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Monthly Investment Bulletin

April 2011

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Highlights

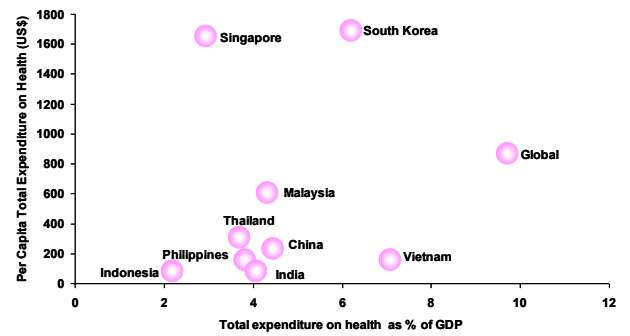
Monthly Theme: Investment Opportunities with Increasing Health Expenditure

- Health expenditure in most Asian countries, especially emerging Asia, is still far below global standards. As income growth continues, there will be more room to increase spending on health.
- Governments in Asia are expected to place more emphasis and resources on healthcare systems. For example, China's government pledges to increase its per capita subsidy in its Five Healthcare Reform Priorities.
- Increasing expenditure on health due to continuing income growth and increasing government expenditures will create investment opportunities in the healthcare sector.
- The healthcare sector can also improve a portfolio's defensiveness as the sector generally outperforms the benchmark index in bear market.

Monthly Market Review

- March was a bumpy month for financial markets with unrest in MENA, earthquake, tsunami and nuclear leaks in Japan and renewed debt worries in Europe. Gold and oil prices benefited from the news but equity markets' reactions were varied.
- In the US equity markets, there was a tug of war between the improving labour market and uncertainties arisen from MENA and Japan.
- European equities markets were dragged down by worries about interest rate hikes by the ECB and re-emerging concerns about European debt.
- Even with all these negative news flows, most equities markets in Asia and emerging markets still surprisingly recorded positive returns in March on speculation that strong economic growth would not be derailed.
- Going forward, market volatilities still cannot be avoided as positive and negative factors clash. Healthy economic growth and favourable earnings growth in Asia and possibly in the US are supporting equities markets. Besides, liquidity is still ample, especially after the BoJ injected more than 600 billion yen into the market and Bernanke reassured that the QE2 would continue. However, raising oil prices, inflation fear, raising rates by the ECB and tightening measures by Asian and emerging markets, still create uncertainties to the market.

Figure 1: Compared with global average, health expenditures in most Asian countries have a lot of room to increase.



Source: Bloomberg

Figure 2: US Unemployment rate dropped to 8.9% in February.



Source: Bloomberg

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Expenditure on healthcare in most emerging Asian countries is expected to rise due to continuing income growth and increasing government expenditures.

Income Growth

Current healthcare expenditure levels in most Asian countries are still far below global average. According to World Health Organization (WHO), global average expenditure on health is 9.7% of GDP. As shown in figure 3, Asia countries spend much less than that: Singapore (3.1%), China (4.3%) and Philippines (3.9%). If Asian countries catch up with global standards, even if GDP levels stay unchanged, health expenditure will increase substantially.

Looking from another angle, in terms of per capita health expenditure, in Asia, only Singapore (US\$1643) and South Korea (US\$1688) spend more than global average (US\$863). As income increases, people in other Asian countries will become more conscious on health and spend more on health-related products and services.

Government Policies

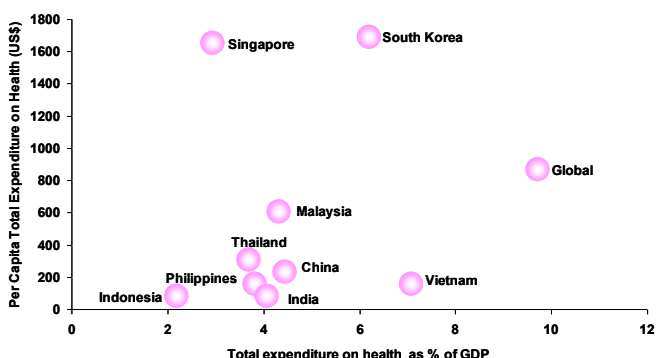
Apart from individual, government spending is a significant portion of health expenditure. According to the WHO, the per capita government expenditure on health in emerging Asian countries is much less than the global average.

Take China as an example. The Chinese government plans to reform its healthcare system and spend more on health. In its Five Healthcare Reform Priorities for 2011, the Chinese government announced to: 1) expand the national medical insurance system coverage by increasing per capita subsidy; 2) enforce 100% coverage of the essential drug list system in basic healthcare institutions; 3) establishing a comprehensive basic healthcare service system; 4) improving the fairness and effectiveness of public healthcare services; and 5) further reform the public hospital system.

Investment Opportunities & Risk

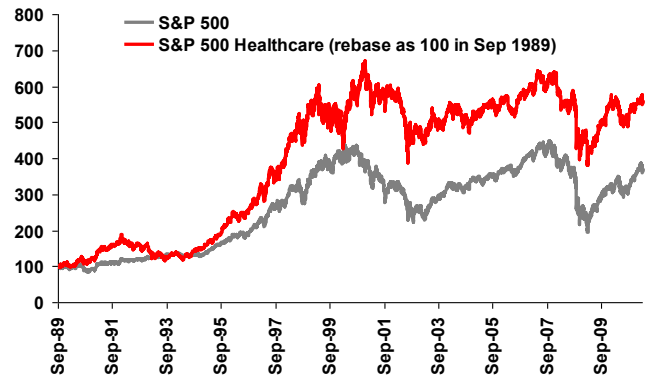
Increases in health expenditure will create investment opportunities in

Figure 3: Compared with global average, health expenditures in most Asian countries have a lot of room to increase.



Source: World Health Statistics 2010, World Health Organization

Figure 4: Healthcare sector outperform the board market during Sep-1989 to Mar-2011.



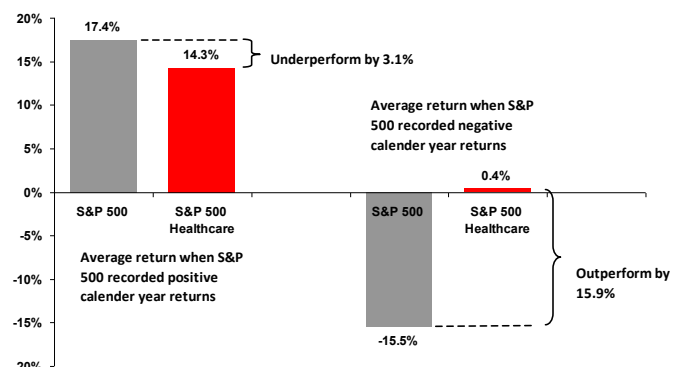
Source: Bloomberg

healthcare-related businesses. Even though long-term prospects of the healthcare sector is promising, investors are reminded that the expenditure on health is comparatively more stable than consumer discretionary expenditure like cars, luxury goods and property. For example, when making more money, people may spend more on buying a new car than healthcare products like vitamin supplements. Therefore, healthcare sector is more defensive by nature, meaning that in bull markets, it may underperform the market. But, in bear market, it generally outperforms the market.

As shown in figure 5, during 1991–2010, when S&P 500 recorded positive calendar year return, healthcare sector, on average, underperformed the general market by 3.1%. During 1991–2010, when S&P 500 recorded negative calendar year return, healthcare, on average, outperformed the general market by 15.9%.

For active and aggressive investors, actively allocating their assets to healthcare sector to adapt to changing market conditions may enhance investment performance. For investors who are conservative and less active, including the healthcare sector in their portfolio may help them realise the benefits of diversification and help to lower volatilities in their overall portfolio.

Figure 5: Healthcare sector is more defensive by nature, meaning that in bull markets, it normally underperforms the market. But, it generally outperform in bear market.



Source: Bloomberg

Monthly Market Review

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- European equities markets were dragged down by worries about interest rate hikes by the ECB and re-emerging concerns on Europe debt.
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- Going forward, market volatilities still cannot be avoided as positive and negative factors clash. Strong economic growth and favourable earnings growth in Asia and possibly in the US are supportive to the equities markets. Besides, liquidity is still ample, especially after the BoJ injected more than 600 billion yen into the market and Bernanke reassured that the QE2 would continue. However, raising oil prices, inflation fear, raising rates by the ECB and tightening measures by Asian and emerging markets, still create uncertainties to the market.

Equities

US Equities

- Performance of US equities was mixed as news of improving labour markets was offset by uncertainties from MENA and Japan. The S&P 500 dropped 0.1%, the Dow Jones ended flat and the NASDAQ climbed 0.8%.
- US GDP growth in Q4 2010 was revised upwards to 3.1% (QoQ), better than expected.
- Labour market appeared to improve. Nonfarm payroll increased by 192,000 in February. Unemployment rate dropped to 8.9% in February, better than expected. Initial jobless claims was at 388,000 level in the week ended 26 March.
- But, the housing market still cast doubts. Existing home sales dropped 9.6% (MoM) and pending home sales dropped 9.3% (YoY) in February. The S&P/CS Composite-20 Index dropped 3.06% (YoY) in January.
- Durable goods orders dropped 0.9% in February, worse than expected.
- Inflation pressure was still well contained. US CPI rose 2.1% (YoY) in February, slightly higher than expected.
- The FOMC kept its interest rate unchanged as expected.

European Equities

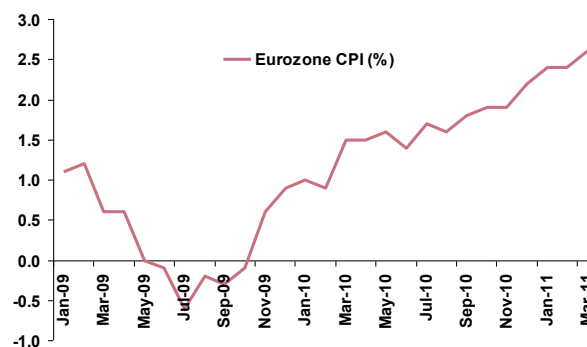
- European equities dropped on worries about interest rate hike by the ECB and re-emerged concerns on Europe's debt. Germany's DAX plunged 3.2% while UK's FTSE fell 1.4%.
- Eurozone's CPI rose to 2.6% (YoY) in March, higher than expected.
- The ECB kept its interest rate unchanged, as expected. However, the ECB President said it might raise interest rates in April to counter accelerating inflation.
- Credit ratings of Greece, Portugal and Spain were downgraded by credit rating agencies.
- In the meantime, EU leaders agreed on transforming last year's temporary bailout fund with a permanent, EUR 500 billion facility.
- UK's unemployment rate rose to 8.0% in January, higher than expected. Inflation pressure also increased with CPI up 4.4% (YoY) in February, higher than forecast.
- The BoE kept the interest rate unchanged, as expected.

Figure 6: US Unemployment rate dropped to 8.9% in February.



Source: Bloomberg

Figure 7: Eurozone's CPI rose to 2.6% (YoY) in March, higher than expected.



Source: Bloomberg

Japan Equities

- Japan's Nikkei 225 plunged 8.2% due to earthquake, tsunami and nuclear leaks.
- Japan's government estimated the economic cost of damage of the earthquake and tsunami at as much as US\$ 300 billion. Number of dead from the tragedy was more than 11,000 as at the end of March.
- Ministry of Finance said the country sold 692.5 billion yen from 25 February to 29 March to provide liquidity and weaken the yen.
- But, investors speculated that the Japanese government would increase spending to re-construct the damaged part, which should be positive to Japan economy later.

Asia and Emerging Market Equities

- Equity markets in Asia and emerging markets rose as investors speculated that strong economic growth would not be derailed by Japan's incidence and recent monetary tightening.
- India's Sensex jumped 9.1% in March as inflation pressure lessened a bit with food inflation slowing down to 9.5% (YoY) in the week ended 19 March. Industrial production rebounded to 3.7% (YoY) in January, better than expected. After the central bank raised policy rate by 0.25% to 6.75% in March, investors speculated that the central bank might take a pause in tightening its monetary policies due to uncertainties from MENA and Japan.
- South Korea's KOSPI surged 8.6% as investors speculated Korea's companies might benefit from production disruption in Japan due to the earthquake. The country's central bank raised policy rate by 0.25% to 3.0% in March as inflation pressure increased with CPI up 4.5% (YoY) in February. Industrial production grew strongly at 13.7% (YoY) in January.
- Philippines' PSEI rose 7.7% as reports showed that bank lending grew healthily at 12.4% in January. Inflation pressure of the country was still strong with CPI up 4.3% (YoY) in February. As a result, its central bank raised policy rate by 0.25% to 4.25%.
- China H-share index rose 6.5% as investors speculated that central bank might take a pause in tightening its monetary policies after raising banks' required reserve ratio in March as CPI rose less than expected at 4.9% (YoY) in February and MENA and Japan created uncertainties.
- Russia's RSTI was up 3.8% on rising crude oil prices even when its central bank raised banks' required reserve requirement. The country's retail sales rose 3.3% (YoY) and unemployment rate dropped to 7.4% in February, both better than expected.

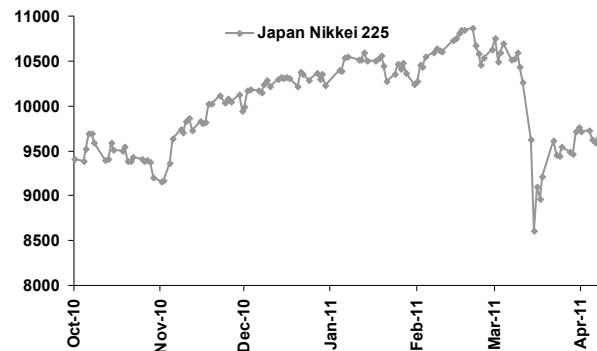
Bonds

- German government bond yields rose as inflationary pressure rose in Europe, and investors speculated that the ECB might raise interest rates soon.

Commodities

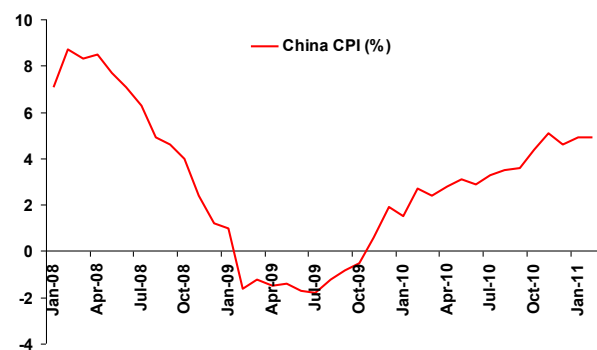
- WTI crude oil prices jumped 10.1% on concern that Libya's conflict will prolong oil production decline and might spread to other Middle East producers. OPEC oil production dropped 363,000 barrels in March as increases from Saudi Arabia failed to make up for the decline in Libyan production.
- Gold price rose 2.1% on demands of inflation hedge triggered by higher oil prices and safe-haven demand due to MENA unrest.

Figure 8: Japan's Nikkei 225 dropped drastically after the disaster, but recovered significantly afterwards.



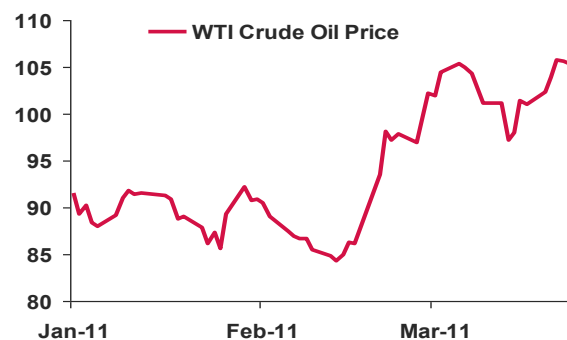
Source: Bloomberg

Figure 9: China's CPI rose 4.9% (YoY) in March, less than forecast.



Source: Bloomberg

Figure 10: WTI crude oil prices jumped 10.1% in March mainly on MENA unrest.



Source: Bloomberg

Key Market Data

Equities	Month-end Level	Monthly Change	YTD Change
S&P 500	1,326	-0.1%	5.4%
Dow Jones	12,320	0.8%	6.4%
Nasdaq	2,781	0.0%	4.8%
FTSE 100	5,909	-1.4%	0.1%
DAX	7,041	-3.2%	1.8%
Nikkei 225	9,755	-8.2%	-4.6%
Hang Seng Index	23,528	0.8%	2.1%
Straits Times	3,106	3.2%	-2.6%
Taiwan Weighted	8,683	1.0%	-3.2%
KOSPI	2,107	8.6%	2.7%
Brazil Bovespa	68,587	1.8%	-1.0%
Russia RTSI	2,044	3.8%	15.3%
India SENSEX	19,445	9.1%	-5.2%
China H Index	13,316	6.5%	4.9%
Thailand SET	1,047	6.0%	1.4%
Malaysia KLCI	1,545	3.6%	1.7%
Philippine PSEI	4,055	7.7%	-3.5%
Jakarta JCI	3,679	6.0%	-0.7%

Commodities	Month-end Level	Monthly Change	YTD Change
Gold (comex)	1,438.9	2.1%	1.2%
WTI crude oil (nymex)	106.7	10.1%	16.8%

Currencies	Month-end Level	Monthly Change	YTD Change
Euro (EUR-USD)	1.4158	2.5%	5.8%
JPY (USD-JPY)	83.13	-1.6%	-2.4%

Bonds (10-year yield)	Month-end Yield (%)	Monthly Change (Basis Points)	YTD Change (Basis Points)
US	3.47	4	18
UK	3.69	9	29
Germany	3.35	18	39
Japan	1.26	0	13

As at the end of March 2011
Source: Bloomberg

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