MARKET REVIEW

FEBRUARY 2009

Asia ex Japan equity indices staged deja vous in February 2009, except that the magnitude of the losses were steeper and new 52–week closing lows were made. The TWSE index rebounded 3.5% in US$ terms to emerge as February's best performer, despite a currency drag of -3.6%. The KOSPI was the worst performer during the month, plunging 17.8% in US$ terms. The South Korean won depreciated 10.1% in February, worsening the losses suffered by the index. During the month, the US dollar continued to rebound against most Asian currencies, including the Japanese yen, which lost 7.8%.

The Dow Jones Industrial Index shrunk 11.7% to close at a new 52–week low, just above 7,000 points level. The Dow is now back to levels last seen in the April 1997. The Dow attempted a brief rally at the beginning of February on the back of speculation that record unemployment rate at 16–year high of 7.6% would spur further government actions, and impending approval of President Obama's stimulus plans by the Congress. However, markets tanked thereafter, as investors expressed disappointment over the lack of details in Treasury Secretary Geithner's US$ 2 tn program to unlock credit markets, watering down of President Obama's stimulus package to US$ 750 bn, and the slew of negative economic and corporate news reverberating globally. U.S. 4Q GDP was revised sharply downwards by 2.4 percentage points to register 6.2% contraction. General Motor sought up to US$ 16.6 bn in new aid and planned 47,000 more job cuts. The U.S government announced that its preferred stock in Citigroup would be converted to common equity on the last trading day of the month.

The Nikkei slumped 12.8% in US$ terms, as the yen's weakness compounded the index's slide on the back of devastated investor confidence. The yen declined significantly against the US dollar during the month, losing 7.8%. The Bank of Japan (BoJ) announced that it will buy 1 tn yen (US$11.1 billion) worth of shares owned by financial institutions to shore up their capital until April 2010, resuming a program it ended more than four years ago. BoJ will hold the shares until at least March 2012. The Japanese economy shrank 12.7% in 4Q 08, steepest since the 1974 oil shocks. The economic data is unlikely to look pretty in 1Q 09 as well, with January's industrial production plunging 30.8% yoy, exceeding the record made in December 2008. Job to applicant ratio slid to 0.67 from 0.73, as competition for jobs intensified due to retrenchments.

Investor sentiment took a turn for the worse in February. There are no clear signs of recovery as the grim economic picture continues to hang over the market. US and European government actions over the past year still seem to be overwhelmed by revelations of deeper trouble in the financial sector. Investors' investment horizon seems to become shorter due to heightened risk aversion, despite looking out for signs to confirm the consensus that the global economy will see a recovery in the second half of year 2009. We advocate increasing overall portfolio exposure cautiously. Specifically, we would look for stocks that are attractive, based on our tightened investment criteria on gearing, earnings visibility, industry dynamics, operating record and management track record. Larger capitalization stocks with higher liquidity may also be preferred.

The continuing out-performance in the Malaysian market vis-à-vis other Asian regional markets amid falling liquidity suggests that foreign investors' interests in Malaysia should remain subdued in the near term, as investors' concerns have clearly shifted to a sharply decelerating global economy. While near term catalysts are lacking, we see selective accumulation opportunities emerging in certain stocks and sectors that offer an increasingly attractive risk-reward for anyone who is willing to take at least a 12-month view and beyond. We would look to re-position our portfolio to take advantage of the current share price weakness for the next market up-cycle by selectively buying into quality names that have become more attractively priced. We remain

focused on industries with long-term positive industry dynamics, and any other companies that are able to survive the current downturn and the capability to grow.

February was another volatile month for the Singapore equity market which saw STI breached the 1600 level made in October last year. In our view, the STI is likely to test its intra-day low of 1474 made in October last year if the US and European economies do not improve. In terms of sector, we continue to like resource plays, selected China-related stocks and will continue to pick stocks on a bottom-up basis when we see value. At the same time, we will trim our position in some stocks where the risk-reward trade-off has deteriorated.

The Thai government has announced public works and tax cuts worth 3.3% of GDP to boost the economy. But infrastructure spending is likely to take time to implement and would not be of much help to the economy in the near term. Meanwhile, with the domestic economy sliding, consumers and businesses are likely to save rather than spend the Bt 60bn (0.7% of GDP) of tax cuts and cash handouts included in the support package. This, coupled with a fast deteriorating macro environment, will weigh on the market in the near term, regardless of trough valuations.

We think investors are still cautious on the Indonesian market, as evidenced by the weakening Rupiah, despite the improved macroeconomic fundamental. We would seek to trim our exposure where the risk-reward is not favorable and selectively buy top quality companies whenever there is, in our view, irrational selling. We prefer selected names in the banking, plantation, mining and consumer sectors.

The Philippines equity market outperformed regional markets in February. In our opinion, the market, however, is vulnerable in the short term to a capitulation if the global markets continue to remain volatile. Nonetheless, we think that the market is likely to continue to outperform the other markets for the rest of the year as its high domestic consumption will mitigate the effects of the decline in global demand. At current levels, valuations remain attractive and we remain optimistic on the market on a longer-term horizon. In terms of sectors, we continue to like selective property and consumer plays while we also like telecoms for its defensive qualities.

As an export-driven economy in an increasingly weaker global economy, Korea is facing a very challenging macroeconomic environment. Earnings for listed companies will continue to remain depressed and earnings estimates for Korean companies is likely to be lowered. Although many stocks are selling at very attractive levels to reflect the weak macroeconomic environment, we expect the market to remain volatile. Companies with high gearing or poor earnings visibility will likely underperform and the more defensive names will likely outperform.

China still faces considerable headwinds as the market enters a tough earnings reporting season in the coming month while macro uncertainties remain high. A range-bound market is most likely as investors gravitate between hope that policy stimulus is working to cushion the economy versus fear that the global economy is spiraling into deep recession.

The Hong Kong market was weak in February over uncertainties in the global economy, reporting season and fears that HSBC would need to need to raise capital via a rights issue and cut its dividend. In the near term, these concerns will continue to cap any significant upside.

Taiwan's January economic data continues to indicate a deteriorating picture, while the equity market tries to look ahead. However, the bottom is not evident yet despite some technology firms experiencing rush orders. The major positives of Taiwanese companies are relatively lower debt to equity ratio and high dividend yield which provides some support for the index. The warmer Taiwan and Mainland China relationship should generate some economic spin-off, despite slowing growth in China. However, one should expect a time lag for policy implementation to filter through the economy. We see opportunities emerging in the larger capitalization companies

in Taiwan, despite their valuation premium over smaller cap stocks. These stocks would most likely be early beneficiaries as risk appetite returns to the capital markets.

In India, we think that investors would remain cautious given the following. First, the election is imminent.. However, we do not foresee any social or economic instability from now until the election date. Second, a weakening Indian Rupee could cause jitters. We would seek to exit positions where risk-reward is not favorable and selectively increase exposure to top quality companies trading at discounted valuation. We prefer selected names in sectors like banking, consumer, oil & gas and pharmaceutical.