

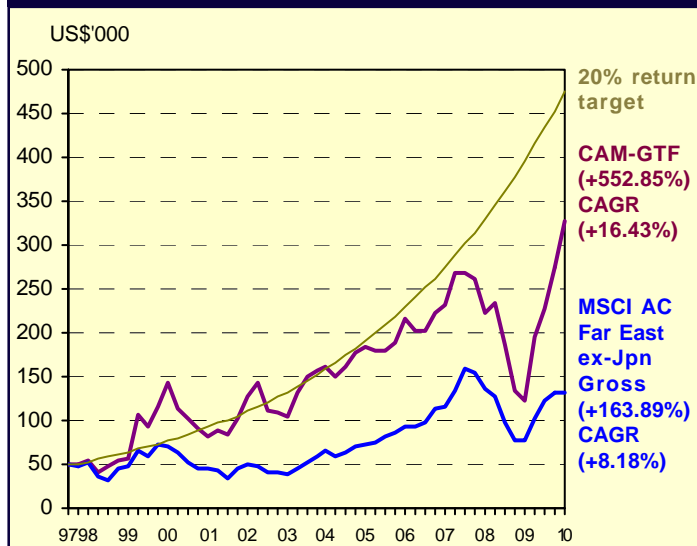
## REVIEW OF 1Q2010 AND OUTLOOK FOR 2010

### PERFORMANCE

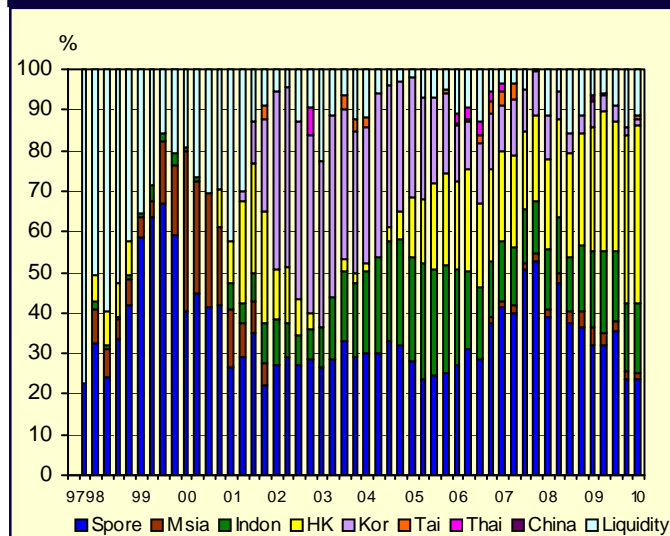
1QCY2010 was a phenomenal quarter for CAM-GTF, with the Fund appreciating 18.9% compared with a 0.9% rise in the benchmark MSCI AC Far East ex-Japan Index. The major thrust came from our two HK-listed China pharmaceutical stocks and a Singapore-listed oil & gas services company. We opine that the Fund still has further upside given that we have a number of undervalued positions yet to be discovered by the investing public, notwithstanding a severe deterioration in market sentiment. The Fund's performance comes not from leverage but from a highly concentrated portfolio of growth-at-value-price stocks, a proven marriage of conservatism with significant upside potential. At the end of the quarter, CAM-GTF's cash position stood at 11.3% vs 14.1% at end-December 2009. The cash position is likely to increase in the near term as we trim positions that have reached fair value. We do not feel compelled to reinvest our cash immediately as the remaining equity exposure still offers tremendous upside if it were accorded the current market average valuations. Our focus is absolute returns and not relative performance; we will deploy our cash only when it is accretive to our present equity portfolio.

A number of factors leads us to tread cautiously. Broadly speaking, stock market P/E valuations are no longer cheap as markets have rallied unabated for over a year. The thrust behind the rally is the zero interest rate / pro-inflationary policies of the West primarily to prop up the insolvent banks and stem deflation. Consequently, countries with significant surpluses but whose currencies are pegged to the US dollar have had to reduce their interest rates correspondingly, causing substantial asset inflation in their own countries e.g. HK and China. These asset bubbles will eventually deflate when the interest rate cycle reverses and starts to climb in earnest. Interest rates will

#### CAM-GTF VS BENCHMARK INDICES



#### CAM-GTF ASSET ALLOCATION



US\$	1Q10	3 mths (%)	6 mths (%)	YTD (%)
CAM-GTF	326,423.1	18.9	43.9	18.9
MSCI AC Far East F ex-Jpn <sup>#</sup>	800.0	0.9	7.4	0.9
US\$	2 yrs (%)	3 yrs (%)	5 yrs (%)	30/11/97 *
CAM-GTF	46.2	41.0	77.5	552.8
MSCI AC Far East F ex-Jpn <sup>#</sup>	-3.0	14.4	83.6	163.9

\* Date of inception. # Gross

Source for perf: S&P Fund Services, Chartered Asset Management Pte Ltd

rise when inflation returns, or where sovereign default risk is perceived. An example of the latter scenario is Greece; its 3-month Government bond yields was only 2.0% at the beginning of the year, and now exceeds 10.5% on the back of default concerns, despite assurances of support from the European Central Bank (ECB). Contrary to the claims that the worst is over, the financial crisis has in fact morphed from a subprime issue and a banking solvency concern, to a sovereign debt and currency crisis. The unabated rally in equities since March 2009 indicates that very little of the said risks are being discounted, suggesting a substantial correction in the making. Rather than panic, a severe stock market correction would be the catalyst to deploy our cash; low valuations will serve to reduce downside risk, and at the same time, increase the upside potential.

## MARKET OUTLOOK

“Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.” – Sir Winston Churchill

1Q10 ended on a positive note, with politicians and economists alike citing recent growth statistics as proof that the '08-'09 US recession is now officially over. As the US accounts for roughly a third of global GDP, the rest of the world assumes that it can re-latch onto the engine of growth. What many failed to recognize, or chose to ignore, is the amount of stimulus, funded by debt, that was required to produce the year-on-year improvement, off a low base. Underlying this optimism is our Catch-22 concern that the US economic rebound will falter if the stimulus is withdrawn, or if the stimulus were to continue at the current spend, the resultant debt would cripple the US economy and thereafter, the rest of the world. The collapse of the Greek economy, over burdened by debt, is a harbinger of other possible sovereign debt defaults to come, including the US. Should this come to pass, it would mark the end of the beginning and raise the possibility of a 1929 depression scenario, when many fortunes fell after a promising rebound proved false.

The current capital flight out of Europe and the Euro into the US dollar and US treasuries is based on the notion that the US economy and debt situation is ‘less ugly’ than Europe. We find that argument both repulsive and desperate. We were schooled to invest hard-earned money in productive, accretive, and undervalued situations. We are not in the business of investing in assets that are less unattractive. Why not avoid ugly assets altogether? Similarly, we have no compulsion to invest in **Thailand** with all its political issues just because it is a component of our benchmark index.

To get to the beginning of a great beginning, we would like to see real price discovery and real financial reforms such as the re-implementation of the Glass-Steagall Act and a revisit of the FASB impairment charges that were suspended in April 2009. One has to properly restore the lending infrastructure in order to kick start the lending multiplier effect. Instead, the West has adopted the Japanese model of pain postponement and denial, perpetuating insolvent financial institutions whose lending capabilities have been neutered, living instead on ‘free-lunch’ Fed-spreads and speculative proprietary trading. The elderly-biased demographics in Europe, the US and Japan may be an impediment to reform; it is far easier to extend and pretend than to accept financial reality and to embark on the near impossible task of rebuilding one’s fortune at such a late stage in life. The indecisive outcome for the UK elections in May is proof that the West does not possess the mental capacity to taste any bitter medicine. It is almost certain that we will be looking at many false starts in the West as they kick the can down the road. In that scenario, only chaos will be the catalyst for reform and order.

**Asia** was ‘lucky’ to have experienced its financial meltdown a decade earlier as the rest of the world was in better position for it to export its way out of deficits. The scarring from that episode explains the trading surplus discipline that it has embraced since then. However, the current near zero-interest rate environment creates an irresistible temptation to spend and leverage, evidenced by the asset inflation in Asian equities and properties. Should Asia succumb to the same ills as the West, it is unlikely to find a saviour to export its way out this time around. This explains China’s motivation to curb speculative activity in the property and construction sector before it gets way out of hand. China’s other predicament is that a good proportion of its reserves is denominated in US dollars and invested in US Treasuries. An appreciation of the yuan against the US\$ will result in currency

loss, and a rise in US interest rates will result in a capital loss on its dollar bond assets. It is no wonder that **China** is in a race to convert as much of its paper surpluses into hard assets as she can. The sharp falls in the Euro and the British Pound are prescient to what may happen to the US dollar, and thus the allure of **gold** grows stronger each day.

## STRATEGY

CAM-GTF has the construct of an all-weather portfolio with low P/E stocks and sound financial ratios and with a bias towards net cash as well as a general aversion to debt. For those companies with debt, we impress upon management to proactively reduce debt as quickly as they can.

The portfolio is exposed to the secular theme of growing domestic demand especially healthcare in China which will be a beneficiary of the government's rural welfare reform program. The second secular theme is the stable demand for energy resources and declining supply of low cost oil.

The sharp rise in equity prices from the low in March 2009 on the back of low interest rates means there is less value to be found in general. We will therefore ride with the low P/E positions that we currently have, and trim those positions that have reached fair value. We will only look to deploy cash when we find a suitable risk reward proposition, usually associated with steep market corrections.

CAM GTi, our macro multi-asset class fund that was launched in May 2007 defines our broader investment views and considerations. It seeks to invest in under covered and undervalued growth stocks with a good earnings track record, as well as with third party managers whose interests are aligned with their customers and who practice a strategy that we are comfortable with and complements our approach to investing. We largely depend on fundamental analysis of macro and micro trends, but will use technical analysis to confirm the integrity of the secular trends that we have identified as well as to identify new ones.

The Fund's exposure reflects our current macro considerations. The increase in weightings toward precious metals reflects our concern with fiat currency debasement. From time to time, it is invested in India via an Indian ETF given the country's young demographic profile which is an important factor underpinning long term growth. The Fund is also invested in efficient energy resource companies with a proven track record.

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