

MAY 2008

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Brought to you by Unit Trust Marketing department, Phillip Securities Pte Ltd



Key Highlights for month of May

- Oil price hits record level.
- US economy grew 0.9 per cent in the Q108.
- Inflation continues to create concerns.
- Mix market performance

Oil price has been escalating and it hit a record level of \$135 dollars this month. The spike was largely led by concerns that supply is limited and demand is increasing with countries such as China and India consuming more. Such a rising trend fuel concerns that consumers will pare spending to make room for oil consumption.

US economy grew at an annual rate of 0.9 per cent in the first quarter. This was above the Commerce Department's earlier estimate of 0.6 per cent. Better than expected performance helped to ease worries over recession.

Inflation continues to be a threat in many countries. For instance, inflation in Singapore hit a fresh 26-year high of 7.5 per cent year-on-year for the month of April. Vietnam's annual inflation accelerated to 25.2 per cent for the month of May from 21.4 per cent in the previous month. This trend is largely due to rising food and fuel prices.

Market performance was largely mixed. Some countries registered a rise from the month of April while others were generally lower. The Strait Times Index registered a gain of 44.83 points from the previous month. Nikkei 225 also rose by 488.55 for the month. Hong Kong and the United States were among the countries which suffered a decline relative to the previous month. Hang Seng fell by 1222.23 points while Dow Jones was down by 226.26 points as of 29th May.

Source: Bloomberg, Yahoo Finance, Business Times.

CHINA – Remain a good destination for Long Term investment

Our near term outlook

Recommended Fund for China
- Fidelity China Focus Fund A

Recommendation
- Overweight

Equities are cheap - We feel that valuations for equities at current levels are attractive as they have dipped by approximately 41 per cent from its high.

The economy is resilient – Export level has rebounded from its low and foreign funds continue to flow in the economy.

Potential in China remains – Firstly, domestic consumption continue to grow. An economy driven by domestic consumption is more dependable. Secondly, China has also taken steps to increase collaboration with other countries. Thirdly, the appointment of a new Vice Premier to improve economic policies.

Current situation

Shanghai Composite Index – The Chinese markets faced immense selling pressure in the first quarter of 2008 due to concerns that China will be affected by a slowing US economy. Indeed, the index has dropped by a near 41 per cent from its high of 6092.057. Confidence among investors is gradually improving and the index has recovered from its low of 3147.713. As of 14th May 2008, the index is trading at a level of 3621.494.

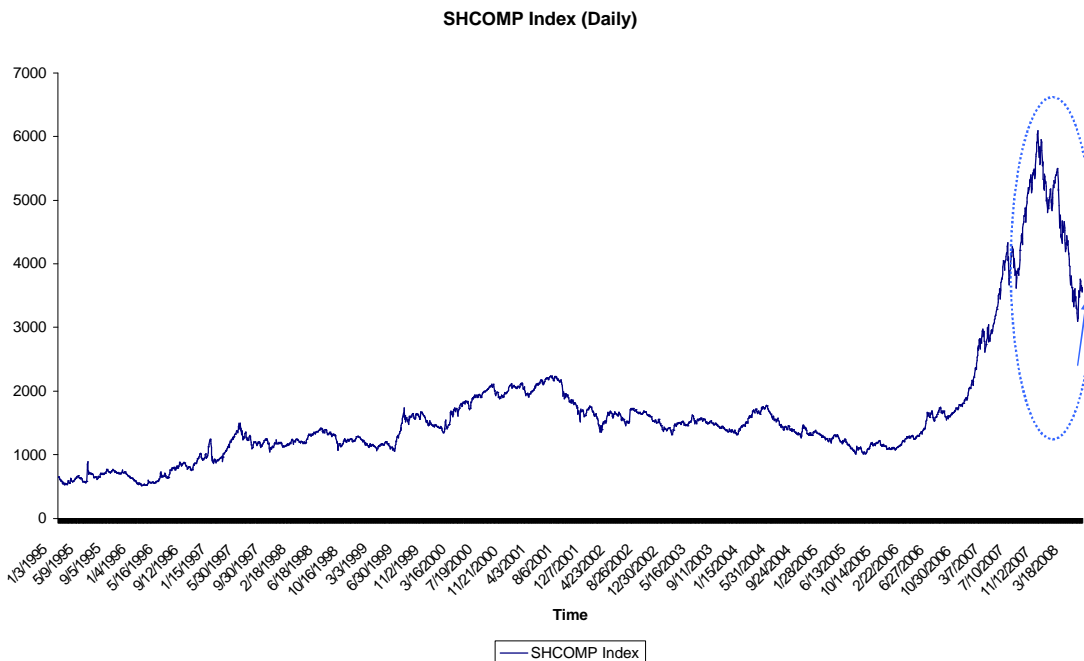


Figure 1: Shanghai index rebounding from its low
Source: Bloomberg, Phillip Securities Research

Growth momentum in China remains intact. This is evident as exports continue to grow and foreign funds continued to flow into the country.

Exports growth remains healthy – The level of exports has rebounded from its low in February. It grew by 24.75 per cent from 87.34 billion USD to 108.96 billion USD in March. Exports growth remains strong despite a slow down in major trading partners. To a certain extent, impact of economic downturn on China's exports is limited. This is so as most of China's exports are daily necessities. They are needed despite a slowing economy.

Continuous inflow of foreign funds - There is still massive interest in investing in China. This is evident by the large amount of foreign funds that are still pouring into the country. Although foreign direct investment dipped slightly in February from its high of 11.2 billion USD in January, it has since rebounded by 34 per cent to 9.29 billion USD.

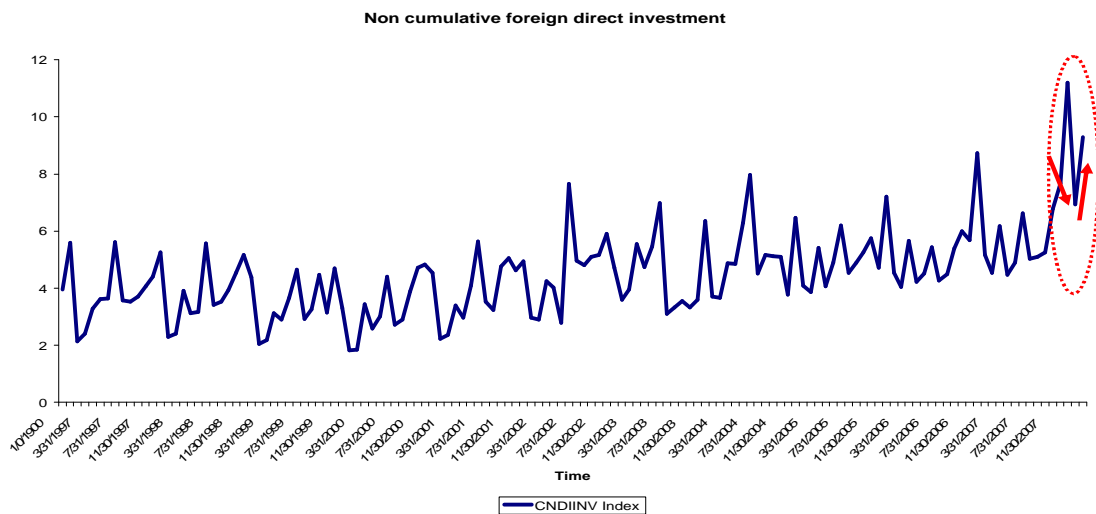


Figure 2: Foreign direct investment are flowing back to china
Source: Bloomberg, Phillip Securities Research

Potential in China

Growth in domestic consumption – China's economy has historically depended on its low labor cost and natural resources to develop its manufacturing and export sector. An export driven economy is unstable and non-dependable as it's vulnerable to economic condition of its trading partners.

On the other hand, an economy driven by domestic consumption is more reliable. Firstly, it's less vulnerable to external environment. Secondly, internal measures can be taken to boost consumption whenever it's necessary. Indeed, domestic consumption in China has been on the rise with the Chinese enjoying a higher wage rate.

Increase collaboration with other countries – China has signed a free trade agreement with New Zealand, its first agreement with a developed country. In addition, the country is attempting to gain access to South Africa's natural resources. Improvement in trading ties benefits the country as it opens more trading opportunities.

Appointment of Vice Premier Wang Qishan – Wang has experience implementing reforms in the banking and securities sector. His experience in this area would benefit China as he oversee the country economic and finance policy.

Stumbling bloc in China

Reducing inflation is the prime concern – Inflation is at an all time high level in China. Consumer price index has risen to 8.5 per cent in April from 8.3 per cent in March. This is largely accounted by soaring prices in food items.

The Chinese government has made known that its prime concern is to clamp down inflation. Indeed, the People's Bank of China has ordered banks to set aside larger reserves for the fourth time this year on 13th May. This raise bank reserve requirement will to 16.5 per cent. This aims to reduce money supply which would eventually lead to a slowing economy.

Appreciating currency threaten future exports level – The Chinese government has allowed its domestic currency to appreciate against the US dollar. On 30th April, the currency was trading at 6.98 Yuan per USD. Continue strengthening of the Chinese currency could threaten the country's exports level.

Fund Manager’s outlook for China market

The fund manager of DWS China Equity fund feels that Chinese stocks are currently trading at an attractive valuation relative to their previous high. In addition, he feels that negative news in relation to the US slowdown and inflation is mostly out and have been priced into the Chinese market. In their opinion, the recent earthquake near Chengdu would most probably force the Chinese Central Bank to put rate hikes if any on hold. On the whole, the fund manager is more positive on the Chinese market relative to two months ago.

Fund Recommendation

We hold the view that China is an attractive country to invest if one plans to hold his investment for a horizon of approximately two years.

Among the funds invested in China and Greater China, we like three in particular. They are *HSBC GIF Chinese Equity Fund*, *Templeton China Fund* and also *Fidelity China Focus Fund A*.

We like **Fidelity China Focus Fund A** because the fund performance has been consistent over the years. It is the top performing fund among its peers. It has registered a two year annualized return of 38.32 per cent. In addition, this fund overweights the financial and energy sector. With reference to figure 3, the financial sector is gradually recovering from its low.

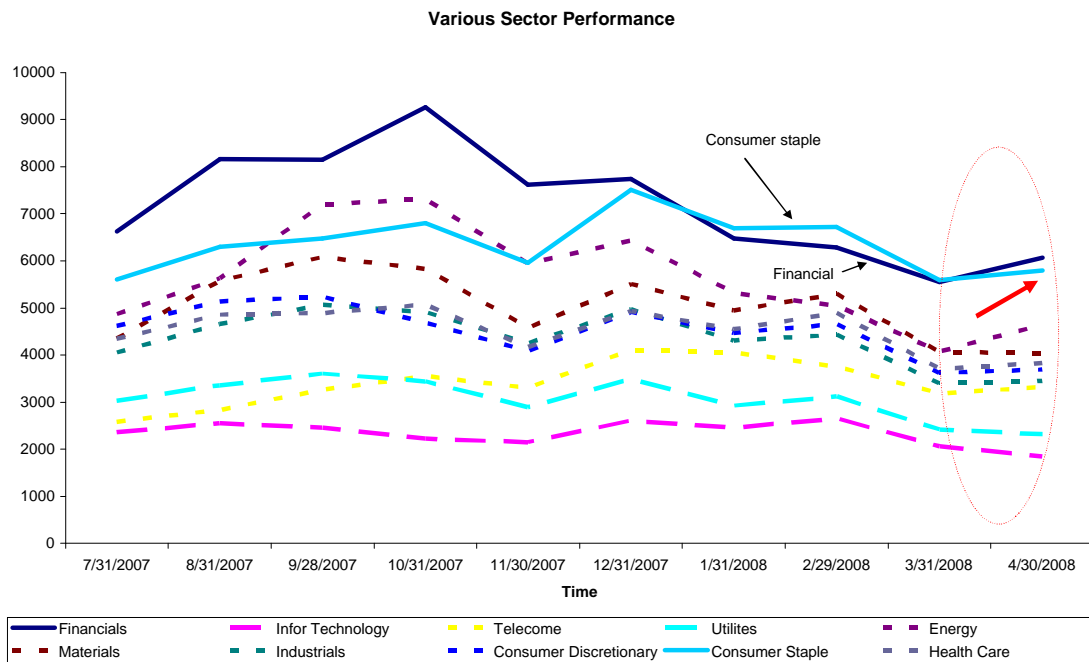


Figure 3: Performance of various sectors in China
Source: Bloomberg, Phillip Securities Research

However, one should also be cautious in being overly exposed to the financial sector. This is because banks are now required to maintain a higher level of reserves. This implies that the level of loans will be reduced and hence bank’s income would be affected.

In view that China's economy is gradually driven by consumption; we recommend **HSBC GIF Chinese Equity Fund**. This fund overweight commodity and consumer sectors while underweight the banks.

Fund	Time Period & Ranking based on indicative prices as at 14 th May 2008	
	Annualized Return (%)	
	1 year	2 years
Fidelity China Focus Fund (US\$)	30.88	38.32
DWS China Equity Fund	20.70	33.54
Aberdeen China Opportunities Fund	8.01	15.43
Franklin Templeton China Fund	N.A	N.A
HSBC GIF Chinese Equity Fund	N.A	N.A

Table 2: Funds are ranked based on a one year annualized return. Correct as of 14th May 2008.

N.A: Not Applicable

Source: Phillip Securities Pte Ltd (Unit Trust)

Fund	Sharpe Ratio	
	52 Weeks	3 Years
Fidelity China Focus Fund (US\$)	0.94	1.32
DWS China Equity Fund	0.71	1.37
Aberdeen China Opportunities Fund	0.45	0.92
Franklin Templeton China Fund	0.88	1.070
HSBC GIF Chinese Equity Fund	N.A.	N.A

Table 3: Sharpe ratio of funds invested in China. Correct as of 14th May 2008.

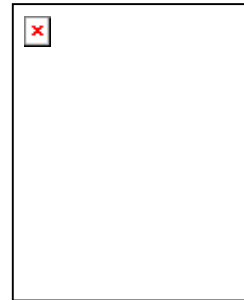
N.A: Not Applicable

Source: Bloomberg

NEW Funds on POEMS

UOB United Commodities Plus Fund

- IPO at \$1 till 16 June 2008
- Achieve long term capital appreciation through investments linked to the performance of underlying indices and fixed income securities
- Receive Gift when you invest with us, details in the promotion page



BNP Paribas Agriculture (SGD) Fund

- IPO at \$1 till 16 June 2008
- Provide investors with an increase in the value of their assets over the medium term through exposure predominantly to the following agricultural commodities indices

We are having 2 NEW Europe Fund on our POEMS platform too!

BNP Paribas - Parvest Converging Europe (EUR)

BNP Paribas - Parvest Europe Dividend (EUR)



Funds Promotion



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Receive Gifts when you invest with us!

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40K and above, receive one year free subscription of THE EDGE magazine

Terms & Conditions:

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- Only applicable to above selected UOB funds for Cash or SRS trade.
- This free voucher promotion does not apply to switch trade or RSP transaction
- Investors must invest a min. of 10K in UOB 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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June Fund Seminars

We provide unit trust seminar for our valued investors.

Intro to Unit Trust Investment:

Cater to new Unit Trust investors; we will share the basics and benefits of unit trust investment.

Re-discover the Chinese Market and the Bond Fund Investment:

This is an advance unit trust session conducted by our in house analyst on why investors should invest into the Chinese market

Fund House special session:

In June, we are inviting UOB to share with us their UOB United Global Capital Fund.

Global Financials - Is the worse over?

Synopsis - The negative sentiment has also led to fears of a global slowdown should the U.S. economy go into a recession. Not surprisingly, financial stocks have been sold down and the shares prices of many major banks have hit their lowest levels in years. Given the sharp decline in securities values arising due to the lack of liquidity and the concurrent negative impact on broader sector valuations, this could be a chance to take advantage of mispricing opportunities that have arisen and the recovery potential in the financial sector.

Date	Topic	Venue	Time	To Register
11-Jun	Intro to Unit Trust Investment	Raffles City Tower Level 7	7pm - 8pm	Send your particulars, Name, NRIC, POEMS account to unittrust@phillip.com.sg
13-Jun	Re-discover the Chinese Market and Bond Fund Investment	Raffles City Tower Level 6	7pm -9pm	
17-Jun	Re-discover the Chinese Market and Bund Fund Investment	Raffles City Tower Level 7	1230pm - 130pm	
18-Jun	UOB United Global Capital Fund	Raffles City Tower Level 6	1230pm - 130pm	
18-Jun	Intro to Unit Trust Investment	Shan Road (Near Novena MRT)	7pm - 8pm	
20-Jun	Intro to Unit Trust Investment (Mandarin)	Raffles City Tower Level 7	1230pm - 130pm	
25-Jun	Intro to Unit Trust Investment (Mandarin)	Toa Payoh	2pm - 3pm	

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