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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

The Singapore Fund: An Overview

YOKE MENG KAM joined DBS Asset Management Ltd. in December 2007 as Head of Asian Equities. He has 16 years of fund management experience in OCBC Asset Management and Lion Capital Management, where he last held the post of Head of Equities and Deputy Head of Asian Equities respectively. He has extensive experience in managing portfolios whose mandates range from absolute return to benchmarked mandates relating to Asia Pacific ex-Japan, ASEAN and other single country funds/portfolios. He was also responsible for making portfolio allocation decisions and overseeing the investment process. He graduated with an Honors Degree in Accountancy from the National University of Singapore. He is also a Chartered Financial Analyst.

SECTOR – GENERAL INVESTING

TWST: Would you start by telling us about The Singapore Fund and your investment philosophy?

Mr. Kam: The Singapore Fund is a Singapore-focused, close-ended fund with the flexibility to invest a certain portion of its assets outside of Singapore, particularly in the ASEAN region including Malaysia, Thailand, Indonesia and Philippines. Our investment philosophy is very much bottom-up focused. We focus on looking for companies with attractive growth prospects and trading at reasonable valuations. We construct our portfolio based on a basket of stocks that we feel demonstrate the ability to surprise earnings on the upside of consensus expectations.

TWST: What type of companies do you invest in? Are they mostly Singapore-listed companies?

Mr. Kam: The bulk of the assets are invested in Singapore-listed companies. We have a certain portion that varies from time to time to be invested outside of Singapore in those countries I just mentioned. At one time, the fund has about up to 15% invested in stocks outside of Singapore exchange, and balance of the fund, which is about 80% to 90%, invested in Singapore-listed companies. We took a very opportunistic approach when investing in stocks outside of Singapore, as the benchmark of the fund is Singapore stock index.

TWST: When we spoke with you last year, the markets were in turmoil with the credit crisis. How did you get through that period, and how you have been performing in 2009?

Mr. Kam: During the global crisis, which happened towards the end of last year and well into the first quarter of this year, we took a more conservative approach in managing the portfolio. That included, first of all, raising a little bit more cash than we usually would have done and secondly, holding more defensive stocks in our portfolio.

Having said that, we were early in seeing light emerging at the end of the tunnel. The Singapore government at around the end of February announced a very expansionary fiscal budget, which was in line with what the rest of the world was doing to flood the system with a tremendous amount of liquidity. As credit appetite returned, the Singapore Fund took advantage of that change in sentiment to restructure the portfolio from a more defensive stance towards a more growth-seeking portfolio, and that has helped the performance of the fund tremendously. On a year-to-date basis, the fund achieved performance of well above 60%, and it has beaten the benchmark of STI index by nearly 10 percentage points. We are pretty happy about it.

TWST: How do you account for your better performance? Please tell us about your investment process and how you select companies?

Mr. Kam: The outperformance of the fund is largely due to stock selection. Other than looking at the Singapore universe of stocks, we also look at stocks that are not listed in Singapore. These are stocks that play into certain growth themes. In Malaysia, for example, we were early into the plantation stocks as well as some of the construction stocks, which have benefited from the fiscal pump-priming in Malaysia. In Indonesia, for instance, we were invested in consumer stocks, which have also done very well. In Thailand we went into property stocks early on. And as a result of the upswing in the property sector there, those stocks have also delivered very good returns.

Now within Singapore, we have also been early investors in the real estate sector. The real estate sector, as you know, has benefited tremendously from the unfolding of the credit crunch. Another sector that has done well for us is the offshore marine sector. These are companies that construct oil rigs for the upstream oil companies, and they all have done well because of the resurgence of their order books.

TWST: What about Chinese companies? What are your views on China and its growth? Do you invest there?

Mr. Kam: We are very bullish on the Chinese economy as well as the Chinese stock market, which is represented on any H shares listed on Hong Kong exchange. However, due to the mandate of the fund, it is not able to invest in stocks that are listed on the Hong Kong Stock Exchange. Our bullish view on the Chinese economy is based on its aggressive stimulus policy, huge external surplus and healthy household savings, which have enabled the economy to ride through the global recession. Domestic consumption and public infrastructure projects were driving the Chinese economy during these difficult times. There are some Chinese companies that are listed in Singapore Stock Exchange. However the size and quality of those companies on the Singapore Stock Exchange tend to be inferior to their HK-listed counterparts. Therefore we have avoided Chinese companies this year.

Chinese companies have not contributed in any significant way to the performance of the fund this year. Going forward, I think the universe of Chinese stocks that could potentially be candidates for the fund would be fairly limited. They would probably be restricted to a couple of Chinese real estate developers.

TWST: What about the Singapore companies you have found attractive? What are some of the core holdings in the Singapore Fund?

Highlights

Yoke Meng Kam identifies companies in Singapore and in the ASEAN region with attractive growth prospects and trading at reasonable valuations. On a year-to-date basis the Singapore Fund has achieved performance of well above 60% and it has beaten the benchmark of the STI index by nearly 10 percentage points. This outperformance is largely due to stock selection. He has been an early investor in the Singapore real estate space and he has also done well in the offshore marine sector. Chinese companies have not contributed in any significant way to the performance of the fund in 2009, but he is very bullish on the Chinese economy and the Chinese stock market. Singapore companies are in a sweet spot and he expects to see fairly strong earnings momentum in the next few months as they benefit from the lean cost structure brought about by companies restructuring by cutting costs when the economy was in decline. He thinks this will give the companies a tremendous boost to their margin and earnings momentum until there are more visible and sustainable signs of a global recovery. Companies include: Singapore Airlines; Singapore Telecom; Venture Corporation and Ezra Holdings.

Mr. Kam: We have a couple of stocks that have been big winners for the fund this year. One of them is **Venture Corporation** (V03.SIN), that is an OEM providing manufacturing and design services for electronic appliances. The stock price has collapsed because of the downturn in the economy. This resulted in a greatly reduced order book. Furthermore, they have also invested in some CDO portfolios and took major write-downs. Having said that, I think we took the opportunity sometime in the early second quarter to move back into the stock. We believe that the downturn in the operations is temporary in nature, given that the management has proven in the past to be very astute and are able to weather the ups and downs of their marketplace. Secondly, which on hindsight has come as a bonus to us, there has been a substantial write-back of their CDO portfolio, which may result in upside of S$0.50 per share in net asset value to the company by the end of next month, when the CDO portfolio matures.

The second stock that we have a major position and which have done well for us is **Ezra Holdings** (5DN.SIN). That is a company in the offshore marine sector, which owns a fleet of offshore supply vessels. **Ezra** is moving up into related industries such as subsea engineering and ownership of some FPSO. Its share price has also been affected by the meltdown in the stock market. We took the opportunity to increase the position because we were convinced that the long-term outlook for the company remained very robust and that when the dust settle down, the company would be able to see a resurgence of their order book. Their fleet of offshore marine vessels has got quite decent long-term charters, and they were chartered at fairly attractive rates, given that this fleet is fairly young and new. We are happy to hang onto the position, as they offer tremendous upside opportunities.

TWST: What about those well-known companies, Singapore Airlines and Singapore Telecom?

Mr. Kam: Those are the two stocks that we had a major underweight for the most part of this year. In fact, we still have a major underweight in **Singapore Telecom** (SGAPY.PINK). On the telecom sector, its earnings have been rather defensive in the sense that telecommunication services are essentially domestic demand-driven, and therefore it is less vulnerable to the global downturn. Therefore, any potential earnings surprise for **Singapore Telecom** in the upswing of the market will be fairly limited. Furthermore, we also believe that there are rather formidable competitive issues with regards to **Singapore Telecom's** market share in Singapore, as amplified by its aggressive bidding for **ESPN** broadcasting rights against incumbent **Starhub**.

With regards to **Singapore Airlines**, that has been an easier call. We were zero weighted in **SIA** until fairly recently. Air travel was cut substantially, particularly in the premium air travel during the down-

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turn. **SIA** derives fairly good margins from those first-class and business-class travelers. Furthermore, the cost structure of **SIA** tends to be fairly fixed in nature, and it is vulnerable to a severe downturn like this. Even when the credit crunch subsided, we still think that it was a bit too early to go back to **SIA** because air travel will not come back so readily.

Having said that, we have recently added back **SIA** an overweight position in our portfolio. We believe that going into next year, passenger air traffic and air cargo demand will start to improve. In fact, we have already seen air cargo load factor starting to improve in **SIA** in the recent months. They were able to improve their load factor in air cargo to more than 70% in recent months, and also we have been seeing steady improvement in passenger traffic. This is a company with very highly operating leverage company, meaning that any improvement in top line will filter down to the bottom line quite readily.

TWST: What about some of the opportunistic buys that you made when the market was at its lowest? You said you'd made some recent additions outside Singapore.

Mr. Kam: Yes, we have, as I mentioned, profited from positions outside of Singapore market. But we have since taken profit on almost all of them. As you know, Singapore is a more open economy compared to the rest of the ASEAN region. Our economy tends to be more affected on a downturn compared to the more domestically inclined economy of Malaysia, Indonesia, etc. Malaysia and Indonesia were some of the markets that we went into to look for stocks that are sheltered from the global crisis. These included consumption stocks in Indonesia. As you know, Indonesia is a key commodity exporter, and it has little exposure to the global manufacturing sector. Its purchasing power has not been affected so severely because of the strong income deriving from demand for commodities, such as coal and palm oil. In Malaysia, for example, we went into construction companies because the Malaysian government was also implementing a fairly aggressive fiscal stimulus to pump-prime the economy through infrastructure projects.

When the global economy starts to recover, we expect the Singapore economy will benefit more than the rest of the neighbors, as the upward bounce will be more aggressive. We have since gradually moved back some of those for exposure outside of Singapore back to company listed on the Singapore Stock Exchange.

TWST: What is the sell discipline for companies in your fund? Do you set price targets and take profits when they reach a certain level?

Mr. Kam: The sell discipline varies depending on conditions. A sale can be initiated because the fund needs money to fund another purchase. If that's the case, we would then look at stocks that have limited upside in terms of potential returns. In all the stock that we own, we have a price target, which is set by very detailed analysis of the fundamentals and using certain valuation metrics. Based on those price targets, we would then be able to decide the upside potential of our holdings.

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Another form of sell discipline are those companies which have faced sudden, unexpected events, which we may not have considered when we analyzed the company earlier on. For example if a company goes into some new businesses which they are ill-equipped or some potentially negative news, such as a new competitor emerging or new competitive product which may impair the future earnings ability of the company, we would revise our price target in light of those new events taking place. And depending on what we arrive at in terms of the new price target, we may then cut the position.

TWST: What about the risks of investing in the emerging economies of Asia? How do you attempt to control risk at the portfolio level and at the individual securities level?

Mr. Kam: The attraction of in emerging markets is their higher-growth potential, which comes with higher investment risks. The risks include liquidity risk that if you need to take your investment out, you might not be able to do so without significant price impact and foreign exchange risk.

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In recent months, we have seen investors using U.S. and European currencies to fund higher-yielding assets in emerging countries. Such hot money is driving up asset prices in many emerging countries such as Brazil and to a certain extent countries like Indonesia. While there are asset bubble risks, but given the stronger growth potential in those markets, there should be good opportunities if you take a longer-term view.

When investing in emerging markets, we have to manage risk at a portfolio level as well as the stock level. You have to find companies that are competitive both domestically in their own market as well as globally in the open marketplace. That is one form of protection. Secondly, you have to know what kind of valuation to pay for those companies and be careful not to overpay. Finally, I think it is also important to diversify both in terms of the various emerging countries as well as various sectors and stocks.

TWST: What do you see looking ahead as challenges or headwinds to investing in Singapore and the Asian economies?

Mr. Kam: I think the Asian economies will recover and grow stronger than global markets. Hence economic policies in Asia would have to be tightened ahead of the U.S. interest rates. But we think that any tightening of rate is manageable because policymakers around Asia have always said that they will only tighten when they are comfortable that the growth engine is kicking. The United States in recent months has started to move into the lower-for-longer kind of mindset. And therefore, I think Asian monetary policy will probably not tighten aggressively.

Secondly, the fiscal stimulus that has been announced will continue for projects that has kicked off. As they were targeted at areas such as public infrastructure projects, they will be beneficial for the economy in the longer term. Given the long gestation of those public projects, we think that the spending on those projects that has commenced will continue for the next few quarters, if not the next couple of years.

TWST: The long-term record of the Singapore Fund is outstanding. What gives your fund its edge when it comes to investing compared to other companies' emerging market portfolios?

Mr. Kam: The primary objective of the fund is to invest in the Singapore stock market, and I wouldn't be so optimistic to say that the potential return for the fund will be better than the emerging market. Obviously the Singapore economy is no longer emerging, and the Singapore stock market, while it's classified within Asia context, is already a developed market within the key index providers such as FTSE and MSCI. Within the developed market universe, I think Singapore does provide certain interesting features when you compare to some of the other developed countries outside of Asia. This includes it being nested within the very vibrant growth corridor of Asia as well as the fact that many companies listed here derive their earnings from outside of Singapore. In other words, you have companies listed in the developed stock exchange but operating or deriving some of their earnings from the fast-growing emerging markets in Asia, such as the ASEAN region, China, India and so on.

TWST: Let's look ahead to 2010. What are your hopes for the Singapore Fund? What are your goals and what is your outlook?

Mr. Kam: We continue to be fairly positive on the outlook for the stock market into the next year. Key drivers for next year's performance, I believe, will come from earnings. We think the liquidity condition will remain fairly benign. There won't be more aggressive stimulus but it will still be in quite abundance to support asset prices, taking into account that Asian currency in general are undervalued. Some of the Latin American currencies have moved up quite strongly this year. Going to the next year, the pressure to appreciate will be greater for the Asian currencies next year. Corporate earnings in Singapore companies will continue to benefit from the gradual recovery of developed economies in OECD as well as the strong domestic demand in other part of Asia.

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Singapore companies are in a sweet spot where they are likely to see fairly strong earnings momentum in the next few months because as the top line recovers somewhat due to those factors I mentioned, they are likely to benefit from very lean cost structure, given that many companies have restructured aggressively by cutting costs when the economy was not doing well and the situation remains so even today. It is unlikely to change until they see more visible and sustainable signs of the global recovery. I think that will come probably in a couple of quarters from now. So in the meantime, you have a situation where you have a recovery of top line coupled with very lean cost structure, and that is going to give you a tremendous boost for your margin and therefore earnings momentum.

TWST: Is there anything that you wish to add?

Mr. Kam: Yes, the first thing is on valuations. Most markets in Asia have now approached valuations which are considered fairly valued. We believe that the measure of valuation when you look at historical trend is not really comparable unless you adjust low interest rate regime and earnings momentum. I think in terms of earnings momentum and interest rates, there is a case for valuation to stay high. Secondly, we will be looking to seek opportunities again outside of Singapore. I think the correction that is going on in Thailand and Indonesia provide such opportunities, and they will come sooner rather than later.

TWST: Thank you. (PS)

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