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Phillip Funds *focus*

A MONTHLY NEWSLETTER EXCLUSIVELY FOR
INVESTMENT PROFESSIONALS

A Brief Synopsis

- Global equities have weathered the lingering subprime issue to finish the year with glory. The bulls in the Asian equity markets drove these markets to new highs in 2007 with China (+96.7%) topping the list followed by Indonesia (+52.1%) and Hong Kong (+39.3%). Malaysia came in fourth, with a stellar performance of 31.8%.
- While the largest economy in the world is suffering from deterioration in economic strength, the rest of the world is not likely to be spared from such slowdown. Preliminary spillover effects have begun to surface in some countries as a result of weaker US economy.
- Moving into a brand new year, it would be nice to say let bygone be bygone. Unfortunately, the recent financial storm in the global credit markets has clouded global prospects for 2008. The subprime concern will linger and continue to haunt global financial markets, in our view.
- Malaysian Equity Unit Trusts funds have bumper returns in 2007. Despite greater performances in some of the regional markets, Malaysian Offshore Unit Trusts funds in general generated lower returns.
- Our asset allocation strategy domiciles in the premise that global equities are fragile at this juncture. Among assets classes, we favour equities to bond with preference to Asian and Malaysian equities. We recommend investors to keep aside some cash in order to exploit the opportunities in the event of an acute correction.

Where to Look Out For...	Page
....Window to the World	2
....A Peep Into Malaysia	3
....Where Do We Go From Here	4
....Lighting Up Your Path	5
....Walking With You	5
....Flavour of the Month	6
....From the Scoreboard	7

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Window To The World

- Global equities are resilient** - Global equities have weathered the lingering subprime issue to finish the year in glory. The bulls in the Asian equity markets drove these markets to new highs in 2007 with China (+96.7%) topping the list followed by Indonesia (+52.1%) and Hong Kong (+39.3%). Malaysia came in fourth, with a stellar performance of 31.8%.
- Renewed concerns on subprime** - Credit markets in the US, Euroland and UK are showing renewed indications of stress, forcing their respective central banks to step in aggressively in salvaging the credit crunch.
- The Fed is more proactive** - One may take comfort that the US Federal Reserve are more receptive this time around. The Fed has joined forces with other major central banks in injecting liquidity into the market via “term auction facility”, lending US\$40bn into the system.
- US slowdown is inevitable** - Spiralling crude oil prices have been unkind to the policymakers and complicate the effort of central banks in easing policies to cope with worsening subprime mortgage crisis. Whilst a nasty crunch may be avoided, slower growth, if not a recession is inevitable in the US.
- Fed continues to cut rate** – The recent spate of data are not too optimistic, vindicating that the US economy has entered the “slowdown” phase. In December, the Fed lowered the Fed Funds Rate by another 25bps to 4.25%. This is the third cuts thus far. Along with this, the Fed reduced the discount rate by 25bps to 4.75%.
- Optimism in the employment market** - On a brighter note, the job market appears to be more resilient albeit growing at slower pace. In these testing environment, employers have committed to retain staff, hence resulting in lower jobless claims. In December, job cuts announced by US employers decreased to 44,416 vis-à-vis 54,643 in the previous year.
- Rising geopolitical risk** - Lastly, the investment community has shrugged off the fact that geopolitical risk has somewhat risen following the assassination of former Prime Minister of Pakistan, Benazir Bhutto.

Markets Performance

	DEC 07 (%)
US	-0.4
Malaysia	+3.4
Singapore	-1.1
Hong Kong	-2.9
China	+8.0
South Korea	-0.5
Japan	-2.4

	YTD (%)
US	+ 6.4
Malaysia	+31.8
Singapore	+16.6
Hong Kong	+39.3
China	+96.7
South Korea	+32.3
Japan	-11.1



A Peep Into Malaysia

- 🌐 **A sweet ending for KLCI** - For the grand finale in December, the bellwether Kuala Lumpur Composite Index (KLCI) marched forward to end the year at 1,445.0 points. In the month of December alone, the KLCI added 3.4%. The broader market performed was indeed stronger, where FBM Emas and FBM 2nd Board gained 4.3% and 4.9% respectively. For the whole year, the KLCI soared 31.8%.
- 🌐 **Blue-chips rallied on good news** - Selected blue-chips eventually caught up but window dressing activities were mild. The accumulation in these blue-chips were largely news driven instead of window dressing activities. For instance, Telekom's run-up was sparked by company's decision in declaring special cash dividend of RM0.65/share.
- 🌐 **CPO prices breached RM3,000** – Plantation stocks rallied on strong CPO prices. CPO prices breached the RM3,000/tonne level and reached a new high of RM3,050/tonne towards end of December.
- 🌐 **Happy ending for construction boys** - As the saying goes, “it's better late than never” may be the best way to describe the construction sector. During the final month of the year, a slew of projects were awarded. Finally, the RM12.2bn electrified double tracking railway project was awarded to MMC-Gamuda. Several other projects were awarded to companies such as TRC and Crest Builder. The stronger momentum, if sustainable, may remove the common grievance among the public about the snail-pace implementation of 9MP projects.
- 🌐 **Strong economic fundamental** – The Malaysian economy is largely intact despite the slowdown in the US. The improvement in export growth was a pleasant surprise on the back of strong crude palm oil (CPO) prices. Similarly, industrial output expanded at stronger pace, bolstered by improvement in the electrical and electronic products.
- 🌐 **Inflation creeping up** - Inflation numbers are gradually creeping up due to higher commodity prices. The festive demand on food and the revision in ceiling price for wheat flour caused the spiking up of CPI numbers in October. Despite the trend is moving towards higher inflation, inflationary pressure in Malaysia should be well contained and not alarming.



Where Do We Go From Here

- 🌐 **Let bygone be bygone** – As we bid farewell and reminisce the exciting rally in 2007, global equities are at a crossroads moving into 2008. It would be nice if we could brush aside the subprime issues and say, “Let bygone be bygone”. Unfortunately, reality is such that the subprime issue will linger and continue to haunt global financial markets, in our view.
- 🌐 **What are the risks?** - The threat to the global economy have certainly risen in recent months. The culprits to a more drastic slowdown economy are (i) more credit market delinquency and foreclosures; (ii) stubbornly high crude oil prices that stoke inflationary pressures; and (iii) repricing of credit risk may spark reversal of capital from the emerging markets.
- 🌐 **More rates cut in the US** – The Fed’s flexibility in easing monetary policy to resuscitate the economy appears to be compromised with inflationary pressures. Following the three interest-rate cuts thus far, the upside risk to inflation and the downside risk to growth are roughly in balance. In emerging markets, China and India are facing mounting inflationary pressures leading to further monetary tightening. Whilst, Malaysia, Singapore, Indonesia and Thailand are likely to hold interest rates steady.
- 🌐 **Catalysts aplenty in Malaysia** – We find it appealing to invest in Malaysia judging from the list of catalysts. The hype of expectations of a general election in 1Q08 is a strong factor in boosting the “feel good” sentiment. In addition, fiscal stimulus by the government via commencement of mega infrastructure projects and rising foreign direct investments as well as portfolio inflows (comprising sovereign, petro-dollar-related and private funds). These factors point towards further Ringgit appreciation.
- 🌐 **Expect Greater Volatility** – In concluding our view, we wonder if the old chestnut “When the US sneezes, the rest of the world catches a cold” still relevant? We hold the view that no man lives in isolation. Similarly, the same goes for Malaysia. Malaysia should not be completely insulated from US, however, Asia is gradually evolving from less dependence on US. In essence, Asia countries are able to weather through the slowdown in the US, perhaps better and faster than expected given the strong domestic demands of these economies.



Lighting Up Your Path

- 🌐 **Fragile outlook for global equities** – Our investment strategy domiciles in the premise that global equities are fragile at this juncture. We are cautious on the European and US exposure until there are greater certainty on how widespread the fallouts can be from the subprime mortgage issue.
- 🌐 **Robust growth in Asia** – A screen through the prospects among various regions in the world, Asia stands out with the highest growth potential, averaging at 7.0% for 2008. Growth aside, the strength of the Asian currencies and abundance liquidity are enticing factors in attracting portfolio monies.
- 🌐 **Malaysia is safe haven** - We are optimistic on Malaysian equities judging from the conducive investing opportunities. Not withstanding that, Malaysia is a defensive market, backed by dividend yield circa 4.2%, strong export revenue from CPO and crude oil.
- 🌐 **Prefer equity to bond** - On asset allocation, we favour equities to bond with preference to Malaysian and Asian equities. We recommend investors to keep aside some cash in order to exploit the opportunities that may prevail in the event of an acute correction.

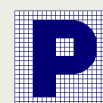
Walking With You

RISK PROFILE	PORTFOLIO ALLOCATION*		
	Equities	Mixed Assets	Fixed Income
Low Risk	10%	50%	40%
Moderate Risk	40%	35%	25%
High Risk	50%	30%	20%

Source: PhillipCapital

* The recommendation may vary based on individual's risk profile

- 🌐 The current asset allocation favours equities to other asset classes as we believe the buoyant momentum in Malaysian and Asian markets will be sustainable in the 1Q08.
- 🌐 For low-moderate risk investors, we suggest investors to have exposure to the stock market through investment in mixed assets funds as investors will still be able to enjoy the upside in the stock market but with less volatility.



Flavour for the Month

Funds Recommendation for January 2008

Region	Equity	Mixed Assets	Fixed Income
Malaysia	CIMB Dana Mubarak 🍷	PruDana Dinamik 🍷	Pheim Income
	ASM Dana Bestari	OSK-UOB Kidsave	KAF Bond
	ASM First Public	PruBalanced	
	Kenanga Growth		
Asia	OSK-UOB Resources 🍷	PruAsia Select Income	-
	CIMB Emerging Asia 🍷		
	TA South East Asia		
Global	TA Global Asset Allocator	-	-

Source: PMB

🌐 **Bumper year for equity funds** – Malaysian unit trust funds in general have enjoyed a bumper year in 2007. Despite greater performance in the regional markets, they were accompanied by wilder volatilities resulting in lower total returns for offshore equity funds compared to local equity funds.

🌐 **Avoid US and Europe** – We suggest to avoid exposure to the global funds, particularly those with high exposure to US and European markets until we see bottoming of the housing slump and greater certainty in the fallout of the subprime mortgage crisis.

🌐 **Focus on Malaysian equities** – We favour Malaysian equities above all the other regions due to the prevailing attractive investment climate. The list of funds highlighted are selected based on the the best risk-adjusted ratio rankings in their respective categories.

🌐 **Consolidation provides opportunities** - Recent consolidation in several regional markets such as Hong Kong and Singapore provides investors opportunities to invest into these countries (via offshore Asian funds) at lower levels. As illustrated, these markets have consolidated more than 10% from their recent peaks (52-weeks).

Comparison Between 52-Weeks High and Current Levels

	CHG (%)
Japan	-16.4
Hong Kong	-13.0
Singapore	-10.9



From the Scoreboard

FUNDS	LAUNCH DATE	RETURN				STD DEV		RTN/ RISK	RANK ABS (1-YR)	RANK RAR (1-YR)
		6-MTH (%)	YTD (%)	1-YR (%)	2-YR (%)	1-YR (%)				
<u>Equity - Growth - Malaysia</u>										
E	ASM KMB Dana Pertumbuhan	28/12/72	0.95	19.69	19.69	40.76	12.30	1.60	23	20
E	ASM First Public	20/04/92	6.51	27.05	27.05	31.93	8.56	3.16	14	6
E	ASM Premier	12/06/95	2.89	16.55	16.55	29.92	7.97	2.08	24	15
E	* ASM Dana Al-Aiman	19/05/97	9.58	30.61	30.61	41.36	9.51	3.22	10	5
E	ASM Index	25/03/02	6.93	26.71	26.71	45.67	11.73	2.28	15	11
E	* ASM Dana Bestari	03/10/02	8.14	23.08	23.08	38.32	6.45	3.58	19	2
E	* ASM Dana Mutiara	05/08/04	2.67	24.40	24.40	44.07	12.29	1.99	18	16
E	* ASM Syariah Aggressive	21/11/05	3.37	20.67	20.67	38.43	10.74	1.92	22	18
E	* CIMB Lifetime Dana Mubarak	15/06/95	12.26	50.40	50.40	91.38	13.94	3.62	1	1
E	CIMB Future Goals	12/03/98	10.46	42.64	42.64	77.80	17.70	2.41	4	9
E	* CIMB Lifetime Dana Barakah	26/05/03	7.41	39.84	39.84	61.37	11.30	3.53	6	3
	Hwang Select Opportunity	07/09/01	-2.79	21.70	21.70	61.63	20.90	1.04	21	24
E	* Hwang Dana Izdihar	08/10/02	1.37	29.17	29.17	60.24	16.46	1.77	13	19
E	Kenanga Growth	17/01/00	9.04	37.51	37.51	67.82	12.52	3.00	8	7
E	* Kenanga Syariah Growth	29/01/02	10.32	40.17	40.17	71.18	11.60	3.46	5	4
E	* OSK-UOB Dana Islam	26/10/01	9.36	44.01	44.01	85.40	19.91	2.21	3	12
E	Phillip Master First Ethical	18/06/03	-27.30	-18.50	-18.50	-4.68	14.98	-1.24	25	25
E	Phillip Master Equity Growth	28/06/03	0.76	22.92	22.92	41.47	21.65	1.06	20	23
E	PruGrowth	29/05/01	9.03	36.24	36.24	68.46	15.65	2.32	9	10
E	* PruDana Al-ilham	14/08/02	14.31	46.04	46.04	89.13	15.61	2.95	2	8
E	PruEquity Income	18/10/04	-1.11	30.01	30.01	47.79	13.93	2.15	11	13
E	TA Growth	01/07/96	10.19	29.20	29.20	65.87	14.93	1.96	12	17
E	TA Comet	01/10/99	8.86	26.55	26.55	90.30	19.56	1.36	16	21
E	* TA Islamic	24/04/01	12.65	24.66	24.66	55.49	22.26	1.11	17	22
E	TA High Growth	07/06/04	8.66	39.44	39.44	100.95	18.83	2.09	7	14
	AVERAGE (25)		5.38	29.23	29.23	57.68	14.45	2.02		
<u>Equity- Small Cap - Malaysia</u>										
E	CIMB Hidden Treasures	20/04/04	14.12	53.73	53.73	90.95	22.94	2.34	1	1
	Hwang Select Small Caps	15/04/04	-4.18	17.81	17.81	38.26	21.00	0.85	3	4
E	PruSmall-Cap	29/05/01	-0.43	29.70	29.70	75.42	16.05	1.85	2	2
E	TA Small Cap	09/02/04	0.63	13.39	13.39	45.80	15.14	0.88	4	3
	AVERAGE (4)		2.53	28.66	28.66	62.61	18.78	1.53		

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<u>Equity- Offshore – Asia</u>										
	CIMB Emerging Asia	22/11/05	5.71	32.57	32.57	57.99	17.94	1.82	3	3
*	CIMB Asia Pac Adil	02/06/06	2.45	15.57	15.57	n.a	12.87	1.21	4	4
	CIMB Greater China	12/06/07	9.41	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	CIMB Asean Equity	12/09/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	OSK-UOB Asia Pacific	06/01/06	-1.57	4.73	4.73	n.a	17.02	0.28	8	8
	OSK-UOB Resources	16/05/06	20.40	57.56	57.56	n.a	21.02	2.74	1	1
	Pheim Asia Ex-Japan	30/06/06	-7.79	8.37	8.37	n.a	13.97	0.60	6	7
*	Pheim Asia Ex-Japan Islamic	01/11/06	-5.51	10.17	10.17	n.a	14.01	0.73	5	5
	PruAsia Pacific Equity	21/07/05	-2.69	7.40	7.40	26.07	10.42	0.71	7	6
	TA South East Asian Equity	28/11/05	7.67	37.44	37.44	75.53	19.48	1.92	2	2
	AVERAGE (10)		3.12	21.73	21.73	53.19	15.84	1.37		
<u>Equity - Offshore – Others</u>										
	CIMB Global Titans	18/07/05	-2.62	1.69	1.69	11.09	5.76	0.29	2	2
	CIMB Climate Change Equity	27/09/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	Hwang Global Property	19/04/06	-14.00	-17.63	-17.63	n.a	12.65	-1.39	3	3
	Hwang Global Infrastructure	25/04/07	-5.83	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	Hwang Environment Opportunity	18/09/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	TA Global Asset Allocator	12/06/06	0.02	4.61	4.61	n.a	9.26	0.50	1	1
	TA European Equity	20/03/07	-6.12	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	AVERAGE (7)		-5.71	-3.78	-3.78	11.09	9.22	-0.41		
<u>Mixed Assets - Malaysia</u>										
E	ASM Balanced	06/12/97	-4.05	1.45	1.45	9.58	10.21	0.14	16	16
E	Hwang Select Balanced	28/07/03	3.44	24.60	24.60	50.27	10.13	2.43	8	6
E	* Hwang Dana Fahim	28/06/04	2.44	18.83	18.83	35.79	10.10	1.86	9	10
	Hwang Select Income	06/01/05	-4.39	4.68	4.68	16.67	4.75	0.99	14	13
	KAF Jade	01/11/06	11.32	16.21	16.21	n.a	9.13	1.77	11	11
E	OSK-UOB Kidsave	10/05/99	7.17	28.37	28.37	58.02	10.62	2.67	4	2
E	OSK-UOB Growth&Income Focus	07/01/05	16.12	51.52	51.52	117.31	20.08	2.57	1	4
	* OSK-UOB Muhibbah Income	12/03/07	2.12	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	Pheim Emerging Co Balanced	28/01/02	1.13	25.29	25.29	47.36	12.70	1.99	6	8
	* Dana Makmur Pheim	28/01/02	3.40	24.67	24.67	50.66	12.40	1.99	7	9
E	PruBalanced	29/05/01	11.02	31.22	31.22	53.90	11.94	2.62	3	3
E	* Pru Al-Islah	14/08/02	3.98	10.79	10.79	15.40	4.25	2.54	13	5
E	PruDynamic	06/11/03	5.34	25.93	25.93	62.91	12.98	2.00	5	7
E	* PruDana Dinamik	25/02/04	6.69	32.03	32.03	62.91	11.60	2.76	2	1
E	* PruDana Wafi	21/02/05	1.12	3.57	3.57	9.08	3.87	0.92	15	15
E	TA Income	06/05/02	7.52	18.55	18.55	37.28	12.91	1.44	10	12
E	* TA Dana Optimix	17/01/05	6.95	16.06	16.06	40.53	16.68	0.96	12	14
	AVERAGE (17)		4.78	20.86	20.86	44.51	10.90	1.91		

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		6-MTH (%)	YTD (%)	1-YR (%)	2-YR (%)	1-YR (%)	1-YR (%)			
Mixed Assets - Offshore										
CIMB Global Asset Spectra	13/11/06	-0.15	1.42	1.42	n.a	7.62	0.19	3	3	
PruAsia Select Income	18/11/05	4.35	14.09	14.09	34.18	9.38	1.50	1	1	
* TA Asia Pac Islamic Balanced	07/11/06	3.18	10.21	10.21	n.a	7.17	1.42	2	2	
AVERAGE (3)		2.46	8.58	8.58	34.18	8.06	1.06			
Fixed Income^										
AMNRaya Unit Trust	21/09/06	-3.26	1.78	1.78	n.a	3.36	0.53	9	9	
* AMNRaya Syariah Trust	21/09/06	0.86	3.07	3.07	n.a	2.93	1.05	6	7	
E CIMB Lifetime Bond	15/11/95	0.97	3.61	3.61	13.96	2.71	1.33	5	5	
E CIMB Strategic Bond	23/03/04	0.69	4.04	4.04	26.95	18.45	0.22	4	10	
E * CIMB Dana Wafiq	23/02/05	2.75	9.88	9.88	20.54	4.46	2.22	1	3	
* CIMB Dana Fayyad	20/04/06	0.31	0.09	0.09	n.a	0.51	0.18	12	11	
CIMB Xcess Income	20/04/06	0.69	0.87	0.87	n.a	0.53	1.64	10	4	
E CIMB Multi-Maturity Income	18/08/06	-1.38	0.23	0.23	n.a	3.31	0.07	11	12	
CIMB Global Income	21/03/07	0.72	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
E CIMB Lifecycle-2017	12/07/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
E CIMB Lifecycle-2022	13/07/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
E CIMB Lifecycle-2027	14/07/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
* CIMB Islamic Kausar LC-2017	12/07/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
* CIMB Islamic Kausar LC-2022	13/07/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
* CIMB Islamic Kausar LC-2027	14/07/07	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
Hwang Select Bond	28/07/03	-0.86	2.42	2.42	9.37	2.12	1.14	8	6	
E KAF Bond	01/11/06	1.13	5.85	5.85	n.a	2.29	2.55	3	2	
E OSK-UOB Income	26/02/03	1.06	2.85	2.85	13.25	3.78	0.75	7	8	
Pheim Income	28/01/02	1.12	6.10	6.10	17.01	2.21	2.76	2	1	
E PruBond	29/05/01	-2.55	-0.34	-0.34	4.69	1.67	-0.21	13	13	
AVERAGE (21)		0.16	3.11	3.11	15.11	3.72	0.84			
KLCI		6.69	31.82	31.82	60.60					

Source: PhillipCapital

Note: ABS denotes ranking based on absolute return

RAR denotes ranking based on risk-adjusted return

'E' denotes EPF approved

* Denotes Syariah Compliant

^ Includes bond, income, capital guaranteed and capital protected funds

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