



Tokio Marine Asset Management International Pte. Ltd.

Updates of Market Outlook & Investment Strategy

16 August 2011, Mr. Lee Chiow Wei, Chief Investment Officer for Far East Equities, releases his current market commentary:

Dear Client,

The S&P downgrade of US Long Term Debt to AA+ (negative outlook) had triggered a massive sell-off of equities globally. It was further compounded by the fear of a global recession due to the tremendous spending cuts of over US\$2 trillion from the US debt deal, and the heightening concerns of a debt contagion risk in Europe. In particular, there is a fear that France might follow US to be downgraded next from its AAA rating and concerns that French banks might be adversely impacted.

We were surprised by the massive sell-off and believe that the market had been oversold. Asian equities' already cheap valuations had become even cheaper relative to their earnings. The Price-Earnings ratio of Asian markets is now around 11.3 times (using 2011 EPS), which is 34% lower than the historical average of 17 times for the last twenty years. In addition, the yield gap between the Asian equity yield (12-month forward-looking) and the current US 10-year treasury yield is 6.6%, as compared with the average of about 2% for the past twenty years.

While the global growth-recession is becoming increasingly likely due to the fiscal crises in US and Europe, and while there is weakening G3 demand, we continue to believe the Asian markets will continue to outperform other regions. This is due to Asian markets' sound corporate earnings growth, strong corporate balance sheets, potential foreign portfolio inflows, relatively attractive valuation and governments' sound fiscal positions and room for fiscal stimulus to counter any global shocks. However, the Asian equity markets will continue to be volatile going forward, given the uncertainties and risks that are still inherent in global markets.

We expect Asia ex Japan region to grow at an annual average of 7% from 2011 to 2013 mainly driven by domestic demand (domestic consumption and investment). With this view, we continue to build stock positions in sectors with the most upside potential e.g. consumer discretionary sector on the back of higher wage adjustment, wealth effect and government initiatives to lower tax and increase subsidies to lower income groups; and

bank and material sectors on the back of strong loan growth and resilient economies. We will also generally avoid sectors facing headwinds e.g. exporters to the US and EU.

We are cognizant of the macro risks in the region. However, global inflation may become more benign as we move into 2H2011 as the comparison base gets higher and food price pressure abates due to an increase in food production. Noticeably, wheat and corn prices have declined from their peak in 1H11.

Oil prices have also corrected to a more reasonable level. The softening of commodity prices will help to normalize the negative real interest rates in the region. As a result, some Asian economies may see a pause in their interest rate hike cycle, due to governments' inclination to soften economic disturbance from the US and EU. In addition, Asian banks have minimal direct exposure to PIIGS banking systems (Portugal, Ireland, Italy, Greece and Spain) and we expect any damage to be containable.

We believe corporate earnings in Asia ex Japan continues to be robust and is likely to achieve about 14% growth in 2011 (revised downwards from 15%), supported by still strong top-line growth as well as margin expansion mainly due to higher utilization rates. In 2012, we expect Asia ex Japan earnings to grow between 10-15% (no change due to lower 2011 base). Higher payroll costs, depreciating USD and volatile input material costs could be swing factors for profit margin.

While we believe that the valuations are currently cheap versus their fundamentals, we are wary that markets may remain depressed until fears and concerns abate. We are actively monitoring the developments and there is generally no significant change to our investment strategy in light of markets being oversold and little signs of stress in the global financial system. We will continue to position our portfolio in areas of superior growth and attractive valuations.

We thank you for your support and please do not hesitate to call or e-mail us on the contact details below should you have any questions.

Yours sincerely,

Lee Chiow Wei

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