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ASIAN EQUITY OUTLOOK

September 2017

Summary

- The MSCI AC Asia ex Japan (AxJ) Index rose by 1.3% in US dollar (USD) terms, outperforming the MSCI AC World Index and bringing year-to-date returns to 31.1%. This was the eighth straight month of positive returns.

- China led peers within North Asia, supported by gains in internet companies and banks. Korea was the worst performer within AxJ as North Korea's nuclear tests rattled the market. In India, the market was weighed down by slower than expected GDP growth and a decline in Infosys' share price.

- Thailand outperformed AxJ peers in USD terms, as former Prime Minister Yingluck Shinawatra failed to appear in court over her role in the rice-subsidy program. The ASEAN region registered strong 2Q GDP growth, with the exception of Indonesia which missed estimates.

- At the sector level, Materials outperformed while Consumer Discretionary underperformed. Within Materials, Metals & Mining benefitted from factors such as rising demand for property, strong Chinese industrial data and USD weakness.

- Although the sustained rally in Asian equities has pushed valuations back towards long-term averages, we continue to see medium-term value, while being mindful of pockets of excessive optimism.

- We maintain an overweight on Chinese stocks, with a preference for the new economy sectors. We also continue to favour India notwithstanding near term volatility. Meanwhile, Korea and Taiwan continue to benefit from a resurgence of their Technology sectors, while we maintain our underweight to ASEAN.

Asian Equity

Market Review

- Asia ex-Japan equities gained in August

MSCI AC Asia ex Japan (AxJ) Index rose in USD terms for the eighth straight month in August, adding 1.3% and outperforming MSCI AC World Index which returned 0.1%. Year-to-date (YTD), the index outperformed MSCI AC World Index by 17.6% in USD terms.

During the month, rising geopolitical tensions in the Korean peninsula and in Washington weighed on global sentiment, but a generally strong earnings season coupled with positive economic data within the region propped up Asian markets.

1-Year Market Performance of MSCI AC Asia ex Japan versus Emerging Markets versus All Country World Index

Source: Bloomberg, 31 August 2017. Returns are in USD. Past performance is not necessarily indicative of future performance.

MSCI AC Asia ex Japan versus Emerging Markets versus All Country World Index Price-to-Earnings

Source: Bloomberg, 31 August 2017. Returns are in USD. Past performance is not necessarily indicative of future performance.

- **China led gains within North Asia; India ended the month down**

China led gains within North Asia, returning 4.2% in USD terms supported by gains in internet companies and banks. Tencent beat forecasts to post its best quarterly results yet, while Alibaba also announced better-than-expected revenues buoyed by robust online sales growth. Separately, China's leading state-owned banks, including Industrial and Commercial Bank of China, China Construction Bank and Bank of China (BoC), posted solid quarterly results, as margins improved and non-performing loan levels stabilised. Economic data registered mixed. While industrial production and retail sales in July lagged forecasts, the official manufacturing purchasing managers' index (PMI) beat expectations to reached 51.7 in August. Meanwhile, the much-anticipated mixed ownership plan was implemented by China Unicom. The reform push is aimed at making SOEs more efficient, while still maintaining state control. Elsewhere, Korea lagged its MSCI AC AxJ peers as North Korea's nuclear tests rattled the market. MSCI South Korea declined 2.5% in USD terms. Meanwhile, the government proposed a budget to boost spending to a record USD 383bn in 2018 aimed at funding welfare costs, aiding job creation and boosting domestic consumption.

MSCI India ended the month down 0.8% in USD terms. 1Q2017 GDP growth surprised on the downside, growing 5.7% year-on-year (YoY) versus market expectation of 6.6% and 6.1% in the previous quarter. The slowdown was largely attributed to teething problems from the rollout of the GST Bill. As expected, the Reserve Bank of India cut the benchmark repurchase rate to 6% during the month, the lowest since 2010. Additionally, a sharp fall in software giant Infosys amid the sudden resignation of CEO Vishal Sikka and allegations of securities fraud also weighed on key indices.

- **Thailand outperformed AxJ peers**

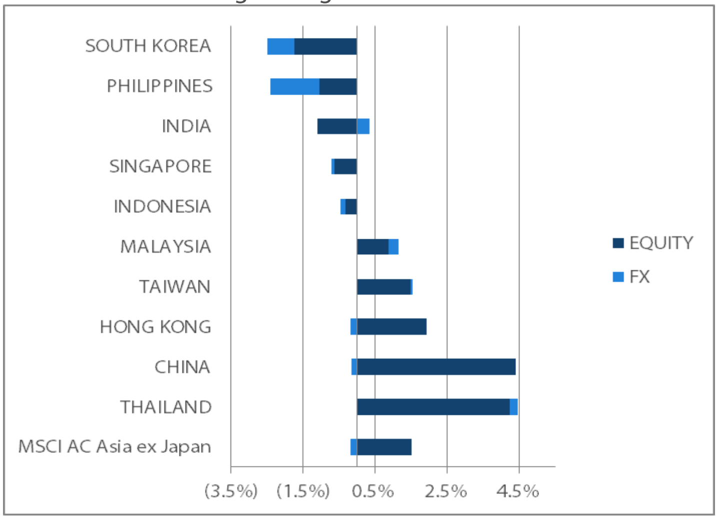
Thailand was the best performer within AxJ, returning 4.5% in USD terms. Former Prime Minister Yingluck Shinawatra's failure to appear in court over her role in the rice-subsidy program relieved fears of protests and disruption to business activities. Meanwhile, the country reported the best pace of GDP growth in almost five years. The rest of the ASEAN region also registered strong 2Q GDP growth, with the exception of Indonesia which missed estimates. MSCI Indonesia returned -0.5% in USD terms, and the central bank surprised by lowering interest rates to 4.5%, reflecting its relative comfort with the currency and inflation outlook. MSCI Singapore also declined 0.7% in USD terms, with Singtel and DBS serving as key index drags.

- **Materials outperformed, whereas Consumer Discretionary underperformed the most**

At the sector level, Materials, Real Estate and Energy outperformed while Telecommunication Services and Consumer Discretionary underperformed. Within Materials, Metals & Mining benefitted from factors such as rising demand for property, strong Chinese industrial data and USD weakness. Meanwhile, oil prices faced pressure as US refineries halted operations in the wake of hurricane Harvey.

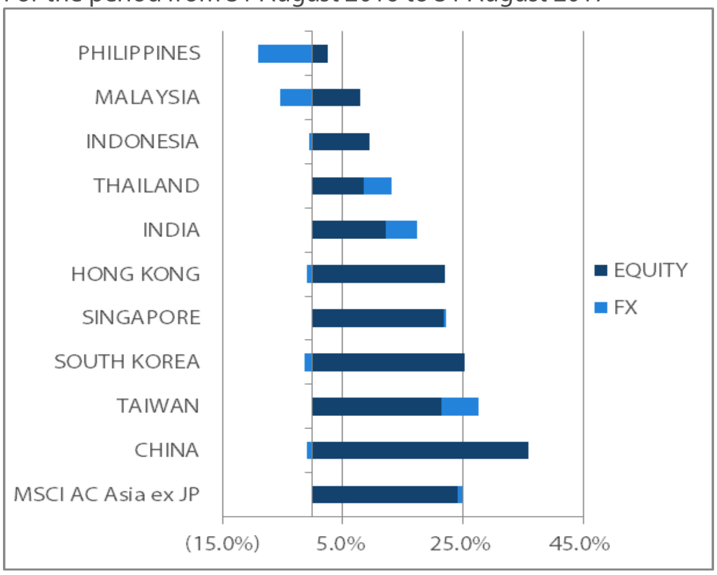
MSCI AC Asia ex Japan Index[1]

For the month ending 31 August 2017



Source: Bloomberg, 31 August 2017

For the period from 31 August 2016 to 31 August 2017



Source: Bloomberg, 31 August 2017

[1]Note: Equity returns refer to MSCI indices quoted in local currencies while FX refers to local currency movement against USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

Market Outlook

- Continue to see value in the region but are cognizant of excessive optimism

The sustained rally across Asian Equities year-to-date has pushed valuations back towards long term averages at 14x forward price-to-earnings and 1.6x forward price-to-book. As the US and European Central Banks tighten their belts, investor focus is expected to shift to regions that offer growth. Despite Asia's outperformance YTD, MSCI AC World still trades at 17.5x forward price-to-earnings and 2.3x forward price-to-book even while offering lower growth, which appears unjustified. We continue to see value in the region from a medium term perspective, but are cognizant of pockets of excessive optimism.

- Maintain overweight to China and India

China's economic growth has been resilient versus bearish expectations. A wave of supply-side reforms have helped improve profitability in highly indebted sectors of the economy, and accelerated financial deleveraging even as the consumer sector remains a bright spot. The trend of decelerating M2 growth following the massive stimulus in 1Q16 makes us wary of "old economy" stocks. We will continue to monitor news flow and events surrounding the 19th National Congress later this year and remain overweight Chinese stocks, with a preference for the new economy – Internet, Tourism and Healthcare. In Hong Kong, loan growth has started to positively surprise on the upside driven by broad based recovery in trade finance, manufacturing and consumer demand. This together with the prospect of higher interest rates has led to steep upgrades for banks which we remain overweight.

In a marked departure from the political ennui characteristic of previous governments, the current Indian government has rolled out a number of structural reforms – the Aadhaar Act, the Bankruptcy Code and the GST Bill. While the recent rollout of the latter has hurt growth in the short term, it sets the stage for a positive longer term growth trajectory by reducing inefficiency, moving trade from the "black" economy to the "white", and improving transparency and ease of doing business. Admittedly, a case can be made for broader reforms at public sector banks, and we are also mindful that valuations in some sectors have run ahead of fundamentals. Nonetheless, we are positive that underlying fundamentals are set to improve and thus, India remains a key overweight, notwithstanding near term volatility.

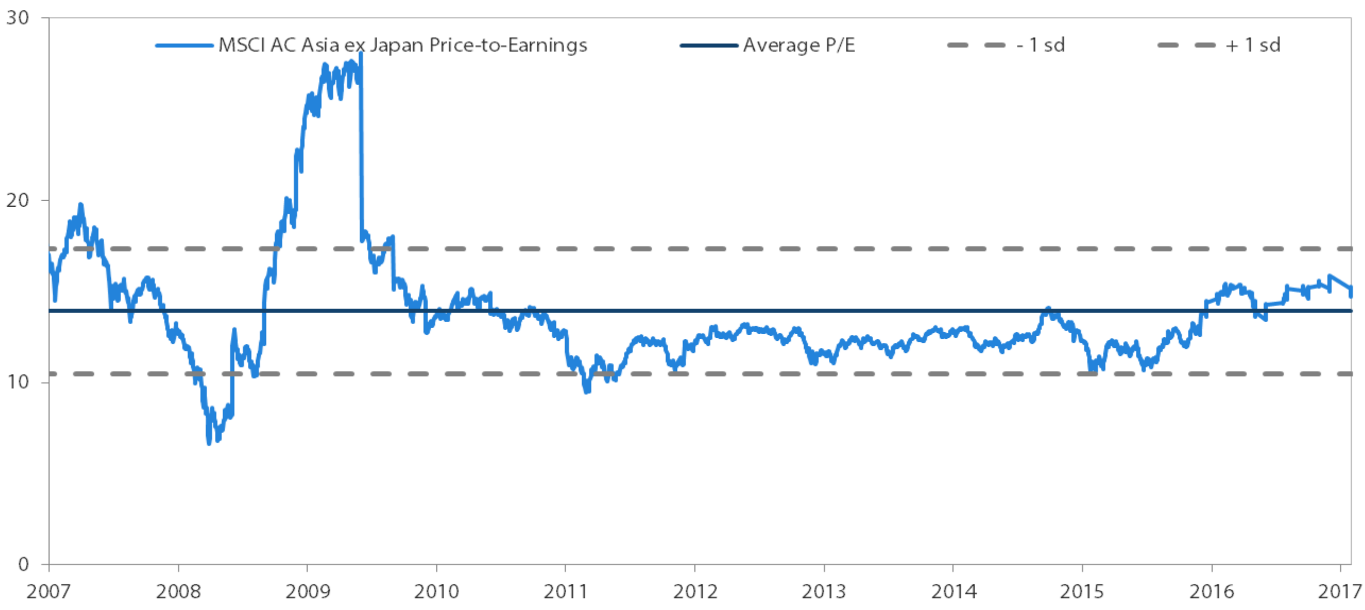
- Favour technology stocks in Korea and Taiwan but underweight ASEAN

Korea and Taiwan continue to be a beneficiaries of a resurgence of their respective Technology sectors. In Korea, chaebol reform complemented by strong balance sheets continues to be a positive driver; however, we have one eye on the escalating tensions with North Korea, particularly given the belligerent tone of Kim Jong Un. In Taiwan, we continue to hold various companies in the Technology sector with strong niche competencies. The upcoming Apple iPhone 8 launch will be a key event in the coming months.

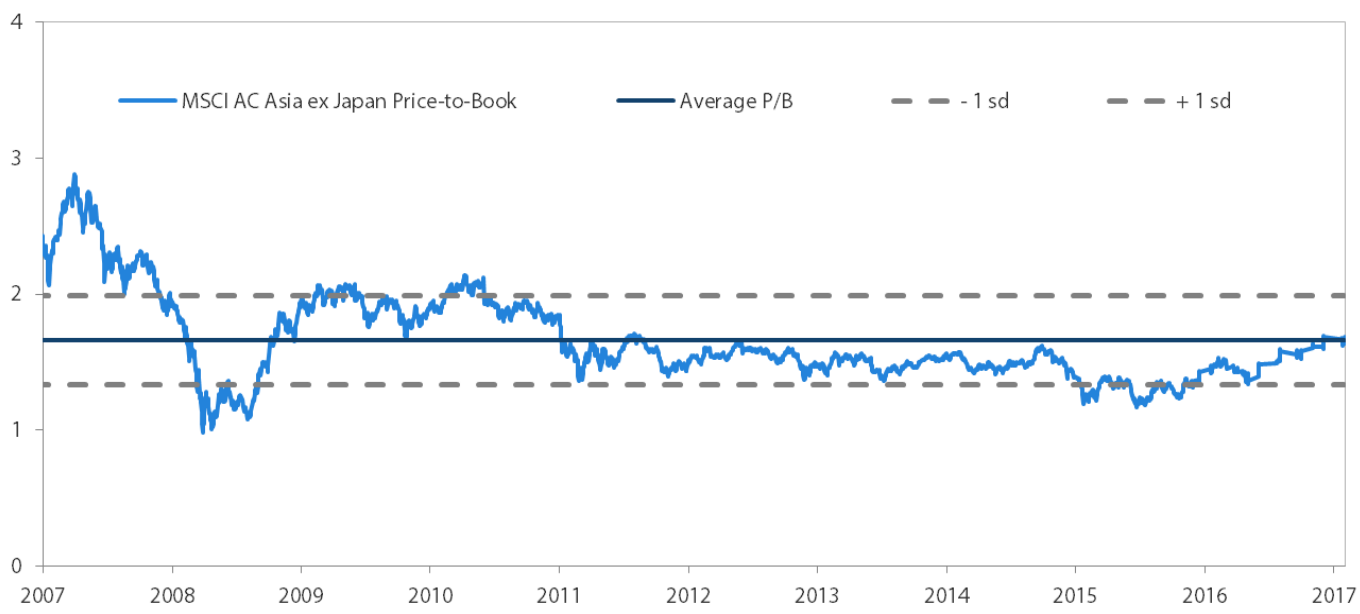
We maintain our underweight stance in ASEAN. Singapore and Indonesia remain our relative preferences and we continue to eschew equities in Malaysia and Thailand given muted domestic conditions and political uncertainty.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings



MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 31 August 2017. Ratios are computed in USD. The horizontal lines represent the average (the middle line) and one standard deviation on either side of this average for the period shown. Past performance is not necessarily indicative of future performance.

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