

Singapore Outlook: Full Speed Ahead

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Investor Spotlight



Singapore is hardly an “emerging market:” This former British colony has been firing on all cylinders for decades. The economy averaged over 7 percent annual growth from 2003 to 2007. Yes, there was a modest drop-off in 2008, when the Singaporean economy contracted by a couple of percent. Other Asian countries, however, fared much worse. More importantly, though, once the larger financial crisis stabilized, the Singaporean economy took off like a rocket: the country logged over 14 percent economic growth in 2010. And thanks to a stable, sustainable fiscal policy - the country has not borrowed money to finance operations since the 1980s - future growth is not likely to be hampered by the cost of servicing massive amounts of debt. Which puts them in a much better position than a lot of other countries we could name.

This is no quaint Asian rustic backwater of water buffalo and rice paddies; the Singaporean economy is fully modern. Only a tenth of one percent of the work force is devoted to agriculture, for example. Rather, Singaporean economic growth is fueled by a



highly-developed banking system, cutting-edge pharmaceutical manufacturing facilities, companies, and a state-of-the-art shipping and transportation infrastructure. The per capita GDP is over \$57,000 - ranking it the sixth highest in the world. The trade balance is favorable, and Singaporean imports and exports are well diversified among many economically strong trading partners. This should go a long way to protecting the economy from economic shocks that may

affect other countries. And because Singapore has a strong petroleum export operation, the current increase in oil prices potentially works to their benefit.

Singapore as a Diversifier

Because the fundamentals of the Singaporean economy differ so substantially from those in the high-debt, oil-exporting United States, exposure to the Singaporean markets can make a great deal of sense for those looking for

◀ diversification. According to Chon Kiat Teo, manager of the Singapore Fund, the Singaporean government is actually taking steps - including a series of tax hikes on real estate transaction - to tamp down an overheated real estate market. That makes for quite a contrast from the United States, where the government is still struggling to stave off further sell-offs. The fund currently sports a correlation coefficient of just 0.682 against the S&P 500, providing a significant diversification benefit when held as part of a portfolio including U.S. equities. The Singapore Fund is one way to gain exposure to potential economic growth in that country while providing a healthy balance to a U.S. - heavy portfolio.

Outlook

Yes, the fundamentals look solid. But more importantly, Teo is bullish on Singapore's people. The economy is operating at close to full employment: The unemployment rate in Singapore is a miniscule 2.1 percent. This makes for a prosperous and relatively affluent middle class, which fuels a great deal of domestic demand. Teo has overweighted the fund's exposure to companies that benefit from strong domestic demand, and shored up the funds position in the offshore marine sector. The big worry - the prospect of higher food prices is already rearing its ugly head, which could quell some of that demand for other items. An even bigger concern, though, is the

possibility that China will react to inflationary pressures with austerity measures that negatively affect Singapore's exports. On the other hand, the ongoing quantitative easing from the Federal Reserve in the United States has flooded the investment world with liquidity, and much of this liquidity is leaking into Singapore, as investors move to hedge against exposure to the United States. The bottom line: Singapore's economy is on a solid footing, and Teo expects growth trends to continue. The outlook for the fund isn't bad, either: As of April 21, 2011, shares of the Singapore Fund are currently trading at an 8 percent discount to NAV - allowing new investors to get a piece of the Singapore at a bargain price. ■

Greater China Fund

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I t's no secret: Big things are happening in China. With an extremely young population (only five percent of Chinese are over 65), the vast majority of Chinese are still in the work force and contributing to a rapidly expanding GDP. True, with per capita incomes hovering around \$4,300, and \$18,300 in Taiwan, The Chinese they have a way to go before they catch up to the United States. But consider: The three global economic powerhouses on the world stage today - The United States, United Kingdom and Japan - are in the process of a massive deleveraging. Riddled with debt, and staggering under aging populations

that threaten to overwhelm their social service systems, all three major economies have mortgaged massive portions of future growth to fund current spending. Meanwhile, as of 2010, China has emerged as the largest export power in the world.

Enter the Dragon.

China's young and massive population saves like crazy-creating a huge savings glut that washed over the more modern economies like a tsunami - pardon the expression. The global savings glut caused a huge upswell in asset prices in the West. But as the tide recedes, it is taking growth potential and massive interest payments with it - back to the shores of China.

What made it possible? A startling explosion in the Chinese middle class. Since 1980, China ▶



◀ has undergone a shocking transformation, and embarked on the most dramatic poverty eradication program the world has ever seen: At the start of the period, fully 84 percent of Chinese lived below the global poverty line of \$1.25 per day. Thirty years later, that figure was only 15 percent. The result was a massive savings glut, a global bid-down of interest rates - and an explosion of domestic demand. And that's where the money is.

Investment Approach

The Greater China Fund is a closed-end equity fund that takes a fundamental view, looking for reasonably priced Chinese stocks - without losing sight of the macroeconomic picture. Portfolio manager Agnes Deng is seeing dramatic transformation of the Chinese labor force. The Chinese workers aren't just uneducated women sweating over foot-powered sewing machines. Urbanization has led to a more educated and sophisticated labor force, while investments in technology and a more educated, sophisticated work force are leading to a productivity explosion in Chinese factories.

The result: a self-replicating cycle of increasing wages and expanding domestic demand. As the US

economy recovers, that just puts gas in the tank to fuel continued Chinese economic expansion.

Deng is bullish about continuing Chinese growth, especially in health care, internet services, manufacturing and retail sales - all of which are responding favorably to the exploding Chinese middle class. Going forward, she thinks that prices are not reflecting the true

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potential for growth in the Chinese market. Recently, Chinese stocks listed on foreign exchanges were trading at an 11.8 p/e ratio below historic trendlines, and a compelling value given expected growth rates in China. "Recent market weakness represents a compelling opportunity

for investors to participate in a multi-year growth story at an attractive entry level," she wrote in a recent annual report.

There are some holes in the portfolio: Deng has lightened up on exposure to financial companies and utilities, as she feels that the compelling valuations in the rest of the Chinese market have not come to these sectors. She is also avoiding stocks that would take it on the chin if China severely tightened its monetary policies to combat inflation. But she is bullish on technology stocks - especially telecom

sector equipment providers in a position to benefit from the rapid 3G cellular buildout in China.

Currently, the fund trades at about a 13 percent discount to NAV - a tidy price that works in a substantial margin of safety for value-conscious investors. Expect some volatility - Deng takes the long view. For example, she has gone heavy into health care providers, betting on the eventual aging of the Chinese population - a near certainty, demographically, but also a long-range target perhaps a decade off. This is a holding for the long-term, patient investor. ■