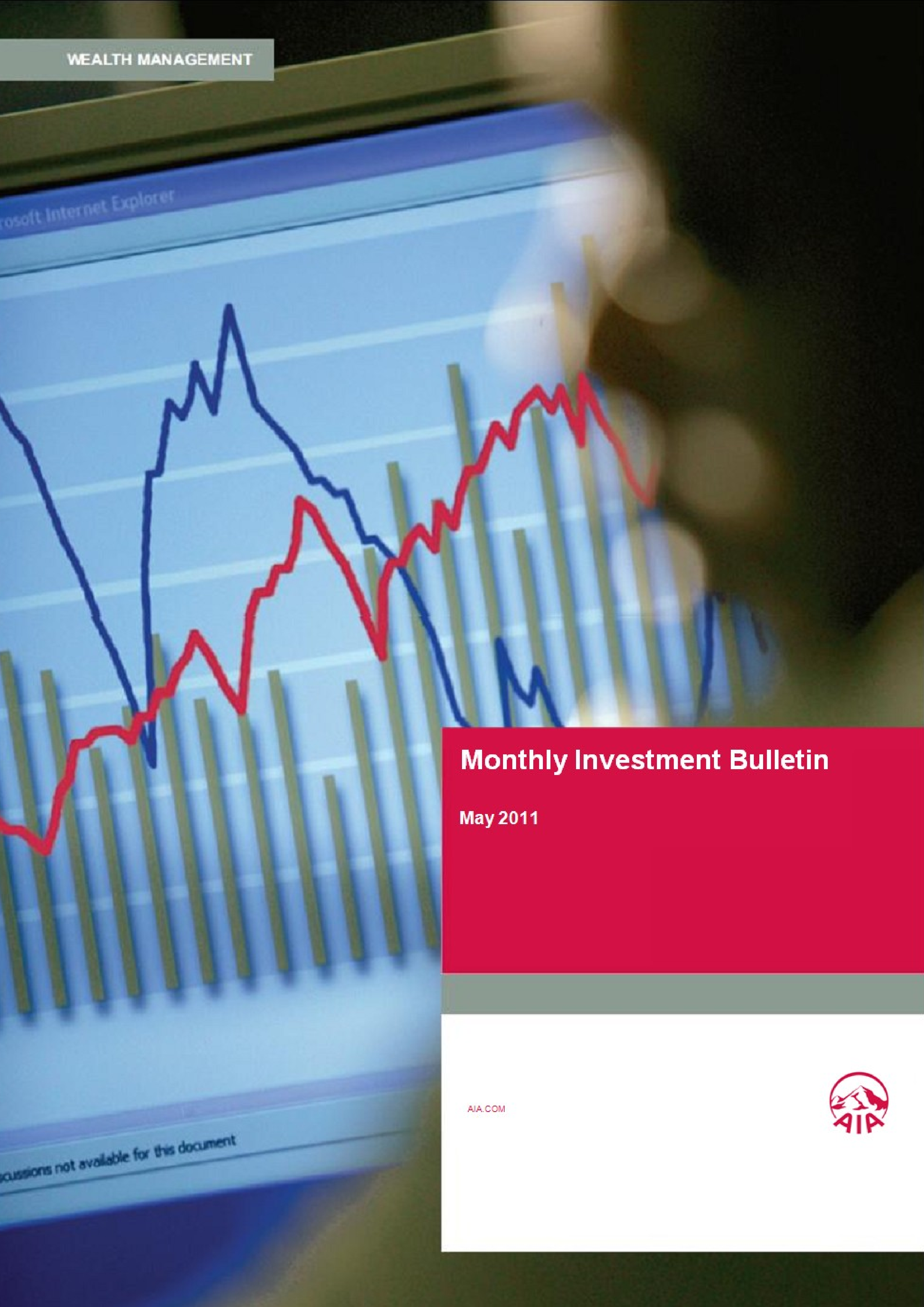
WEALTH MANAGEMENT



Monthly Investment Bulletin

May 2011

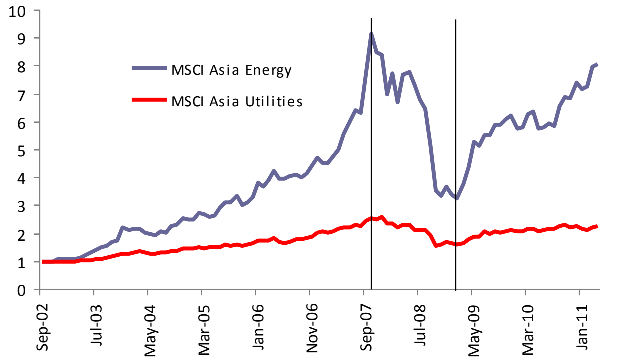
AIA.COM

Highlights

Monthly Theme: Portfolio Management is a Continual Process

- Portfolio management is a continual process. Setting up a portfolio is just the first step to investing. Timely review and appropriate adjustment can help the investor to ensure his portfolio meets his needs and also enhances his investment return.
- Any change in an investor's personal circumstances may trigger a change in risk appetite.
- As the performance of different asset classes and sectors may move according to changes in the market or economy, regular reviews of one's portfolio can help the investor take advantage of the current market and economic situation.
- The portfolio can be adjusted by switching funds between equities and bonds. Alternatively, an investor can also keep the asset weightings unchanged and put more money into an aggressive/defensive sector within an asset class to change the risk characteristics of a portfolio.

Figure 1: The utilities sector is more defensive than the energy sector and, generally, tends to outperform in a bear market.

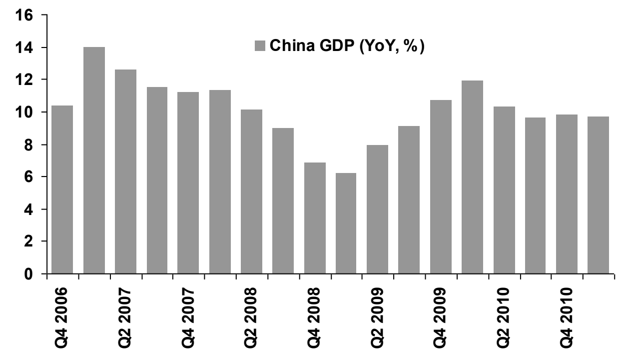


Source: Bloomberg

Monthly Market Review

- The performance of equity markets was mixed in April. Countries with inflation under control outperformed countries under substantial inflation pressure. Gold and crude oil prices rose on the back of a weakening US dollar. US treasuries rose as Bernanke reiterated that the Fed Fund rate would remain low for an extended period.
- US equity markets rose on better-than-expected corporate earnings and Bernanke's pledge of continued low interest rate environment.
- European equity markets rebounded. Market sentiment improved as the European debt issue appeared to be contained after Portugal eventually asked for a bailout.
- The performance of Asia and the emerging markets was mixed. Economic growth remained strong in these regions but countries under substantial inflation pressure underperformed on worries of further tightening measures.
- With the approaching end of QE2 in June, investors may speculate the impact of a lack of additional liquidity in the financial markets. In the meantime, improving corporate earnings due to strong economic recovery should continue to be positive to the equity markets. However, inflation pressure may trigger further tightening policies and may drag down corporate profitability. Even though Portugal eventually sought for bailout, the European debt issue is still far from over. With these uncertainties, the only certain thing is that the market will most likely be very volatile.

Figure 2: China's GDP growth slowed down to 9.7% (YoY) in Q1 2011.



Source: Bloomberg

Monthly Theme: Portfolio Management is a Continual Process

- Portfolio management is a continual process. Setting up a portfolio is just a start. Timely reviews and appropriate adjustments can help the investor to ensure his portfolio meets his needs and also enhances his investment returns.
- Any change in an investor's personal circumstances may trigger a change in risk appetite.
- As the performance of different asset classes and sectors may move according to changes in the market or economy, regular reviews of one's portfolio can help the investor take advantage of the current market and economic situation.
- The portfolio can be adjusted by switching funds between equities and bonds. Alternatively, an investor can also keep the asset weightings unchanged and put more money into an aggressive/defensive sector within an asset class to change the risk characteristics of a portfolio.

Setting up an investment portfolio is just the first step to investing. If the portfolio has deviated from the investor's objectives due to either internal (i.e. personal circumstances) or external (i.e. macro environment) factors, the investor may need to adjust the portfolio accordingly. Portfolio management is a dynamic and continuous process.

Continual Monitoring

At the time of setting up an investment portfolio, the investor should taken into consideration his liquidity needs, available financial resources and investment time horizon in order to establish his investment objectives and risk tolerance.

An investor's circumstances and/or market situation tend to evolve over time. It is recommended that the investor does regular reviews to check if his portfolio still fits his investment objectives, then rebalance his portfolio accordingly.

Change in Circumstance

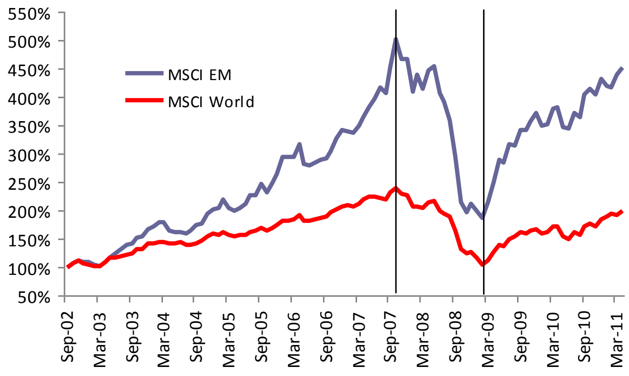
Any change in an investor's personal circumstances, such as health, family, employment status, financial resources and investment objectives, may trigger a change in risk appetite. The investor may decide to take a more aggressive or defensive investment approach.

The external economic backdrop may also change. In 2008, many economies fell into recession under the threat of deflation. However, in 2011, we saw most economies growing robustly and now the concern is over inflation and tightening policies. We may observe asset classes and sectors performing differently under various economic situations.

Implications on Portfolio

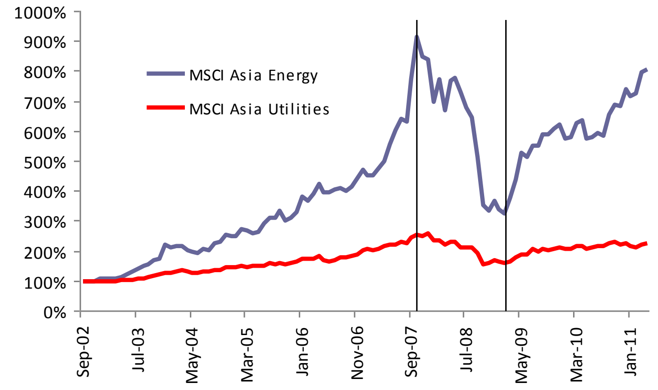
After reviewing his current external and internal circumstances, the investor needs to check if his current investment objectives and portfolio composition are still appropriate for his needs, and make any necessary adjustments to his portfolio. For example, if the investor decides to take a more aggressive approach, he may need to position his portfolio accordingly.

Figure 3: Compared with emerging markets, performance of world equities is less volatile and, in other words, more defensive during a bear market.



Source: Bloomberg

Figure 4: The utilities sector is more defensive than the energy sector and, generally, outperforms in a bear market.



Source: Bloomberg

Allocation Between and Within Asset Classes

In general, an investment portfolio may include equities, bonds, cash and sometimes alternative investments (such as commodities, hedge funds, and properties). Besides, equities are generally more risky than bonds or cash. If the macro environment is favourable towards risky assets and the investor decides to increase his risk exposure, he could switch funds from bonds and/or cash to equities (i.e. change allocation between asset classes).

On the other hand, the investor can also keep the asset weightings unchanged and put additional money into aggressive portion(s) within an asset class.

Generally, compared to emerging markets, the performance of developed market equities is less volatile and, in other words, more defensive during a bear market. As shown in figure 3, in the equity bull market during September 2002 to October 2007, the MSCI World Index rose 141% while the MSCI Emerging Markets Index surged 403%. However, in the equities bear market during October 2007 to February 2009, the MSCI World Index dropped 56% while the MSCI Emerging Markets Index plunged 63%.

Another way to "finetune" the risk characteristics of a portfolio is via sector allocation. Some sectors are more defensive than others in a bear market but some perform better in a bull market. Putting more money into defensive sectors can help to lower the volatilities of a portfolio.

Take the energy and utilities sectors in Asia as examples. During the equities bull market during September 2002 to October 2007, the MSCI Asia Pacific ex Japan Energy sector surged 817% while MSCI Asia Pacific ex Japan Utilities sector rose only 153%, as shown in figure 4. However, in the bear market following that from October 2007 to February 2009, the Asia energy sector plunged 63% while the Asia utilities sector dropped only 36%.

Regular Reviews to Enhance Investment Returns

Nobody understands his circumstances better than the investor himself. Investors may find the AIA Quarterly Asset Allocation Report useful in aiding understanding of the latest macro economic backdrop and market outlook when conducting regular portfolio reviews. Timely reviews and appropriate adjustments can help to ensure an investor's portfolio meets his needs and also enhances investment returns.

Monthly Market Review

- The performance of equity markets was mixed in April. Countries with inflation under control outperformed countries under substantial inflation pressure. Gold and crude oil prices rose on the back of a weakening US dollar. US treasuries rose as Bernanke reiterated that the Fed Fund rate would remain low for an extended period.
- US equity markets rose on better-than-expected corporate earnings and Bernanke's pledge of continued low interest rate environment.
- European equity markets rebounded. Market sentiment improved as the European debt issue appeared to be contained after Portugal eventually asked for a bailout.
- Performance of Asia and the emerging markets was mixed. Economic growth remained strong in these regions but countries under substantial inflation pressure underperformed on worries of further tightening measures.
- With the approaching end of QE2 in June, investors may speculate the impact of a lack of additional liquidity in the financial markets. In the meantime, improving corporate earnings due to strong economic recovery should continue to be positive to equity markets. However, inflation pressure may trigger further tightening policies and may drag down corporate profitability. Even though Portugal eventually sought for a bailout, the European debt issue is still far from over. With these uncertainties, the only certain thing is that the market

Equities

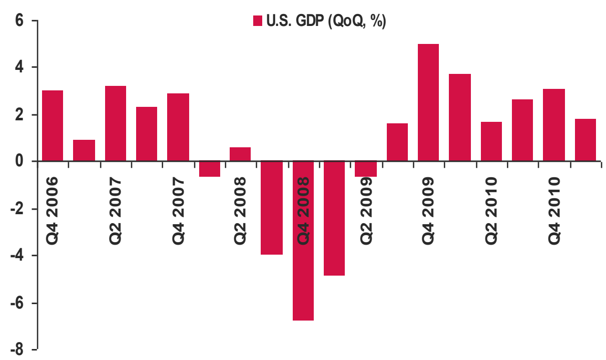
US Equities

- US equities rose as corporate earnings were better than forecast and Bernanke reiterated that the Federal Reserve would complete QE2 and reinvest principal payments from its securities holdings. The S&P 500 rose 2.8%, the Dow Jones surged 4.0% and the NASDAQ gained 3.3%.
- Earnings were better than forecast at more than three-quarters of the companies in the S&P 500 that reported since April 11, according to Bloomberg.
- The economic situation remained mixed.
- The US GDP growth rate slowed down to 1.8% (QoQ) in Q1 2011, lower than expected. However, durable goods orders rose 2.5% (MoM) in March, higher than expected.
- The housing market situation was still mixed. The S&P/CS Composite-20 Home Price Index dropped 3.33% (YoY) in February, slightly worse than expected. Pending home sales dropped 11.5% (YoY) in March. However, new home sales rose 11.1% (MoM) in March, lower than expected.
- The labour market appeared to improve with the unemployment rate dropping to 8.8% in March. Nonfarm payroll increased by 216,000 in March, higher than expected.
- Inflation pressure continued to increase. The CPI rose 2.7% (YoY) and the PPI rose 5.8% (YoY) in March, even though both were lower than expected.
- The FOMC kept its interest rate unchanged as expected.
- S&P lowered the outlook of US long-term debt to "negative" while maintaining its AAA rating. S&P warned that the US government might lose its AAA credit rating unless policymakers agree on a plan to cut budget deficits and the national debt.

European Equities

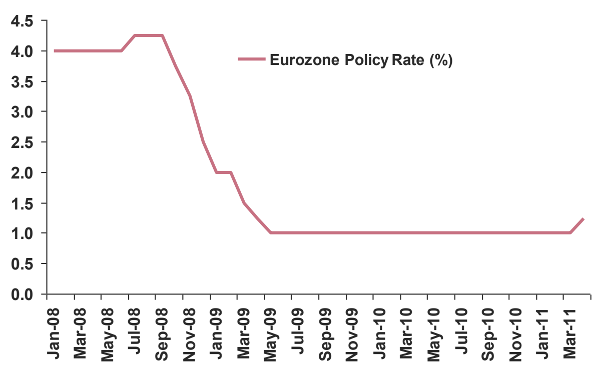
- European equities rose as market sentiment improved after Portugal sought a bailout from the EU. Germany's DAX surged 6.7% while UK's FTSE rose 2.7%.
- The ECB raised policy rates by 0.25% to 1.25% but the CPI continued to rise to 2.8% (YoY) in April.
- UK's unemployment rate unexpectedly dropped to 7.8% in February. The country's GDP rose 1.8% (YoY) in Q1 2011, in line with forecast. However, the country's CPI rose 4.0% (YoY) in March, far above BoE's target of 2%.

Figure 5: US GDP growth rate slowed down to 1.8% (QoQ) in Q1 2011, lower than expected.



Source: Bloomberg

Figure 6: The ECB raised policy rates by 0.25% to 1.25%.

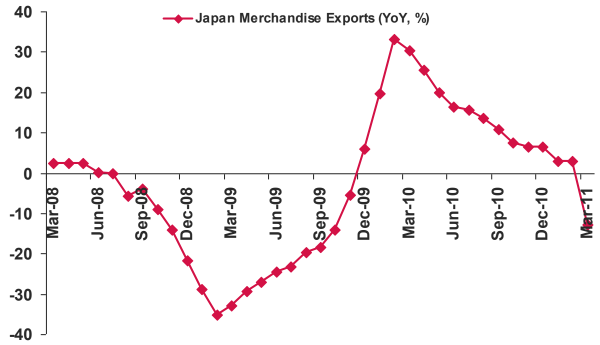


Source: Bloomberg

Japan Equities

- Japan's Nikkei 225 rebounded 1% as investors speculated that the economy might expand in Q3 2011 with the help of government policies.
- The BoJ expected the country's GDP to drop in Q1 and Q2 but expand in Q3 2011 as constraints to economic growth due to supply-chain problems would likely ease around autumn as companies rebuild and electricity shortages moderate.
- Economic figures started to show the negative impact of the earthquake. Consumer confidence dropped to 38.6 in March. Industrial production dropped 12.9% (YoY) in March, worse than expected.
- S&P lowered Japan's sovereign-rating outlook to "negative" as the nation's reconstruction needs following March's earthquake would likely add to what's already the world's biggest debt load.

Figure 7: Industrial production dropped 12.9% (YoY) in March, worse than expected.

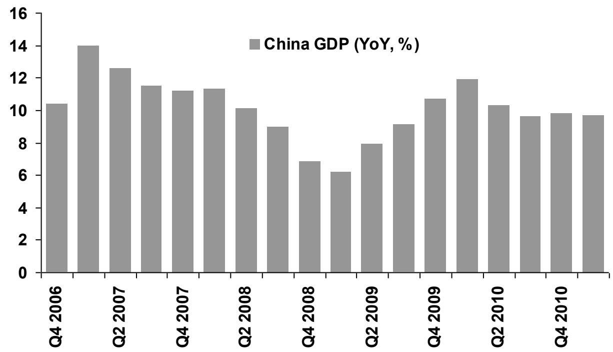


Source: Bloomberg

Asia and Emerging Market Equities

- Performance of Asia and the emerging markets was mixed. Economic growth remained strong in these regions but countries under substantial inflation pressure underperformed.
- Philippines' PSEI surged 6.5% as inflation remained under control. The country's CPI was steady at 4.3% (YoY) in March, lower than expected. Trade deficit narrowed to US$823 million in February.
- Thailand's SET rose 4.4% as inflation pressure did not prove very significant. Its CPI rose 3.14% (YoY) in March and its central bank raised the benchmark interest rate by 0.25% to 2.75%.
- Singapore's Straits Times index rose 2.4% on strong economic growth. The country's non-oil domestic exports rose 10.0% (YoY), much higher than expected, while its CPI remained unchanged at 5.0% in March.
- China's H-shares dropped 0.8% as investors retained worries that the Chinese government would launch further measures to curb inflation. China's GDP growth slowed down to 9.7% (YoY) in Q1 2011 and its CPI rose to 5.4% (YoY) in March. The PBoC raised its policy interest rates by 0.25% to 3.25% for one-year deposits and 6.31% for one-year loans.
- Brazil's Bovespa dropped 3.6% as investors worried that its central bank would launch further measures to curb inflation. The country's CPI inflation rose to 6.3% (YoY) in March, prompting the central bank to raise its target interest rate to 12%. In the meantime, unemployment rose to 6.5% in March.
- India's Sensex fell 1.6% as economic growth decelerated but inflation pressure remained high. The country's industrial production growth slowed down to 3.6% (YoY) in February. However, food inflation remained high at 8.76% in the week ended 16 April.

Figure 8: China's GDP growth slowed down to 9.7% (YoY) in Q1 2011.

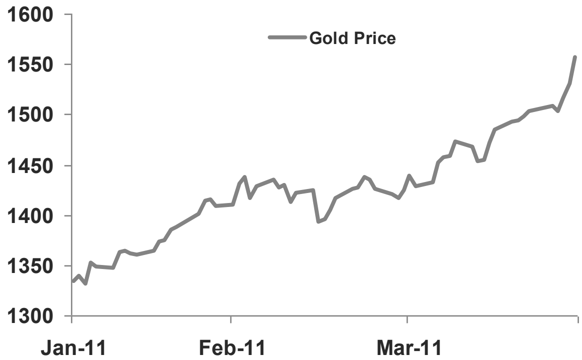


Source: Bloomberg

Bonds

- Yields of 10-year US Treasury (UST) dropped as Bernanke signalled that the interest rate would remain low in an "extended" period and Obama proposed to cut the budget deficit, which implied less UST supplies.

Figure 9: Gold prices rose 8.2% on higher demand for US dollar hedge and inflation hedge triggered by higher oil prices.



Source: Bloomberg

Commodities

- WTI crude oil prices rose 6.8% as OPEC oil output dropped and investors speculated that the demand for energy would increase. The US Energy Information Administration (EIA) forecast that oil demand in the US would climb 1.1% this year. According to Bloomberg, OPEC's crude oil output fell to a 22-month low in April as increases from Saudi Arabia failed to make up for declines in Angola and Libya.
- Gold prices rose 8.2% on higher demand for US dollar hedge and inflation hedge triggered by higher oil prices.

Key Market Data

Equities	Month-end Level	Monthly Change	YTD Change
S&P 500	1,364	2.8%	8.4%
Dow Jones	12,811	4.0%	10.7%
Nasdaq	2,874	3.3%	8.3%
FTSE 100	6,070	2.7%	2.9%
DAX	7,514	6.7%	8.7%
Nikkei 225	9,850	1.0%	-3.7%
Hang Seng Index	23,721	0.8%	3.0%
Straits Times	3,180	2.4%	-0.3%
Taiwan Weighted	9,008	3.7%	0.4%
KOSPI	2,192	4.1%	6.9%
Brazil Bovespa	66,133	-3.6%	-4.6%
Russia RTSI	2,027	-0.8%	14.4%
India SENSEX	19,136	-1.6%	-6.7%
China H Index	13,209	-0.8%	4.1%
Thailand SET	1,094	4.4%	5.9%
Malaysia KLCI	1,535	-0.7%	1.1%
Philippine PSEI	4,320	6.5%	2.8%
Jakarta JCI	3,820	3.8%	3.1%

Commodities	Month-end Level	Monthly Change	YTD Change
Gold (comex)	1,556.4	8.2%	9.5%
WTI crude oil (nymex)	113.9	6.8%	24.7%

Currencies	Month-end Level	Monthly Change	YTD Change
Euro (EUR-USD)	1.4807	4.6%	10.6%
JPY (USD-JPY)	81.19	2.4%	-0.1%

Bonds (10-year yield)	Month-end Yield (%)	Monthly Change (Basis Points)	YTD Change (Basis Points)
US	3.29	-18	-1
UK	3.43	-26	3
Germany	3.24	-12	28
Japan	1.21	-5	8

As at the end of April 2011
Source: Bloomberg

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