

Fund Profile

Fund Structure:

Open-ended unit trust

Launch Date:

23 July 2003

Management Fee:

Zero

Third-party Expense:

Zero

Performance Fee:

25% if annualized returns exceed 6% hurdle rate

Sales Charge:

Up to 5%

Redemption Charge:

Up to 1%

Fund Size (26th February 2010):

S\$59.2 million

NAV Price (26th February 2010):

S\$ 1.17

US\$ 0.83

Minimum Investment:

S\$5,000

Funds Included Under:

- CPFIS-OA
- SRS

Dealing Frequency:

Daily

Trustee:

RBC Dexia Trust Services Singapore Ltd

Prices Published In:

The Straits Times,
The Business Times,
Bloomberg, Reuters,
www.fundsupermart.com,
www.apsalphafund.com

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INVESTMENT OBJECTIVE

To provide medium- to long-term capital appreciation through investing in public equities listed in the Far East ex-Japan stock-markets, using a pure bottom-up approach. The APS Alpha Fund is an absolute return fund that seeks to achieve double-digit absolute returns. The Fund does not pay any management fee and third-party expenses. It only charges a performance fee when annualized returns exceed a 6% hurdle.

MARKET COMMENTARY

Global equity markets continued to fall during the first week of February, as sovereign risk in Europe persisted in dominating the headlines. However, markets rallied in the second half of the month on optimism that there would be some sort of bailout for Greece. Commodity prices initially fell at the start of the month then rallied to finish the month mostly up.

On the economics front, the US manufacturing ISM index jumped to 58.4 in January (previous: 54.9). A drop in the unemployment rate to 9.7% in January (previous: 10.0%) was unambiguously positive. Annualized GDP growth rate in 4Q09 has been revised upwards to 5.9%. However, the Conference Board's consumer confidence index was much weaker than expected, falling to a 10-month low of 46.0 in February (previous: 56.5). Meanwhile, unexpected decline of new and existing home sales disappointed the market.

The Federal Reserve Board unexpectedly increased the discount rate from 0.50% to 0.75% and shortened the discount window to overnight. It emphasized that this was a step toward normalization of the Fed's emergency lending facilities and does "not signal any change in the outlook for the economy or for monetary policy." The Fed statement also repeated Mr. Bernanke's assessment that that "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period".

Eurozone Q4 GDP came in at only 0.1%q/q (consensus +0.3%), considerably slower than the 0.4% in Q3, sparking concern of a possible double-dip recession. Of particular concern was Germany's 0.0%q/q GDP growth (consensus: +0.4%, previous: +0.7%).

Meanwhile, in this part of the world, product quality definitely made the top of the news amid Toyota's recalls due to accelerator and brake problems. This has tarnished the once famed quality standards of Japanese manufacturing. The problem is perceived to stem from negligence of quality control amid high growth.

PORTFOLIO PERFORMANCE

The APS Alpha Fund returned 0.86% in February 2010. The fund's annual hurdle rate is 6%.

This month, the top return drivers are **KH Vatec**, **China Shineway Pharmaceutical**, **BYD** and **Hsu Fu Chi**.

Car sales in most markets may be slowing, but not in China. January passenger vehicle sales in China recorded 13% MoM growth off a high base in December 2009 despite the 2.5 percentage point increase in sales tax on cars below 1.6L to 7.5% (cut from 10% in 2008 to 5% in 2009). Our holdings in Chinese car manufacturers **BYD** and **Geely Automobile** did well in February. **BYD** sold 61,215 units in January and lifted its sales target to 700,000 units in 2010 (up 65% from 425,000 in 2009). **Geely Automobile** sold 42,300 units in January and targeted 400,000 units in 2010 (up 23% from 325,413 units in 2009). These numbers partly eased market concerns of unsustainable 2009 car sales number in China. Meanwhile, renewable and alternative energy is high on the government's task list. The announcement by **Tianneng Power's** of its ability to produce batteries for pure electric vehicles was enough to push its share price higher. The company made the announcement on 9th February and its share price jumped 17% in the following three days.

Retail sales in China continue to grow strongly, as demonstrated by the 17.2% sales growth versus 2009 over Chinese New Years. **Hsu Fu Chi**, largely a Chinese New Year candy producer and brand owner should benefit well from the increasing purchasing power of Chinese consumers. Its firm grip on distribution channel enables the company to leverage its brand name and satisfy the growing consumer appetite. We feel the large valuation discount versus its peers listed in other markets is mainly due to the S-chip (Singapore listed Chinese companies) discount and low liquidity (tightly held and low free float).

Most fund managers are very bullish on pharmaceutical stocks in China due to the increased budget on medical spending from the government and the government's relentless efforts to improve the social safety net. The government aims to transform the hospital system in order to remove over-reliance on profit from drug distribution. In this way, medical treatment will become more affordable to the public. The transformation of the healthcare system will benefit many Chinese pharmaceutical companies, especially those making cheaper drugs with the same efficacy. Our portfolio holdings in **China Shineway Pharmaceutical** are set to benefit from this trend.

Most negative returns come from **Varitronix**, **Hi-P**, **Hon Hai Precision**, **Pacific Andes** and **United Microelectronics Corp**.

Tech and export heavy economies such as Taiwan and Korea recovered strongly in 4Q09. However, in contrast to the 7% gain of the Philadelphia Semiconductor Index, the technology stocks in our portfolio, especially hardware manufacturers, have performed poorly in February. This was mostly due to poor consumer confidence in the US, slow economy activity in Europe and worries over higher raw material costs. In addition, those companies with operations in China are facing another problem, labor shortages, which are set to drive up labor cost this year. Thus, share prices took a breather after the strong rally and outperformance in 2009. As a result, **Varitronix**, **Hi-P**, **Hon Hai Precision**, **United Microelectronics Corp** and **Samsung Electronics** fared poorly. Specifically, **Hi-P** was downgraded by brokers after it reported disappointing 4Q09 financials. Gross margins collapsed to 12.7% from 20.3% the previous year. In addition, the company sees losses for 1Q10 and flat earnings in 2010. However, it remains a value play as net cash is still more than one third its market cap, with EV/Ebitda less than 4x. Panel shipments in 2Q10 were reported to be below market expectations and prices will likely peak in March. This resulted in a retreat in the share price of **Samsung Electronics** in February. Nonetheless, share prices of two technology companies gained for the month. **KH Vatec**, the supplier of metal parts for mobile makers Nokia and Samsung, rose on the back of market share gains by Nokia in 4Q09, giving a boost to its suppliers. In addition, valuation is still cheap at 5x forward P/E. Another company which did well is **Melfas**, a supplier of touch screen sensor

modules mainly to Samsung. In February, Mirae Asset Securities and Korea Inv & Sec initiated coverage and assigned BUY ratings to the stock on the basis that Samsung is pushing capacitive touch screen phones in 2010.

PORTFOLIO ACTIVITY

We increased our holdings in **Au Optronics Corporation** and **Woongjin Thinkbig Co., Ltd.**

CJ Internet Corporation – Economic Alpha (Korea; NEW)

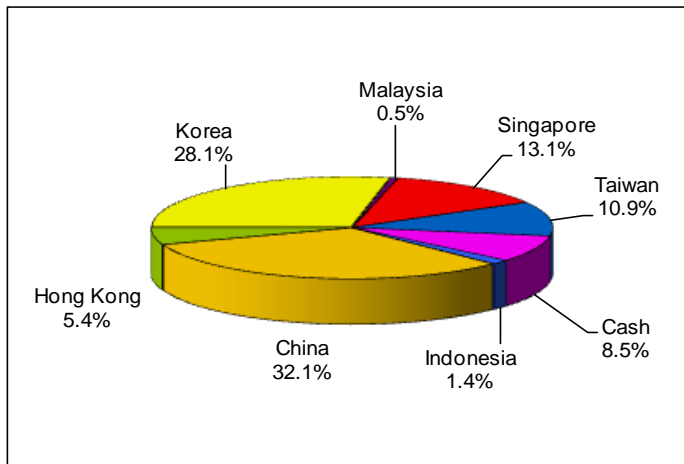
CJ Internet is a leading Korean online game company operating and publishing web board games through its game portal. It stands out as one of the leading publishers with the success of Sudden Attack (FPS game) and Magu Magu (baseball game) in 2007. CJ Internet also is expanding its business by entering overseas markets and developing its own games through its development studio affiliate. We bought the stock based on the following rationale: 1) potential positive changes with the new CEO from NHN installed on January 5th, 2010 to specifically target the problems in web board games and overseas businesses, 2) well positioned to benefit from secular growth in the global online game market (expected to grow 24% in 2010), and 3) cheap valuation at below 10x forward P/E which is at the low end of its historical valuation range.

Honam Petrochemical Corporation (SELL)

We sold Honam Petrochemical because we believe chemical margins have peaked or are close to peaking. High chemical margins resulted from coincidental regular maintenance by Asian chemical producers in February and March. As a result, supply experienced temporary tightness in this period. As this maintenance approaches the end, however, we expect supply to come back online, putting pressure on prices and margins. In addition, new supply from China this year will put further pressure on margins.

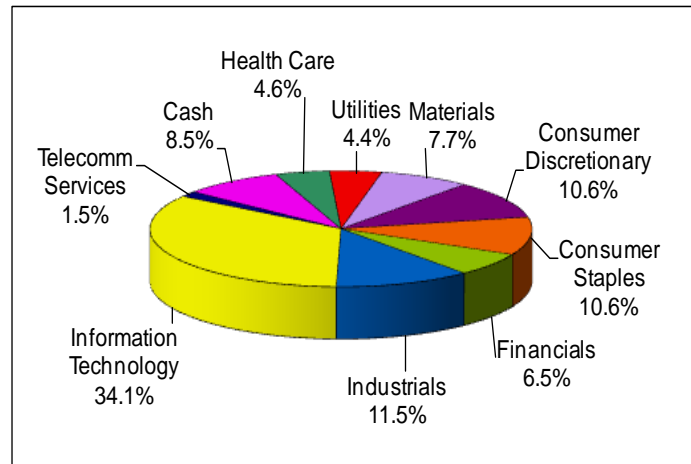
FACT SHEET FOR APS ALPHA FUND FEBRUARY 2010

COUNTRY ALLOCATION



Based on MSCI Country Classification
Source: APS, Wilshire Atlas

SECTOR ALLOCATION



Based on MSCI Sector Classification
Source: APS, Wilshire Atlas

FUND PRICE CHART (NNAV PRICES)



Source: Dexia Trust Services Singapore Ltd

TOP 5 HOLDINGS

Kh Vatec	7.1%
Ju Teng International H	5.5%
Shenzhen International	4.9%
Byd Co	4.4%
Varitronix Internationa	3.8%

Source: APS, Wilshire Atlas

All information is provided by APS Asset Management and is reported as at 26th February 2010, unless otherwise stated.

Note: The CPF interest rate for the Ordinary Account (OA) is based on the 12-month fixed deposit and month-end savings rates of the major local banks. Under the CPF Act, the Board pays a minimum interest of 2.5% per annum when this interest formula yields a lower rate. In addition, from 1 January 2008, the CPF Board will pay an extra interest rate of 1% per annum on the first \$60,000 of a CPF member's combined balances, including up to \$20,000 in the OA. From 1 April 2008, the first \$20,000 in the Ordinary Account will not be allowed to be invested under the CPF Investment Scheme.

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