Market Commentary

March 2011

GLOBAL EQUITY

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	2.1	7.7	3.3	7.7
MSCI World	2.7	9.0	4.6	7.9
MSCI USA	2.5	8.2	4.5	8.9
MSCI Europe	2.5	11.7	6.0	6.4
MSCI Japan	4.0	8.3	4.1	4.3
MSCI AC Asia ex-Japan	-4.6	-3.5	-5.9	6.7
MSCI Emerging Markets	-1.6	-0.9	-4.7	7.1

Returns in Singapore dollars. Source: Bloomberg, 28 February 2011

Developed equity markets continued to push higher in February, although emerging equity markets fell. The MSCI AC World Index rose by 2.8%, while the MSCI World Index rose 3.3%, measured in US dollar terms. MSCI Europe was the strongest region, up 3.8% in that month.

Economic recovery continued to broaden out, with the US Manufacturing PMI and Non-Manufacturing PMI reaching 61.4% and 59.7% respectively in February. The continued improvement in the Non-Manufacturing surveys bodes well for employment, consumption and growth outlook. Meanwhile, markets continue to anticipate more favourable legislation that should support job growth and private sector investments. Specifically, expectations are that a comprehensive corporate tax reform bill could pass as early as end-2011. Off-setting this favourable data are higher energy and food prices, which may constrain discretionary spending.

European markets and the Euro rallied strongly in the month of February as concerns over peripheral countries abated and leading indicators recovered. Economic growth expectations in Core Europe continue to improve and equity valuation are attractive.

As we discussed at the end of 2010, inflation remains a concern, especially in the emerging world. Higher food and energy prices are exerting upward pressure on the CPI. Meanwhile, higher input prices are putting upward pressure on PPI. The heavier weight of food and energy in consumer baskets in the emerging world is a source of concern. Higher inflation is also increasingly a concern in Europe, and the ECB is expected to respond to higher CPI inflation with a rate increase.

Asian Investor INVESTMENT PERFORMANCE AWARDS 2010
BEST ONSHORE FUND HOUSE (SINGAPORE)

Asia Asset Management THE JOURNAL OF INVESTMENTS & PENSIONS
BEST OF THE BEST AWARDS
BEST RETAIL HOUSE (SINGAPORE) 2009

THE EDGE-LIPPER SINGAPORE FUND AWARDS 2009
BEST FUND GROUP (OVERALL)

THE EDGE-LIPPER SINGAPORE FUND AWARDS 2008
BEST FUND GROUP (OVERALL)

THE EDGE-LIPPER MALAYSIA FUND AWARDS 2009
BEST EQUITY FUND GROUP

THE EDGE-LIPPER MALAYSIA FUND AWARDS 2009
BEST MIXED ASSETS FUND GROUP

The ECB has the most explicit inflation targets of the major central banks, and is seen as having to combat inflation by lifting interest rates. The strength of the German economy, where capacity utilization has risen and labour markets are tight, clearly warrants such a move. The challenge is that the weaker periphery is unlikely to be able to absorb a material increase in interest rates, especially if the credit spreads don't tighten. Therefore, the periphery members are likely to seek additional concessions and support. Challenges of achieving a political solution are significant, and there is material risk that markets will be disappointed with outcomes over the near term.

Emerging markets are feeling the heat. China's CPI inflation rose to 4.9% in February. Recent surges in food and energy prices only exacerbate the challenge, and point to an upward bias in expectation and the need for additional tightening measures. Meanwhile, CPI inflation in Brazil and India (rural) came in at 6.0% and 8.4% respectively in February and January.

What is clear in the China data is that input prices are rising faster than output prices and final sales prices. In January, purchasing prices advanced by 9.7%, while Producer Prices rose by 6.6% and CPI rose by 4.9%. This suggests that a potential squeeze on margins lies ahead until inflation can be brought down. Meanwhile the National People's Congress outlined plans to both tackle price rises and lift wages. This has implications on corporate profits that will need to be monitored.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
US	Overweight	–	The mid-term elections resulted in a policy shift that brought renewed confidence to the corporate sector that should help to underpin the recovery. Meanwhile, employment data has picked up and consumption data has been favourable, suggesting that the recovery is pretty well entrenched. The corporate sector is in a strong position to grow into recovery. We continue to favour the US over other developed regions. **OVERWEIGHT**.
Europe	Neutral	↑	The outlook in Europe is increasingly divergent, with the peripheral countries' problems weighing on the broader region and the Euro. While employment in the core has held up favourably, the situation in the periphery looks increasingly dire. We have none-the-less increased our exposure to the region given its attractive valuations and opportunities outside of the financial sector. **NEUTRAL**.

Asia (ex-Japan)	Neutral	–	Inflation data in Asia is a problem, and further policy tightening is inevitable, especially in China and India. The shift in policy bias is coming at a time when the cyclical recovery is moderating due to base effects. Although the longer term growth outlook still remains favourable, the policy shift could pose a significant headwind to market performance. We remain more defensive, focused on sectors where pricing power should be stronger. **NEUTRAL**.
Japan	Underweight	↓	A stronger Yen continues to be a challenge for exporters, particularly when coupled with higher energy prices. While Japanese companies are reasonably position for the rebound in technology spending and industrial investment, they are exposed to margin pressures. **UNDERWEIGHT**.
Latin America	Overweight	↓	Latin America continues to benefit from strong domestic demand and a renewed investment cycle. The region's need to replenish and enhance its capital stock is both a positive and negative and may put additional pressure on inflation in the near term before long term productivity gains can be realized. We still like the region but have reduced the **OVERWEIGHT**.
EMEA	Neutral	↓	EMEA (Eastern Europe, Middle East & Africa) outlook varies by region. Growth prospects in Eastern Europe remain favourable, while the outlook in Africa is deteriorating. The longer term story for the industrial parts of Eastern Europe (Czech Republic and Poland) remain favourable as do propects for resource rich Russia. **UNDERWEIGHT**.

The Developed world now appears to be on a firm path of sustained recovery. However, we note a de-coupling of policy between the US and Europe, with US policy decidedly more accommodative. Further adding to policy divergence are the challenges faced by the periphery countries in the Euro zone. Our investment strategy is bias towards sectors that are benefiting from a renewed investment cycle. We prefer the US to Europe and Japan, but have increased our exposures to all the developed regions.

Inflation is a key risk in the emerging world and growth is at risk of slowing sharply in response to policy tightening measures. Meanwhile, if left unchecked, inflation has the potential to erode corporate earnings and undermine asset values. We have adopted more defensive strategies and have focused our attention on sectors and companies with greater pricing power. Our favoured region remains Latin America, where policy rates have been lifted aggressively, but capacity constraints remain a concern.

Against a backdrop of accelerating growth in the developed world, equity valuations remain very attractive. However, the evolving operating environment may bring additional challenges in 2011 and test business models. We continue to focus on high quality franchises that have sufficient pricing power to manage in an environment where input costs may rise.

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