

PhillipCapital U Talk

Issue: October 2006

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Dear Investors,

In October, financial markets continued to rally as oil prices remained low and investors felt that U.S. interest rates had peaked. This will be discussed in detail as we provide the outlook of the global equity and bond markets.

In this issue, we provide our updates on China funds that had performed strongly in 2006.

We provide an illustration of investor profiles in the current market environment.

We also highlight a fund promotion.

There is also an investment seminar on 3 November 2006. Sign up now.

Happy reading and investing!

Regards,
Unit Trust Team

Fund News

- ❖ Outlook of the global equity and bond markets
- ❖ Update on China funds
- ❖ Illustration of investor profiles

Funds Watch

- ❖ Fund Promotion

Investment Seminar

- ❖ Upcoming Investment Seminar

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Market Outlook

In October, global financial markets continued to rally as oil prices remained low and investors felt that U.S. interest rates had peaked. In fact, analysts expect rate cuts next year as the U.S. economy slows down. At the Federal Open Market Committee (FOMC) meeting in October, the Fed left interest rates unchanged and forecasted a soft landing for the economy. This was a non-event as investors expected the Fed to maintain rates at 5.25 percent.

The various economic releases provided further indications that the U.S. economy was slowing down. The National Association of Realtors reported that the pace of existing home sales fell again in September as it reached an annual rate of 6.18 million units. This was weaker than the expectations of economists. Moreover, home prices fell 2.2 percent to USD 200,000 and the inventory of homes for sale was down 2.4 percent to 3.75 million units. The slump in the housing market resulted in U.S. economic growth for the third quarter slowing to 1.6 percent, which was the weakest in more than three years. This was below analysts' forecast of 2.1 percent.

Furthermore, the U.S. economy created 51,000 jobs in September, which were fewer than analysts' expectations of 120,000. Those numbers were also lower than the 188,000 jobs increase in August. But payrolls in July and August were revised higher by a total of 62,000 jobs. However, consumer confidence remained strong because the University of Michigan reported that the sentiment index rose to a higher than expected 93.6 in October from 85.4 in September.

Another factor boosting the performance of the stock markets was the better than expected earnings and outlooks from most U.S. companies. These companies included IBM, Coca-Cola Co., Google Inc., UPS, Microsoft Corp., Exxon Mobil Corp., health insurer Aetna Inc. and the largest U.S. cable operator Comcast Corp. Nevertheless, a smaller number of companies reported weaker results such as Texas Instruments, Caterpillar Inc. and aluminum producer Alcoa Inc.

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However, the European Central Bank and Bank of England are expected to continue to raise interest rates on concerns of inflation. Furthermore, the European economy is strong and consumer confidence is high.

Oil prices remained around the USD 60 level in October as fuel supplies were expected to be sufficient to meet demand. To stem the recent drop in oil prices, the Organisation of Petroleum Exporting Countries (OPEC) had agreed to cut a bigger than expected 1.2 million barrels a day from their production. Some OPEC members said that they might need to reduce supply further at its next meeting on 14 December. Political concerns over Iran's nuclear plans remained after Iran started the second nuclear fuel network to enrich uranium. It maintained that this was done to meet energy needs for peaceful purposes. Consequently, the United Nations Security Council was expected to impose sanctions on Iran for not suspending its uranium enrichment programme. The uncertainties were likely to keep oil prices remaining at current levels. Moreover, the concern for the increase in demand for fuel during the cold winter in the Northern Hemisphere would occur towards the end of the year.

Equity Markets

We provide our updates and recommendations on the Asian and European equity markets.

China: The Chinese economy is doing well with GDP growth of 10.3% in 1Q, 11.3% in 2Q and 10.4% in 3Q 2006. The performance of the economy and the strong debut of IPOs including Industrial and Commercial Bank of China (ICBC) resulted in funds flowing into the equity markets.

Although the Chinese government raised interest rates, introduced measures to cool the property sector and increased the bank reserves requirements to curb increases in bank loans, the economy is expected to continue to post excellent growth. We had recommended China funds in the July issue and expected them to continue to post gains.

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Singapore: In a risky environment, large and developed equity markets including Singapore continued to provide a safe haven for investors and trade at premiums to other regional markets. The economy is performing well with the government forecasting GDP growth of 6.5 to 7.5% for 2006 and 3 to 5 % in 2007. Banks and properties performed strongly in October as the economy grew and foreigner investors snapped up high end residential units.

Hong Kong: The Hong Kong market is also another developed market that is expected to perform as it benefits from the booming Chinese economy. The listing of Chinese companies on the stock exchange is likely to result in fresh funds for the market. The recent debut of Industrial and Commercial Bank of China (ICBC) was a success with the share price rising by 15 and 5 percent in Hong Kong and Shanghai respectively on the first day of trading.

Taiwan: Analysts are generally neutral on the technology sector and the performance of the Taiwan market, which had a number of technology companies, is expected to follow those of other Asian markets. The political climate also remained unstable with opposition pressure on the President.

India: The Indian stock markets regained all the losses from the corrections in May 2006. Most funds had re-invested in the stock markets as the economy was expected to do well.

Thailand: Thai stocks are currently cheap at undemanding PE ratios of about 10 times. The market had rallied recently in line with Asian markets as funds bought stocks at attractive valuations. However, the economy was slowing down due to high oil prices. Recently, there was a military coup in Thailand and the coup leaders mentioned that fresh elections for a new government would only be held next year. The political uncertainty increased the equity risk premiums for investing in Thailand.

Malaysia: Although most funds are not investing in Malaysia, valuations are attractive as companies continue to return their high cash flows to investors.

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Indonesia: Most funds are overweight on Indonesian equities after the cut of 50 basis points in the benchmark rate by Bank Indonesia. There was also an increase in consumer and government spending.

Korea: Most funds are neutral on Korea funds. The domestic economy was doing well and should benefit the banks and consumables while the technological sector was neutral. North Korea conducted a nuclear test in October, but there was limited impact on the financial markets.

Japan: Most funds were slight overweight on Japan, especially the financial sector. The Bank of Japan was expected to raise interest rates as the economy continued to grow strongly and unemployment remained low.

Europe: European equities were expected to perform as most funds found the valuations attractive and the economies continued to perform well.

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Sectors

Sector	Short Term	Medium Term	Long Term
Property	Overweight	Overweight	Overweight
Healthcare	Overweight	Overweight	Overweight
Technology	Neutral	Overweight	Overweight
Banking & Finance	Overweight	Overweight	Overweight
Resources	Overweight	Overweight	Neutral

Property: Currently, most funds were overweight on the property sector. This was because of high demand for office and retail space for businesses that were growing globally. This was especially so for Europe and the developed cities in Asia including Singapore and Hong Kong.

Healthcare: The healthcare sector was also expected to continue to grow. As people became more affluent and life spans became longer, better healthcare was required. This was especially so in the developed countries where the expectations of the population for quality healthcare were higher.

Technology: Analysts were neutral on the technology sector. Companies that posted better than expected results included IBM, Google Inc. and Microsoft Corp. However, Texas Instruments reported weaker than expected revenue outlook.

Banking and Finance: The banking sector had often been beneficiaries of growing economies. This was due to the increase in credit spending, bank loans, demands for wealth management services. We expected the sector to continue its strong performance from the short to long term.

Resources: Oil prices had fallen sharply to the USD 60 level as more supplies of entered the markets due to more exploration and refining. On the other hand, the demand from US, China and India remained strong. Therefore, we were overweight in the sector.

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Bond Markets

US interest rates had peaked as the economy was slowing down and inflation remained under control. In fact, most analysts expected the Fed to start cutting interest rates next year. Thus, US dollar bonds were becoming attractive as investments. Investors could select bonds that give higher yields.

However, with the European Central Bank and Bank of Japan continuing to hike interest rates, Euro and Japanese yen bonds could drop in values. Thus, investments in these bonds were likely to reap lower returns for investors.

Conclusion

Due to the slowing US economy, the Fed was unlikely to further raise interest rates this year and rate cuts could be expected next year. The directions of the equity markets would be determined by corporate earnings, economic releases and oil prices.

US interest rates had peaked and US dollar bonds were becoming attractive as investments. However, European Central Bank and Bank of Japan were expected to continue their rates hikes. Thus, we remained bearish on Asian and Japanese bonds.

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Fund Updates (27 Oct 2006)

In July and August 2006, we had recommended buys on China funds as we expected the Chinese economy to perform strongly over the next two years. These funds had performed well and delivered returns for investors. Investors, who had purchased the funds, should continue to hold them as we expected Chinese equities to deliver returns in the short term.

The Chinese economy continued to grow rapidly despite the various cooling measures imposed by the government. The data release showed GDP growth of 10.3% in 1Q, 11.3% in 2Q and 10.4% in 3Q 2006.

The strong debuts of recent IPOs including China Merchant Bank (CMH) and Industrial and Commercial Bank of China (ICBC) resulted in new funds flowing into the equity markets. Citic Bank, the country's No 7 commercial lender, was also planning a USD 2 billion IPO next year, while coal miner China National Coal Co was seeking to raise US\$1 billion. Mid-sized and smaller companies would also be tapping the markets to raise funds to expand their operations.

We expected the rally in the Chinese markets to continue up to the 2008 Olympics although there could be market corrections along the way. Building and infrastructure projects would propel the economy while consumer spending would boost the retail sector.

We highlighted the historical returns as at 27 October 2006 of the funds as follows (source: www.eunittrust.com):

Fund Name	Total Return (%) as at 27/10/06				
	1 mth	3 mths	6 mths	1 yr	YTD
China Funds					
HSBC Chinese Growth Fund	4.76	10.49	9.91	41.86	33.21
Aberdeen China Opportunities Fund	0.80	7.78	6.53	18.34	13.22
Fidelity China Focus Fund (US\$)	5.79	13.06	13.32	62.58	49.58

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China (Greater) Funds					
Fidelity Greater China Class A (US\$)	1.85	9.53	4.12	28.77	17.28
DBS Shenton Greater China Fund	1.76	10.34	2.08	32.84	17.62
First State Regional China Fund	2.57	10.31	5.42	29.35	18.68
Schroder Greater China Fund	2.06	10.10	4.70	30.59	16.55
DWS China Equity Fund	6.38	15.29	13.12	52.10	40.63
Templeton FTF China Fund	2.80	7.88	4.61	21.99	13.56
SGAM Golden China Fund (S\$)	6.23	13.54	12.70	55.52	45.77
Lion Capital China Growth Fund	5.38	13.25	7.11	40.37	28.98
UOB United Greater China Fund	5.46	13.88	9.30	54.70	37.63

As we were focusing on Chinese equities in the near term, we evaluated the one-year performance of China and China (Greater) funds. The following funds had outperformed the others with one year returns of at least 40 percent: HSBC Chinese Growth Fund, Fidelity China Focus Fund (US\$), DWS China Equity Fund, SGAM Golden China Fund (S\$), Lion Capital China Growth Fund and UOB United Greater China Fund.

The details and descriptions of the funds are as follows:

China Funds

	HSBC Chinese Growth Fund	Aberdeen China Opportunities Fund	Fidelity China Focus Fund (US\$)
Launch Date	15 Mar 2000	13 Jul 2001	15 Aug 2003
Latest Fund Size	S\$135.06 million	S\$129.3 million	US\$2.400 billion
Investment objective	Invest in securities quoted on Chinese markets	Invest in companies which invest in or trade with China	Invest in companies listed in China or Hong Kong or non-Chinese companies which have activities in China
Minimum investment	S\$1000 (initial); S\$500 (subsequent)	S\$1000 (initial); S\$100 (subsequent)	US\$2500 (initial); US\$1000 (subsequent)
Fees & charges			
Normal sales charge	5.5%	5%	5%
Annual management fee	1.5%	1.5%	1.5%

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China (Greater) Funds

	Fidelity Greater China Class A (US\$)	DBS Shenton Greater China Fund	First State Regional China Fund
Launch Date	1 Oct 1990	25 May 1995	27 Sep 1993
Latest Fund Size	US\$374 million	S\$26.51 million	S\$321.9 million
Investment objective	Invest in companies listed on the stock exchanges of Hong Kong, China and Taiwan	Invest in Chinese companies with good prospects and attractive valuations	Invest in securities issued by companies with assets in or revenues from China, Hong Kong and Taiwan
Minimum investment	US\$2500 (initial); US\$1000 (subsequent)	S\$1000 (initial); S\$500 (subsequent)	S\$1000 (initial); S\$100 (subsequent)
Fees & charges			
Normal sales charge	5%	4%	5%
Annual management fee	1.5%	1.5%	1.5%

	Schroder Greater China Fund	DWS China Equity Fund	Templeton FTF China Fund
Launch Date	28 Oct 1996	29 Dec 2004	26 Aug 1996
Latest Fund Size	S\$19.7 million	S\$205.26 million	S\$13.6 million
Investment objective	Invest in securities of companies in China, Hong Kong and Taiwan	Invest in securities issued by entities listed/to be listed on stock exchanges of China	Invest in companies that have significant revenue from and assets in China
Minimum investment	S\$1000 (initial); S\$500 (subsequent)	S\$1000 (initial); S\$100 (subsequent)	S\$1000 (initial); S\$500 (subsequent)
Fees & charges			
Normal sales charge	5%	5%	5%
Annual management fee	1.5%	1.5%	2.5%

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	SGAM Golden China Fund	Lion Capital China Growth Fund	UOB United Greater China Fund
Launch Date	1 Mar 2004	10 Mar 1994	1 Apr 1997
Latest Fund Size	S\$3.28 million	S\$69.4 million	S\$82.88 million
Investment objective	Invest in securities of companies with operations in Greater China	Invest in securities of companies with earnings from or assets in China	Invest in securities that have businesses in China, Hong Kong and Taiwan
Minimum investment	S\$1000 (initial); S\$500 (subsequent)	S\$1000 (initial); S\$100 (subsequent)	S\$1000 (initial); S\$500 (subsequent)
Fees & charges			
Normal sales charge	5%	4%	5%
Annual management fee	1.3%	1.25%	1.5%

Source: Factsheets from the various funds

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Investor Profiles

We provide an illustration of investor profiles in the current market environment where China equity funds are expected to perform well in contrast to global equities, US dollar bonds are attractive investments and cash provides relatively good returns.

Aggressive investors can continue to invest 75 percent in equity funds with a 45 percent focus on China funds that are expected to post high returns, 20 percent in Asian funds and 10 percent in other equity funds. US dollar bonds are at 15 percent, bonds of other currencies are at 5 percent while cash remains at 5 percent.

Balanced investors can invest a total of 50 percent of the portfolio in equity funds including 30 percent in China funds, 15 percent in Asian funds and 5 percent in other equity funds. US dollar bonds can take 30 percent and bonds of other currencies are at 15 percent of total investments. Cash is at 5 percent.

Conservative investors are recommended to invest 20 percent in equity funds with 10 percent in China funds, 5 percent in Asian funds and the balance of 5 percent in other equity funds. US dollar bonds are at 50 percent, bonds of other currencies are at 25 percent while cash remains at 5 percent.

The details of the asset allocation are as follows:

Types of Funds	Asset Allocation (Percentage) for Different Types of Investors		
	Aggressive	Balanced	Conservative
China Funds	45	30	10
Asian Funds	20	15	5
Other Equity Funds	10	5	5
US Dollar Bonds	15	30	50
Bonds of Other Currencies	5	15	25
Cash	5	5	5
Total	100	100	100

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Fund Promotion

Invest a minimum of **S\$10,000** into any of the below Lion Capital funds and you will be entitle for a free **SIM card recorder!**

- **Lion Capital Target Return Fund**
- **Lion Capital Global Flexi Fund**
- **Lion Capital Income Plus Fund**

Promotional period: 16 October to 13 November 2006

Terms and conditions

1. Every S\$10,000 invested in Lion Capital Target Return Fund, Lion Capital Global Flexi Fund or Lion Capital Income Plus Fund will entitle client to a SIM Card recorder.
2. The qualifying period to enjoy this promotion is from 16thOctober 2006 to 13thNovember 2006. Orders must be placed before 3 pm on 13 November 2006.
3. This promotion only applies to lump sum investment.

About the Funds

Fund Name	Lion Capital Target Return Fund	Lion Capital Global Flexi Fund	Lion Capital SGD Income Plus Fund
Area of Investments	Asian Equities and Global Fixed Income	Multi-Asset Classes: Global Equities / Equity-Related Securities; Hedge Funds and Global Fixed Income	Asian Equities / Equity-Related Securities (focus on Dividend Yielding Securities) and Global Fixed Income
Key Feature	Capital Appreciation & Preservation	Capital Appreciation & Preservation	Income Distribution (3.5 cents annually) & Capital Preservation
Benchmark	1 month Sibid + 3%	12 month Sibid + 2.5%	1 month Sibid + 1.5%
Risk Level	Medium - High	Low - Medium	Low - Medium

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	Target Return	Global Flexi	SGD Income Plus
Currency	SGD/USD	SGD	SGD
Initial Minimum Investment	S\$5000	S\$5000	S\$5000
Regular Savings Plan	S\$100	S\$200	S\$200
Sales Charge	3%	3%	4%
Management Fee	1%	1%	1.25%
Realization Charge	Nil	Nil	Nil
Dealing Frequency	Daily	Daily	Daily
Modes of Payment	Cash, SRS	Cash, SRS	Cash, SRS & CPF-OA
Publish of daily Prices	Cash, SRS	Cash, SRS	Cash, SRS & CPF-OA

About Lion Capital

The two major companies in Singapore's asset management industry, OCBC Asset Management Limited ("OAM") and Straits Lion Asset Management Limited ("Straits Lion") joined forces to create one of the largest asset management companies in Singapore in September 2005. Known as Lion Capital Management Limited ("Lion Capital"), Lion Capital combines the asset management businesses of OAM and Straits Lion.

Lion Capital is a wholly-owned subsidiary of Straits Lion, which is 70% owned by Great Eastern Holdings Limited and 30% owned by Orient Holdings Private Limited, a wholly-owned subsidiary of OCBC Bank.

Lion Capital won a total of 53 Awards from 2002 – 2006, including the below

- Lion Capital Singapore/Malaysia Fund has been a consistent winner every year from 2002 - 2006
- Lion Capital Japan Growth Fund has been winning awards from 2004 – 2006
- Lion Capital Japan Fund had won awards in 2003 & 2005
- Lion Capital Korean Fund has won awards in 2002 & 2006
- Lion Capital South East Asia Fund has won awards in 2004 & 2005
- Lion Capital Target Return Fund (mixed asset and absolute return focus) has won awards in 2002, 2003 & 2006
- Lion Capital Singapore Balanced Fund (mixed asset and relative return focus) has won awards in 2002 & 2003

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Upcoming Investment Seminar

Looking for new investments ideas for Q4? Which are the best sectors to invest in the year ahead? Look no further; we have the answer right here for you.

Come down and join us for an enriching experience at the Investment Seminar held on 3rd November 2006 at Raffles City Tower 6th Floor, 250 North Bridge Road, Singapore 179101.

Phillip Capital Management and Henderson Global Investor will share their views on the market outlook in the region for this period. A journey of market experience awaits you.....

Agenda for the seminar:

6:30-7:15 Registration and Refreshment

7:15-7:30 Features of POEMS Unit Trust

7:30-8:15 Asian Pacific Outlook by Phillip Capital Management

8:15-9:00 Global Property Outlook and Strategy By Henderson Global Investors

Register the seminar by sending the following information to unittrust@phillip.com.sg:

- (1) Name
- (2) NRIC
- (3) POEMS Account Number
- (4) Email Address
- (5) Contact Number

Don't wait any further, register for the seminar today. Seats are limited. Successful registrant will received a confirmation email from us.

Warm Regards,

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