p>Gold: 71.5% Platinum: 20.76% Silver: 7.75% Diamonds; 0.44%</p> <p>Correct as of 31st May 2008</p>	N.A	N.A
Schroder AS Commodity Fund A - USD	<p>Energy: 45.2% Metals: 20.3% Agriculture: 33.4% Cash: 1.2%</p> <p>Correct as of 30th June 2008</p>	N.A	N.A
UOB Gold and General	<p>Gold & Precious Metal: 54.14% Materials: 26.75% Energy: 18.51% Cash: 0.60%</p> <p>Correct as of 30th June 2008</p>	-14.92%	-11.57%

Commodity Fund Comparison
Source: Various Fund House Fact sheet

Source

1. "Fannie, Freddie crisis not the last: Soros", Business Times, 15th July, 2008. General Disclaimer



New Funds available on POEMS

- DWS Global Inflation Buster Fund
- ABN Amro Energy Fund (SGD & EUR) **(Coming soon)**
- Henderson Horizon Fund - Global Financials Fund EUR/SGD
(Coming soon)
- Schroder Emerging Market Debt Absolute Return
- Fidelity Global Inflation Link Bond Fund
- Man Essential Ltd AUD **(Hedge Fund)**
- LionGlobal AUD Short Duration Fund

August 2008 Promotion



Invest in Schroders ISF Emerging Market Debt Absolute Return Fund
Receive a \$10 Shopping voucher for every 10K invested

Terms & Conditions:

- Free gift promotion is valid for placement of trade from **01 July 2008 – 30 July 2008**
- Only applicable to above selected Schroders fund
- This gift promotion does not apply to switch trade or RSP transaction.
- Investors must invest a min. of 10K SGD/USD to qualify for the gift promotion.
- Qualifiers will receive the gift around 6 – 8 weeks from the close of the fund promotion

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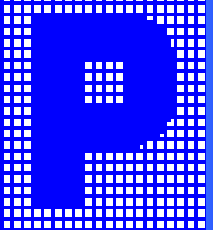
Invest in DWS
Global Inflation Buster
IPO Period: 15 July 2008 – 08 Aug 2008

Receive a \$10 shopping voucher for every \$10K invested

Terms & Conditions:

- Free DWS voucher promotion is valid for placement of trade from **15 July 2008 – 08 August 2008 for Cash / SRS trade.**
- Only applicable to above selected DWS funds.
- This free voucher promotion does not apply to switch trade or RSP transaction
- Investors must invest a min. of 10K in DWS funds to qualify for the vouchers.
- Qualifiers will receive the vouchers and gift around 6 – 8 weeks from the close of the fund promotion.

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Seminars in August 08

We organized a series of seminars in the month of August 2008!

For new investors, you may join us in our introductory seminars.

For current unit trust investors, you may join us in our monthly focused market outlook. In the month of August, we will be having the Taiwan and Gold sector update with our analyst.

Lastly we have also lined up a series market updates, with our fund partners.

The details are as follows.

To register, please kindly provide your name, poems account (if any) and contacts details to unittrust@phillip.com.sg

Your seats will be automatically confirmed unless otherwise.

Date	Time	Venue	Topic
11 Aug 2008	1230pm – 130pm	Raffles City Tower 6 th Floor	Introduction to Unit Trust Online Investment
12 Aug 2008	1230pm – 130pm	Raffles City Tower 6 th Floor	Taiwan & Gold Sector Market Outlook
13 Aug 2008	1230pm – 130pm	Raffles City Tower 6 th Floor	Taiwan Market Outlook by Fidelity
15 Aug 2008	1230pm – 130pm	Raffles City Tower 6 th Floor	Gold and Metal Update by Schroder
18 Aug 2008	7pm – 830pm	Raffles City Tower 6 th Floor	Taiwan & Gold Sector Market Outlook <i>Plus</i> Special update by UOB AM on Gold Sector
19 Aug 2008	7pm – 8pm	Raffles City Tower 6 th Floor	Introduction to Unit Trust Online Investment
22 Aug 2008	1230pm – 130pm	Raffles City Tower 6 th Floor	Taiwan & Gold Sector Market Outlook <i>Plus</i> POEMS Online Navigation
26 Aug 2008	1230pm – 130pm	Toa Payoh PIC	Introduction to Unit Trust Online Investment (Mandarin)
29 Aug 2008	7pm – 9pm	Raffles City Tower 6 th Floor	Hedge your investment nest against Inflation! Special Focus on Inflation themed funds



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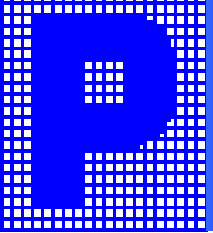
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