



OVERSEAS UNION BANK LTD

22 September 1987

Mr Roderick Yong
Secretary-General
The ASEAN Secretariat
70A Jalan Sisingamagaraja
Jakarta
Indonesia

Dear Mr Yong

ASEAN CULTURAL FUND

We are pleased to enclose herewith 15 copies of the following,
as requested by yourselves :

- (i) Valuation of the Portfolio as at 31 August 1987 and performance valuation.
- (ii) A brief note on the Investment Strategy, together with a report on the developments in the major financial markets during the period from June 1987 to August 1987 and the short term outlook.
- (iii) Audited accounts for the year ended 31 May 1987.

Please let me know if you require further information.

Yours faithfully

LOH HOON SUN
GENERAL MANAGER
TREASURY &
INVESTMENT BANKING

TOH THIAN SER
CHIEF MANAGER
INVESTMENT BANKING

**ASEAN CULTURAL FUND
PORTFOLIO SUMMARY & ANALYSIS
AS AT 31 AUGUST 1987**

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ASEAN CULTURAL FUND

PORTFOLIO SUMMARY AND ANALYSIS IN US DOLLARS AS AT 31 AUG 1987

| Category | Original Currency | Original Cost US\$ | Current Value US\$ | Interest Accrued US\$ | Current Value Inclusive of Interest Accrued US\$ | Yield | | |
|-----------------|----------------------|--------------------------|--------------------------|-----------------------------|---|-----------------|--------------------------|-------------------------------|
| | | | | | | On Cost % | On Current Value % | % Holding on Current Value |
| | | | | | | | | |
| US DOLLAR | | | | | | | | |
| Bonds | 2,505,250 | 2,505,250 | 2,593,903 | 176,919 | 2,770,822 | 10.75 | 10.38 | 16.93 |
| FRCOs | 1,993,900 | 1,993,900 | 1,991,400 | 26,178 | 2,017,578 | 7.22 | 7.22 | 12.33 |
| Deposits & Cash | 4,240,393 | 4,240,393 | 4,240,393 | 3,508 | 4,243,901 | 6.48 | 6.48 | 25.93 |
| | | | | | | | | |
| | 8,739,543 | 8,739,543 | 8,825,696 | 206,605 | 9,032,301 | 7.87 | 7.79 | 55.19 |
| DEUTSCHEMARK | | | | | | | | |
| Bonds | 6,661,050 | 3,677,091 | 3,672,755 | 153,870 | 3,826,625 | 7.33 | 7.40 | 23.38 |
| Deposits & Cash | 41,010 | 22,639 | 22,639 | 0 | 22,639 | 0.00 | 0.00 | 0.14 |
| | | | | | | | | |
| | 6,702,060 | 3,699,730 | 3,695,394 | 153,870 | 3,849,264 | 7.33 | 7.40 | 23.52 |
| YEN | | | | | | | | |
| Bonds | 462,978,500 | 3,262,710 | 3,376,300 | 108,542 | 3,484,842 | 6.81 | 6.56 | 21.29 |
| Deposits & Cash | 7,424 | 52 | 52 | 0 | 52 | 0.00 | 0.00 | 0.00 |
| | | | | | | | | |
| | 462,985,924 | 3,262,762 | 3,376,352 | 108,542 | 3,484,894 | 6.81 | 6.56 | 21.29 |
| | | | | | | | | |
| TOTAL | US\$ | 15,702,035 | 15,897,442 | 469,017 | 16,366,459 | | | 100.00 |

ASEAN CULTURAL FUND

VALUATION OF INVESTMENTS AS AT 31 AUG 1987

| Nominal Value | Security Description | Current Coupon (%) | Original Cost | | Current | | Accrued Interest (US\$) | Current Value inclusive of Interest (US\$) | Current Yield (%) | | | Yield to Maturity (%) | | % Holding On Current Value | Interest Payment Date | Source | |
|--------------------------------------|------------------------------------|--------------------|---------------|--------------|-----------|--------------|-------------------------|--|-------------------|-----------|---------|-----------------------|-------|----------------------------|-----------------------|--------|----------|
| | | | Price (%) | Value (US\$) | Price (%) | Value (US\$) | | | On Original Cost | On Value | At Cost | At Current Price | | | | | |
| US DOLLAR | | | | | | | | | | | | | | | | | |
| STRAIGHTS | | | | | | | | | | | | | | | | | |
| 500,000 | World Bank | US\$100M | 14/10/88 | 11.500 | 99.500 | 497,500 | 103.750 | 518,750 | 50,472 | 569,222 | 11.56 | 11.08 | 11.64 | 7.83 | 3.48 | 14/10 | Euroclea |
| 200,000 | Sweden | US\$200M | 26/4/89 | 12.375 | 99.000 | 198,000 | 104.940 | 209,880 | 8,525 | 218,405 | 12.50 | 11.79 | 12.66 | 8.95 | 1.33 | 26/4 | Euroclea |
| 500,000 | EIB | US\$125M | 9/3/91 | 11.000 | 103.625 | 518,125 | 105.865 | 529,325 | 26,125 | 555,450 | 10.62 | 10.39 | 10.06 | 8.94 | 3.39 | 9/3 | Euroclea |
| 300,000 | SEK | US\$200M | 12/3/91 | 8.625 | 98.875 | 296,625 | 99.436 | 298,308 | 12,075 | 310,383 | 8.72 | 8.67 | 8.91 | 8.79 | 1.90 | 12/3 | Euroclea |
| 1,000,000 | Sweden | US\$250M | 20/11/92 | 10.250 | 99.500 | 995,000 | 103.764 | 1,037,640 | 79,722 | 1,117,362 | 10.30 | 9.88 | 10.35 | 9.29 | 6.83 | 20/11 | Euroclea |
| | | | | | US\$ | 2,505,250 | | 2,593,903 | 176,919 | 2,770,822 | 10.75 | 10.38 | | | 16.93 | | |
| FLOATING RATE CERTIFICATE OF DEPOSIT | | | | | | | | | | | | | | | | | |
| 1,000,000 | 3M LIBID Taiyo Kobe Bank Ltd (Ldn) | US\$100M | 26/6/89 | 7.0625 | 99.840 | 998,400 | 99.735 | 997,350 | 12,163 | 1,009,513 | 7.07 | 7.08 | - | - | 6.17 | 30/9 | CSFB |
| 1,000,000 | 6M LIBOR - 1/8 Fuji Bank Ltd (Ldn) | US\$200M | 27/6/91 | 7.3125 | 99.550 | 995,500 | 99.405 | 994,050 | 14,015 | 1,008,065 | 7.35 | 7.35 | - | - | 6.16 | 23/12 | CSFB |
| | | | | | | 1,993,900 | | 1,991,400 | 26,178 | 2,017,578 | 7.22 | 7.22 | | | 12.33 | | |
| | | | | | US\$ | 4,499,150 | | 4,585,303 | 203,097 | 4,788,400 | | | | | 29.26 | | |

VALUATION OF INVESTMENTS AS AT 31 AUG 1987

Exchange Rate as at 31-08-87
$$US\$/DKK = 1.8115$$

ASEAN CULTURAL FUND

VALUATION OF INVESTMENTS AS AT 31 AUG 1987

| Nominal Value | Security Description | Current Coupon (%) | Original Cost | | Current | | Accrued Interest (Yen) | Current Value inclusive of Interest (Yen) | Current Yield (%) | | | Yield to Maturity (%) | | | Holding | | | Interest Payment Date | Source | | | | | |
|------------------------------|----------------------|--------------------|---------------|-------------|-------------|-------------|------------------------|---|-------------------|------------------------------------|---------|-----------------------|------------------|------------------|------------------|------------------|--|-----------------------|--------|--|--|--|--|--|
| | | | Price (%) | Value (Yen) | Price (%) | Value (Yen) | | | On Original Cost | On Value | At Cost | At Current Price | On Current Value | On Current Price | On Current Value | On Current Price | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| YEN | | | | | | | | | | | | | | | | | | | | | | | | |
| --- | | | | | | | | | | | | | | | | | | | | | | | | |
| STRAIGHTS | | | | | | | | | | | | | | | | | | | | | | | | |
| ----- | | | | | | | | | | | | | | | | | | | | | | | | |
| 100,000,000 | World Bank Yen258 | 23/4/90 | 6.625 | 98,500 | 98,500,000 | 103.790 | 103,790,000 | 2,337,153 | 106,127,153 | 6.73 | 6.38 | 6.99 | 5.04 | 4.57 | 23/4 | Euroclea | | | | | | | | |
| 100,000,000 | Postippanki Yen208 | 14/2/91 | 6.500 | 99.875 | 99,875,000 | 103.913 | 103,913,000 | 3,538,889 | 107,451,889 | 6.51 | 6.26 | 6.53 | 5.22 | 4.63 | 14/2 | Euroclea | | | | | | | | |
| 50,000,000 | Canada Yen808 | 20/2/91 | 6.125 | 99.875 | 49,937,500 | 103.228 | 51,614,000 | 1,616,319 | 53,230,319 | 6.13 | 5.93 | 6.16 | 5.08 | 2.29 | 20/2 | Euroclea | | | | | | | | |
| 200,000,000 | World Bank Yen208 | 10/3/92 | 8.375 | 107.333 | 214,666,000 | 109.890 | 219,780,000 | 7,909,722 | 227,689,722 | 7.80 | 7.62 | 6.88 | 5.81 | 9.80 | 10/3 | Euroclea | | | | | | | | |
| | | | | | | | | | | 479,097,000 15,402,083 494,499,083 | | | 6.81 | 6.56 | 21.29 | | | | | | | | | |
| | | | | | | | | | | OR OR OR | | | | | | | | | | | | | | |
| | | | | | | | | | | 462,978,500 | | | | | | | | | | | | | | |
| | | | | | | | | | | OR | | | | | | | | | | | | | | |
| | | | | | | | | | | 3,262,710 | | | | | | | | | | | | | | |
| | | | | | | | | | | 3,376,300 108,542 3,484,842 | | | | | | | | | | | | | | |
| Exchange Rate as at 31-08-87 | | | | | | | | | | | | | | | | | | | | | | | | |
| ----- | | | | | | | | | | | | | | | | | | | | | | | | |
| US\$/Yen = 141.90 | | | | | | | | | | | | | | | | | | | | | | | | |
| US\$ | | | | | | | | | | | | | | | | | | | | | | | | |

Exchange Rate as at 31-08-87

US\$/Yen = 141.90

ASEAN CULTURAL FUND

DEPOSITS AS AT 31 AUG 1987

| Placed | Maturity | Period (days) | Rate (%) | Bank | Principal | Interest Accrued | Principal Plus Interest Accrued | Value in US\$ | % Holding on Current Value |
|----------|----------|------------------|----------|-------------------|--------------|---------------------|------------------------------------|---------------|-------------------------------|
| | | | | | US\$ | US\$ | US\$ | | |
| 31/08/87 | - | On demand | - | BOI | 4,785.90 | 0.00 | 4,785.90 | 4,785.90 | 0.02 |
| 31/08/87 | - | On demand | - | Euroclear | 1,799.05 | 0.00 | 1,799.05 | 1,799.05 | 0.01 |
| 25/08/87 | 1/09/87 | 7 | 6-5/16 | Barclays Bank PLC | 668,256.45 | 820.24 | 669,076.69 | 669,076.69 | 4.09 |
| 25/08/87 | 8/09/87 | 14 | 6-9/16 | BOI (S) | 1,571,922.17 | 2,005.84 | 1,573,928.01 | 1,573,928.01 | 9.62 |
| 31/08/87 | 8/09/87 | 8 | 6-1/2 | Citibank NA | 1,398,629.27 | 232.53 | 1,398,881.80 | 1,398,881.80 | 8.55 |
| 28/08/87 | 28/09/87 | 31 | 6-1/2 | BOI (S) | 595,000.00 | 429.72 | 595,429.72 | 595,429.72 | 3.64 |
| | | | | | 4,240,392.84 | 3,508.33 | 4,243,901.17 | 4,243,901.17 | 25.93 |

| | | | | | | | | | |
|----------|---|-----------|---|-----------|-----------|------|-----------|-----------|------|
| | | | | | DM | DM | DM | | |
| 31/08/87 | - | On demand | - | BOI | 40,683.35 | 0.00 | 40,683.35 | 22,458.38 | 0.14 |
| 31/08/87 | - | On demand | - | Euroclear | 326.82 | 0.00 | 326.82 | 180.41 | 0.00 |
| | | | | | 41,010.17 | 0.00 | 41,010.17 | 22,638.79 | 0.14 |

| | | | | | | | | | |
|----------|---|-----------|---|-----------|-------|-----|-------|-------|------|
| | | | | | Yen | Yen | Yen | | |
| 31/08/87 | - | On demand | - | Euroclear | 7,424 | 0 | 7,424 | 52.32 | 0.00 |
| | | | | | 7,424 | 0 | 7,424 | 52.32 | 0.00 |

Exchange Rate as at 31-08-87

US\$/DM 1.8115
US\$/Yen 141.90

ASEAN CULTURAL FUND

INCOME SUMMARY

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INCOME

| | | June - August | Since Appointment |
|-----------------------------|------|---------------|-------------------|
| Interest on Deposits - | US\$ | 63,055 | 145,816 |
| - | DM | 6,783 | 48,048 |
| - | Yen | 3,160 | 31,304 |
| - | Sfr | 0 | 78 |
| Interest on FRCDs - | US\$ | 0 | 0 |
| Interest on FRNs - | US\$ | 0 | 0 |
| Interest on Straights - | US\$ | 86,700 | 383,017 |
| - | DM | 68,406 | 289,693 |
| - | Yen | 59,747 | 267,469 |
| - | Sfr | 0 | 25,311 |
| Interest Income - Euroclear | | 0 | 0 |

287,851 1,190,736

EXPENSES

| | | |
|-------------------------|-----|-------|
| Management Fee | 0 | 0 |
| Telephone & Telexes | 0 | 0 |
| Euroclear Charges | 590 | 2,264 |
| Bank Charges | 256 | 2,575 |
| Transportation & Travel | 0 | 0 |
| Legal Expenses | 0 | 0 |
| Audit Fee | 0 | 0 |
| Handling Charges | 612 | 2,843 |
| General Expenses | 0 | 1,037 |

1,458 8,719

NET INCOME

286,393 1,182,017

ASEAN CULTURAL FUND

STATEMENT OF AFFAIRS

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31 August 1987

ASSETS (Note 1)

Deposits
Floating Rate Certificate of Deposit
Floating Rate Notes
Straights

4,266,592
2,017,578
0
10,082,289
16,366,459

FINANCED BY

Capital Advanced (2)
Realised Profit
Income Account
Price Fluctuation Accounts (3)
Difference in exchange a/c (4)
ACF Operational a/c (5)
Provision for audit fee

15,058,054
125,800
1,182,017
543,982
206,606
(750,000)
0

16,366,459

Notes :

- (1) Value of all assets is inclusive of interest accrued up to the valuation date.
- (2) Capital advanced - US\$12,167,774 being valuation of bonds plus accrued interest up to 31-7-86 and cash injections of US\$2,891,697 less remittance to Yamaichi US\$1,417.00
- (3) Price fluctuation account shows the difference between actual cost and market value (excluding interest accrued) of all bonds and FRCDs on the valuation date.
- (4) Difference on exchange account. All non-US\$ investments are booked in US\$ based on the prevailing rates of exchange on the transaction day. Any difference between the booked cost and the cost converted at the rates on the valuation date is shown as a gain/(loss) in the difference on exchange account.
- (5) Amount remitted to the ASEAN Cultural Fund, Operational Account, a/c no. 210583, The Bank of Tokyo, Ltd., Jakarta.

ASEAN CULTURAL FUND

SUMMARY OF CASH MOVEMENTS DURING THE PERIOD

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JUNE 1987 - AUGUST 1987

US\$

US DOLLAR

Balance as at 31 May 1987

2,479,538.96

Add :

Interest received on deposits
Interest received on securities
Conversion of Yen into US\$
Conversion of DM into US\$

64,555.82
16,291.67
1,534,793.06
1,404,883.44

Less :

Purchase of nominal amount US\$1,000,000 of Fuji Bank US\$ FRCD due 27/6/91
- Principal US\$99,500.00
- Accrued Interest US\$11,375.00
Expenses and handling charges
Withdrawal to ACF Operational a/c

1,006,875.00
2,795.11
250,000.00

Balance as at 31 August 1987 (cash & deposits)

4,240,392.84

DEUTSCHEMARK

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DM

Balance as at 31 May 1987

1,482,480.16

Add :

Interest received on deposits

15,115.94

Interest received on securities

40,000.00

Sales Proceeds :

(i) nominal amount DM500,000 of 6-1/8% OKB DM150 mn due 14/2/91

- Principal DM510,500.00

- Accrued Interest DM 10,888.89

521,388.89

(ii) nominal amount DM600,000 of 5-3/8% EEC DM300 mn due 4/1/93

- Principal DM598,650.00

- Accrued Interest DM 7,883.33

606,533.33

Less :

Conversion of DM into US\$

2,624,508.15

Balance as at 31 August 1987 (cash & deposits)

41,010.17

JAPANESE YEN

Yen

Balance as at 31 May 1987

172,881,619

Add :

Interest received on deposits

781,799

Sales Proceeds :

Nominal amount Yen50,000,000 of 5-1/8% EDF Yen20 bn due 30/3/94

- Principal Yen51,062,500

- Accrued Interest Yen 583,681

51,646,181.00

Less :

Conversion of Yen into US\$

225,302,175.00

Balance as at 31 August 1987 (cash & deposits)

7,424

SUMMARY OF PERFORMANCE EVALUATION

1. To measure the Returns achieved by the Manager on the available funds

| | |
|---|-----------|
| a) Rate of Return for the first quarter (June 1987 - August 1987) | = +0.36% |
| Annualised Rate of Return | = +1.44% |
| b) Rate of Return since the transfer of the fund | = +14.10% |

2. To measure the Manager's performance in preserving the capital of the Fund

| | |
|---|----------|
| a) Rate of Return for the first quarter (June 1987 - August 1987) | = -1.15% |
| Annualised Rate of Return | = -4.6% |
| b) Rate of Return since the transfer of the fund | = +8.95% |

ASEAN CULTURAL FUND

PERFORMANCE EVALUATION

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1. To measure the returns achieved by the managers on the available funds

a) Rate of return for the first quarter (June 1987 - August 1987)

FORMULA

End Value - Start Value + Withdrawals

Time Weighted Start Value - Time Weighted Withdrawals

End Value as at 31-8-87 = US\$16,366,459

The start value has been detailed as :

| Description | Transfer Value | Date | No of Days from Transfer Date to Evaluation Date | Time-Weighted Value |
|------------------------|---|---------|--|-------------------------|
| Cash Withdrawal - US\$ | 250,000 | 30-6-87 | 62 | 62 |
| | | | | --- x 250,000 = 168,478 |
| | | | | 92 |
| Rate of return | $\frac{\text{US}\$(16,366,459 - 16,557,168 + 250,000)}{\text{US}\$(16,557,168 - 168,478)} \times 100$ | | | |

= +0.36%

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Annualised Rate of Return = $0.36\% \times \frac{12}{3} = +1.44\%$

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b) Rate of return since the transfer of the fund

$$\begin{aligned} \text{Rate of return} &= \frac{\text{US\$}(16,366,459 - 15,059,471 + 750,000 + 1,416.45)}{\text{US\$}(15,005,709.24 - 404,040.04 - 901.38)} \times 100 \\ &= 14.10\% \end{aligned}$$

The end value as at 31-8-87 = US\$16,366,459

The start value has been detailed as :

| Description | Transfer Value | Date | Transfer Date to Evaluation Date | No of Days from | Time-Weighted Value | |
|--|----------------|---------|----------------------------------|-----------------|---------------------|-------------------------|
| | | | | | (US\$) | (US\$) |
| (i) Securities - US\$ (Part of Capital Advanced) | 3,670,025 | 31-7-86 | | 396 | 396 | --- |
| | | | | | --- | x 3,670,025 = 3,670,025 |
| | | | | | 396 | |
| - DM | 3,336,967 | 31-7-86 | | 396 | 396 | --- |
| | | | | | --- | x 3,336,967 = 3,336,967 |
| | | | | | 396 | |
| - Yen | 4,520,820 | 31-7-86 | | 396 | 396 | --- |
| | | | | | --- | x 4,520,820 = 4,520,820 |
| | | | | | 396 | |
| - Sfr | 639,962 | 31-7-86 | | 396 | 396 | --- |
| | | | | | --- | x 639,962 = 639,962 |
| | | | | | 396 | |
| | 12,167,774 | | | | | 12,167,774 |

| Description | Transfer Value | Date | Transfer Date to Evaluation Date | Time-Weighted Value |
|---------------------------------------|----------------|----------|----------------------------------|-----------------------------------|
| | (US\$) | | | (US\$) |
| (ii) Cash - US\$ | 1,844,960.98 | 7-8-86 | 389 | 389 |
| (Part of Capital Advanced) | | | | --- x 1,844,960.98 = 1,812,348.03 |
| | | | | 396 |
| | 87.46 | 21-8-86 | 375 | 375 |
| | | | | --- x 87.46 = 82.82 |
| | | | | 396 |
| - DH | 994,910.72 | 8-8-86 | 388 | 388 |
| | | | | --- x 994,910.72 = 974,811.51 |
| | | | | 396 |
| - Yen | 51,678.43 | 8-8-86 | 388 | 388 |
| | | | | --- x 51,678.43 = 50,634.42 |
| | | | | 396 |
| - Sfr | 59.67 | 8-8-86 | 388 | 388 |
| | | | | --- x 59.67 = 58.46 |
| | | | | 396 |
| | 2,891,697.26 | | | 2,837,935.24 |
| (iii) Cash Withdrawals | | | | |
| (a) To ACF Operational - US\$ | 250,000.00 | 30-9-86 | 335 | 335 |
| Centre | | | | --- x 250,000.00 = 211,489.90 |
| | | | | 396 |
| - US\$ | 250,000.00 | 31-12-86 | 243 | 243 |
| | | | | --- x 250,000.00 = 153,409.09 |
| | | | | 396 |
| - US\$ | 250,000.00 | 30-6-87 | 62 | 62 |
| | | | | --- x 250,000.00 = 39,141.41 |
| | | | | 396 |
| | | | | 404,040.40 |
| (b) To Yamaichi Merchant Bank (S) Ltd | 1,416.45 | 22-12-86 | 252 | 252 |
| | | | | --- x 1,416.45 = 901.38 |
| | | | | 396 |

2. To measure the manager's performance in preserving the capital of the fund

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a) Rate of return for the first quarter (June 1987 - August 1987)

| Rate of return | End Value - Start Value |
|----------------|---|
| | Time Weighted Start Value - Time Weighted Withdrawals |
| | US\$(16,366,459 - 16,557,168) |
| | US\$(16,557,168 - 39,141) x 100 |
| | = -1.15% |

$$\text{Annualised Rate of Return} = \frac{12}{3} \times -1.15\% = -4.6\%$$

b) Rate of return since the transfer of the fund

| Rate of return | End Value - Start Value |
|----------------|----------------------------------|
| | US\$(16,366,459 - 15,059,471) |
| | US\$(15,005,709 - 404,040) x 100 |
| | = 8.95% |

Notes :

1. Sources

Euroclear - Euroclear Clearance System Ltd
CSFB - Credit Suisse First Boston

2. Yield to Maturity

- The yield to maturity at cost price for securities transferred from Yamaichi Merchant Bank (S) Ltd to ourselves were obtained from their portfolio valuation as at 31 July 1986. This is because the yield-to-maturity is calculated based on the original purchase price of the security and for the period from the time of purchase.
Future straight issues purchased by us have been and would be calculated using the Association of International Bond Dealers (AIBD) methods.
- The yield-to-maturity at current price has been calculated using the Association of International Bond Dealers method.

ASEAN CULTURAL FUND

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SUMMARY OF SECURITIES TRANSACTIONS FOR THE PERIOD JUN 1987 - AUG 1987

A. PURCHASES

(on a Trade Date Basis)

| Trade Settlement Date | Name of Security | Nominal Amount | Purchase Price | Purchase Cost |
|-----------------------|---------------------------------------|----------------|----------------|---------------|
| 11/8/87 | 18/8/87 7.3125% Fuji Bank due 27/6/91 | US\$ 1,000,000 | 99.55% | US\$1,006,875 |

B. SALES

| Trade Settlement Date | Name of Security | Nominal Amount | Sales Price | Profit/(loss) on capital | | Net Profit/(loss) on capital | |
|-----------------------|--------------------------------|----------------|-------------|--------------------------|----------------|------------------------------|----------------|
| | | | | based on original price | Revalued price | based on original price | Revalued price |
| | | | | Book Cost | Profit/(Loss) | Book Cost | Revalued price |
| (US\$) | | | | | | | |
| 15/6/87 | 22/6/87 5-1/8% EDF due 30/3/94 | Yen50,000,000 | 102.125% | Yen875,000 | Yen875,000 | 19,651.60 | 25,705.70 |
| 15/6/87 | 22/6/87 6-1/8% OXB due 14/2/91 | DH500,000 | 102.10% | DH11,750 | DH11,295 | 34,540.20 | 40,726.53 |
| 15/6/87 | 22/6/87 5-3/8% EEC due 4/1/93 | DH500,000 | 99.75% | DH4,000 | DH4,000 | (714.50) | 1,476.32 |
| 15/6/87 | 22/6/87 5-3/8% EEC due 4/1/93 | DH100,000 | 99.90% | DH950 | DH950 | (142.90) | 377.42 |
| | | | | | | 53,334.40 | 68,503.70 |
| | | | | | | | 68,285.97 |

* Notes

Exchange rates used were that as on settlement date of the sale. For the original book cost and the revalued cost as at 31 July 1986, the exchange rates as of 31 July 1986 was used since these were part of the securities transferred from Yamaichi.

ASEAN CULTURAL FUND

Investment Strategy

During the next quarter, we expect interest rates to continue to rise in the US, but remain stable in Japan and West Germany. Inflation, though rising slightly, is likely to remain under control. Although the US Dollar may remain stable against the Yen and Deutschemark, the upside potential of the US Dollar however remains limited by its sluggish economic fundamentals and the huge trade and budget deficits. Against this backdrop, the US bond market may weaken further, whilst caution is likely to prevail in the Japanese and West German bond markets.

During the last quarter, bond holdings especially the lower coupon, medium maturity issues in the Euro-Yen and Euro-Deutschemark sectors were lightened. The sales proceeds were converted into US Dollars and placed on short term deposits to capitalise on the higher yields. A Fuji Bank US Dollar denomination FRCD with a six-month coupon refix was purchased. Over the next quarter, we look to lighten further the bond holdings. Where feasible, switches will be made into higher coupon and short maturity issues, otherwise, the sales proceeds will be placed on deposit. The US Dollar assets will be kept within the 50% to 55% range.

The list of securities transacted are given on page 15.

ASEAN CULTURAL FUND

**REPORT ON DEVELOPMENTS IN THE MAJOR FINANCIAL MARKETS
DURING THE PERIOD JUNE 1987 TO AUGUST 1987 AND THE SHORT
TERM OUTLOOK**
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1. THE UNITED STATES MARKET

During the period under review, both the Official Discount Rate and the Prime Lending Rate remained unchanged at 5-1/2% and 8-1/4% respectively. Short term interest rates eased 50 basis points in June/July only to rise again in August. The interest rate trend was influenced by several factors. In early June, short term interest rates eased on speculation that the FOMC may soon unwind the earlier tightening as the US Dollar began to recover and concern over inflation was lessening. In addition, monetary growth rates remained at the lower end of the 5-1/2% - 8-1/2% target range, and the pace of economic growth was almost unchanged. As a result, in July, the interest differential between US and Japan narrowed from 360 basis points to 290 basis points. However, in August as the US Dollar began to ease and there was no policy change at the FOMC Meeting towards an easier policy, short-term interest rates rose again, with the three-month deposit rate rising to its previous high of 7-1/4%.

Interest rates appear to have bottomed and the longer term trend is towards firmer US interest rates. In the near term, the Fed's monetary policy is likely to be closely watched as Mr Alan Greenspan takes over. The economic growth of 2.6% (annualised) in the 2nd quarter does not justify further easing. Inflationary fears are likely as unemployment breached the 6.0% level, and industrial production grew by 2%. Any sharp rise in interest rates, however, is likely to hurt economic growth. Also, rises are expected to be limited without any increase in the Official Discount Rate. The Fed may eventually be pressured in the near term to raise the Official Discount Rate in an effort to stem further sharp falls of the US Dollar, and to fight inflation which has been edging up and is expected to hit 5.5% by the end of the year.

The US Dollar, after weakening to US\$/DM1.81 and US\$/Yen143 in early June on news of Fed Chairman Volckers' resignation, recovered on news of a narrowing of the April trade deficit to US\$13.3 billion from US\$13.6 billion in March. The US Dollar was also supported by some positive indicators on the US economy as unemployment fell to a low of 6%. Tension in the Gulf, the increase in the crude oil price raising the transaction demand for US Dollars and burdening the current accounts of Japan and W Germany, foreign purchases of dollars to invest in bonds and stocks, widening interest differentials between US and Japan and technical support, bolstered the US Dollar further to US\$/DM1.86 and US\$/Yen150. In mid-July, the US Dollar suffered a minor setback on release of a wider than expected US\$14.4 billion trade deficit in May. It continued its uptrend to US\$/DM1.90 and US\$/Yen150 till early August. However, the US Dollar fell sharply

thereafter, undermined by a larger-than-expected US\$15.71 billion trade deficit in June. The huge June trade deficit was largely due to a 5.8% increase in imports and a moderate 1.7% rise in exports. The US Dollar ended the quarter at US\$/DM1.81 and US\$/Yen141.

In the near term, economic and political developments are likely to influence the US Dollar, which as a result, is likely to trade within a narrow range. On the one hand, economic fundamentals of the slow progress in the decline of the US trade and budget deficits continue to weigh on the US Dollar. This is likely to be reinforced upon the release of a wider than expected trade deficit in July and also when Congress reconvenes after a summer recess. On the other hand, in volume terms, the US trade deficit has been improving in the first half of 1987 with exports rising 11% over the same period last year whilst imports were only 8.2% higher. Japan's trade surplus is expected to continue to show a decline while Germany continues to show a large surplus. These factors, combined with the expected support from Central banks under the Louvre Accord, higher US interest rates, and the forthcoming IMF and G-7 Meetings, should provide near term support for the US Dollar. As such, the US Dollar should remain fairly stable in the near term.

In June and July, the US bond market was firmer with yields on the 30-year US Treasury declining to less than 8.5%. The rally was prompted by the firmer US Dollar, slightly reduced monthly trade deficit in April, lower inflation expectations, declining oil and commodity prices, and some foreign interest. In mid July however, when oil prices recovered to over US\$22 per barrel, fears of inflation resurfaced. This was despite increases of only +0.4% for the June CPI, and +0.2% for the PPI, capacity utilisation at 79.7% and money supply at the lower end of the target. Short term interest rates firmed and, with the weaker US Dollar, bond prices fell. Sentiment was further dampened by the delays in extending the treasury debt ceiling, causing the bill and 2-year note auctions to be postponed. The temporary one week extension released some US\$40 billion of postponed bills and notes, and the August Quarterly Refunding released supply when demand was sluggish and in August, bond yields on the 30-year US Treasuries were driven to 9.18%. Euro Dollar bonds likewise fell with yields in the 5-to 7-year maturity hitting 8.5% and 9.0% respectively.

Based on the outlook for higher interest rates and stable to slightly weaker US Dollar, the US bond market can be expected to weaken further. The prospect of higher interest rates is not only to support the US Dollar, but also to fight the possible threat of inflation. However, a pick-up rather than a sharp rise in inflation is expected based on the firm oil prices and domestically, as unemployment falls to 6.0%, wage pressures may build up. In the event that the inflation outlook may worsen, Fed Chairman Greenspan may resort to hard-line tactics by raising the Official Discount Rate. The bond market may be jolted further resulting in higher bond yields in the short term. The widening interest differentials may hopefully stabilise exchange rates and attract capital inflow, thus preventing yields on 30-year US Treasuries to exceed 10%.

2. THE WEST GERMAN MARKET

During the period under review, the key interest rates, the Official Discount Rate and the Prime Lending Rate remained at 3% and 5% respectively, whilst money market rates were generally firmer. In June, as the Bundesbank held its repo rate at 3.5%, the short term interest rates remained steady. However, in July/August, with the strengthening of almost 7% of the US Dollar against the Deutschemmark, inflation rebounding to 0.8% in July and above target monetary growth, the prospects of further monetary easing were dim. Instead, the outcome was the replacement of the 3.5% minimum rate repo operation, with a fixed rate repo at 3.6%. The degree of tightening can be considered to be quite minimal, reflecting the cautious stance of the Bundesbank. Koehler, a Bundesbank board member reinforced this view by remarking that the scope for further interest rate rises was limited as long as the underlying rate of inflation remained between 1.5% to 2.0% and that, because of the rapidly changing trends in the Dollar, the Bundesbank would have to remain flexible in its interest rate policy. This, and the continued sluggish growth of the economy, did not prevent speculative rises in money market rates. The three-month interbank Euro-DM rate ended at 4%, some 25 basis points higher over that of the previous quarter.

Despite the rebound of the German economy in the 2nd quarter, evidenced by the preliminary estimate of 1% - 1.5% rise in real GNP, without any additional stimulus forthcoming from the government, the overall outlook of the economy remains sluggish. This is because exports, while rising 3% in real terms in the 2nd quarter, is still below the level a year ago, and the strength of the Deutschemmark will continue to impact negatively on exports. Unemployment remained high at 8.3%. Monetary policy is likely to remain relatively tight due to the expected uptick in inflation later in the year, continued fears of high money supply growth and the uncertainty over the outlook of oil prices. Fiscal policy is also not expansionary and there will be tax reductions only in 1988. This is due in part to the anticipated rise in government deficit from DM42.5 billion in 1986 to DM53 billion in 1987. Against this backdrop, interest rates are likely to remain fairly stable in the near term.

During the period under review, the US\$/DM exchange rate was highly volatile. In June/August, the Deutschemmark weakened against the US Dollar on improved US Dollar sentiment, widening US-German interest rate differentials, the market's fear of renewed central bank intervention and a sluggish economy. From DM1.80/US\$, the Deutschemmark declined to a low of DM1.9025/US\$ before rising sharply on release of the US June trade deficit which widened to US\$15.71 billion. The Deutschemmark ended the period at DM1.81/US\$.

In the near term, the Deutschemmark is expected to stabilise on a slightly firmer undertone. Although the growth of the US economy is expected to be weak, the fundamentals of the German economy are also weakening. While exports rose 3% in real terms in the 2nd quarter, further marked appreciation in the currency will impact negatively on exports. This may result in weaker growth as domestic demand may not be strong enough to offset the decline in external demand. Also, fiscal stimulus from the government is limited by its growing deficit. This may result in upward pressure on the Deutschemmark. The Bundesbank has been shifting its priority towards stabilising exchange rates from money supply growth targetting. With the expected continued co-ordination of the Central Banks, some currency stability may be expected in the near term.

During the last quarter, the bond market declined sharply in volatile trading, affected by both external and internal factors. In June and July, the weakness of the Deutschmark and lacklustre performance of the US bonds, impacted negatively on the German bond market. Also, inflation concerns resurfaced as oil prices rose above US\$22 per barrel, and domestic monetary growth was above target. Yields on the key 10-year BundesRepublic bonds rose 80 basis points from 5.70% to a high of 6.5% in early August as the yield curve steepened. Euro-Deutschemark bonds performed likewise and yields in the 5- to 7-year maturity rose 40-60 basis points to yield 5.4% and 5.85% respectively. In mid August, upon the release of the US trade deficit figures, the Deutschemark appreciated sharply. The sudden appreciation of the currency and the fall in oil prices to below US\$20 per barrel, gave an initial boost to bond prices. However, the currency-backed rally in bonds lost momentum as the market became nervous over the sustainability of the strength of the Deutschemark. Yields on the 10-year Bundesrepublic and Euro-DM 5- to 7-year bonds ended the quarter at 6.38% and 5.50% - 5.70% respectively, a slight improvement from the highs.

In the near term, no change in the Bundesbank's monetary policy is expected. This is because GNP growth may be slightly stronger next year reflecting the tax-induced stimulus to private consumption. Although the present inflation outlook is favourable, there is cautiousness over the oil price as OPEC meets in September. Thus, the Bundesbank may be even more unwilling to change its interest rate structure. This and the expectation that the federal deficit is likely to increase next year will impact negatively on the bond market. With the expectations of currency stability as the Central Banks continue their efforts to stabilise exchange rates, and the rise in US bond yields, the German bond market can be expected to remain weak. As such, high coupon short dated bonds will be focussed upon as the yield curve steepens.

3. THE JAPANESE MARKET

During the last quarter, the Official Discount Rate remained at 2-1/2%. On the other hand, the Prime Lending Rate was raised by 4.9% to 5.2%, and money market rates rose likewise. This was despite PM Nakasone's statement at the Venice Summit that interest rates would be reduced further. The Bank of Japan, continued to resist a further reduction in the Official Discount Rate. However, when call money rates edged up from 3.1% to 3.3%, the BOJ injected funds into the banking system. These higher interest rates were the product of the Dollar's continued appreciation since early June, reviving fears of inflation as oil prices rose above US\$20 per barrel and money supply grew over 10%, indications that the economy was bottoming out as the first quarter GNP grew by 3.7% and unemployment fell to 2.7% in July from 3.19% in May. The BOJ maintained its steady and rather accommodative monetary policy, thus resulting in only slightly higher interest rates. The three months' Euro-Yen interest rates edged up some 10 to 15 basis points, ending the quarter at 4.03%.

Against the backdrop of an improving economy and stable exchange rates, interest rates in the short term can be expected to remain firm. While the BOJ has continued to stress its accommodative monetary policy, with its objectives of stabilising the Yen, expanding domestic demand, changing the structure of Japan's export-dependent industry and thereby reducing its large current account surplus, the central bank also reaffirmed that it was prepared to counteract any undesirable consequences that may arise from its accommodative monetary stance. However, there appears to be no immediate threat of inflation which is forecast to be 0.1% in 1987, rising to an average of 1.0% in 1988. Externally, a sharp rise in oil and other commodity prices is not expected, whilst internally, the BOJ is limiting the scope for lower interest rates to control asset price inflation and monetary growth. Thus, interest rates in the near term are likely to remain steady.

From June to early August, the Japanese Yen weakened from Yen140/US\$ to Yen153/US\$. The currency's weakness can be attributed to a variety of factors, i.e. official discouragement of speculation against the US Dollar, central bank support, Gulf tension resulting in higher oil prices, Japanese purchases of US securities, and signs of a narrowing of the trade surplus with the US. Japan's trade surplus continued to show signs of narrowing as its surplus fell from US\$7.57 billion in April to US\$6.41 billion in May and US\$5.51 billion in June. Whilst its surplus with the EEC grew slightly, its surplus with the US shrank to US\$4.01 billion from US\$4.43 billion in May. In early August, the Yen appreciated sharply, triggered by the unexpectedly large US June trade deficit which also showed Japan posting the biggest bilateral trade surplus. As such, the Yen ended the quarter at Yen141/US\$.

The US\$/Yen exchange rate is expected to remain stable in the short term. Besides central bank intervention, the Japanese Yen may face less upward pressure as its trade surplus continues to narrow. In addition, the Japanese economy appears to have bottomed out and if economic data released further support this, fears of US pressure on Japan's economic policies and the upward pressure on the Yen may be eased. This, and the widening interest rate differentials between US and Japan may continue to provide some support for the US Dollar, thus preventing a sharp decline in the near term.

During the last quarter, the Japanese bond market fell sharply in volatile trading. In June, the weakening of the Yen resulted in the market turning bearish. This was further supported by a strong first quarter GNP growth

of 1.2%, a narrowing of the trade surplus, fears of inflation, as money supply rose to over 10% and oil prices rose to over US\$20 per barrel, release of the supplementary budget where Yen1.36 trillion will be financed by the issue of government bonds and a change in the bond settlement to reduce speculative trading. There was also a shift in the Bank of Japan's monetary policy from accommodative to a more neutral policy. As such, the bond market weakened considerably, and yields on the No 89 JGB rose from the low of 2.5% in May to over 5% in early August, despite intervention by the Bank of Japan to support the side issues. Yields on Euro-Yen issues likewise fell over 100 basis points, resulting in the 5- to 7-year maturities yields rising to 5.35% and 5.80% respectively. The sharp appreciation of the Yen against the US Dollar in early August helped the bond market to rebound and yields on the No 89 JGB fell to 4.30% and 5- to 7-year Euro-Yen to below 5% by the end of the quarter.

In the near term, the Japanese bond market is expected to remain bearish although some short term technical rebound has not been ruled out. As US and Japanese interest rates appear to have bottomed in the case of the US it is to support the Dollar and contain inflation, whilst for Japan it is due to the expected economy recovery the impact on the bond market will remain 'negative. A cautious mood is likely to prevail after the recent sharp declines resulting in heavy losses for some companies and also as the September year end approaches.



