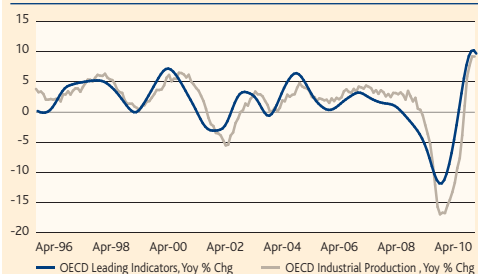


Global Investment Outlook

The monthly investment outlook from Aberdeen's multi-asset team

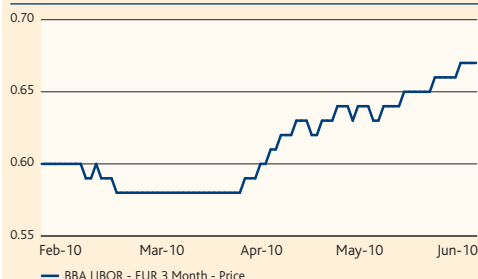


The momentum in economic growth may be rolling over as indicated by the OECD leading indicator.



Source: Factset, 28 June 2010

Interest rates in Europe have risen recently as nervousness returned to the inter bank lending market.



Source: Factset, 28 June 2010

Key forecasts	US	Japan	Euro-zone	UK	China	Global
GDP rolling						
12m forecast	2.7	2.0	1.3	1.8	9.7	2.8
Consensus	3.2	2.5	1.3	1.8	9.7	3.0
CPI rolling						
12m						
forecast ^A	1.2	-0.6	1.0	2.5	4.0	1.2
Consensus	1.7	-0.6	1.5	2.5	3.5	1.5
Current Base	0					
Rates	0.25	0.10	1.00	0.50	5.31 ^B	-
Monetary						
Policy (3m)	0.25	0.10	1.00	0.50	5.31 ^B	-
Monetary						
Policy (12m)	1.00	0.10	1.00	1.00	5.58 ^B	-

^A core rate ^B PBOC 1 year Yuan Lending Rate
Source: Aberdeen Asset Managers Ltd, 28 June 2010

Asset allocation	Deviation ^C (%)
Equities	0.0
- UK	(1.0)
- US	0.0
- Japan	0.0
- Europe ex UK	0.0
- Asia	1.0
- Emerging Markets	0.0
Fixed Income	(3.0)
- Conventional	(2.0)
- Index Linked	(1.0)
Property	0.0
Cash	3.0

^C Deviation refers to a % over or underweight vs. our core multi-asset benchmark.
Source: Aberdeen Asset Managers Ltd, 28 June 2010.

Executive Summary

- Global growth may slow in H2 2010 as inventory restocking subsides
- Budget deficit issues are still prevalent and the focus may shift outside Europe
- Low inflation and market turbulence should extend monetary accommodation

Global growth is likely to slow in the second half as the catalysts for demand such as fiscal expansion and inventory re-stocking start to wane. However for the moment we do not foresee a 'double dip' in growth as the corporate sector is in better shape, and will continue to support incremental improvement in employment and incomes. The performance between regions is widening with a clear divide opening up between the US and Europe within the developed world, whilst Asia continues to experience robust activity. This is being promoted by diverging attitudes to fiscal policy. In most cases core inflation remains subdued, and within Asia and other emerging countries price pressures appear containable.

Anxiety about the stability of the financial system prevails though, particularly with regard to sovereign indebtedness, and this is giving rise to uncertainty about the growth prospects for 2011 and beyond. Although we believe that financial conditions should eventually improve possibly following further policy moves, the risks to economic activity and the threat of deflation from dislocation in financial markets are still very real.

Riskier assets have performed poorly so far this quarter with most equity markets falling some 10% to 15% from their highs. Correlations between markets remain high and this is unlikely to change whilst investor anxiety prevails. We still believe that the S&P500 will be bounded by levels of 950 - 1000 at the bottom and 1200-1250 at the top for this calendar year. As such we would not be surprised to see a final bout of risk aversion and further poor performance in this recent bear phase. As ever though, circumstances need careful monitoring as the risks of falling even beyond that are significant.

Mike Turner

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Global Investment Outlook

US corporate sector should support growth

UK fiscal tightening is unprecedented

Japanese GDP is still reliant upon exports and capex

Global inflation pressures are virtually non-existent

Economic and Market Outlook

Concerns surrounding the global recovery have risen in recent weeks as European countries move towards significant fiscal retrenchment at the same time as US re-stocking slows. Sovereign debt problems have also dented confidence about the European financial system which could prove contagious if it were to escalate. Nevertheless monetary authorities appear prepared to counteract any lingering threat from these sources.

US

Positive economic surprises in US data have been moderating of late, but on the whole releases do not yet paint a picture of a relapse into recession. Employment data has been clouded by census hiring, but the average work week is growing steadily, suggesting that improvements in corporate fortunes are feeding through to personal incomes.

Personal savings remain low, and with housing weak and inventory replenished, the economy will have to rely mainly on investment and exports to drive recovery. The government though seem committed to expansionary fiscal policy in stark contrast to Europe.

Europe including UK

Euro-zone growth may be suppressed by peripheral country budget consolidation, but core countries appear more resilient as exports and re-stocking still support activity. Recent business surveys in the 'core' still demonstrate optimism but as ever consumption remains the weak spot. Ongoing problems in the banking sector mean that the overall Euro-zone growth outlook remains very uncertain.

The coalition government in the UK recently published its emergency budget which incorporates fiscal tightening of 8% of GDP over the next four years. This is a substantial initiative which should preserve the country's AAA rating, but does raise the prospect of continued insipid growth.

Japan

The Japanese economy has grown at an impressive 4.8% annualised rate in the last couple of quarters with momentum being derived from corporate investment. Exports have held up despite the strong yen as external demand has picked up. Questions remain about future strength if global growth momentum slows in H210, since consumer demand is still poor.

Asia and Emerging Economies

Asian countries are experiencing a slight moderation in economic activity, particularly China, but growth should remain significantly better than the developed world, as infrastructure spend in India and elsewhere continues apace.

Some emerging European countries are under threat from any slowdown within the Euro-zone and indeed there is now a concentration on fiscal deficits in these countries with Hungary a prime example.

Commodities

Commodity prices continue to be influenced by investor risk appetite but underlying demand and supply are now in better balance. The oil price is unlikely to breach the top of its range of \$70pb - \$86pb during the northern hemisphere summer, and whilst the pace of global growth subsides we don't expect spectacular commodity price gains.

Global output gaps remain wide presenting few problems for inflation. Price increases have surprised in some countries but these are mainly due to tax hikes or poor harvests affecting food prices. There is some suspicion that capacity has been lost with the severity of the recession, but even allowing for this there is still a substantial disparity between potential and actual activity.

Global Investment Outlook

Bond Yields, Currencies and Monetary Policy

The US Federal Reserve maintained its 'extended period' language at its June FOMC meeting. We had considered the risk that this language might be altered, but given the deterioration in financial conditions in Europe, it seems any shift in policy stance or statements is being pushed back into 2011. Whilst US bank lending remains subdued, general liquidity provision should remain exceptional.

The massive fiscal tightening in the UK will place a huge emphasis on monetary policy to support the economy, and as such the possibility of further asset purchases or quantitative easing cannot be ruled out. Base rates should remain stable deep into 2011.

The European Central Bank (ECB) has engaged in outright purchases of Euro-zone government debt. This is still happening despite the attempt to alleviate credit pressures through special purpose sovereign lending facilities. We are suspicious that the ECB is still over promising and under delivering in its attempts to calm concern over the financial system, as debt purchases are being sterilised in terms of liquidity impact.

Credit easing is still their preferred route, largely due to Bundesbank fears over the inflationary implications of money supply increase, which raises questions about the consensual approach of the ECB's policy making.

The maturing of one year term 'repo' facilities enacted in mid-summer last year will prove a crucial period for the money markets. If Euribor rates continue to rise the ECB may be forced into further initiatives in order to regain market confidence. We would not rule out further policy rate reductions.

The Bank of Japan remains mired in its deflationary fight, but noticeably the monetary authorities are increasingly coordinating policy with the government. As always we do not foresee any shift from 0.1% in policy rates.

Monetary policy tightening in the emerging regions has paused somewhat as the authorities attempt to gauge the economic impact of Europe's troubles. There is an increasing appreciation of the destabilising impact that higher interest rates may have on financial markets in the west, and a further tightening of conditions is better achieved through exchange rate appreciation. Further tightening is in store, but this is likely to be greater in the smaller Asian and Latin countries.

Whilst investors remain risk averse, G7 government bond yields should trade at the bottom end of their recent ranges. However we do not expect any significant break through the lows of 3.0% for ten year US treasuries. Nor do we anticipate any rise above the upper bound of approximately 4.0% whilst core CPI trends lower. The same is true of UK gilts and indeed Bunds.

However within the Euro-zone the problems surrounding peripheral country deficit reduction, and what seems like the inevitability of Greek debt restructuring, implies that government bond spreads will remain volatile.

Emerging country debt markets have suffered in the wake of the Euro-zone crisis, weakness in local currencies, and continued tightening in places such as Brazil. The better fundamentals of emerging countries though has provided stability more recently and we suspect that this will continue to be a theme as we go through the year. Corrections induced by external events will be followed by more swift recovery as investors realise the better position that most of these countries are in. We still feel there is better value in local markets than in the hard currency arena.

The last few weeks have proved a testing time for credit markets, with new issuance in Europe virtually closed apart from the covered bond market. This has impacted spreads globally, and has been compounded by particular events such as the BP oil spill. Markets remain very nervous and will need a period of stability in spreads and an absence of negative headlines to regain composure and we are unlikely to see real price discovery until the new issue market reopens.

The US dollar has rediscovered its safe haven status of 2008, but positioning, particularly versus the euro, remains at an extreme. Sterling remains the most undervalued on a purchasing power basis and should appreciate versus the euro over time. The Chinese authorities' decision to relax the exchange rate of the yuan is no panacea for global imbalances but it is a step in the right direction, and signals continued Asian currency appreciation.

US fed maintains its 'extended period' language in policy statement

ECB needs to address European financial stability more concertedly

Chinese and Asian policy makers are aware of European problems

Credit market risk premiums have risen in tandem with equity risk premiums

Global Investment Outlook

Investors remain highly anxious and further market falls cannot be dismissed

Real estate markets in Europe are providing a degree of safe haven

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Equity and real estate

Overall, the corporate sector is in good shape with improved balance sheets and leaner cost structures. Bouyant free cash flow is supporting improved dividends and even a modicum of corporate activity. We do not foresee any major deterioration in the outlook whilst we escape a 'double dip' in the economy, but business confidence does remain fragile and analysts have become a little over zealous in their 2011 forecasts.

Whilst the recent fall has cheapened the market, we are anxious that the situation in Europe has yet to reach a point of real crisis which forces the monetary authorities to adopt policies addressing the issue of financial stability. We have seen some attempt at this by constituent governments, but the independent central banks have not impressed investors. There remains the possibility of further dislocation in Euro-zone markets and ensuing banking consolidation as bad debt problems continue to surface.

Should such a scenario ensue we would anticipate the S&P500 falling below the 1000 mark mid-summer before staging some sort of recovery as liquidity provision picks up through more permanent liquidity injection and the potential for pan-Euro government bond issuance.

Global liquidity should therefore remain extremely abundant and ultimately support asset prices. We don't anticipate a lasting bear phase as yet, but the risks are higher than they were in the spring. A crucial test will be the level of the VIX index (implied volatility in the US options market) which if it breaches the recent highs of 45 / 46 could signal a much deeper fall back to the March lows. For now, however our base case is for a broad trading range for the S&P500 of 950-1000 up to 1200-1250 for 2010.

Regionally, the Asian and emerging countries still have far superior fundamentals, but perhaps risk premium convergence with the developed world has occurred too fast. Any weakness in global markets could be met by further under-performance from these areas, but likewise any recovery will see them out-perform.

Overall, investors remain highly anxious about risky asset performance, but recent events have not pushed risk appetite indices into panic zone. We prefer to see this happening before we become more confident about a recovery in markets.

In real estate, occupier markets are beginning to stabilise only twelve months into the economic recovery compared to a more usual period of two to four years. Rental declines are still evident across Europe and the USA but the pace of contraction has eased, while in select European and Asian cities, office rents are recovering.

We do not see a broad based rental upturn in advanced economies in the next year, as occupier demand will be modest and property vacancy rates are still high, but medium term prospects are better as development projects will be hampered by onerous bank lending terms.

For the investment market, relatively high yielding assets are attracting significant new capital and values are rising. Investment transactions are increasing globally, but deal activity has been restricted by a lack of forced sales, and a wide gap in pricing expectations between would-be sellers and buyers. Investment activity should accelerate aided by a prospective improvement in public debt markets, but banks will utilise this as an opportunity to begin disposals of distressed assets.