Asia ex-Japan Equity

EQUITIES – Asia ex-Japan	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	3 Yrs (%)
MSCI AC Asia ex-Japan	-1.9	0.8	5.9	0.8	-1.5
MSCI Far East Free ex-Japan	-2.0	1.0	6.7	1.0	1.5
MSCI China	-4.3	-3.1	8.9	-3.1	-16.5
MSCI Hong Kong	-1.6	4.8	9.8	4.8	8.9
MSCI India	0.3	-1.2	-1.4	-1.2	-24.4
MSCI Indonesia	0.8	15.0	15.3	15.0	27.7
MSCI Korea	-4.1	-2.6	1.7	-2.6	8.6
MSCI Malaysia	2.5	0.3	2.9	0.3	15.3
MSCI Philippines	1.0	19.7	32.8	19.7	83.4
MSCI Singapore	1.6	4.4	6.7	4.4	9.4
MSCI Taiwan	-0.6	1.4	2.5	1.4	-5.2
MSCI Thailand	1.4	11.1	17.1	11.1	60.7

Returns in Singapore dollars. Source: Datastream, data as at 28 March 2013

Developed market equities continued to gain in March, outperforming all other asset classes and topping year-to-date performance. Emerging market equities, including Asia ex-Japan equity markets, lost ground in March with heightened risk aversion as the European crisis came back to haunt markets with Cyprus being the focus this time. China, Korea and Hong Kong led losses while Southeast Asian markets gained, led by Malaysia and Singapore. Cyclical sectors underperformed in March with the materials, energy and industrials sectors posting losses while defensive sectors utilities, healthcare and consumer staples gained.

There was a moderation in global leading indicators in March with the US Purchasing Managers' Index (PMI) falling to 51.3 from 54.2 in February though still showing expansion. Other US activity indicators such as industrial production and retail sales continued to show growth. Bucking the downtrend were Japan and China - PMI in Japan rose to above 50 for the first time since May last year while China's March PMI showed an improvement from February's.

China was the worst performing market as the government enacted fresh property tightening measures, including a 20 per cent tax on capital gains. Concerns on the economic recovery dampened markets as January to February data such as industrial production, retail sales and power generation came in below expectations. The China Banking Regulatory Commission (CBRC)'s new rule targeting wealth management product credit securitisation also rattled investor sentiment.

Asia ex-Japan Equity

South Korea was the second-worst performing market with returns in USD particularly weak, largely a result of a weaker Won as tensions with North Korea rose on the North's detonation of a nuclear device against global sanctions. The new Seoul government started off its 5-year term with new initiatives including a Supplementary Budget Plan and the "Happiness Fund" to boost housing transaction and ease concerns on household debt issues.

The ASEAN markets continued to outperform in March with the more defensive markets of Malaysia and Singapore leading gains. Uncertainty on the timing of the upcoming elections dominated the Malaysian market though improved sentiment towards the end of the month boosted performance. The Singapore market gains were led by banks and dividend play Singapore Press Holdings. After the government enacted tough new measures to curb property investments, home sales volume declined by as much as 74 per cent in the mass market segment of the city state.

Outlook and Strategy

The backdrop of slower growth in the developed world is a constraint on growth for Asia. Our strategy is to focus on structural opportunities and companies that generate strong cash flows and pay out sustainable high dividends. Valuations remain supportive of a continued re-rating. Earnings expectations – having moderated over the past year – could well surprise on the upside.

In addition to the quality growth style approach in our stock selection, we have adopted a tactical positioning to focus on the ASEAN markets, investment implications from China's recently concluded National People's Congress (NPC) and opportunities arising from China's efforts to 'go green'.

The economic momentum in the Southeast Asian markets of Thailand, Indonesia and the Philippines has been better than expected. We have raised our overweight position and find opportunities in consumer, banks, real estate and healthcare sectors. The ASEAN economies are also benefiting from an inflow of foreign direct investment (FDI), particularly from Japanese companies looking to diversify beyond China.

The recently concluded NPC in China presents some investment opportunities. With the government's focus on curbing overcapacity, industry leaders in key sectors should benefit from consolidation. Urbanisation and land reforms will likely benefit social housing players. Financial reforms will benefit brokers and insurers.

China's focus on pollution control by promoting clean energy (gas, wind and solar) will benefit gas distribution and services as well as the renewable energy sector. With the policy target of raising gas energy consumption by a compound annual growth rate of 18 per cent between 2011 to 2015, local governments will be pushing out intra-provincial gas transmission build-out. Companies involved in the supply of gas throughout the nation will likely benefit from this trend.

Asia ex-Japan Equity

Asset Allocation

SECTORS	MSCI ASIA EX JAPAN (%)*	POLICY
Consumer Discretionary	9.18	Overweight
Consumer Staples	5.47	Overweight
Energy	6.84	Underweight
Financials	33.64	Underweight
Health Care	1.14	Overweight
Industrials	9.00	Underweight
Information Technology	18.30	Underweight
Materials	6.10	Underweight
Telecommunication Services	6.33	Underweight
Utilities	4.00	Neutral
TOTAL	**100.00**	

*As at 28 March 2013

All statistics quoted in the write-up are sourced from Bloomberg as of 28 March 2013 unless otherwise stated.

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