DBS Wealth

Invest.Wise

Quarterly Asset Allocation

4th Quarter 2013

MICA (P) 133/12/2012

Market Commentary

Growth with policy accommodation is likely to be the dominant theme for the coming quarter. And this should be equities friendly.

This is a continuation of our "Between Fire and Ice" thesis from the last quarter, which argued that the world was working itself out of the "ice" of debt and deflation, but was nowhere yet near the "fire" of inflation and rising interest rates.

Global economic growth is gaining momentum, with synchronised upturns in the US, the Euro area, Japan and China. Meanwhile, the US Federal Reserve has delayed a tapering in its asset-purchase programme, known as quantitative easing. And Chinese policy makers have been gradually and quietly easing monetary conditions, while maintaining fixed asset investment growth in the 20% on-year region.

So we remain overweight equities. Even Emerging Markets, which had sold off aggressively on the fear of Fed tapering, should enjoy a respite. Fund outflows from Emerging Markets have approached a cyclical peak, from where a tactical bounce off oversold levels is likely. We have upgraded Asia ex-Japan and emerging market equities from underweight to neutral on a 3-month view.

Arguably, the recent Fed decision could result in more economic certainty if it means tapering will be data-dependent and cautious. In that sense, it is positive for risk assets. But it could simultaneously create more market uncertainty by boosting risk asset prices near-term which require greater adjustments down the line. Tapering and the eventual exit from quantitative easing have not been taken off the table. It has merely been delayed. The issue will revisit over coming months.

So we continue to favour equities over bonds generally, with overweight positions in developed market stocks. In Emerging Markets, our theme is "differentiation". That is, we discriminate in favour of Emerging Market economies with current account surpluses; large international reserves; and low external debt to GDP ratios. Asia ex-Japan plays better to that theme than Latin America, Turkey, and South Africa. And North Asia (China, HK, Taiwan and Korea) and Singapore play better to that theme than Southeast and South Asia.

The ongoing easing in US Treasury yields will also be supportive of Emerging Market and Asian credits. Sidelined cash, pulled out amid the turmoil in August, will likely bargain hunt for more attractive spreads. But investors should remain cautious and selective. Duration pressures have eased. But duration risk has not gone away. Meanwhile, supply pressures are likely to remain strong, with companies looking to lock in long-term funds while US Treasury yields remain relatively low.

Softer US Treasury yields could also put downward pressure on the US dollar against the major currencies. Meanwhile, Emerging Market currencies could get a lift from both the delay in tapering and from their governments' policy responses to the recent fund outflows.

Commodities should also fare better this quarter as global growth gains momentum. And it will get an added boost if the US dollar weakens slightly as we expect it to over the coming month or two.

Equities

Equities face conflicting forces this quarter in the form of monetary accommodation by the Federal Reserve and policy uncertainty over the looming US debt ceiling.

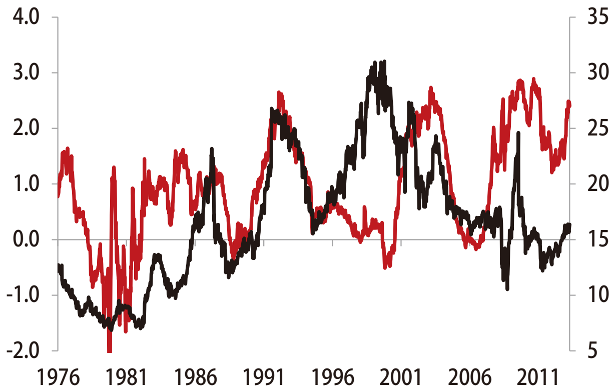
The biggest single uncertainty now is the US debt ceiling. On the basis of past behaviour, US lawmakers will likely create market volatility by haggling to the brink. But they are unlikely to shutdown the government or cause a US sovereign debt default, which would be catastrophic for the global economy and financial markets.

Against that, the Federal Reserve's decision to delay a reduction in quantitative easing has significantly altered market sentiment. Suddenly, the market went from resignation to the commencement and imminent exit from QE, to a return of the "Bernanke Put". Of course, the sentiment exaggerates the reality

- the delay is a matter of only a few months. And the value of the asset purchases at stake will probably be only something between 5% and 10% of a year's worth of Fed asset purchases. Not a lot.

But sentiment – built not least around the idea that the Fed will remain accommodative until there is greater economic certainty – will likely favour equities over coming months. The trajectory of US corporate earnings growth has flattened out somewhat but remains in positive territory. Barring a political mishap in the debt ceiling negotiations, US stock prices are likely to be driven higher by a combination of earnings growth and valuation multiple expansion. Turning points in the 10-year US Treasury yield have typically been associated with gains in equities over the subsequent 12 months. The steepening of the US Treasury yield curve – which we expect to resume on an eventually higher 10-year US Treasury yield after this correction – is usually associated with higher price to earnings valuations. (Figure 1) We remain Overweight US equities on both 3-month and 12-month time frames.

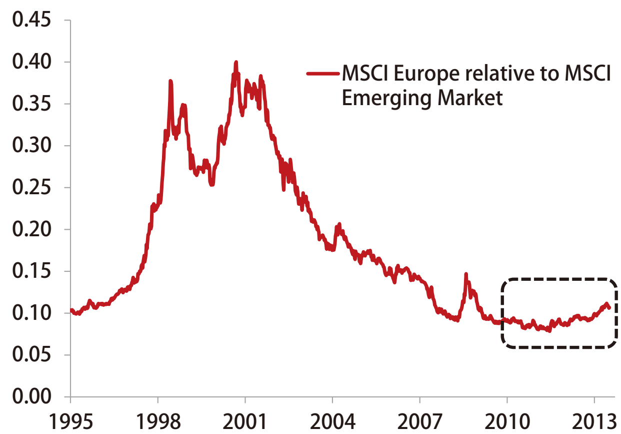
Figure 1: Equities Valuations Likely Up on UST Yield Curve Steepening



Source: Bloomberg, as of 27 September 2013

In Europe, structural repairs to government debt and deficit are taking place, albeit slowly. Primary budget balances have improved markedly over the past few years in the peripheral European economies. Current account deficits have reversed dramatically to small surpluses in Portugal and Spain. As the European economy recovers, corporate earnings, which were lagging the earnings recovery in the US, could play "catch up". Meanwhile, European equities have underperformed Emerging Markets since 1998. And that ratio put in an extended base build from 2010 and appears to be reversing. (Figure 2) Valuations are still close to long-term lows. The MSCI Europe Index price to earnings ratio is close to a 30-year low. Quite literally, this is a once-in-a-generation valuation opportunity. We are Overweight European equities for both 3-months and 12-months.

Figure 2: Bottoming in Euro equities underperformance to EM?



Source: Bloomberg, as of 27 September 2013

Japanese equities may also push higher on continued weakening of the yen, a stronger economy, and the unlocking of household cash holdings in the face of possible inflation. Just a return to the 2007 levels of equities in household financial assets could push around USD800 billion into the Japanese stock market. That would be equivalent to 28% of the market value of the Nikkei 225 index. But it is unlikely to stop there if inflation is regarded as a serious threat. There is currently USD8.5 trillion in Japanese household financial assets held in cash – almost three times the market capitalization of the Nikkei 225 index. That could be a source of ongoing support for Japanese equities if inflation pushes households away from cash.

We continue our differentiation theme in Emerging Market equities. Our preference is Emerging Market economies with current account surpluses; large international reserves; and low external debt to GDP.

Asia ex-Japan plays better to that theme than Latin America, Turkey, and South Africa. And North Asia (China, Hong Kong, Taiwan and South Korea) and Singapore play better to that theme than Southeast and South Asia. The Chinese equities market is trading at global financial crisis lows in valuations. It is base building, awaiting a catalyst for higher prices. The downside risk appears limited at these levels.

Fixed Income

Tapering and the eventual Fed exit from quantitative easing have merely been delayed – possibly by only three months – not taken off the table. This does not alter our "equities over bonds" theme from earlier this year. For investors with fixed income-only profiles/mandates, the recent sell-off in Emerging Market/Asian credits is an opportunity to bargain hunt. But for balanced portfolios, we continue to Underweight bonds.

The rally in US Treasuries following the Federal Reserve delay in reducing its asset-purchases should be seen in the context of over-pricing because of fears of a taper in the first place. An asset-purchase programme reduction by the US Federal Reserve that takes place six months earlier could amount to anything between USD75 billion to USD120 billion. That would be something in the region of around 10% worth of an entire year's quantitative easing. Based on recent years' experience with the impact of quantitative easing on US Treasury bond yields, that, in theory, should amount to around 10-20 basis points in the 10-year US Treasury yield. But the market over-reacted, pushing the 10-year yield from around 1.6% early May to 3% early September.

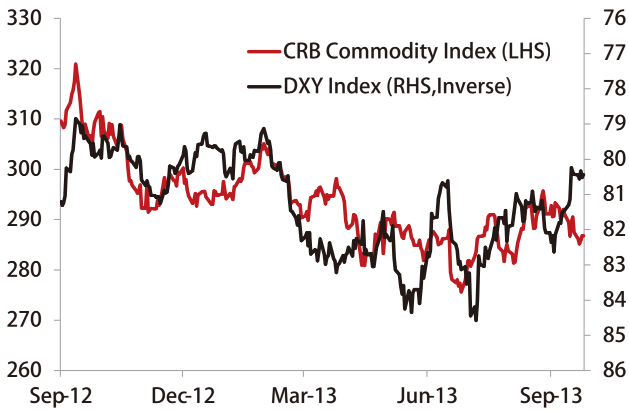
The more benign US Treasury yield has taken some pressure off Asian credits. Some local currency sovereigns might look interesting at current yields but the currency risk remains an inhibitor. For example, the Indonesian Rupiah 10-year government bond is trading at around 8.2% currently against early year lows of around 5%. Still, the spread over the current 10-year US Treasury yield of 2.66% does not look compelling enough.

Similarly, Asian high-grade corporates might look more attractive now. Against that, supply pressures are likely to remain strong, with companies looking to lock in long-term funds while US Treasury yields remain relatively low. Spread widening is not sustainable.

Commodities

Two factors are likely to be supportive of commodities this quarter: 1) Stronger global economic growth – particularly the modest improvement in Chinese data; 2) The possibility of a slightly weaker US Dollar because of the delay in reducing the amount of easy money pumped in by the US Federal Reserve monthly as part of its quantitative easing programme. The broad commodities complex (mirrored by the ThomsonReuters/JefferiesCRB Index) has tended over time to be inversely related to the US dollar Index, the DXY. In recent weeks, the correlation reversed, with the commodities index trading lower together with a weaker DXY. (Figure 3) This raises the possibility of commodities strengthening modestly if the US dollar remains weak over coming months.

Figure 3: Commodities Could Gain from USD Weakness



Source: Bloomberg, as of 27 September 2013

But against that, there remain significant supply and inventory headwinds for a number of commodities. Of course, the fundamentals vary greatly between individual commodities but the net outcome is likely to be range trading in the CRB Index over coming months, with a slight upward bias.

The fundamentals underpinning base metals are typical of those push-pull dynamics. Stronger global growth, particularly in China, will lift demand. The taper delay will help sentiment but there are inventory overhangs and supply growth to contend with. For example, in aluminium, production in China continues to grow strongly, with new capacity being planned, particularly in the northern and western regions in the country, where energy costs are lower. For copper, refiners have boosted production/capacity utilisation; inventories have been drawn down; and imports are up. But the expectation of strong supply growth this year and next is likely to cap price upside.

Demand for iron ore is picking up and Chinese steel demand/production is also gaining momentum. Near-term, this could help prices but looking out a couple of years, supply growth from new projects could cap price gains.

Oil (NYMEX WTI) should trade within the USD100-110 per barrel range over coming months on a fine balance between stronger global demand and increased output from Saudi Arabia. Inventories are at multi-year lows in the US, Europe and Japan, notwithstanding higher non-OPEC production, particularly from the United States. This should keep prices resilient to deeper corrections even if production disruptions and geopolitical risks ease.

Gold has not benefited much from the delay in the Federal Reserve taper. Millions of words have been expanded on this issue. But it may simply be that gold is an over-priced commodity which has outlived its utility as a hedge against uncertainty and fear. We expect gold to trade in the range of USD1,200-1,400 per ounce in the coming months.

Currencies

Last quarter, we wrote that the US Dollar Index, the DXY, was trading in a range and that it could pull back to the lower end of that range. As it turned out, it did just that.

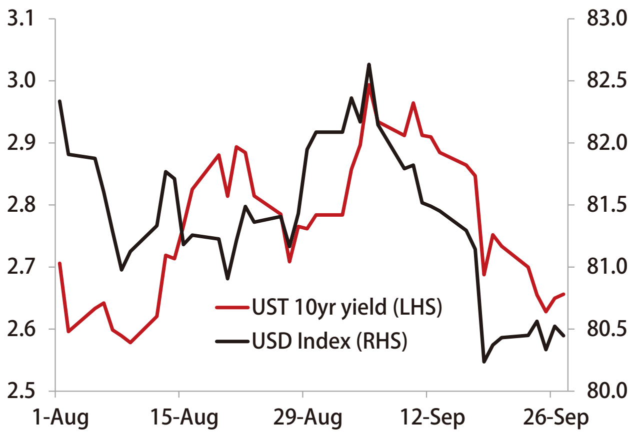
In the coming months, the DXY could trade a little bit weaker still – towards the lows of late 2012-early 2013. The US no longer has the economic growth advantage over the Euro area and Japan that it enjoyed last year. Both the Euro area and Japanese economies are recovering. And the delay in the tapering of quantitative easing could also be mildly Dollar-negative.

The Australian dollar could strengthen a bit more in coming months, to the 0.97-0.98 region on two factors: 1) the Fed's taper delay and 2) a pause in Reserve Bank of Australia rate cuts which seem to have reignited the already highly leveraged Aussie property market.

But Fed tapering has only been delayed, not taken off the table. Beyond this quarter, we would be more wary of the bearish Dollar theme.

The 10-year US Treasury yield is likely to push back up again after this correction. And this should be Dollar-positive. (Figure 4)

Figure 4: Lower 10-Year UST Yields to Weigh on DXY



Source: Bloomberg, as of 27 September 2013

Historically, the 10-year US Treasury yield has tended to converge on the nominal GDP growth rate. If this relationship manifests itself again, we are likely to see the 10-yield back up to around 3%.

Meanwhile, Japan could see more aggressive quantitative easing to achieve the government's 2% inflation target. This should translate into an even weaker Yen.

Are Hedge Funds a Viable Investment Alternative?

By Bryan Goh, Senior Vice President, DBS Bank

One of the reasons that hedge funds are an attractive investment is that because they don't spend long spells in decline, they are a useful investment for someone who doesn't know when they might need liquidity and have to sell their investment. A steadily rising Net Asset Value, or NAV, provides a useful store of value which can be realized based on one's needs and liabilities rather than based on the performance of the asset.

Nothing is without volatility or risk but hedge funds dampen volatility sufficiently to make the decision to liquidate less dependent on the asset's performance. With long only, exposure-based investments, the liquidation and investment decision often depends on an assessment of both liability requirements as well as asset performance – whether it's historical, current and prospective. A simple example: A decision to liquidate an S&P 500 index Exchange Traded Fund depends not just on whether they need cash or not but whether the S&P500 is expected to rise or fall or on whether the market is cheap or expensive.

Investor regret is another psychological factor that complicates the decision. The investor is discouraged from ending the investment if it means losing money or if they have recently experienced a large drawdown. Low volatility is a useful feature in an investment as it allows the investor to compound their returns. Low volatility should be coupled with a positive return.

Hedge funds specialise in niche markets and strategies. Even when they invest in broad markets, the successful ones always have unique approach. Often, hedge fund techniques have been honed by years of trading on a prop desk risking bank shareholders' capital allowing the hedge fund manager to learn without fear.

Hedge funds excel in 'closed' markets which are not typically well known. Hedge fund detractors argue that hedge funds have failed to outperform equities. Depending on the time frame, hedge funds have either outperformed by a wide margin, like from 1993-2013, where they averaged 9.23% per annum versus 4.86% p.a. for the MSCI World. In the last 10 years, however, hedge funds have done a paltry 6.14% per annum against 8.55% for a similar period for equities. (*Hedge fund performance is proxied by the HFRX FWI Index*).

That said, the volatility of hedge funds have tended to be around 7%, whereas equity vols have been about 16%. (*Hedge fund vol is measured using the historical volatility of the HFRI FWI Index*) Practically, what this means is that the amount of risk assumed to obtain a unit of return was much higher for equities than hedge funds. This point is very much related to the first concept we discussed, that investing in equities needs good timing.

Hedge fund investing is all about seeking out the best in their respective fields. The successful hedge fund allocator should assemble a portfolio that performs and looks very unlike the index. Hedge funds are not a homogenous group but display significant dispersion of behavior and results. The potential for finding the exceptional is high yet the risk of finding the mediocre or the poor is also high. Hedge fund selection is best left to professional investors dedicated to hedge fund investing.

How relevant are hedge funds today? In the post-2008 world, hedge fund indices have indicated a lacklustre performance easily eclipsed by equities or corporate credit. Beneath the headline numbers, a group of hedge fund managers have outperformed the market either in absolute terms or in risk adjusted terms. These funds have tended to trade in credit. Some equity funds have managed to excel but these have tended to be merger arbitrage and activists or indeed credit funds extending beyond their normal hunting grounds in the capital structure. Structured credit funds, particularly those involved in mortgage backed securities have also excelled.

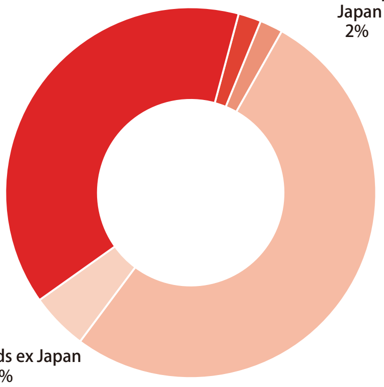
The opportunities for making money are ample today. They may be less accessible to long only strategies since markets have recovered strongly from their 2009 lows. The world continues to be a complicated place with a steady stream of tectonic shifts in geopolitics, policy, economic fortunes, regulation and the structure of distribution and allocation of capital. These are very interesting times indeed for investors who seek out and embrace complexity as a source of alpha, or non-market, returns.

Asset Allocation

DBS 3-Month Tactical Model Portfolio – Q42013

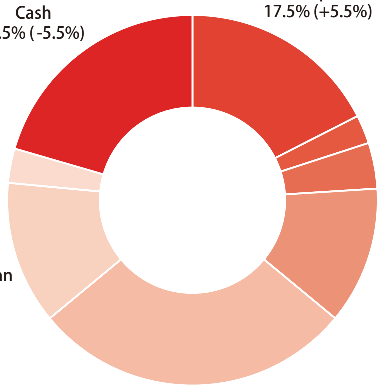
1. Defensive

Capital preservation with minimal risk exposure



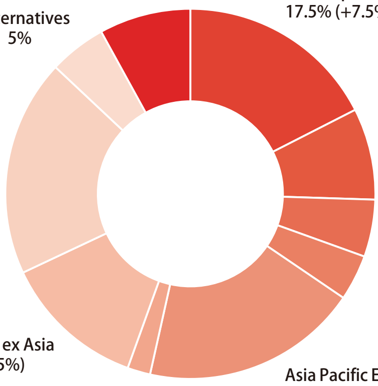
2. Conservative

Capturing some capital growth with low risk exposure



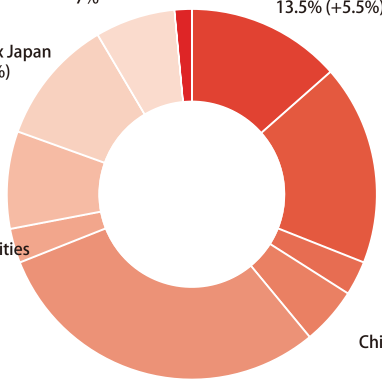
3. Balanced

Capturing modest capital growth through a balanced risk-and-return approach



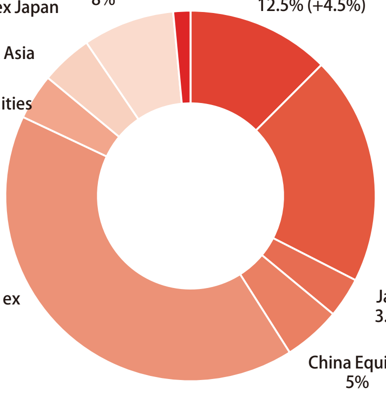
4. Growth

Higher wealth enhancement through greater exposure to risky assets



5. Aggressive

Maximising capital growth potential through exposure to a large portion in risky assets



Notes:
Percentages denote actual tactical asset allocation weights for a 3 month time horizon.
Asia Pacific ex Japan equities excludes both Japan and China equities.
Figures in brackets refer to the tactical weight shifts versus the strategic allocation. Taking the Balanced model as an example, "US Equities 17.5% (+7.5%)" represents an overweight of 7.5% compared to the neutral weight of 10%.

Tactical Asset Allocation – Q4 2013

Asset Class	Region	3m view	12m view	Rationale
Equities	US	Overweight	Overweight	- We stay Overweight as macro recovery is on track while corporate earnings are improving. - At 15.6x forward price-to-earnings, the market is trading slightly above its mean. This is however offset by the sustainability of its economic recovery. - The eventuality of a reduction in Fed asset purchases will result in the rotation of funds from Emerging to Developed Markets and US will be a geared beneficiary.
	Europe	Overweight	Overweight (Previous: Neutral)	- We are 3M and 12M Overweight as we expect the region to attract fund inflows on the back of an improving economic outlook and attractive valuations. - Europe is currently in a 'sweet spot' as it benefits from ongoing economic recoveries in the US and China, with little threat of monetary tightening anytime soon.
	Japan	Overweight	Overweight	- We stay Overweight as Japan is expected to benefit from the government's plan to double its monetary base and from PM Shinzo Abe's growth strategies. - 2Q GDP growth was revised up while core inflation reading in July came in stronger-than-expected, suggesting that Japan could finally be emerging from deflation and low growth.
	China	Neutral	Overweight	- We are 3M Neutral and 12M Overweight as China is our preferred play within Emerging Markets (EM). - The Chinese equities market is trading at global financial crisis lows in valuations. - Stabilisation of China GDP growth around the 7-8% range, coupled with more policy clarity on reforms, could drive it higher.
	Asia Pacific ex- Japan	Neutral (Previous: Underweight)	Overweight	- We upgrade Asia Pacific ex-Japan to 3M Neutral as the delay in QE tapering could result in a short-term respite. - Within the region, we prefer markets with current account surpluses, large international reserves relative to GDP and low external debt relative to GDP.
	Emerging Markets	Neutral (Previous: Underweight)	Overweight	- We turn 3M Neutral as we expect temporary respite from the delay in QE tapering. - Countries with huge current account deficits and weak economic growth like Brazil and Turkey look vulnerable as liquidity recedes.
Bonds	Global ex-Asia	Underweight	Underweight	- The taper delay is positive for bonds as UST yields fell while credit spreads widened. However, further sharp retracement is unlikely given the eventuality of tapering and rates normalization. - DBS expects 10-year yields to trade within the range of 2.65%-2.9% in the interim. Bonds remain expensive relative to equities. Stay Underweight.
	Asia ex-Japan	Underweight	Neutral	- Again, the taper delay provides a short-term boost for Asian credits, with the possibility of renewed flows into Asian sovereigns and high-yield corporates. The JPMorgan Asia Credit Index (JACI) Composite Blended Spread has narrowed since the Fed announcement. - Nonetheless, we maintain 3M Underweight on Asia ex-Japan bonds given the eventuality of a Fed drawdown.
Alternatives	N/A	Neutral	Overweight	**Property** (3M Neutral; 12M Neutral) – The recent pullback in UST yields could provide a short-term boost to REITs. However, given the imminence of tapering, the window to trade this theme is small and we are staying Neutral. **Commodities** (3M Neutral; 12M Overweight) – RMaintain 3M Neutral as range-bound trading is expected. China's economic shift to a slower growth trajectory will weigh on base metals while oil price is moderating on easing Middle East tension. Longer-term, we stay OW as commodity demand grows in-line with global economic recovery. **Gold** (3M Neutral; 12M Underweight) – After recent rebound, gold is expected to range-trade as it remains over-priced while demand outlook for physical gold from EM central banks and on the retail front remains weak. The inevitability of Fed tapering means gold will face renewed pressure again as the US economy gains momentum. **Hedge Funds** (3M Neutral; 12M Neutral) – Maintain 3M and 12M Neutral weighting for diversification purpose
Cash	N/A	Underweight	Underweight	Negative real interest rates in many parts of the world make cash very unattractive. Maintain 3M and 12M Underweight

Figures and estimates are as of 24 September 2013.
Asia Pacific ex Japan equities excludes both Japan and China equities.

Strategic Asset Allocation Models

Investment Objectives of the Model Portfolios

The DBS Strategic Model Portfolios have been developed in consultation with Morningstar Associates, LLC based on a set of capital market assumptions. Morningstar Associates, LLC, the industry leader in fund of funds management, investment consulting and retirement advisory services, has developed five portfolios for DBS Bank.

Each portfolio is diversified across many types of asset classes and investment styles in order to benefit from the top performing asset classes and reduce the impact of lower performing asset classes.

- Defensive - This model is ideally suited for investors who are seeking to preserve their capital and are uncomfortable sustaining losses. Its 4% allocation to equities means the portfolio will have lower returns while striving to reduce risk exposure over the medium to long term. To help minimize risk; this model has a sizeable allocation to cash, global and Asia ex-Japan bonds.

- Conservative - This model is ideally suited for investors who are fairly risk adverse and are seeking more stable returns. Its 26% allocation to equities strives to capture some growth potential, without assuming too much risk over the medium to long term.

- Balanced - This portfolio is ideally suited for investors who are seeking to strike a balance between risk and returns. Although the 42% allocation to equities and 5% allocation to alternative investments give this model a riskier profile than either the Defensive or Conservative models, it is better positioned for modest growth over the medium-to-long term.

- Growth - This model is ideally suited for investors seeking to grow their capital and who can tolerate higher risk and considerable market volatility over the medium-to-long term. Although its 62% allocation to equities (with a sizeable bias to Asian equities) and 7% exposure to alternative investments position the model for growth, it also exposes the investor to potentially high losses.

- Aggressive - This model is ideally suited for investors who are seeking to maximize growth and can tolerate losses and market fluctuations over the medium-to-long term. Its 76% allocation to equities and 8% exposure to alternative investments position the investor to capture the upside of the market, but also expose them to the potential of sustaining extensive losses on the downside. This model has the highest allocation to Asia Pacific and China equities, while still maintaining some exposure to bonds and cash.

The target investment horizon of a Strategic Asset Allocation Model portfolio is five years.

Strategic Asset Allocation Models for 2013

		Defensive	Conservative	Balanced	Growth	Aggressive
Equities	US	2%	12%	10%	8%	8%
	Europe	0%	2%	7%	16%	18%
	Japan	0%	0%	0%	0%	0%
	China	0%	0%	4%	5%	5%
	Asia Pacific ex Japan	2%	12%	19%	30%	41%
	Emerging Markets ex Asia	0%	0%	2%	3%	4%
	Equities	**4%**	**26%**	**42%**	**62%**	**76%**
Bonds	Global ex Asia	52%	30%	17%	13%	4%
	Asia ex Japan	5%	15%	22%	13%	7%
	Bonds	**57%**	**45%**	**39%**	**26%**	**11%**
Alternatives		**0%**	**3%**	**5%**	**7%**	**8%**
Cash		**39%**	**26%**	**14%**	**5%**	**5%**
Expected Return (%)		1.8	4.2	6.4	8.4	9.8
Expected Risk (%)		4.3	8.1	12.1	16.1	18.8

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Notes:

- The expected annual return of the strategic portfolio is based on capital market assumptions derived from Morningstar's econometric model that relies on historic, current and forecasted data on the indices highlighted below. The information is for reference only.
- The expected risk (or annual standard deviation) of the strategic portfolio represents the expected risk level of the portfolio based on historical asset class relationships (correlations) and volatility, using monthly returns from 2003 to 2013 based on the indices highlighted below. The information is for reference only.
- Morningstar Associates' model portfolios started on 1 October 2010. Morningstar reviews the strategic asset allocation on an annual basis. The current Strategic Asset Allocation (SAA) is as of end August 2013.
- Based on the model portfolios, the Aggressive model has the highest risk, followed by Growth, Balanced and Conservative, with Defensive being the least risky. The risk consideration that was used in formulating the Strategic Asset Allocation was the annualized quarterly average drawdown. A maximum annualized average quarterly drawdown constraint is in place for the different portfolios, with the defensive portfolio having the most restrictive and the aggressive portfolio having the most accommodative risk constraints.
- The investor type classification for the portfolio has no direct relationship with the Financial Needs Analysis customer risk profile types and the portfolios are not assigned any product risk rating based on the bank's proprietary risk rating methodology.
- The above model portfolios are effective from October to December 2013 and are subject to change.
- Asia Pacific ex Japan equities excludes both Japan and China equities.
- The expected return and expected risk are based on the following indices for calculation:
  - o Equity: US - Russell 3000 TR USD; Europe - FTSE World Europe TR EUR; Japan - Topix TR JPY; Asia Pacific ex Japan - MSCI Pacific Ex Japan NR USD; Emerging Market ex China - MSCI EM
    Ex Asia NR USD; China - MSCI AC Zhong Hua NR USD
  - o Bond: Global Aggregate - BarCap Global Aggregate TR USD; Asia Pacific - BarCap Asian Pac non Japan TR USD
  - o Alternatives: 10% S&P Global REIT TR USD (Property), 30% DJ UBS Commodity TR USD (Commodities), 30% S&P GSCI Gold TR (Gold) and 30% Greenwich Global HF (Hedge Funds)
  - o Cash: BofAML HKD LIBOR 1 Mon CM TR

Morningstar Associates' Asset Allocation Approach:
A hallmark of Morningstar Associates' asset allocation approach is to broadly diversify the models across investment styles, sectors, sub-asset classes, market caps, and regions. This approach aims to ensure that some part of the portfolio will be performing well in most markets, while the long-term gains of all parts will accrue to investors over time.

In determining the asset allocation targets, Morningstar Associates uses a multifaceted approach that features of a number of sophisticated mathematical models to forecast returns on various asset classes. The modelling process is designed to provide asset targets appropriately aligned with current market conditions and investor expectations. Morningstar Associates also subjects the asset allocation models to 10,000 simulations to determine how well or poorly they stand up to different market conditions over a five-year period and then make any necessary adjustments.

Morningstar Associates refines the asset allocation targets based on local market characteristics and behaviours. This results in significant overweight to the Asian markets, both equity and fixed income, in the DBS Strategic Asset Allocation Models, although each model retains varying degrees of exposure to the global markets.

In determining the most efficient asset targets for the DBS Strategic Asset Allocation Models, Morningstar Associates also factored in a couple of client considerations. First, a maximum "annualized average quarterly drawdown" constraint was imposed for each model. The maximum annualized average quarterly drawdown is the largest average quarterly percentage loss (on an annualized basis) that Morningstar Associates will tolerate for each model, based on calculations using data over the past 10 years. By accommodating the drawdown, the asset mix can be optimised to better meet investor's long-term performance and risk expectations, as well as better understand each model's risk potential. In addition, Morningstar Associates maintained a minimum 5% strategic allocation to cash in each model to provide a buffer against market volatility.

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