

A typical equity fund may invest in stocks of between 20 to 80 companies. A typical bond fund could have as many as 40 to 60 different bonds.

For each fund, there are several independent parties verifying and counter verifying the activities of the fund.

A trustee (usually a third party institution) is appointed to safeguard the interests of the investors and ensure that the fund managers invest the money within the mandate of the fund, and that no violation occurs. The mandate usually stipulates what and where a fund can invest in. For example, if a fund's mandate is to invest in Chinese equities, the trustee will ensure that the fund manager can only purchase securities related to the Chinese economy and stock market. The trustee will also oversee risk control safeguards like maximum limits the fund can invest in one particular sector or one company, so that there is no excessive risk taken with investors' money. If there is a deviation from the mandate, questions will be asked.

A custodian performs the administrative role of holding the money and assets of the fund for safekeeping. Transactional duties include arranging settlement of any purchases and sales of the fund's assets, collecting income from these assets be it dividends from equities or interest payments from bonds and performing foreign exchange transactions when required. The presence of an independent custodian ensures that investors' money is really where it should be. The lack of an independent custodian was a crucial red flag which should have alerted investors in the unfortunate Madoff scam.

In the unfortunate event of a fund manager, custodian or trustee getting into trouble or being prevented from carrying out their duties, the other independent insitutions will step in to replace that insitution by another. For example, if a fund manager becomes insolvent, the trustee will act in the interest of investors to find a replacement for the fund manager, or ensure an orderly distribution of the investors' assets, or any other action that is required. It is very unlikely that multiple independent parties are prevented from carrying out their duties at the same time, leading to a winding up of a fund. This is why there

are several independent parties safeguarding the investors' assets.

It is also very unlikely for a fund within the recommended portfolios to lose its entire value. For the value of a fund to go to zero, that would require the value of all the assets in the fund to go to zero. That would mean, in the case of an equity fund, all 20 to 80 stocks in the fund go to a value of zero. This is a very unlikely scenario. Thus, the probability of the value of a fund losing its entire value is very remote.

With an FPA portfolio, one's investments are diversified across asset classes, geographic regions and sectors and invested in hundreds of companies all over the world. Even in the recent financial turmoil, the vast majority of companies continue to remain in business and profitable. Funds are chosen carefully through FPA's own quantitative and qualitative analytical process. On top of that, safeguards are in place within each fund's structure to ensure no abuse can undermine the trust given to the fund managers.

WHY FUNDS?

For most investors, an actively managed fund portfolio provides a better solution than picking stocks or bonds individually to create a portfolio. Three main reasons come to mind.

1) Investors who don't have the time or inclination to manage individual stock and bond portfolios

This is the main reason for the existence and appeal of funds. Funds provide diversification and professional management in a package that is quick and easy to transact. One can build a portfolio diversified across asset classes and geographic regions with just a few funds and yet have transparency and clarity on what one is invested in.

2) Investors who want access to different asset classes or markets

We may all know what a corporate bond is, but not many investors have ever tried to buy one. Firstly, bonds are usually transacted at larger amounts, generally between \$100,000 to \$1,000,000. It

is also difficult for most investors to understand the complexities of the bond market well enough to make informed investments. A better solution would be to hire a professional who makes a living picking corporate bonds to assemble and manage a corporate-bond portfolio.

Foreign markets, too, can present challenges for the individual investor. For instance, if an investor wants to add China exposure to a portfolio, one could buy stocks like S-Chips listed on the Singapore Stock Exchange. However, this may not give the same exposure as buying H-shares, Red Chips or Hong Kong companies listed on the Hong Kong Stock Exchange, or even Taiwanese companies that conduct business in China. The S-Chips are generally smaller companies and do not include top Chinese companies like Bank of China or China Mobile. Instead, one could also hire your own manager for your China stock portfolio - someone who knows the territory and the market far better, by buying into a China fund. In addition, your exposure to the region would be much more diversified than if one had tried putting together a few stocks for a portfolio.

3) Investors who want proper diversification

Diversification has always been important for investors so that a few companies getting into trouble don't wipe out a portfolio. However, it is important to distinguish between being diversified just for the sake of being diversified and being properly diversified.

For example, being diversified when invested into the Singapore market could mean owning the Straits Times Index exchange-traded fund (ETF) which would give investors exposure to the 30 companies in the Straits Times Index. However, the main drawback to such index funds is that they have to track the index. For example, the STI ETF would have to own rig-builders such as Sembcorp Marine, Keppel Corporation and Cosco Corporation because they are included in the Straits Times Index that the ETF tracks, even if an investor did not want to have exposure to the rig-building sector. A fund manager on the other

hand, could avoid these names if he saw weakness in the sector.

CHOOSING FUNDS

Choosing the appropriate funds is important. That is where FPA's proven and refined quantitative and qualitative analytical processes come in. Our role is to pick the best available funds to tap on each fund managers' expertise. Some fund managers are experts in a certain asset class or a certain geographic region or sector. Each fund manager has a unique investment style and at certain points in a market cycle, different investing styles may do better than others. With our dedicated processes, we will choose the recommended funds according to our investment criteria. After a fund is chosen, there is constant monitoring and review of the fund's performance, volatility, and attribution analysis, coupled with constant dialogue with the fund manager. Should a fund not perform in line with expectations, the recommendation will be changed. This ongoing process ensures that the recommended funds perform in line with their objectives and that no nasty surprises can occur.

CONCLUSION

At FPA, we understand that storms happen, and when they do, it is important to make sure your boat doesn't sink. When the storm passes, your boat will still be there to sail again and rise along with the tide. That is why our investment processes ensure we position clients' portfolios to be able to survive the inevitable storms. More importantly however, we want clients to have a full understanding of what they are invested in, so that they too have the confidence that their portfolios will survive the storm and not open themselves to panic in times of crisis.

If you would like to get a better understanding of what you are currently invested in, or have an investment you would like us to take a closer look at, please contact us at 6323 1788, or visit us at www.FPAFinancial.com