

Asia ex-Japan Equity

| EQUITIES – Asia ex-Japan | 1 Mth | 3 Mth | YTD | 12 Mth |
|---------------------------------|--------------|--------------|------------|---------------|
| MSCI AC Asia ex-Japan | 5.2 | -0.9 | -0.9 | 5.3 |
| MSCI Far East Free ex-Japan | 4.7 | -0.2 | -0.2 | 6.3 |
| MSCI China | 4.4 | 1.0 | 1.0 | -3.7 |
| MSCI Hong Kong | 0.0 | -2.6 | -2.6 | 4.7 |
| MSCI India | 10.1 | -6.9 | -6.9 | -2.5 |
| MSCI Indonesia | 8.7 | 2.8 | 2.8 | 12.5 |
| MSCI Korea | 10.6 | 4.6 | 4.6 | 16.9 |
| MSCI Malaysia | 4.1 | 1.8 | 1.8 | 14.3 |
| MSCI Philippines | 7.3 | -6.2 | -6.2 | 8.3 |
| MSCI Singapore | 3.9 | -2.5 | -2.5 | 7.4 |
| MSCI Taiwan | 0.8 | -6.0 | -6.0 | 6.1 |
| MSCI Thailand | 6.5 | 1.6 | 1.6 | 24.8 |

Returns in Singapore dollars. Source: Bloomberg, 31 March 2011

Asian equity markets were volatile for the month on ongoing concerns about the unrest in Middle East, soaring global oil prices as well as the impact of Japan's earthquake in March which threatened to escalate into a nuclear disaster. Rising oil prices due to tensions in the Middle East may pose a risk to inflation and slowdown the momentum of global economic recovery. Some central banks in Asia tightened monetary policies further in order to contain the growing inflationary pressures driving by high commodity and food prices. On the global front, US Fed FOMC left its key rate unchanged at 0.0-0.25% as widely expected, though the upbeat tone of the post-meeting statement suggests that there is no need for further monetary expansion once the US\$600bn Quantitative Easing package (QE2) is completed this June. In particular, The Fed signalled increased optimism over economic growth amid continued signs of a gradual pace of recovery.

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OUTLOOK AND STRATEGY

| | Policy | Change | Comment |
|-------------|------------|--------|---|
| Consumer | Overweight | – | Domestic consumption growth across Asia is expected to provide cushion for moderation in exports growth in the region. We favour companies that sell to higher income groups, have strong brand names and are more likely to be able to pass on cost increases to customers. |
| Healthcare | Overweight | – | Healthcare spending currently accounts for only 4.5% of GDP in China and the long term structural trend for healthcare demand is positive. |
| Industrials | Overweight | – | The alternative energy sector is set to grow strongly as countries hasten their efforts to diversify energy sources. We favour Nuclear and Wind energy plays due to favourable long term dynamics. |
| Technology | Overweight | – | The outlook is positive given the move towards hi-tech lifestyle goods, and the growing prevalence of smartphones and mobile computing. In particular, we expect strong demand for tablet PCs in 2011 and 2012, benefitting component suppliers. We also expect penetration of smartphones to rise. |
| Financials | Neutral | – | Raise our weight to neutral as banks typically benefit from early cycle interest rate hikes through net interest margin expansion and healthy loan growth. |
| Energy | Neutral | – | Raise our weight to neutral as we expect that oil price is unlikely to drop significantly given ongoing tensions in the Middle East and rising demand due to global economic recovery. |

The recent earthquake in Japan, while a devastating tragedy due to loss of lives and property, is not likely to lead to significant slowdown in economic recovery in Asia or the rest of the world. The earthquake, together with the impact of the nuclear disaster may lead to short term disruption in food, auto and technology components but this is likely to be short lived and temporary.

Political unrest in Africa and Middle East continues to take centre-stage and investors are likely to remain cautious until tensions subside. The biggest implication to the markets is the threat of a disruption in oil production, and the fear that Asian economic recovery will be derailed due to higher oil prices. So far, oil production has not been significantly affected however there is a risk that the situation escalates and the contagion spreads to Iran or Saudi Arabia (which is the largest oil exporter and the biggest producer in the OPEC which could send oil prices even higher). The main drivers of this social unrest have been high inflation, high unemployment and high poverty levels. However, the richer Gulf Cooperation Council (GCC) countries are in a better position due to their higher GDP per capita and vast financial resources – oil revenues, large foreign reserves and smaller populations.

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The geopolitical turmoil adds to the inflationary pressure already facing many Asian economies. The inflation pressure stems from rising food and commodities prices, the output gap closing, foreign fund inflows and asset price appreciation. We expect inflation concern to remain the key focus in Asian economies. We believe that governments in Asia will try to combat the rise in inflation with higher interest rates and currencies, as well as using administrative measures to target specific segments of the market. We expect that moderate and stable inflation accompanied by some degree of monetary tightening will not end the rally in Asian equities.

In summary, we are cautiously optimistic on Asian equity markets as we do not see high likelihood of an energy supply shock or nuclear crisis that could destabilise the global economic recovery. Inflation is still the focus but we expect these concerns to ease by second half of 2011. Markets are discounting these concerns and valuations are fair.

We maintain our overweight positions in the Consumer, Technology, Healthcare and Industrials sectors as we target growth in these areas. We have raised our position in Energy and Financials as these sectors are beneficiaries of rising commodity prices and interest rates in Asia. We maintain our underweight in relatively slower growth sectors like Telecoms and Real Estate where further property cooling measures remain an overhang.

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