YEOMAN 3-RIGHTS VALUE ASIA FUND

(Co. Regn: 53979 C1 GBL; Fund Business Licence: C1/04/01282)

At 30 Sept 2008
NAV/Share:
S$131.79

Performance Figures for Month of Sep 2008

Sep 2008 **-12.56%**
Year-to-date 2008 **-29.89%**
Cumulative 10 yr 11 mo performance **+270.67%**
Implying a compounding rate of return of **+12.75% p.a.** over the 10 yr 11 mo period.
(Nett of all fees, with dividends re-invested and in SGD terms)

Equities/Cash Allocations

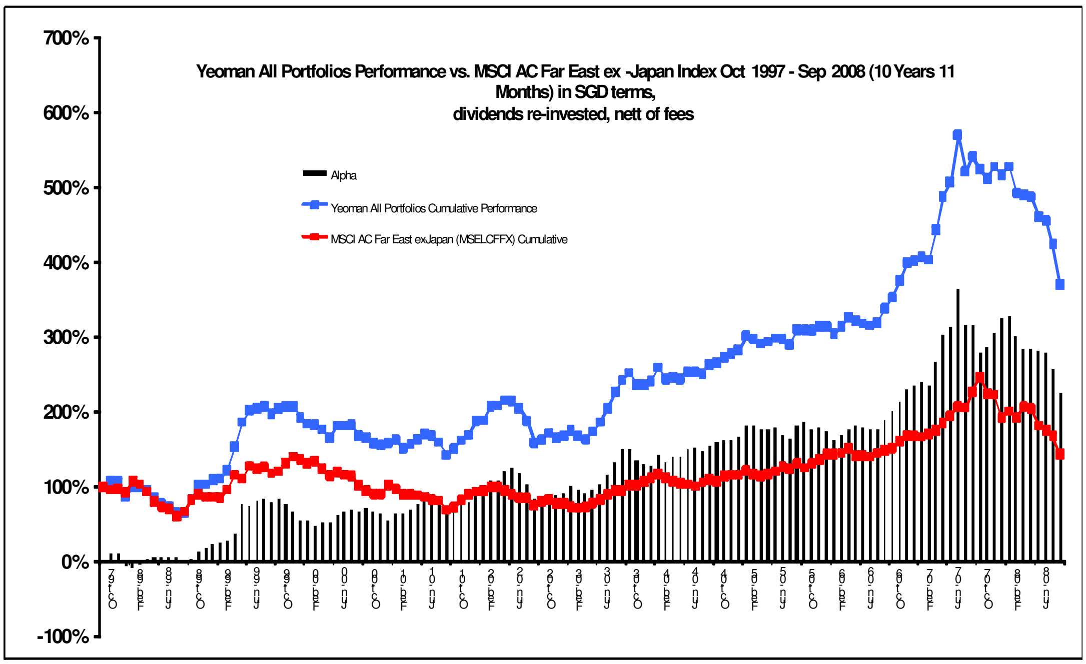
Equities 99.89%
Cash 0.11%

Country Allocations

Korea 28.39%
Hong Kong 26.05%
Malaysia 21.06%
Singapore 19.06%
Thailand 5.33%

Portfolio Valuations (trailing)

PE 10.18x
P/NTA 0.56x
Dividend Yield 5.63% p.a.
ROE 8.40% (1 yr)
10.26% (5 yrs average)
Wt. Ave. Mkt. Cap. S$150m



Yeoman All-Portfolios Performance 10yr 11mo ending 30/9/2008		
Period	Yeoman-All Performance	MSCI AC FE x Japan Performance
Oct 97 to Dec 97	6.60%	-2.90%
Jan 98 to Dec 98	-2.50%	-10.70%
Jan 99 to Dec 99	99.30%	61.40%
Jan 00 to Dec 00	-25.10%	-35.20%
Jan 01 to Dec 01	9.50%	-1.60%
Jan 02 to Dec 02	-2.60%	-14.50%
Jan 03 to Dec 03	42.90%	39.20%
Jan 04 to Dec 04	17.50%	8.80%
Jan 05 to Dec 05	13.60%	18.10%
Jan 06 to Dec 06	27.60%	23.50%
Jan 07 to Dec 07	32.28%	32.48%
YTD 08	-29.89%	-35.79%
Cumulative Performance from **10/97 to 8/08 (10Yr 10mo)**	270.67%	43.2%
CAGR	**12.75%**	**3.34%**

Note: In SGD terms, nett of all fees, dividends re-invested and calculated according to CFA (AIMR) PPS standards.

General Information

Fund Address:
10 Frere Felix De Valois Street,
Port Louis, Mauritius

Manager:
Yeoman Capital Management Pte Ltd
11 Unity Street #02-13, Robertson Walk, Singapore 237995
(Co. Regn. 199902308Z)

Tel: +65-67373922
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Email: cio@yeomancap.com

Website:
www.yeomancap.com

Total Value of Fund:
$59,773,672.20

Total Number of Shares:
453,535.40

Management Fee:
1% p.a.

Performance Fee:
15% High Water Mark

Sales Charge:
2.5% of NAV (payable to Distributor if applicable)

Manager Subscr Charge:
S$2,500 (one-time fixed sum payable to Manager)

Fund Subscription Charge:
1% of NAV (payable to Fund)

Fund Redemption Charge:
1.5% of NAV (payable to Fund)

Subscription frequency:
Monthly

Redemption frequency:
Quarterly

Investment Horizon Recommended:
3-5 years or more

Minimum Investment:
S$250,000

Custodian:
British and Malayan Trustees Ltd, Deutsche Bank

Auditor:
KPMG

Manager's Report at end 3Q 08

Absolute Performance

Measured at 30/9/08, the key numbers are:

For month of Sep 2008, we were down **-12.56%**
For 3Q 08, we were down **-29.89%**
For the 1 year ending 30/9/08, we were down **-31.65%**
For the 2 years ending 30/9/08, up **+9.60%**
For the 3 years ending 30/9/08, up **+19.14%**
For the 10 years 11 months ending 30/9/08 on all-funds composite basis, we were up **+270.67%** which implies a **CAGR of +12.75% p.a**. for the period (very long term).

[Note: The above figures are presented on nett of all fees basis, in SGD with dividends reinvested].

Relative Performance

The regional MSCI AC FE ex Japan Index (Ticker: MSELCFFX) produced the following movements to end 30/9/08.

Sep 2008	-14.32%
YTD 3Q 08	-35.79%
10 years 11 months to 30/9/08	+43.2%

Comparing the Index performance against our own actual performance, the following out-performance factors emerge:

Sep 2008 **+1.14x**
To end 3Q 08 **+1.20x**
10 yrs 11 months to end Sep 08 **+6.28x**

Whether in up or down markets, our out-performance against the Market continues. If a blow by blow calendar year by year presentation of this information is required, please see the table at bottom of page 1 of this report.

Portfolio Actions

The panic and noise emitting from the US, Europe and other financial capitals over the month of Sep08 has been widely reported in the media so there is no need to repeat these here.

Over the month, we did nothing that we would not normally do under ordinary conditions (i.e. buy undervalued, sell when fairly or overvalued etc). If stock prices had not plunged in the month past, people would be a lot less excited and stressed one would think, so:

Why do stock prices fall?

The list is long – Panic, negative sentiment, fear, fund redemptions, unwinding of carry trades, margin calls, earnings downgrades, liquidity outflows, flight to safety, re-allocation of assets, .. a whole host of reasons rational and irrational.

One thing we witnessed through the Asia Financial Crisis in 1997/8 is also being replayed today and that is with respect to short term inter-bank interest rates. Back then, for the one to two week window it was at 15-20% p.a. at the peak as compared with 2% and 6% p.a. today for the SGD and USD, same time window. When interest rates go up, stock prices got to come down to re-price for risk taking.

Back in 1997/8, with inter-bank at 20%, it implied a PE of 5x "risk free" and hence stock prices had to come down below PE 5x to make up for it causing markets to fall off a cliff. Today, with inter-bank at 6% generally, stock prices have to come down to below PE 17x which it has done (quite gracefully). Of course, the one major difference between 1998 and today is that for borrowers in the US even if they were willing to pay the prevailing interest rates, credit has dried up, if we are to believe the newswires.

The key question is this. Is this going to be a short or long term situation? If long term, then stocks will remain down for a long time (i.e. forever) and investors such as us should get very distraught. If short term, then stock prices will immediately recover once the credit squeeze diminishes, inter-bank rates ease and businesses can start to function normally in the US and elsewhere.

It takes some EQ to choose between immediate and delayed gratification, a quality not all market participants can be assumed to possess.

Looking in the rearview mirror

Could we have foreseen all that was going to take place in Sep08? In a way, yes… for us at Yeoman we had inkling perhaps as far back as May05.

In 05May05, the then Fed Reserve Chairman Mr Alan Greenspan presented a paper entitled "Risk Transfer and Financial Stability" to the Federal Reserve Bank in Chicago (for full text see link below).

http://www.federalreserve.gov/boarddocs/speeches/2005/20050505/default.htm

In his speech the Chairman commented on the growth in financial derivatives and related activity, hedge fund activity and the positive role these items played in transferring risk *away* from the banking and financial system, hence making it (the banking system) more resilient in the face of shocks.

At the same time, he also advocated the need to properly address the risks associated with the proliferation of CDOs, CDS' and other financial derivatives. If the risks have been transferred out of and away from the banking system, then where have they gone? How to measure and track these movements? And where have they regrouped and re-concentrated? How to manage and limit these risks? The paper pointed out the need for attention but did not spell out how it should or could be done.

Today, 3 years later, we know better. Today we know that the risks have not gone away and the risk concentrations highlighted in the paper have indeed re-appeared right where it is not meant to be, back in the banking and financial system itself!

It's like throwing a boomerang in the dark and because its flight path cannot be visually tracked, you imagine that it has gone away only to get whacked in the head by the same boomerang, after a suitable lapse of time (back to the familiar human habit of "market timing").

If we had known

If we had known the unravelling that was to take place in the first 9 months of 2008, would we have acted any differently? Probably not.

Our stated investment process which is also embedded in our fund memorandum (see link below) states clearly that performance attribution for us is through securities selection and portfolio construction, not market timing.

http://www.yeomancap.com/images/RiskMgt-Yeoman_4pgs_-281004.pdf

Why not market timing? Because it is impossible for us mortals to know the future which makes market timing impossible to implement except on hindsight, which makes it (by definition) impossible to implement especially over a long time horizon and repeatedly.

As a matter of stated process, we invest through all market cycles as we have done in the last 11 years with outcome as presented on page 1 of this newsletter.

Does that make us sound naïve?

In a time of extreme fear such as now (VIX Index at all time high), our investment approach may sound overly simplistic to some but we stick to it like glue.

Unlike other market players, we don't suffer from these swings of emotions for the following reasons:

Our clients are not geared, i.e. we only accept spare cash from clients. If people borrow money to invest in our fund, we would very likely not accept their subscriptions;
Our clients have a medium to long time horizon of 3-5 years and we take time to explain this to them so these day to day ebb and flow of events and news does not (or should not) bother them;

Our investment process adopts a value-based, with same time horizon as our clients (see above);
The companies we invest in are generally not geared and many of them are in strong nett cash positions. Those that are geared would generally have adequate interest cover and manageable debt/equity ratios. The good thing about this is that when the banks get jittery and turn off the credit taps, our invested companies need not be too badly affected (remember the adage about how the banker takes back the umbrella on a rainy day?);
Our Fund is itself not geared, i.e. we do not borrow to make stock investments;
Our Fund does not invest (or buy) derivative securities except for warrants that are suitably priced and tied to fundamentally sound underlying shares. So we are not likely to suffer the kind of end game faced by the Wall Street banks as reported in recent months;
We do not short-sell which means that we can only get one decision wrong (long only) and not two decisions wrong (both short and long);
Value investing as practiced by Yeoman uses fundamental analysis as its main and only tool, we avoid momentum trading, the "trend is your friend" and the "whisper" methods. If things go wrong, we have the possibility to recheck the baseline and rebase if necessary. This allows us to make reasonable and defensible valuation assessments, unlike those holding mountains of derivatives with unknown and unknowable value and valuations (a problem Mr Paulson faces).

With all the above factors on our side, we are not pressured to do anything we don't want to do (Mr Bernanke called it the "liquidation scenario" at the House Banking and Finance Committee meeting on 24Sep08). We face no liquidation scenarios in the past and now. In fact, with the 3-Rights in our favour, time is our friend and along the way we will collect our dividends, monitor the financials of our invested companies to make sure they are on course and purr with glee as we watch our underlying book value(s) grow.

It does look like market bottom

Although we are self professed non-market timers, looking at the debris around us today, it does look like market bottom to us. Click link below or see attached pages to see what the Economist magazine has to say about the matter.

http://www.economist.com/finance/displaystory.cfm?story_id=12274062

We also agree with the Economist with respect to the time horizon that may be required to see investment returns. They say 5 years (see last para in article) and we say 3-5 years as well.

At times like this (or at any other time), we really can't do a whole lot with 5 days, 5 weeks or even 5 months in terms of proper investment process.

And what if we are wrong? What if this is not market bottom? In such a case, we should not be badly affected as described in our investment process (see earlier page).

Accounting treatment of bank and insurance company financials

Below is an article from the Economist on the matter (click link below or see attached pages).

http://www.economist.com/finance/displaystory.cfm?story_id=12274096

The subject is very complex and indeed the accurate evaluation and analysis of banking and insurance business models is difficult if not impossible. There is a likelihood that present "fair value" accounting rules contributed to the present crisis, a subject that experts will debate for a long time from henceforth.

At Yeoman, we applaud the initiatives taken by others to study, research, understand and prescribe reporting rules for such businesses but we don't claim to be experts in the field. For this reason, our Fund today does not own any banks or insurers whether Spore or those outside of Spore.

Sticking to the simple and understandable path can mean the difference between a good outcome and a sticky end, for which Mr Buffett advises staying within your own "circle of competence". He also said "Risk is not knowing what you are doing".

Yours sincerely

SENG CHONG, YEO
As manager and director of the Fund

Buttonwood

Looking for the bright side

Sep 18th 2008
From The Economist print edition

Are there any signs that this could be a buying opportunity?

Illustration by S. Kambayashi

WHEN Winston Churchill lost the 1945 election, his wife remarked that the defeat might be a blessing in disguise. "At the moment", replied the great man, "it seems quite effectively disguised."

It is possible, when investors view recent events in retrospect; they will see them as a turning point for markets. But if there are immediately bullish implications, they seem to be quite effectively disguised. The American authorities sacrificed Lehman Brothers "to encourage the others", only to find the others were simply encouraged to deny funding to weak-looking institutions.

Risk aversion reached extremes this week as the money markets froze. Overnight dollar rates doubled in the inter-bank market while the rate paid by the American government for three-month money fell to its lowest in more than 50 years. In addition, the caning the authorities gave to shareholders in Fannie Mae, Freddie Mac and AIG, however hard to argue with, will make it tough for financial institutions to raise new equity. Wall Street did not even bother to rally after the AIG deal as it had after previous government interventions.

Bad news seems to be coming from all sides, leaving Hank Paulson, America's treasury secretary, increasingly resembling a one-armed wallpaper hanger as he valiantly seeks to cope with the mess. Another problem emerged this week; a $65 billion money-market fund, Reserve Primary, suspended redemptions and warned that it would "break the buck", ie, repay investors at less than face value. That could cause a flight out of other money-market funds. Meanwhile, credit spreads over risk-free rates have widened sharply and emerging markets have taken a hammering.

The "great de-leveraging" is working its way through the markets, as institutions, unable to roll over their debts, are forced to sell assets. The resulting fall in prices raises doubts about the solvency of other businesses, giving the spiral another downward lurch.

So what good news can be found in the midst of all this gloom? The first, curiously enough, is that sentiment is very depressed. The latest poll of global fund managers by Merrill Lynch found that risk appetite is at its lowest level in over a decade. Such extremes are normally a bullish sign.

The second is that the government is not the only buyer. After Merrill Lynch's sale to Bank of America, HBOS, a British mortgage lender, has also sought refuge within a bank, Lloyds TSB. That suggests executives see value in today's prices. Whether this is out of shrewd bargain-hunting, state arm-twisting or over-ambitious empire-building remains to be seen.

The third is that the inflation threat has receded, thanks to the sharp fall in commodity prices. Eventually, that will allow central banks to cut interest rates. In addition, it will relieve the pressure on consumer demand and corporate profit margins.

The fourth factor is that central banks are also willing to undertake quite extraordinary market-support measures, including the Fed's decision to accept equities as collateral against lending at its discount window. That would have been unthinkable 18 months ago.

The fifth issue is that valuations in equity markets have improved substantially. In Britain on September 17th, the yield on the FTSE All-Share index was higher than the yield on ten-year gilts. This has happened only once before since the late 1950s—in March 2003, which proved to be the start of a long rally.

However, it would be a brave investor that acted on those bullish signals today. Those who believed that the Bear Stearns collapse in March marked a turning point in the credit crunch were disappointed. The Vix, or volatility index, a measure of market preparedness for shocks, has been lower than in past peaks—though it shot up on September 17th.

While the money markets are frozen, other financial institutions may get into trouble. Buyers will be tempted to wait until asset prices fall further, a strategy that worked for Barclays, which was able to choose the slice of Lehman Brothers it desired. And the economy will surely have been harmed by this week's turmoil; consumer sentiment will have been hit and banks will inevitably prove even more cautious about their lending. A recession seems more likely than it did at the start of the month.

Perhaps there will be no climactic sell-off to signal the end of the bear market. Instead share prices may simply bounce around in a choppy range near today's values. It is quite plausible that those who buy shares today will look smart in five years' time. It is much less certain they will look smart six months from now.

Accounting

All’s fair

Sep 18th 2008
From The Economist print edition

The crisis and fair-value accounting

Illustration by S. Kambayashi

SO CONTROVERSIAL has accounting become that even John McCain, a man not known for his interest in balance sheets, has an opinion. The Republican candidate for the American presidency thinks that “fair value” rules may be “exacerbating the credit crunch”. His voice is part of a chorus of criticism against mark-to-market accounting, which forces banks to value assets at the estimated price they would fetch if sold now, rather than at historic cost. Some fear that accounting dogma has caused a cycle of falling asset prices and forced sales that endangers financial stability. The fate of Lehman Brothers and American International Group will have strengthened their conviction.

In response America’s Financial Accounting Standards Board (FASB) and the London-based International Accounting Standards Board (IASB) have not budged an inch. So, for example, banks will have to mark their securities to the prices Lehman receives as it is liquidated. The two accounting bodies already act cheek by jowl, and America will probably soon adopt international rules. Are they guilty of obstinately pursuing an abstract goal that is causing mayhem in financial markets?

Banks’ initial attack on fair value was self-serving. In April the Institute of International Finance (IIF), a lobbying group, sent a confidential memorandum to the two standard-setters. This said it was “obvious” markets had failed and that companies should be allowed to suspend fair value for “sound” assets that had suffered “undue valuation”. Even at the time this stance lacked credibility; Goldman Sachs resigned from the IIF in protest at “Alice in Wonderland accounting”. Today it is abundantly clear that those revelations were not a figment of accountants’ imagination. For example, in July Merrill Lynch sold a big structured-credit portfolio at 22% of its face value—less than what was entered on its balance sheet. Bob Herz, FASB’s chairman, argues that fair value is “essential to provide transparency” for investors.

Yet not all criticism of fair value can be so easily dismissed. The credit crunch has raised three genuinely awkward questions. The first of these concerns “pro-cyclicality”. Bankers say that in a downturn fair-value accounting forces them all to recognise losses at the same time, impairing their capital and triggering fire-sales of assets, which in turn drives prices and valuations down even more. Under traditional accounting, losses hit the books far more slowly. Some admire Spain's system, which requires banks to make extra provision for losses in good times, so that when loans turn sour their profits and thus capital fall by less.

It is too soon to know if prices exaggerate the ultimate losses on credit products. Some people argue that swift write-downs in fact help to re-establish stability: Yoshimi Watanabe, Japan's minister for financial services says Japanese banks exacerbated their country's economic woes by "avoiding ever facing up to losses". But the principle defence of standard-setters is that enhancing financial stability is not the purpose of accounting.

Over to the regulators

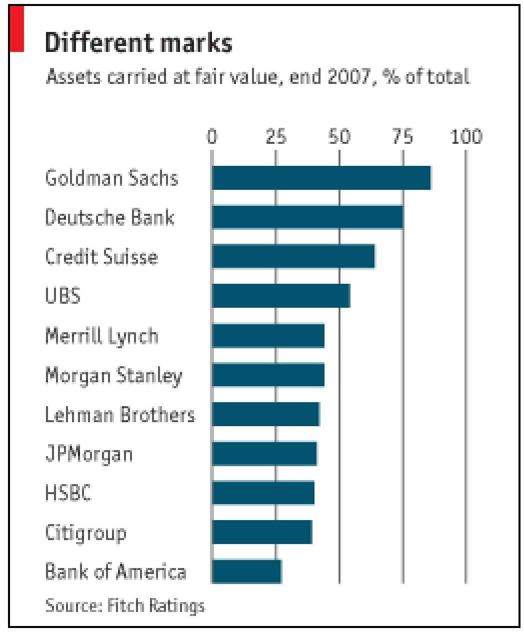
In other words, if pro-cyclicality is a problem, it is someone else's. Already central banks have relaxed their rules on what they will accept from banks as collateral, which has helped to support the prices of risky assets. And the mayhem in the swaps market has shown the importance of on-exchange trading, so that trading remains orderly in times of stress.

Ultimately, though, responsibility for interposing a circuit-breaker between market prices and banks' capital adequacy falls on bank regulators, not accountants. They are already examining "countercyclical" regimes, which would force banks to save more capital in years of plenty. They could go further by suspending capital rules during times of stress if they think asset prices have overreacted. Europe's national regulators already use some discretion when defining capital adequacy. There is a precedent in pension regulation, where corporate schemes are marked to market but the cash payments companies make to keep them solvent are smoothed over time. Banks' financial statements could be modified to show assets at cost as well as fair value, so that if regulators or investors wanted to use traditional accounting to form a view, they could.

Even if they leave pro-cyclicality to bank regulators, standard-setters still have a lot on their plates. The second—and immediate—question is how to value illiquid (and sometimes unique) assets. A common solution is to use banks' own models. But some investors are concerned that this gives banks' managers too much discretion—and no wonder, because highly illiquid (or "Level 3") assets are worryingly large relative to many banks' shrunken market values. Such is the complexity of many such assets that it may not be possible to find a generally acceptable method. The best answer is to disclose enough to allow investors to form their own views. This week IASB gave new guidance which should help in this regard.

The third problem is a longer-term one: the inconsistency of fair-value rules. Today the treatment of a financial asset is determined by the intention of the company. If it is to be traded actively, its market value must be used. If it is only "available for sale" it is marked to market on the balance sheet, but losses are not recognised in the income statement. If it is to be "held to maturity", or is a traditional loan, it can be carried at cost, subject to impairment. This is a dog's breakfast. Different banks can hold the same asset at different values. According to Fitch, a ratings agency, at the end of 2007, Western banks carried about half of their assets at fair value, but the dispersion was wide: from 86% at Goldman Sachs to 27% at Bank of America (see chart).

The obvious solution is to use fair value for all financial assets and liabilities. This is exactly what both FASB and IASB propose. In parallel they want to clean up the income statement, so that changes in the value of assets or liabilities are separated clearly from recurring revenues and costs.



For low-risk banks, this would make little difference: both HSBC and Santander report that the fair value of their loan books is slightly above their carrying value. But it could mean big losses for riskier institutions. When Bank of America bought Countrywide, a big mortgage lender, it was forced, under another quirk, to mark its troubled acquisition's loans at fair value, wiping out Countrywide's equity. Bankers are therefore likely to resist the idea of fair value for loans fiercely: one executive calls it "lunacy". Here standard setters' quest for intellectual consistency will run into a political quagmire.

Marks out of ten

Has accounting had a good credit crunch? The last year has shown that standard-setters are now truly independent and focused on investors' needs rather than the wishes of management, regulators and the taxman. Reforms to IASB's governance should bolster this independence. That is to be welcomed. For all fair value's flaws, banks ought not to have licence to carry their dodgy credit exposures at cost.

At the same time the fair-value revolution is incomplete. Regulators may need to abandon the traditional, mechanistic link between accounting and capital adequacy rules if they really want to try to fight banking crises. That is no bad thing either. Investors and regulators should be able to share a market-based language to describe financial problems, even if they disagree about what needs to be done.