LION GLOBAL INVESTORS

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Fund Update – For the year ended 31 December 2012

LionGlobal TEAM – LionGlobal Singapore Fixed Income Investment

Market Review

Singapore Government Securities (SGS) bond yields declined in 2012. The 5-10 years benchmark bond yields came off the most, declining more than 30 bps. The 2-year SGS benchmark bond yields declined only 8 bps while the more than 10-year SGS benchmark bond yields declined 19-28 bps. In total return terms, the JP Morgan SGS index returned 3.83%, with the more than 10-year sector returning 7.09%. The index performed consistently positive for each quarter and there were only 3 months (March, August and September) in 2012 where the index performed negatively.

The direction of interest rates was largely driven by policies, with the Long Term Refinancing Operations in Europe and the announcement from the US Federal Reserve (Fed) stating that it would not increase rates until 2014. Such policies anchored short-term rates, boosting search-for-yield flows into fixed income. Risky assets suffered particularly in May, with increased concerns over the Eurozone debt issues and slowing global growth, while US government bond yields declined to record lows and SGS yields fell as well.

The macro environment weakened going into 3Q 2012, in particular, for Asia. Leading indicators such as the Purchasing Manager Index (PMI) for China, Korea, Taiwan and even Singapore were below the 50 mark, implying a contraction in economic activities. Inflation, however, was at a manageable level and trended lower given the weakened macro outlook. This allowed some Asian central banks to ease in July, following comments from Mario Draghi, President of the European Central Bank (ECB) that the ECB would do “all that it takes” to protect the Euro. In September, the Fed delivered a third round of Quantitative Easing (QE3) and the ECB launched its unlimited bond purchasing program (Outright Monetary Transactions). All these actions improved the risk sentiment even as the macro outlook remained unchanged.

The Singapore Dollar (SGD) performed strongly too. The AAA sovereign rating made it a strong attraction for sovereign wealth funds diversifying away from USD and EUR assets. However, as economic data weakened, expectations built up for a loosening of policy in October via a gentler slope for the trade weighted exchange rate. These expectations saw the FX implied 6-month Swap Offer Rate (SOR) creep up to above 60 bps. Surprisingly however, the nominal SGD appreciated above 3% against USD during this period as QE3 led to a weak USD environment. As the October monetary policy statement passed without a change in the currency appreciation stance, the 3-month Treasury Bill (T-bill) ended the last auction at 0.26% while the 2-year swap rate (0.507%) was still marginally higher than the 6-month SOR (0.52165%).

The more interesting development was in the SGD corporate bond primary market, with statistical figures putting the total amount of issuance in excess of S$30 billion for 2012. There was a diversity of issuer profiles and many first time issuers in the bond market. The issues also stretched across the whole yield curve, in particular, with longer-dated tenures and came in various capital structures, including corporate perpetual bonds.

Most of the issues performed well as they matched investors' search for yield in a declining interest rate environment. There was also strong interest from new investors in the private wealth area. The focus on yield, however, did lead to new issues being priced at tight spreads and post-issuance activity failed to perform for some. At the same time, corporate action events turned out to be busier than normal. The market remains uncertain regarding the competing bids for Fraser & Neave and for WBL Corp. The allegations made by Muddy Waters regarding Olam's financial instability added further to the heavy news flow.

The Fund returned 4.4%[1] for 2012, outperforming its benchmark[2], largely due to the allocation to corporate bonds which ranged between 40-60% of the Fund. While the average portfolio duration had remained short relative to its benchmark, the Fund was positioned in the long end of the SGS curve and the shorter end of the corporate bonds. The yield carry of corporate bonds over SGS and the positioning of the fund in the long end of the SGS curve both contributed to the outperformance.

[1] Performance figure in Singapore Dollar terms and on a bid-bid basis, excluding preliminary charges. Dividends are reinvested net of all charges payable upon reinvestment and in SGD terms. Past performance is not necessarily indicative of future performance.

[2] The Benchmark is the JPMorgan SGB Index.

Fund Review and Outlook

2012 ended with uncertainty remaining in the US, as a failed discussion between political parties regarding the impending fiscal cliff would have implied a US recession. 2013 saw some, but not all of the issues resolved, as the possibility of a recession subsided. With the reduction of this uncertainty, and the release of leading indicators from the US, China and other parts of Asia showing a stabilization in growth outlook, risk sentiment rose and in-flows to emerging markets, both equities and bonds continued. There is currently pressure for interest rates to move higher.

However, we are not expecting high-paced growth from the developed markets. The US has only delayed the debt ceiling issue and spending cuts by another 2 months. The upturn in the external demand for Asian markets also implies that most Asian central banks are likely to put a pause on policy rate action in the near-term. Countries such as Korea, Thailand, Philippines and Malaysia are also seen as being able to use fiscal stimulus to ensure that growth stability continues. Locally, Singapore's economy has yet to pick up like the rest of Asian exporters. The latest PMI is still below 50, indicating a contraction in manufacturing activities. Singapore narrowly averted a technical recession, largely due to a downward revision of 3Q 2012 GDP. The full year GDP growth of 1.2% on a year on year basis was below the earlier official guidance of 1.5%. The official forecast has put 2013 GDP numbers at 1-3% and inflation at 3.5-4.5%. With inflation staying elevated and better economic data coming out from the US, we do not expect any change in the monetary policy stance in the near-term.

The market appears to have closed the year slightly short or neutral duration. If rates rise or if there are increased expectations for rates to rise, there may be some portfolio adjustments by investors. On the other hand, it is perceived as possible that banks may need to hold more SGS in light of Basel III requirements. At the same time, there has been a consultation paper regarding potential issuance from MAS, which could be to address these Basel III requirements. With regard to SGS, supply remains manageable though we see a re-opening of 30-year issues and new issues of 10-year and 20-year SGS, possibly adding some duration to the market on a net basis. Corporate bond issuance volume remains the main uncertainty.

If there was a positive up-turn in risk sentiment, lower-yielding countries such as Singapore may be less favoured by investors and the correlation with US Treasury movements could rise. We do not expect any dis-orderly spikes in rates, however, as a large portion of inflows into SGS have been part of a reserve diversification policy by central banks. These tend to be more 'sticky'. SGD may not repeat 2012's strong performance against USD but is still expected to gradually appreciate.

In the near-term, we may see higher interest rates but this could be capped by any resolution on the US debt ceiling and spending cuts. We favour corporate bonds for the yield carry. As for SGS, there might be a need to trade the ranges as macro and policies continue to drive the big picture.

Fund Details

Sector Allocation	%
Sovereign	43.6
Financial*	41.2
Industrial	6.5
Utilities	2.4
Consumer, Cyclical	2.3
Communications	0.7
Technology	0.3
Consumer, Non-cyclical	0.2
Cash Equivalent	2.8

Currency Exposure ***	%
SGD	95.7
USD	4.3
Total	100.0

* Includes Real Estate.
** Issues are internally rated.
*** Foreign currency exposures are hedged back to SGD, as at current view.

Source: Lion Global Investors.
Data as of 31 December 2012.

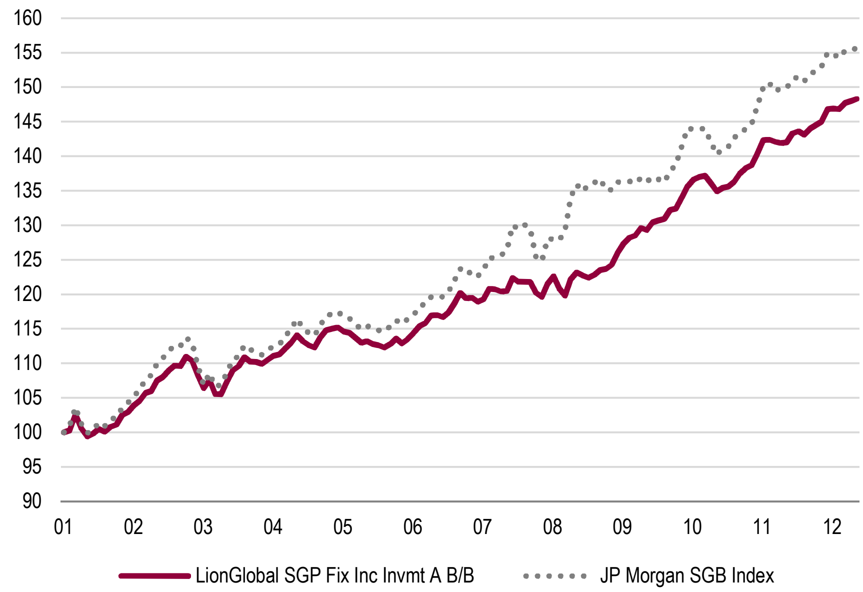
Credit Ratings	%
Investment Grade	51.9
Non Rated **	45.3
Cash Equivalent	2.8
Total	100.0

Top 10 Holdings	%
SINGAPORE (GOVT OF) 3.25% 01/09/2020	10.5
SINGAPORE (GOVT OF) 3.5% 01/03/2027	8.7
SINGAPORE (GOVT OF) 3% 01/09/2024	6.8
SINGAPORE (GOVT OF) 2.5% 01/06/2019	5.1
SINGAPORE (GOVT OF) 3.125% 01/09/2022	4.6
SINGAPORE (GOVT OF) 2.25% 01/06/2021	4.5
SINGAPORE (GOVT OF) 2.875% 01/09/2030	2.3
HOUSING & DEVELOPMENT BOARD 2% 03/11/2017	1.9
DBS CAPITAL FUNDING (15/06/2018)	1.9
SP POWERASSETS LTD 4.19% 18/08/2015	1.8

Fund Performance

Fund Performance Chart

Chart shows performance of LionGlobal Singapore Fixed Income Investment, in Singapore Dollar terms. Source: Lion Global Investors Limited / Morningstar, as of 31 December 2012. Note: Past performance is not necessarily indicative of future performance.



Fund Performance Table

SGD Class - Performance returns based on single pricing. Dividends are reinvested net of all charges payable upon reinvestment and in SGD terms.

Time Period	RETURNS (%)		
	NAV	NAV^	Benchmark*
Year-to-Date	4.4	1.3	3.8
1 year	4.4	1.3	3.8
3 years p.a.	4.7	3.6	4.5
5 years p.a.	4.2	3.6	4.2
10 years p.a.	3.3	3.0	3.5
Since inception p.a.**	3.5	3.3	4.0

Source: Lion Global Investors Limited/Morningstar. Data as of 31 December 2012
Note: Past performance is not necessarily indicative of future performance.
^ NAV: Figures include Preliminary Charge of up to 3%
* The benchmark for the Fund is the JPMorgan SGB Index
** Inception Date: 31 Aug 2001

About Lion Global Investors

Lion Global Investors, a member of the Oversea-Chinese Banking Corporation Limited (OCBC) Group, is one of the largest asset management companies in South East Asia, with total assets under management of S$31.2 billion (US$25.5 billion) as at 31 December 2012. Established as an Asian asset specialist since 1986, Lion Global Investors offers Asian equities and Asian fixed income funds to institutional and retail investors globally. It has one of the largest and most experienced investment teams dedicated to regional and global equities and fixed income markets, with 45 investment professionals averaging 14 years of relevant investment experience. The company's commitment to investment excellence begins with a team-based and research-intensive approach, combining in-depth market insights with comprehensive country and sector knowledge.

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

For more information about Lion Global Investors, please visit www.lionglobalinvestors.com.

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