

Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	3 Yrs
MSCI AC Asia Ex-Japan	0.4	5.2	9.5	7.7	21.5
MSCI Far East Free Ex-Japan	0.2	5.1	8.3	6.4	21.6
MSCI China	0.2	9.0	7.8	3.6	16.1
MSCI Hong Kong	-1.2	4.6	7.3	6.2	32.0
MSCI India	2.5	6.5	23.8	23.3	21.6
MSCI Indonesia	-1.4	4.8	9.4	26.1	-3.4
MSCI Korea	-0.8	1.4	6.0	3.0	23.6
MSCI Malaysia	0.9	0.9	3.0	1.2	21.9
MSCI Philippines	2.6	5.5	9.9	21.1	69.7
MSCI Singapore	-2.2	1.0	7.0	3.5	14.3
MSCI Taiwan	2.9	5.9	13.3	11.8	26.5
MSCI Thailand	4.9	13.4	16.8	19.6	25.3

Returns in percentage and in Singapore dollars. Source: Datastream, data as at 31 August 2014

Global equity markets gained in August with emerging markets and developed markets performing on par. Asia equities lagged in August though the region remains an outperformer year-to-date. A dip in China's purchasing managers' index (PMI) renewed doubts about the country's economic momentum, causing the market to underperform.

Sector performance across Asia ex-Japan was mixed. Healthcare, telecommunication services and energy outperformed with strong gains. Meanwhile material, consumer discretionary, industrial and financial sectors underperformed with losses. Performance across markets was similarly varied in August. Thailand, Taiwan, the Philippines and India outperformed while Singapore, Indonesia Hong Kong and Korea underperformed.

In terms of the macroeconomic backdrop, global leading indicators were mostly stable in August. In the developed markets, the US PMI rose to 59.0 (57.1 in July) and Japan PMI improved to 52.2 (50.5) while Europe and the UK PMI dipped. China's official PMI fell back to 51.1 (51.7), with the private sector HSBC PMI similarly declining to 50.2 (51.7). Inflation continued to remain stable across most markets though the Eurozone continued to slip.

The China and Hong Kong markets were dragged down by weaker-than-expected economic and monetary data. Besides a decline in the PMI, China's fixed asset investment, industrial production and retail sales all came in below expectations. The drop in total social financing (TSF) and bank loans was particularly significant. TSF in July fell to RMB273bn from RMB1970bn in June while new bank loans slowed to RMB385.2bn in July from RMB1.08 trillion in June. On the easing of the August PMI, the national bureau of statistics commented that this reflected softer demand conditions and business operation activity.

The ASEAN market as a whole underperformed the broader Asia ex-Japan market, though performance across the various markets was diverse. Thailand market outperformed as the military leaders presented a new cabinet, which included former central banker Pradiyathorn Devakula as a deputy prime minister with special responsibility for overseeing economic strategy. The Philippines market benefited from the MSCI's Quarterly Index Review with an increase in weight of key index heavyweights, as well as strong 2Q14 GDP data. In Indonesia the Constitutional Court rejected lawsuits filed by presidential challenger Prabowo, affirming Jokowi as Indonesia's new president.

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Outlook and Strategy

Asia remains one of the fastest growing regions in the world and a beneficiary of the global economic recovery. Despite markets being at a five-year high, valuations for the region are still attractive and we believe the region presents favourable investment opportunities.

In China, rising financial risks and a slowing property market remain some of the key macroeconomic challenges but gradually improving corporate profitability and reform in the state-owned enterprise sector could provide positive tailwinds for the market. Our strategy is to focus on reform beneficiaries.

In Korea, we expect that the government's new pro-growth policy aimed at boosting household income growth will benefit domestic demand. A rate cut by the Bank of Korea could also improve liquidity. We move to narrow our underweight position in Korea, adding to consumer companies that will potentially benefit from improved domestic demand.

We continue to overweight key ASEAN markets as we turn incrementally more positive on Thailand with the stabilising political situation. We continue to favour Indonesia and the Philippines where strong economic momentum continues.

All statistics quoted in the write-up are sourced from Bloomberg as at August 2014 unless otherwise stated.

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