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Connecting Market Leaders with Investors

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Investing in Singapore Equities

CHON KIAT TEO, DBS ASSET MANAGEMENT LTD.



CHON KIAT TEO joined DBS Asset Management Ltd. in 1998 as an Investment Analyst covering the technology and telecommunication sectors. Subsequently in 2003, he assumed the role of Equity Portfolio Manager managing absolute return and benchmarked portfolios. Mr. Teo has managed the Shenton Asia Pacific Fund since 2003, the Shenton Thrift Fund since 2005 and the Shenton Global Advantage Fund. Shenton Thrift Fund, a Singapore equity fund, won the best five-year performance award by Lipper in 2008.

Shenton Global Advantage Fund also won the best three-year and five-year performance award by Lipper in 2008. Mr. Teo is also responsible for covering Hong Kong and China. He has 13 years of investment management experience, having started his career with Koeneman Capital Management as a Quantitative Analyst managing the company's proprietary quantitative stock ranking model. Mr. Teo graduated with a double bachelor's degree, a bachelor of business administration and mathematics degree, as well as a B.S. degree specializing in computer science, from Brandon University, Canada. He also holds an M.S. in applied finance from the National University of Singapore.

SECTOR — GENERAL INVESTING

(ACK503) TWST: Would you introduce us to the Singapore Fund and tell us a little bit about the investment philosophy?

Mr. Teo: The Singapore Fund offers exposure to the Singapore equity market and seeks opportunities within that investment universe. There's also some leeway for the fund to invest outside of Singapore, within the ASEAN region, for up to 20% of fund assets. The investment philosophy for the Singapore Fund is to mainly invest in growth-orientated companies and/or sectors, typically at reasonable valuations.

TWST: Last time we spoke, in October 2010, the fund was overweight in cyclical sectors with higher-earnings-growth profiles, and underweight in defensive sectors, such as telco. Has that changed at all, and why or why not?

Highlights

Chon Kiat Teo discusses the investing philosophy behind the Singapore Fund. He expects the country's economy to continue growing at a healthy rate, and he provides an overview of the key sector holdings within the fund. Mr. Teo also highlights specific holdings and why they are representative of his investing strategy.

Companies include: Keppel Corporation Ltd. (BN4.SI); Sembcorp Marine Ltd. (S51.SI); Genting Singapore plc (G13.SI) and Indofood Agri Resources Ltd. (5JS.SI).

Mr. Teo: Essentially, the fund positioning has not changed, as we think the Singapore economy will continue to grow at a healthy rate. If you look at recent growth data which came out in the first quarter of 2011, our GDP growth has remained strong at 23.5% quarter-on-quarter, and 8.5% year-on-year, which exceeded market expectations. The consensus for 2011 GDP growth is between 5% to 7%. We expect a lot of the cyclical sector stocks will continue to do well, primarily because we believe earnings growth will continue to exceed market expectations. Some of the stocks we continue to like within the Singapore space are in the offshore and marine services, transportation, selected domestic consumption names and also commodities.

TWST: Why do you like the offshore and marine sector?

Mr. Teo: A big driver for exploration expenditure has been high oil prices. Also, capital

expenditure for this sector has been tremendous. If you look at some of the key players within the industry, companies like **Keppel Corp.** (BN4.SI) and **Sembcorp Marine** (S51.SI) — whose main business is to build platforms for offshore oil exploration — capital expenditure from the oil majors has driven the order books of these companies to record highs. Given the strong positive macro outlook, we think that this sector will continue to show strong earnings visibility and growth.

“Closed-end funds typically trade at a discount to NAV, so mainly the new plan provides additional value to shareholders by giving them another avenue to tender the share at a lower discount compared to what the fund is trading at in the market.”

TWST: You mentioned domestic consumption names. Tell us a little bit more about what you are thinking there.

Mr. Teo: Some of the companies that we like include **Genting Singapore** (G13.SI), an integrated resort operator. Basically, you can see the company has outperformed the market significantly strong positive earnings surprises, which far exceed market expectation. Singapore has continued to see record tourist arrivals — the main driver of gaming revenue. If you look at tourist arrival data, that number hit 990,000 in February 2011, which is a record high, and represents 15.4% growth year-on-year. We expect that tourist arrivals will continue to be strong for the rest of this year, and correspondingly, companies like **Genting** will continue to experience strong earnings growth.

TWST: What’s happening with commodities there? I imagine a lot of those are imported?

Mr. Teo: We have quite a few listed commodity companies in Singapore. We like the crude palm oil space, i.e. CPO. CPO prices continue to stay firmly at the top end of the range, and we think they will probably not move higher in the near term. But some of the companies that we like have young plantations, which have good potential for better production yield and drive up earnings growth in 2011 and 2012.

TWST: What are the specific companies?

Mr. Teo: We like **Indofood Agri** (SJS.SI), which has a young plantation. Their production yield has been improving, and growth will probably come from increased production. In the mid-to longer term, 2012 and beyond, we think that CPO prices will trend higher, though they have probably peaked in the near term.

TWST: You have been running the fund for about two years, a little over two years, correct? Have you completed your repositioning of it? Is it your fund now?

Mr. Teo: Actually the fund has a dual manager system. There’s always primary manager and a secondary manager. I have become the primary manager, but prior to that I was a secondary manager for the last eight years.

TWST: You made a recent announcement that effective May 1, 2011, the fund will change its primary benchmark index from the Straits Times Index to the MSCI Singapore Total Capital Index. Do you anticipate changes to the fund as a result of that?

Mr. Teo: There will be some minor adjustments to the positioning, but essentially most of the sectors that we like, and the focus on cyclical sectors, will remain unchanged.

TWST: The other announcement was the discount to management plan effective March 31. What does that mean for the fund?

Mr. Teo: Closed-end funds typically trade at a discount to NAV, so mainly the new plan provides additional value to shareholders by giving them another avenue to tender the share at a lower discount compared to what the fund is trading at in the market.

TWST: You mentioned that you could invest up to 20% of assets outside Singapore. What’s the balance between Singapore-listed stocks and other names at the moment?

Mr. Teo: At the moment, we have about 2% to 3% of our investments outside of Singapore, actually in Malaysia. We are focused on very selective stocks in Malaysia, playing into the domestic consumption theme.

TWST: So something along the lines of 97% of investments are in Singapore-listed stocks?

Mr. Teo: About 96% because there is a low level of cash that we’re holding, waiting to be deployed.

TWST: How much exposure does the fund have to China? I know you mentioned last time there are some Chinese companies that are Singapore listed. Tell us a little bit about the exposure to China and what your outlook is for China.

Mr. Teo: I think China investments so far have been relatively disappointing, performing below our expectations. There has been a lot happening in China in terms of tightening. Aggressive measures continue to be rolled out to curb inflation and asset prices, and some of the investments that we have in the fund have been negatively affected by these tightening measures. The current exposure to China-related companies make up about 5% of the fund, and we are likely to maintain this level of investment in this space. I think the inflation is peaking, and tightening should taper off soon. The fund’s China exposure include quality companies within the property sector. We are also invested in infrastructure-development companies, as we believe these will continue improve in competitive advantage in the long run. However, we are seeing performance of these companies affected by China’s tightening measures at this point in time.

TWST: Last time we spoke, you had a lot of exposure to banks and financial stocks. Where do you sit there and what’s your take on that sector?

Mr. Teo: We are looking to increase the weighting in the banking sector. We think that in the next two to three quarters, performance in banking stocks will pick up strongly as the sector has lagged the broader market in last few quarters due to intense competition and declining margins. There are only a few banks in

Singapore, and they depend quite a bit on the interbank market to park their excess funds. And currently, the interbank rate is at a very low level. I believe interest rates have bottomed and in the next few quarters, they will start to trend higher, which will be very positive for the net interest margins for some of these banks.

TWST: What are some of the core holdings?

Mr. Teo: Offshore and the marine services sector will continue to be one sector that we'll continue to overweight. The domestic consumption companies, we'll also continue to overweight. Commodities are a little bit tricky; we are currently overweight, but we look to do a bit of sector rotation out of it and add to the banking sector exposure going forward.

TWST: How do you control risk, especially given that you're pretty heavily invested in one country's stocks?

Mr. Teo: One way we manage our risk for the fund is that we have sector caps for every sector. There is a 25% cap on any particular sector. And even on a stock level, we will not invest more than 5% above the benchmark for any particular stock. We are also concerned about liquidity, and tend to invest in more liquid stocks.

TWST: The fund has an excellent long-term record. What do you think gives your fund a competitive edge compared to other companies, funds or ETFs?

Mr. Teo: The fund has a strong long-term record partly because of its focus on alpha generation, or stock selection, and the ability to identify trends that will benefit selected companies. The other strong contributor to performance is our research team. We have a very strong research team within the organization, which is

fully involved in our discussions of investment strategies and ideas.

TWST: What are the two or three best reasons a long-term investor should take a look at the Singapore Fund?

Mr. Teo: I think Singapore investments provide many advantages, certain interesting features as compared to some of the other developed countries outside of Asia. These include 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 an established stock exchange but operating or deriving some of their earnings from the emerging but fast-growing economies in Asia, such as the ASEAN region, China, India and so on.

TWST: Is there anything else we should cover about the fund?

Mr. Teo: Stay invested for the long term.

TWST: Thank you very much. (MJW)

CHON KIAT TEO

Portfolio Manager

DBS Asset Management Ltd.

8 Cross Street

#08-01 PWC Building

Singapore 048424

65 6535 8025

(800) 535-8025 — TOLL FREE

www.dbsam.com

e-mail: dbsasset@dbs.com