Lipper FundMarket Insight Reports

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Taiwan Fund Market Summary
Month End Analysis
June 29, 2007
(Executive English Summary)

2006

A Big Jump

- The Taiwan market was reborn in June, and Equity Taiwan performed fabulously.
- Emerging Asia continued to surge for the year-to-date period; Equity Sector Real Estate fell behind.
- The bond market turned bearish in June, and bond funds were annihilated.
- The hot money shifted to domestic funds instead of overseas funds.
- Equity Taiwan turned upward because TAIEX stocks' winning streak continued.

Market Performance

Asian markets kept on surging in June, but China came in at the bottom. The TAIEX leapt 9.06% to the top of the Asian markets in June. Other markets such as Philippines, Thailand, and Hong Kong had returns of over 5% on average. The China market surged 42.80% for the year to date and took the lead of all Asian markets. Malaysia, Philippines, and Korea also had returns of over 20% on average.

Equity Fund Performance

Thanks to government policies, the run-up of other Asian countries, and the adjustment in valuations, Taiwan equity market hit a seven-year high in June, and Equity Taiwan, Equity Taiwan Small- & Mid-Cap, and Equity Sector Information Tech had big jumps. Gainers in June included: **IBT New Taiwan Equity Fund** (+17.87%), **Jih Sun Jih Sun Fund** (+16.05%), **IBT China Equity Fund** (+14.66%), **Grand Cathay Pilot Fund** (+14.50%), and **Jih Sun Small Cap Fund** (+14.06%). Equity Thailand, Equity Philippines, Equity Singapore, and Equity Korea also outperformed in June.

Asian markets kept on surging, with Equity Malaysia, Equity Philippines, and Equity Singapore taking the lead, with returns over 31% on average for the year-to-date period. Nevertheless, Equity Japan Small- & Mid-Cap, Equity Sectors Real Estate Europe, Global, and North America were subdued for the year to date. Heavy gainers for the year-to-date period were **Allianz GIS RCM Malaysia A Dis** (+61.03%), **Allianz GIS RCM Singapore A Dis** (+50.03%), **Lion Capital Malaysia SGD** (+48.65%), **JF Philippine Fund** (+47.08%), **JF Malaysia Fund** (+44.60%), **Lion Capital Singapore/Malaysia SGD** (+44.47%), **Allianz GIS RCM Philippines A Dis** (+43.45%), and **FGIT Duo Fu Fund** (+40.04%).

After the Asia financial crisis, most Asian countries started to innovate and strengthen their stability. Many Asian stock markets, except Taiwan, have been hitting record highs of late. Taiwan was hamstrung by the interference of two parties and the pause in cross-Strait relationships. However, President Chen is going to leave his post and Executive Yuan has started to implement several policies to relight domestic spending. Added to the attraction for foreign investors and domestic buyers, Taiwan's stock market is being reborn; Equity Taiwan became a hot seller in June.

Bond Fund Performance

The U.S. Fed kept the federal funds rate unchanged at 5.25%, and the core Personal Consumption Expenditures (PCE) (excluding food and energy) deflator went back to the implied FOMC comfort zone of 1.0%-2.0%. Concerns about inflation eased; capitalizing on an interest rate easing by the Fed, the U.S. government bond yield hit a recent high in the past few weeks. The bond market turned bearish because of Taiwan's central bank starting to tighten monetary policies, and the hot money shifted to the equity market instead of the bond market.

Bond funds registered for sale in Taiwan were annihilated in June. There were only two funds—**Parvest Asian Convertible Bond C** (+3.01%) and **Mellon Sterling Bond A GBP** (+1.02%)—with over-1% returns. Bond Convertibles Global, Bond Convertibles Europe, Bond Global High Yield, Bond Europe, and Bond Euro High Yield were the leading categories for the year to date. The best gainers were: **Morgan Stanley Global Conv Bd EUR A EUR** (+9.22%), **IBT North American Income Trust Fund** (+8.83%), **Parvest Asian Convertible Bond C** (+7.72%), **Parvest European Convertible Bond C** (+7.67%), **Morgan Stanley Global Conv Bd USD A USD** (+7.38%), and **Templeton Emerging Markets Bond A Dis USD** (+7.11%).

Outlook

The Institute of Supply Management's survey of manufacturing conditions for May continued to rebound—from 55.0 to 56.0.The Federal Open Market Committee left the Fed interest rate unchanged at 5.25% and kept rates steady after 17 consecutive increases that began in 2004. Federal Reserve Chairman Ben Bernanke indicated that inflation remains a big concern—but not enough of a threat to hike interest rates anytime soon. The U.S. economy seems likely to continue to expand at a moderate pace over coming quarters. Also, ahead of expectations for the corporate reporting season, the U.S. stock market might gain on earnings optimism.

Taiwan's index of leading economic indicators rose 0.2 percentage point to 110.2 in May from the month earlier. The monitoring indicator turned to a green light from a yellow-blue light. Taiwan's April export orders rose 11.92% from a year earlier to US$27.53 billion—hitting a record high—and industrial output rose 6.35% from a year earlier. The related economic statistics are getting better and better and will be a good sign for the second half-year macro-economics.

Taiwan is attracting foreign investors to pour in money because of higher valuations and the competitive technology industry. Because of the adjustment of the Asian markets, Taiwan is fueled with strong momentum for the short term. The only future uncertainties will be the legislative and presidential elections and cross-Strait relations. What we should watch out for is that the consolidation might happen faster in the short term.

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