LION GLOBAL INVESTORS

Market Report
1Q 2012
16 January 2012

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MACRO OVERVIEW

2011 was an extraordinary and difficult year for investors. The magnitude of macro events was matched only by the volatility of the risk sentiment surrounding them. In the first half of the year, markets demonstrated remarkable resilience in the face of severe shocks, including the oil price spike accompanying the "Arab Spring" revolutions and the tragic disasters in Japan, as well as concerns over overheating and tightening in Asia. As we entered the second half of 2011, market confidence collapsed under the combined weight of US political wrangling over the debt ceiling, renewed fears of a Greek default and financial contagion in Europe and worries over a sharp slowdown in the global economy. Since Q4 2011, additional action by the European leaders and improving US economic data have alleviated investors' worst fears. Nevertheless, most equity markets ended the year in negative territory, with Asia-Pacific ex Japan declining almost 18% due to liquidity outflows, while government bond markets had one of their best years in recent history, returning more than 6% for the year. [1]

The macro environment for 2012 remains fraught with uncertainty. Risks to the global financial system from the European debt crisis have not dissipated. While exceptional measures undertaken by the authorities, including the expansion of the European Financial Stability Facility ("EFSF") and the extension of almost half a trillion Euros worth of three-year loans by the European Central Bank ("ECB") to European banks have significantly reduced the risk of a financial system meltdown, sovereign bond yields and inter-bank lending rates remain elevated, indicating that more needs to be done. Combined redemptions of more than 130 billion Euros in the first four months of 2012 by the Italian and Spanish governments mean that the situation may be close to a tipping point. Our base case remains that the core European countries' political will to keep some form of Europe together to avoid a repeat of a Lehman crisis will ultimately prove stronger than their objection to bailouts and debt monetization by the ECB. However, the road to a final resolution could be extremely bumpy.

Economically speaking, the global growth outlook for the year remains cloudy. A likely European recession will have a negative impact on Asia through trade and banking channels. We have already seen sharp drops in Asia's export and industrial production growth numbers in late 2011. Within Asia, China continues to face the challenges of balancing between supporting growth on one hand and controlling property price inflation and informal lending on the other, while at the same time navigating a leadership transition in 2012. In the US, recent economic data has been better than expected, but economic policy is likely to be held hostage by politics given the impending Presidential Elections. On the geopolitical level, Iran's nuclearisation and political instability in the Middle East are risks to oil prices.

However, there are bright spots for the global economy and financial markets. Many of them are found in Asia, where good fundamentals and strong balance sheets have enabled policy flexibility and helped preserve long-term growth potential. Central banks have begun to cut rates and real rates remain negative in most of the world. Falling inflation gives policymakers room to ease rates further. In the Western developed world, the Federal Reserve has committed to keeping rates exceptionally low until early 2013 and to be more transparent in its rate forecasts, and the ECB appears committed to supporting the European banking system through massive liquidity operations. Increasing confidence in the US markets accompanying the cyclical upturn in the economy could form a virtuous cycle supportive of risk assets. Valuations for equities and corporate bonds are attractive, as risk assets have been discounting negative macro outcomes for some time. Corporate fundamentals also remain healthy.

Overall, the magnitude and complexity of issues involved mean that the macro-driven volatility we had seen in 2011 may well continue into 2012 and that we are likely to see markets trading in a broad range. For the long-term investor, however, such volatility can present opportunities to pick up equities and bonds of companies that have good growth potential. In particular, we continue to favour Asian corporate credit and Asian high dividend equities, which benefit from the good fundamentals and growth potential of the region, as well as provide relatively more stable returns in a volatile environment.

[1] Based on Bloomberg data on MXAPJ Index and World Government Bond Index.

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EQUITIES

US

United States			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI USA	**3,025.5**	**11.5**	**1.4**
S&P 500 INDEX	1,257.6	11.2	(0.0)
DOW JONES INDUS. AVG	12,217.6	12.0	5.5
NASDAQ COMPOSITE INDEX	2,605.2	7.9	(1.8)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/¥	76.9	0.2	5.5
€/US$	1.3	3.3	3.3
£/US$	1.6	0.3	0.4
CHF/US$	0.9	(3.2)	(0.3)
US$/S$	1.3	0.8	(1.0)
MSCI USA	**2011E**	**2012E**	**2013E**
EPS growth (%)	15.5	10.0	12.2
P/E (x)	12.9	11.8	10.5
P/B (x)	2.0	n/a	n/a
DY (x)	2.2	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

The S&P 500 Index ended 2011 flat, despite heightened uncertainty and volatility on the back of renewed recessionary fears and the European sovereign debt crisis. Stocks started the year with a rally, rising as much as 8.4% to a three-year high by the end of April on growing optimism that the US economic recovery was strengthening. However, the S&P 500 Index tumbled throughout the summer as Congress and President Obama struggled over deficit cuts and the index plunged further amid concerns that the European sovereign debt crisis was threatening global economic recovery. The index fell as much as 19% from its high in April to its low for the year on 3 October 2011. Subsequent better-than-expected US economic data in the fourth quarter helped the market to erase the steep losses.

Defensive sectors outperformed, with utilities, staples and healthcare sectors leading the sector gains. The financials sector was the worst performer, down 18.4% amid sluggish capital markets and concerns over contagion impact from European debt crisis. The materials sector also underperformed significantly, down 11.6% as fears of China's economy experiencing a hard landing caused a sell-off in commodities. Large-cap stocks outperformed small-capitalization stocks.

Although the US recovery stalled in the summer, recent statistics point to growth picking up. The housing market appears to be recovering, with pending home sales increasing 7.3% in November after a 10.4% surge in October. The job market is also healing as unemployment claims have fallen below 400,000 for four consecutive weeks. Improving consumer confidence has resulted in strong holiday sales.

Outlook/Strategy

The US economy approaches 2012 with positive momentum. With the oil and Japan earthquake shocks fading, GDP growth has picked up from 0.4% at the start of the year to an estimated 2.8% growth in 4Q 2011. Despite the recent pick-up in growth, two risks loom over the 2012 outlook.

The first risk relates to spillovers from the economic and financial crisis in Europe. About 20% of US exports are destined for Europe, thus the economic contraction will likely have an impact on demand from that market. The potential financial spillovers could be larger. If conditions in Europe worsen, the US economy would not be immune from the seizing up of global financial markets.

The second risk is US fiscal tightening. The global financial crisis produced an unprecedented fiscal policy response, with the federal deficit increasing to 10% of GDP. Given the recent S&P downgrade of the US credit rating, the political tolerance for such large deficits has reduced. In addition, several fiscal stimuli are expected to expire in 2012, which is expected to cut 1-2% from GDP growth in 2012. While there have been some discussions on extending these stimuli, nothing has been agreed upon.

Despite the macro uncertainties, US companies reported very strong 3Q11 earnings on the back of resilient demand and strength in emerging markets. Sixty percent of S&P 500 companies beat EPS estimates and 58% beat sales estimates. S&P 500 3Q11 revenues and EPS grew 10% and 18% on a year on year basis respectively. However, profit growth should slow in 2012 as impending fiscal drag and risks from Europe act as headwinds to growth. Consensus expects S&P 500 companies' EPS to slow from 16% in 2011 to 10% in 2012.

We expect a further downgrade to 2012 EPS by consensus. The S&P 500 earnings estimate revision ratio has been declining since May and is now well below its long-term average of 0.8. There is, however, cause for modest optimism as the revision ratio is close to its historical average trough level of 0.4. In addition, the three month ratio of positive-to-negative management guidance improved to 0.7, above the long term average of 0.6. This suggests that the earnings revision ratio could be in a bottoming process.

S&P 500 Non-Financials firms hold over US$1.1 trillion in aggregate cash balances. The cash to asset ratio for S&P 500 firms has surged to an all-time high of 11% on the back of record net profit margins. Continued high stock market volatility and low interest rates in 2012 should motivate companies to raise dividends as a way of rewarding shareholders. An eventual reduction in uncertainty and improved CEO confidence coupled with low borrowing costs will also support M&A activity.

A critical event that investors will be watching out for in 2012 is the U.S. Presidential election. With consumer confidence close to its lowest levels in history and jobless rate at a high of 8.9%, the current re-election environment looks challenging for President Obama. A Republican victory would likely lead to an overall cut in regulation, efforts to repeal healthcare reform and corporate tax reform that will lower tax rates.

The cloudy macro outlook is offset by a reasonable stock market valuation, thus our neutral stance on US stocks. S&P 500 valuation is trading at 11.7x consensus 2012 earnings, 1.2x standard deviation below its long-term average multiple of 14x. Given our expectation of continued macro uncertainty and a slowdown in earnings growth, we favor higher quality companies with sustainable and growing yield. Key risks to growth outlook include China's economy experiencing a hard landing and a disorderly resolution of the European debt crisis.

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EUROPE

Europe			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI EUROPE	**3,275.2**	**7.5**	**(9.3)**
STXE 600 € Pr	244.5	8.1	(11.3)
S&P EUROPE 350 INDEX	1,004.7	8.5	(10.6)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
€/US$	1.3	3.3	3.3
£/US$	1.6	0.3	0.4
CHF/US$	0.9	(3.2)	(0.3)
US$/NOK	6.0	(1.8)	(2.6)
US$/SEK	6.9	(0.2)	(2.6)
MSCI EUROPE	**2011E**	**2012E**	**2013E**
EPS growth (%)	3.4	7.2	9.9
P/E (x)	10.0	9.3	8.5
P/B (x)	1.4	n/a	n/a
DY (x)	4.2	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

European equity markets ended a tumultuous year with MSCI Europe rising 14.21% in May before ending the year lower with a negative return of -9.3%. Investors had to contend with macro events including the possibility of slowing global economic growth, the economic impact of Japan's earthquake and tsunami and concerns that the popular uprising in Tunisia, Egypt and Libya could spread to other resource rich North African/Middle Eastern countries, possibly curbing oil exports from the region. On top of this, the European sovereign debt crisis reared its head again.

The spectre of government debt crises continued to stalk the peripheral EU countries in 2011. In Ireland, the new government failed to extract concessions in the form of lower interest rates from the EFSF as Ireland refused to consider raising corporate income tax rates. Irish regulators also instructed four banks to raise €24 billion in additional capital following a stress test on the nation's lenders.

Portugal became the third EU country to request a bailout from the EU while the IMF reached a three-year €78 billion financing deal with the caretaker government. Portugal will also be required to cut €500 million a year in central government spending, while making some overhauls to the country's labor and housing markets, and freezing the minimum wage for the duration of the aid program.

Greece came back to the forefront of headlines again as in a surprise move, the Greek Prime Minister announced that he will seek a vote of confidence from the ruling party MPs and a referendum will be held to ask voters if they want to adopt the EU's new aid package. This ultimately resulted in the loss of cabinet and party support for George Papandreou, resulting in the formation of a national unity government led by Lucas Papademos.

In Italy, Mario Monti became the interim prime minister following the collapse of Prime Minister Berlusconi's parliamentary majority, as Italian bond yields surging beyond 7% with investors still seeking a signal that Italy had taken control of its debt.

The EU also allowed the European Financial Stability Facility ("EFSF") broader powers to buy sovereign bonds on the secondary and primary markets, offer credit lines to governments and

grant aid for bank recapitalisation. Moreover, the region's leaders agreed to "gear up" the EFSF to €1 trillion.

European leaders agreed to finalise a pact for closer fiscal union to enforce fiscal discipline more strictly in the Eurozone by March 2012 so as to curb future debt in the European Union. The ECB also cut the benchmark interest rate by 0.25% to 1%, matching the record low and announced two unlimited three-year loan programs for banks, which saw lenders borrowing a record €489 billion at the first offering, easing banks' liquidity issues. In addition, the ECB, Fed, BOE, BOJ, BOC and the SNB agreed to lower the price on US Dollar swap lines by 50 bps which also helped to ease European Banks' US Dollar funding stress.

The healthcare sector was the best performing sector during the year, rising 10.08% as investors raised their exposure to the defensive healthcare sector on concerns over the possibility of a weaker economic outlook and the resurgence of the peripheral EU countries' sovereign debt crises.

On the other hand, the financial sector underperformed the market declining 25.00% in euro terms, on expectations that peripheral EU countries' sovereign debt write-down and liquidity issues could result in weaker earnings.

Outlook/Strategy

European companies continued to perform well with 4Q11 earnings relatively strong - 63% of companies reported results that were ahead of analysts' expectations while 61% of companies also had revenue growth ahead of consensus expectations. This continues to suggest that companies still achieved earnings growth through an improvement in operating leverage as revenue growth improved.

Looking ahead, economists expect Eurozone GDP to contract 0.7% in 2012 and likely to be in a technical recession in 1H12. This is a result of lower global GDP growth expectations and deteriorating EU growth outlook partly due to fiscal tightening in France, Spain and Italy. The fiscal tightening in Europe will result in wide country divergences in economic growth, as the weak peripheral countries will continue aggressive fiscal consolidation, necessitating the raising of taxes and cuts to fiscal spending. On the other hand, stronger countries will need less fiscal measures and benefit from export growth as well.

MSCI Europe consensus earnings are expected to rise 2.2% for 2011 and 8.2% in 2012. In terms of valuations, MSCI Europe trades at 9.6x consensus 2012 earnings which appears reasonable when compared to its long-term average of 12.7x. The market is however, likely to remain at a discount to its long-term average valuations in the near term as investors remain wary of Europe's sovereign debt issues. We continue to maintain our overweight position in the luxury goods sector as we believe that stocks in the sector have unique portfolios of strong brands that will benefit from continued resilience in the spending for luxury goods. We also maintain our overweight position in the consumer staples sector given the steady growth and defensive characteristics of this sector.

We remain vigilant of the sovereign risks in Europe, the possibility of a contagion effect and remain watchful over the possibility of a disorderly default in the euro area. In addition, there is a possibility that China's economic growth may slow more than expected, possibly denting Europe's exports to China. The U.S. economic growth also bears watching as it may slow down more than expected due to policy impasse.

JAPAN

Japan			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI JAPAN	761.1	(4.0)	(18.7)
TOPIX INDEX (TOKYO)	728.6	(4.3)	(18.9)
NIKKEI 225	8,455.4	(2.8)	(17.3)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/¥	76.9	0.2	5.5
MSCI JAPAN	**2011E**	**2012E**	**2013E**
EPS growth (%)	51.6	1.1	28.5
P/E (x)	14.5	14.3	11.2
P/B (x)	0.9	n/a	n/a
DY (x)	2.7	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

The Japanese market ended a poor year near its lowest level for the year in December. The market started well in December with coordinated actions by the major central banks to supply liquidity to banks and a reduction in China's required reserve ratio for its banks. However, the European Union's leaders' agreement on new rules for spending and budget fell short of investor hopes for resolving Europe's debt crisis.

For the year, the Japanese market was down nearly 19% in local currency terms. The market began the year well on expectations of an economic recovery in US and brisk Japanese corporate earnings. However, the Tohoku earthquake and tsunami on March 11 followed by the radiation fallout from the crippled Fukushima nuclear plant and subsequent power supply issues put an abrupt end to any bullish sentiment on the market. The domestic disaster was quickly followed by negative news from overseas as US and China started showing signs of an economic slowdown and European sovereign debt problems took a turn for the worse as the contagion spread to larger countries like Italy and Spain by the second half of 2011. The final hit from overseas came from Thailand as floods started to impact the production facilities of major Japanese auto and electronics companies.

For the year, defensive sectors such as food, retail, railways and telecommunications performed relatively better despite some companies being affected by the March disaster. The construction sector also did well on expectations of reconstruction demand. Cyclical sectors such as shipping, steel and stockbroking were the worst performing sectors as earnings plunged due to the weak economic environment.

On the corporate front, many manufacturing companies were severely affected by the supply chain problems following the March disaster and their problems were further compounded by the strong yen and weakening global economy, leading to earnings downgrades throughout most of the year. Tokyo Electric Power lost 90% of its value after the nuclear fallout as investors feared possible nationalization of the power company while Olympus lost more than half its value as it was embroiled in one of the biggest scandals to emerge in Japan in years after its ex-President revealed possible irregularities in its accounting that could have cost billions of yen to the company.

Outlook/Strategy

With developed economies still grappling with their fiscal debt problems, we expect a weak global economy going into 2012. For the Japanese economy, we expect a continued boost from domestic

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reconstruction efforts from the earthquake and tsunami. While the Thailand floods have delayed the recovery in auto production, we expect a stronger recovery in 2012 for Japanese automakers. China may potentially provide a boost to the global economy as the government starts to ease up on their tight monetary policy but the outlook is still uncertain for the time being. The strong yen is likely to remain a major stumbling block for Japanese exporters while the European debt crisis remains the biggest risk of financial contagion of global financial markets.

We continue to focus on companies with exposure to growth economies such as China and India, and alternative energy and environmental themes, and also companies involved in the provision of health care and other services related to the ageing populations in Japan and overseas.

ASIA PACIFIC EX-JAPAN

Asia Pacific ex-Japan			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI AC ASIA PACIFIC	116.6	0.1	(15.8)
MSCI AC ASIA EX JAPAN	260.8	3.5	(14.9)
MSCI AC ASIA PAC EX JAPAN	231.8	3.0	(13.9)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
A$/US$	1.0	(5.4)	0.2
US$/CNY	6.3	1.4	5.0
US$/HK$	7.8	0.2	0.1
US$/INR	53.1	(7.7)	(15.8)
US$/IDR	9,069.0	(2.1)	(0.8)
US$/KRW	1,152.5	2.2	(2.3)
US$/MYR	3.2	0.7	(3.3)
US$/PHP	43.8	(0.2)	(0.1)
US$/S$	1.3	0.8	(1.0)
US$/TW$	30.3	0.7	(3.2)
US$/THB	31.6	(1.1)	(4.7)
US$/VND	21,034	(1.0)	(7.3)
MSCI AC ASIA PACIFIC	**2011E**	**2012E**	**2013E**
EPS growth (%)	6.9	16.0	14.4
P/E (x)	12.4	10.7	9.4
P/B (x)	1.3	n/a	n/a
DY (x)	3.1	n/a	n/a
MSCI AC ASIA EX JAPAN	**2011E**	**2012E**	**2013E**
EPS growth (%)	8.3	9.9	14.2
P/E (x)	11.2	10.2	8.9
P/B (x)	1.6	n/a	n/a
DY (x)	2.8	n/a	n/a
MSCI AC ASIA PAC EX JAPAN	**2011E**	**2012E**	**2013E**
EPS growth (%)	10.4	9.4	13.0
P/E (x)	11.3	10.4	9.2
P/B (x)	1.6	n/a	n/a
DY (x)	3.4	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

Asian equity markets staged a modest recovery in the fourth quarter of 2011 to finish the year down by nearly 16% in USD terms. This was not enough to stop Asia being one of the worst performing equity markets in the world. With the outlook for Asia increasingly uncertain as the year progressed, investors preferred the perceived safety of US stocks.

The recovery was not matched by an increase in trading volumes, suggesting no real conviction in the rise, and masked the volatile price movements seen throughout the quarter as news flow about Europe waxed and waned.

Thailand, Malaysia, China, and Australia were the best performing markets and this was reflected in currency movement, and the fact that ASEAN countries held up well on a relative basis throughout the year. India performed particularly poorly, partly due to a significant depreciation in the currency, but also due to a loss of faith in the current government as various scandals erupted, with attempts at reform grounding to a halt. Sector-wise, there was a reversal of the previous

quarter, reflecting the intense sector rotation seen all year with financials and technology outperforming, and telecommunications and utilities underperforming.

Outlook/Strategy

The Asian region will probably experience slowing growth in 2012, partly due to the travails in the global economy, but also partly due to a base effect. How severe this slowdown will be will depend on a number of factors. Firstly, the economic situation in both the US and Europe, and how it develops will be a crucial factor. Here the message is presently a mixed one, with the US currently showing some tentative signs of revival, but with Europe seemingly sinking into the potential morass of recession. Secondly, China's economic direction and the new regime's response will have a significant impact. Finally, how aggressively Asian governments and central banks react to the slowing growth will be a factor was well.

Other issues that have the potential to economically and politically undermine the region include the recent regime change in North Korea, the Iranian nuclear problem, on-going rumblings in the Arab states, another banking crisis emanating from Europe, and the Presidential election in the US.

The above factors tell us that the world remains an extremely uncertain one to invest in. There are so many unforeseen possibilities and possible outcomes that it is likely, certainly in the early part of 2012 that the lack of direction and sector rotation seen in 2011 will continue. It also suggests that valuations and fundamentals will continue to play a back seat until we have more clarity on the key issues discussed above. Forecasting earnings beyond the next six months has never been more difficult!

In summary then, Asia remains cheap on a historical basis. However, with corporate earnings expected to be downgraded further, we would not expect investors to rush back into Asia in the first quarter - especially with all the ongoing uncertainties. Our strategy then is to continue to invest in those companies where earnings are transparent, stable, and able to add value in this challenging environment. We will avoid structurally challenged companies that will struggle to grow in a declining growth setting. Furthermore, we remain more positive about the relative merits of domestically focused companies compared to global ones. Where we have global exposure, we prefer US-centric plays and avoid companies with too much European exposure.

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- ***AUSTRALIA***

Australia			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI AUSTRALIA	2,877.3	1.9	(11.0)
S&P/ASX 200 INDEX	4,056.6	1.2	(14.5)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
A$/US$	1.0	(5.4)	0.2
MSCI AUSTRALIA	**2011E**	**2012E**	**2013E**
EPS growth (%)	17.9	7.2	9.9
P/E (x)	11.7	10.9	9.9
P/B (x)	1.7	n/a	n/a
DY (x)	5.1	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

The Australian market fell 11% in local currency terms for the year 2011.

The market started the year on a firm note despite a number of headwinds, including rising unrest in the Middle East, persistent inflation in China and devastating floods in Queensland, Australia. Even a weaker-than-expected reporting season in February and the earthquake and tsunami in Japan did not deter investors. By the middle of the year, the strong Australian dollar, leaking of consumption offshore as online spending continued to grow and repercussions from the natural disasters started showing up in the form of earnings downgrades as companies updated on their trading conditions. The Reserve Bank, having been hawkish up till then, began sounding dovish but kept interest rates unchanged even after a spate of weak domestic macroeconomic data emerged. The key turning point for the stock market came in August, as the continued debate around the US debt ceiling, the subsequent downgrade of US bonds, faltering global growth and a lack of agreement on how to deal with European sovereign debt all converged to force investors to capitulate. By the end of the year, investors were still fixated on the potential of a Eurozone break-up and its associated impact on global growth and credit markets. Despite a relatively firm Australian dollar, merger and acquisition activity was evident throughout the year, with Fosters Group and Coal and Allied among the larger companies taken over.

Outlook/Strategy

Australia has avoided much of the fallout from the global financial crisis. However, it is now showing clear signs of a prolonged slowdown driven by weak consumption and a focus on increasing savings and paying down of debt levels. With interest rates kept high and unchanged until November 2011, tighter monetary conditions have further exacerbated the operating conditions of domestically-oriented companies. Thus, in our view, earnings risks for the next half year are still being underestimated. Under these conditions, we favour stocks with defensive characteristics reflecting low earnings volatility and consistently attractive dividend yields.

- ***CHINA/HONG KONG***

China/Hong Kong			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI CHINA	**305.5**	**7.9**	**(18.5)**
SHANGHAI SE COMPOSITE	2,199.4	(6.8)	(21.7)
SHENZHEN SE COMPOSITE IX	866.7	(13.7)	(32.9)
MSCI HONG KONG	**41,520.9**	**6.0**	**(16.1)**
HANG SENG INDEX	18,434.4	4.8	(20.0)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/CNY	6.3	1.4	5.0
US$/HK$	7.8	0.2	0.1
MSCI CHINA	**2011E**	**2012E**	**2013E**
EPS growth (%)	12.4	10.6	13.7
P/E (x)	9.2	8.3	7.3
P/B (x)	1.6	n/a	n/a
DY (x)	3.1	n/a	n/a
MSCI HONG KONG	**2011E**	**2012E**	**2013E**
EPS growth (%)	19.7	(10.0)	12.6
P/E (x)	12.0	13.3	11.8
P/B (x)	1.2	n/a	n/a
DY (x)	3.0	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

MSCI China fell 18.48% in local currency terms in 2011 (despite the 7.9% rebound in 4Q2011), as the sell-off in global markets took a toll on the Chinese stock market. Investors were worried about the ripple effects of the European sovereign debt crisis, the risk of a US recession and China's economy facing a hard landing. At the sector level, defensive sectors outperformed, while macro-sensitive sectors bore the brunt of the selling.

Recent macro-economic data, in particular the fixed asset investment and export data, has been suggesting slowing economic growth in China. On the positive side, China's official Purchasing Managers' Index ("PMI") rose to 50.3% in December 2011, up from 49.0% in November, suggesting that manufacturing activity growth has recovered modestly. On the domestic demand side, retail sales continued to grow at a solid pace. China's headline inflation continued to trend down, with November CPI inflation rate easing more than expected to 4.2%, compared to 5.5% in October and the cycle-high 6.5% in July.

MSCI Hong Kong dropped 16.10% in local currency terms in 2011, underperforming the Asia Pacific ex Japan region by 2.18%. The market has been extremely volatile amid intensifying concerns over the European sovereign debt crisis. On a sector basis, the utilities sector outperformed in 2011, gaining 13.56% in local currency terms. This is not surprising, given that defensive stocks tend to outperform on rising risk aversion and increasing earnings uncertainty. The property sector stayed weak due to mortgage rate hikes. Headline inflation figures remain at an elevated level, with food and housing being the key inflation drivers. External demands are softening, judging by the latest export data.

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Outlook/Strategy

MSCI China, trading at 8.3x forward PE, is now the cheapest amongst major markets. It is even trading at a significant discount to Europe (9.6x), which is obviously heading towards an economic contraction. Relative to its own historical 10-year average valuation, MSCI China also offers the deepest discount compared with other major markets at 33%, versus that of MSCI World at 24% and that of Emerging Markets at 13%. Consensus expectation of earnings growth remains respectable at about 10.6% and 13.7% year-on-year for 2012 and 2013, respectively.

For 2012 as a whole, we expect China's GDP growth to stay above 8%, which is likely to support an EPS growth rate of around 10%. Headline inflation may trend down to around 3% in 2H 2012. Once the external uncertainties fade, there is a high likelihood that MSCI China's forward PE will recover to the teens from the current 8.3x.

Despite our positive outlook for China's market for 2012 and beyond, we are cautious in the near term. Q1 2012 will likely witness significant growth deceleration, and the"hard-landing fear" may intensify. Nonetheless, the Chinese government is unlikely to introduce a massive stimulus package, given the hard lesson the government has learnt from the excessive stimulus package in 2008-09. Instead, China may resort to gradual and modest easing in monetary and fiscal policies, and continue with the economic restructuring (which we believe is conducive and necessary for China's long-term sustainable growth). We expect China's economy to begin recovering from Q2 2012 on the positive impact of monetary and fiscal policy easing. The sequential economic recovery should then provide key support for a market rebound.

In terms of investment themes for China in FY2012, we favor (1) beneficiaries of sustainable consumption growth (in particular, luxury goods represent the most interesting aspect of China's sustainable consumer spending growth. The internet, advertising, auto, and healthcare also represent the brighter spots of China's consumption); (2) beneficiaries of the expected launch of pricing reforms for oil, water, and gas, along with the expected easing of inflationary pressure in 1H FY12; (3) beneficiaries of falling input cost; (4) beneficiaries of the possible preferential tax treatment for the agricultural processing industry; (5) environmental protection equipment producers on the expected sharp rise in China's capital expenditure over the 12th five-year plan on environmental protection. In short, we like stocks with good earnings visibility, cheap valuations, and strong cash-flow.

On the global front, the near-term economic outlook remains uncertain, with the debt crisis in Europe. While this is likely to dampen Hong Kong's exports, we expect Hong Kong's economic growth to be supported by strong retail sales and a low unemployment rate, with the potential downside risks coming from weaker external demand.

The MSCI Hong Kong index is now trading at around 13x 12-month forward PE. Our strategy in Hong Kong is stock-specific given that Hong Kong is the immediate beneficiary of the growth in China. The internationalisation of the Renminbi ("RMB") provides large offshore business opportunities for Hong Kong banks. The launch of new RMB-denominated products will drive long-term revenue growth for the banks.

LION GLOBAL INVESTORS

- ***INDIA***

India			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI INDIA	409.9	(7.0)	(25.4)
BSE SENSEX 30 INDEX	15,454.9	(6.1)	(24.6)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/INR	53.1	(7.7)	(15.8)
MSCI INDIA	**2011E**	**2012E**	**2013E**
EPS growth (%)	7.5	16.6	15.1
P/E (x)	13.0	11.1	9.7
P/B (x)	2.5	n/a	n/a
DY (x)	1.4	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

The Indian market fell 25.4% in local currency terms for the year 2011.

A slew of negative domestic developments worked in concert over the year to take the shine off India's growth story. A cyclical downturn in investments, an elevated inflationary environment, an unsupportive policy framework, environment issues, agitation over anti-corruption reforms, a slowdown in savings growth and worsening fiscal and current account deficits collaborated to weaken the domestic economic outlook over the year. Key amongst these developments was the decline in investments. With a number of politicians and businessmen accused in scams, decision making by the government slowed significantly, affecting highly regulated industries like infrastructure, capital goods and private utilities negatively. It was thus no surprise that these sectors were among the worst performing ones over the year. A surprisingly weak Rupee towards the end of the year added another headwind to the market.

The weaker economic environment created a sluggish operating environment for Indian companies. Top line sales growth was consequently weaker than expected, as were margins that were affected adversely by firm commodity prices. Corporate earnings were thus consistently downgraded during the year, vindicated by earnings disappointments during the quarterly results seasons. Large downgrades were seen in autos, metals, banking, property and telecommunication sectors.

Outlook/Strategy

A lack of policy initiatives and an elevated interest rate to fight inflation depressed investment spending over the year, leaving economic growth to be driven by consumption spending. The lagging effect of high interest rates is now working to slow discretionary consumption spending, economic growth and consequently top line sales growth at Indian companies. Commodity prices, especially that of crude oil, staying relatively high and a weak Rupee will underpin input price. This will thus continue to affect margins into the next half of the year before inflationary pressures abate. Political uncertainty ahead of the Uttar Pradesh elections in February 2012 will likely keep investor confidence fragile. All said and done, the combination of pricing pressure, policy inaction and political uncertainty suggest returns over the near term might be muted.

However, one key positive is that the underweight India call is very much a consensus one with a lot of negativity being priced in already, leaving more room for performance to potentially surprise on the upside.

LION GLOBAL INVESTORS

- ***KOREA***

Korea			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI KOREA	479.2	3.6	(10.7)
KOSPI INDEX	1,825.7	3.2	(11.0)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/KRW	1,152.5	2.2	(2.3)
MSCI KOREA	**2011E**	**2012E**	**2013E**
EPS growth (%)	18.3	11.8	13.5
P/E (x)	9.1	8.1	7.1
P/B (x)	1.2	n/a	n/a
DY (x)	1.3	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

For the year 2011, MSCI Korea fell 10.7% in local currency terms, with losers led by financial (-27.9%) and industrial (-27.06%) stocks. Both consumer staples (+17.25%) and consumer discretionary (+7.94%) bucked the downtrend to chalk up gains as investors paid up for earnings stability. Notably, the oversold IT sector (+2.75%) also outperformed.

Korean equities got off to a wobbly start, bogged down by concerns over inflation and tighter monetary policy which were aggravated further by the unfolding of Middle Eastern unrest which pushed oil prices higher. Equities staged a recovery in March and April, rallying after a knee-jerk reaction following the massive earthquake which struck Japan on 11 March 2011. While the resulting widespread loss of production in the affected areas triggered a disruption in the global supply chain, Korean companies were largely unaffected, receiving orders that were diverted away from the Japanese.

The rally proved short-lived. With Euro-zone sovereign debt concerns returning to the forefront in the second half of the year, the de-leveraging pressure in the EU coupled with the global macro slowdown resulted in high volatility for both currency and equity markets. As risks shifted from inflation to growth concerns, Asian central bankers started to ease monetary policies. China responded with a Reserve Requirement Ratio ("RRR") cut in December, together with more supportive policy measures to improve the financing ability of Small and Medium Enterprises ("SME"s) and Local Government Financing Vehicles ("LGFV"s).

The Bank of Korea left rates unchanged for 6 consecutive months post the policy rate hike of 25bps in June 2011 despite Korea's Consumer Price Index ("CPI") staying high, reaching 4.2% in December on higher housing rents and a seasonal rebound in food demand. Various price control measures were introduced over the period instead to ease rising inflation pressure, which affected investor sentiment towards banks, telecommunications, retailers, Food and Beverages, steelmakers and refineries. As the year drew to a close, news of the death of North Korea's leader Kim Jong Il took investors by surprise, but share prices soon rebounded from an early knee-jerk sell-off.

With rising risk aversion, foreigners net sold US$7.2bn, wiping out 39% of 2010's inflow of US$18.6bn.

Outlook/Strategy

Global growth is likely to be subdued over the next few months as Europe moves deeper into recession and China slows, which will continue to weigh on sentiments. Though attention will focus very much on unfolding developments in Europe, we are seeing some supportive data-points coming through from the United States, signaling an improvement in economic activity. In emerging economies, inflation is starting to ease, and central bankers have switched from monetary tightening to adopting a growth bias. In China, policy easing moves are being implemented to help the SMEs, which would buffer the Chinese economy from downside risks arising from weaker external demand.

We expect MSCI Korea to stay range-bound while remaining highly volatile until there are signs that the European debt crisis is nearing a resolution. Downside support is emerging as valuations are supportive post the sell-off in equities, a reflection of attempts to price in a potential Greek default. Consensus estimates for EPS growth were trimmed to 8.3% and 11.8% for FY2011 and FY2012 respectively, putting price-earnings multiples at 9.1x and 8.1x for the respective years. The global "risk-off" trades had bought valuations to attractive levels.

We expect companies to continue to deliver positive earnings growth and we view significant market pull backs as buying opportunities, with focus on companies that have the balance sheet strength to ride out a prolonged downturn. We prefer sectors with high earnings visibility arising either from structural growth or pent-up demand supporting a cyclical rebound; as well as companies where valuations are not reflecting earnings turnaround or better growth momentum. These include technology, commodity producers and selected industrial stocks which appear priced for recession. With oil prices likely to trend higher, especially in light of the situation in Middle East and the recent report by International Atomic Energy Agency ("IAEA") highlighting Iran's alleged nuclear weapons ambitions, we are overweight energy and energy-related stocks. We may look to add to construction names that stand to benefit from a `stimulus-policy-driven macro recovery.

With both general elections and presidential elections scheduled to be held in April and December 2012 respectively, wealth redistribution could become an issue of focus. We would underweight sectors which face the risk of pricing controls such as telecommunications, insurance and banking counters.

On North Korea, we expect the situation to remain status quo near-term with China putting its weight behind the new leader Kim Jong Un ("K-JU") and talks resuming for nuclear disarmament. However, not much is known about K-JU, his personality or political ideology. He is young, barely into his thirties and is supported by his uncle-in-law Jang Song Thaek in maintaining control of the army at this time. However, K-JU will need to prove his own mettle soon to win the respect of the military and remain in power. His disposition and stance during the nuclear talks with other nations would provide the world with an indication of his negotiation tactics, and a better determinant of where North Korea is headed. South Korea is going to the polls this year and should there be any change in political leadership, relations between the North and South could also change. While the rating agencies maintained no change for South Korea, some form of risk premium could become relevant over the medium term.

- ***TAIWAN***

Taiwan			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI TAIWAN	150.1	(1.0)	(17.8)
TAIWAN TAIEX INDEX	7,072.1	(2.1)	(21.2)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/TW$	30.3	0.7	(3.2)
MSCI TAIWAN	**2011E**	**2012E**	**2013E**
EPS growth (%)	(20.3)	19.6	20.6
P/E (x)	15.6	13.0	10.8
P/B (x)	1.7	n/a	n/a
DY (x)	4.8	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

For the year ended December 2011, MSCI Taiwan fell 17.85% in local currency terms, with losers led by the industrial (-30.56%) and financial (-23.64%) sectors. Bucking the downtrend, consumer staples (+13.46%) and telecommunications (+21.98%) sectors outperformed due to their defensive qualities.

The year kick-started with the unfolding of Middle Eastern unrest, boosting oil prices and causing share prices to correct. While equities staged a recovery in March and April, the rally fizzled out as weakening economic data coupled with persistent Chinese inflation fuelled concerns over near-term policy actions and the sustainability of global growth. The disruption in global tech supply chain arising from the Japan earthquake and its subsequent turn of events negatively impacted Taiwanese companies.

On fears of a hard landing in China amid a challenging global debt outlook, sentiment in Taiwan worsened despite further progress on cross-straits relations. Industrial output contracted 3.55% on a year on year basis in November due to weak production activity in electronics and chemicals, while manufacturing output weakened 4.2%, dragged down by the mining and quarrying industries. November's unemployment rate rose to 4.32% on cost cutting and scale backs in expansion plans. Taiwan's central bank left its major policy rates unchanged at 1.875% at the two quarterly monetary policy meeting held in 2H 2011. This followed five consecutive 12.5bp hikes in the key policy rates which started in June 2010. The government also lowered its 2011 gross domestic product forecast to 4.56% from 4.81% as exports declined. At the corporate level, earnings estimates were revised downwards starting early in 2Q 2011 as management guidance turned cautious.

With rising risk aversion, foreigners net sold US$9.3bn, reversing 2010's inflow of US$8.7bn. The NTD depreciated 3.24% against the USD.

Outlook/Strategy

In the immediate term, the focus is on the 14 January 2012 presidential election. The race remains tightly contested between KMT and DPP as incumbent President Ma has not been able to build a comfortable lead. With just two weeks to go, the polls remain inconclusive with a high degree of unpredictablity as a number of the electorate are young adults or first-time voters concerned about their immediate economic situation. Though most of the focus will be on the presidential election, the outcome of the legislative election also taking place on the same day will dictate Taiwan's political landscape over the next

four years. Currently, KMT controls 65% of total seats but there is a risk that neither KMT nor DPP may end up controlling 50% of the Legislative Yuan, which could potentially result in political gridlock.

A win by the opposition DPP Party led by Tsai Ing-Wen could potentially strain cross-strait relations and slow down progress in cross-strait exchanges. However, the underpinnings of Taiwan-China's economic integration are sufficiently well advanced and mutually beneficial that we expect any reversal in directive to be unlikely, regardless of a KMT or DPP victory. Under the presidency of Ma Ying Jeou who took office in May 2008, Taiwan has signed a number of agreements with the mainland, including a trade pact and lifted a six-decade ban on direct air, sea and postal links.

We are cautious going into this election as it is perceived to be more of a risk event than a catalyst. With a close call expected, the votes of overseas Taiwanese, especially those residing in mainland China, could well be the deciding factor in this election.

Global growth is likely to be subdued over the next few months as Europe moves deeper into recession and China slows, which will continue to weigh on sentiments. Though attention will focus very much on unfolding developments in Europe, we are seeing some supportive data-points coming through from the United States, signaling an improvement in economic activity. In emerging economies, inflation is starting to ease, and central bankers have switched from monetary tightening to adopt a growth bias. In China, policy easing moves are being implemented to help the SMEs, which would buffer the Chinese economy from downside risks arising from weaker external demand.

While the near-term outlook for Taiwan's export sector and the manufacturing industry will continue to face external headwinds, we see downside support emerging as a lot of negatives are being reflected in the sharp sell-off in equities. Consensus earnings for FY2011 have already been revised down to reflect EPS contraction of 20.3%, with FY 2012 expectations revised to an estimated growth of 19.6% off a lower base. With the revised estimates, the MSCI Taiwan is now trading at 13x price earnings for FY2012; 1.7x FY2011 (E) book and offers an attractive dividend yield of 4.8%. Valuations are looking attractive, and fundamentals remain largely intact with most Taiwanese companies equipped to ride through this slowdown. More companies are actively managing their supply chain, keeping inventory levels lean while exercising capex discipline. With memories of the global financial crisis still fresh, higher cash levels are being maintained to minimise liquidity risk. Barring a financial meltdown in Eurozone, we will start looking for buying opportunities on sharp dips in the market.

- ***SINGAPORE***

Singapore			Date: 31 Dec 2011
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI SINGAPORE	504.0	(1.5)	(17.0)
FTSE STRAITS TIMES INDEX	2,646.4	(1.1)	(17.0)
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/S$	1.3	0.8	(1.0)
MSCI SINGAPORE	**2011E**	**2012E**	**2013E**
EPS growth (%)	(2.3)	5.9	10.9
P/E (x)	12.5	11.8	10.6
P/B (x)	1.5	n/a	n/a
DY (x)	3.7	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

In Q4 2011, the MSCI Singapore index fell by 1.51% in SGD terms, underperforming the MSCI AC Asia ex-Japan Index by 5.03%. The Singapore equity market ended the quarter lower despite a strong performance in October, as fears of a recession in the Eurozone along with a deceleration in earnings continued to weigh heavily on the market's sentiment.

Towards the close of the year, property-related stocks were heavily sold following the implementation of additional stamp duty on private properties. On the other hand, the offshore and marine sector outperformed, on the back of a positive order book momentum.

Singapore's Q4 2011 Gross Domestic Product ("GDP") contracted 4.9% on a quarter on quarter basis. There was a slowdown in the manufacturing sector due to further weakness in the electronics cluster, coupled with a surprising dip in the biomedical cluster. The Singapore Dollar weakened against the US Dollar, losing 6% in Q4 2011.

Outlook/Strategy

Together with Hong Kong, Singapore is the most open economy in Asia, i.e. its GDP is leveraged towards exports/global economy. Hence when there is uncertainty in the global economic outlook, Singaporean shares are usually sold down more aggressively compared to other regional stocks, with the global cyclical stocks bearing the full brunt. However, market valuation is now attractive, with one-year forward PE trading below one standard deviation. The global economy appears more stable at the moment with US showing encouraging signs of recovery.

Despite some lingering uncertainty weighing on the global outlook still (e.g. the ongoing Euro crisis) we are of the view that there are opportunities for us to accumulate good companies at attractive valuations. We are looking to accumulate good stocks on weakness, focusing on companies with (i) exposure to domestic or regional economies – we expect Asia ex-Japan economies to continue to outperform the developed markets economies; (ii) entrenched competitive or monopolistic positions; and (iii) strong balance sheets – necessary to ride out any potential economic downturn.

Based on these criteria, we like the offshore marine, agriculture-based and healthcare sectors. We are also selectively looking at high dividend yielding stocks.

- ***ASEAN - Malaysia/Indonesia/Philippines/Thailand/Vietnam ex Singapore***

ASEAN ex Singapore			**Date: 31 Dec 2011**
Market performance	**Last close**	**%3M chg**	**%12M chg**
MSCI MALAYSIA	**317.5**	**10.9**	**2.9**
FTSE Bursa Malaysia KLCI	1,530.7	10.4	0.8
MSCI INDONESIA	**1,387.7**	**9.1**	**6.7**
JAKARTA COMPOSITE INDEX	3,822.0	7.7	3.2
MSCI PHILIPPINES	**252.0**	**7.3**	**(0.8)**
PSEi - PHILIPPINE SE IDX	4,372.0	9.3	4.1
MSCI THAILAND	**568.3**	**13.1**	**1.8**
STOCK EXCH OF THAI INDEX	1,025.3	11.9	(0.7)
HO CHI MINH STOCK INDEX	**351.6**	**(17.8)**	**(27.5)**
Exchange rate	**Last close**	**%3M chg**	**%12M chg**
US$/IDR	9,069.0	(2.1)	(0.8)
US$/MYR	3.2	0.7	(3.3)
US$/PHP	43.8	(0.2)	(0.1)
US$/THB	31.6	(1.1)	(4.7)
US$/VND	21,034.0	(1.0)	(7.3)
MSCI MALAYSIA	**2011E**	**2012E**	**2013E**
EPS growth (%)	7.3	12.8	10.8
P/E (x)	16.3	14.5	13.1
P/B (x)	2.2	n/a	n/a
DY (x)	2.8	n/a	n/a
MSCI INDONESIA	**2011E**	**2012E**	**2013E**
EPS growth (%)	20.1	15.0	15.5
P/E (x)	14.7	12.8	11.1
P/B (x)	3.9	n/a	n/a
DY (x)	2.4	n/a	n/a
MSCI PHILIPPINES	**2011E**	**2012E**	**2013E**
EPS growth (%)	7.8	11.9	10.4
P/E (x)	15.5	13.9	12.6
P/B (x)	2.6	n/a	n/a
DY (x)	2.6	n/a	n/a
MSCI THAILAND	**2011E**	**2012E**	**2013E**
EPS growth (%)	22.3	11.7	12.9
P/E (x)	11.2	10.0	8.9
P/B (x)	2.2	n/a	n/a
DY (x)	3.3	n/a	n/a
HO CHI MINH STOCK INDEX	**2011E**	**2012E**	**2013E**
EPS growth (%)	(3.9)	28.7	15.9
P/E (x)	7.4	5.7	4.9
P/B (x)	1.2	n/a	n/a
DY (x)	5.3	n/a	n/a

Source: Bloomberg, Citi, Credit Suisse, Thomson, CEIC, MSCI

Market Review

The ASEAN markets rebounded in the fourth quarter by 5.5% in USD terms after suffering a massive sell-down in the previous quarter. The usual mixture of bad news from the global markets (e.g. the Euro crisis, the slowdown in China's economy, credit rating downgrades in Euro countries etc) continued to depress sentiments. Trading volume was

low in the month of December as investors stayed on the sidelines due to the market volatility and uncertain global economic outlook.

In Malaysia, Prime Minister Najib announced a "people-friendly" Budget in October, dishing out cash handouts and bonuses to the lower and middle-income workers. Subsequently, he also announced that he will abolish the Internal Security Act. Market expects a general election to be called in early 2012.

Over in Indonesia, Fitch upgraded Indonesia to investment grade in December. Bank Indonesia reduced its policy rate further by 50 bps to 6.0% in November.

In Thailand, news on the flood in Bangkok hogged the limelight. Industrial estates were flooded, causing a massive disruption to the global supply chain, especially for hard disc drive makers and Japanese car producers. Despite the flood, the Thai market was the best performing market in 4Q 2011.

Outlook/Strategy

After 3 consecutive years of strong performance, we expect moderate performance of the ASEAN markets in 2012. This is due to slower earnings growth on the back of continued global GDP growth deceleration. The prospects of further fiscal tightening in US and Europe have led to downside risk on the growth outlook of the developed world. Issues regarding the Euro sovereign debt crisis have also yet to find a resolution.

Regional inflationary conditions, however, seem to have peaked, allowing central banks the luxury of lowering policy rates. Despite this and the healthy balance sheets of the Asean economies, this region will not be immune to a protracted global slowdown. Our base case, however, is that developed markets will go into a period of slower growth but not a recession.

Hence, our focus is more on value and dividend yield. Our strategy is to invest in core companies with strong balance sheets and cash flows whilst also having exposure to quality cyclical companies which are undervalued.

FIXED INCOME

- ***SINGAPORE***

Market Review

For the large part of the year 2011, Singapore Dollar ("SGD") interest rate markets performed positively. Despite concerns on inflation and a new 20-year Singapore Government Securities ("SGS") auction in the early part of the year, which saw pressure for rates to go up, the rise in yields did not sustain for long in each case.

Like our very open economy, the volatility in SGD interest rates has been driven substantially by external factors. The escalating crisis in the Middle East region and the Japan earthquake in March refocused attention back to growth. Along the way, market noises from the ongoing European sovereign debt crisis and a series of weak global economic data led the different asset classes to diverge, with fixed income markets outperforming equities in general.

The SGD and fund flows were also meaningful drivers of volatility. Singapore has benefited from inflows as part of the higher Asian growth story relative to developed markets. In April's policy statement, MAS tightened monetary policy by re-centering the midpoint of the effective exchange rate band higher. The strong SGD-enticed inflows contributed to liquidity in the system, on top of global monetary accommodation driven by quantitative easing in the US.

All the negative pressures on global growth outlook, SGD strength and fund flows culminated in August being the best performing month of 2011. In fact, short-end rates like the 6-month Swap Offered Rate ("SOR") dropped to near -1% at its low. However, as risk sentiments continued to sour, risk reduction mode set in and the Asian foreign exchange was generally sold off. SGD depreciated almost 8% in September alone. SGS did not suffer much as most foreign inflows are parked in short-dated bills and bonds for currency appreciation. The long end was further "helped" by the flattening of the US yield curve on the back of "Operation Twist".

The rally in risky assets in October, on renewed belief that the latest 'bailout' package announced at the EU Summit would be a positive game-changer, saw the only negative month for SGS. The last 2 months of the year continued to see market swings, though moderated, alternating between risk on and risk off modes. Overall, global growth looks set to slow. The Ministry of Trade and Industry has warned that Singapore's 2012 growth may come below the 1-3% range.

The JP Morgan Singapore Government Bond Index performed 6.9% in 2011, with long-end 10-year and longer SGS outperforming at 14.1%, relative to 1 to 10-year SGS at 5.09% in total return terms.

Outlook/Strategy

The macro risk outlook hinges on the U.S. and Europe. While far from resolved, the European debt crisis appears to be under control for the moment. Further progress will likely be incremental and full of setbacks but the alternative of a full-blown dissolution of the European Economic and Monetary Union ("EMU") is still a low probability event at this point. In the US, recent data releases continue to paint a picture of a steady moderate improvement in the economy and there are indications that the Federal Reserve would stand ready to further expand its balance sheet should the need to do so arise. But until things in Europe stabilize, core benchmark yields are not likely to head significantly higher despite being at historically anomalous levels.

Slower global growth means much slower growth in Singapore in 2012. We expect lower inflation though this has yet to be evident with recently published figures still above 5%. Taxi

fare hikes and sticky wage costs probably imply much lower inflation only in 2H12, when the base effect kicks in.

We may see moderation in the external accounts – exports, Foreign Direct Investment ("FDI") and foreign purchases of local properties. Fundamentals look less supportive of the SGD.

The monetary policy statement in April will be a call between slower growth and sticky inflation. This may have an implication on fund flows and short-end rates. Emerging Markets local currency bond flows have seen more outflows in the weekly mutual fund data. Short-dated swap offer rates have been creeping higher with the reversal in view of SGD strength.

Absolute yield levels are still low but real yields could improve if inflation declines. In terms of supply, expected net issuance is manageable. There will be the first inaugural 30-year SGS benchmark issue but there is no 20-year issuance. Furthermore, the SGS yield curve is relatively steep compared to the region. As such, we could see some curve flattening in the early part of the year and then steepening going into the 30-year auction.

Supply of corporate bonds is another uncertainty. As European banks in Singapore reduce their balance sheet, companies may turn to capital markets for financing. However, the weaker macro environment may see companies holding back their capital expenditure plans. Swap spreads of more than five years have widened out in 2011 and the yield pick-up from corporate bonds is attractive.

Overall, we expect SGS yields to trade in a range unless risk sentiment worsens.

- ***ASIA***

Market Review

Asian Credit markets had a turbulent year in 2011, similar to other asset classes, given the extreme volatility in the market driven by sovereign debt issues in the western world and macro concerns around the globe.

Markets started the year on a relatively optimistic note on continued strength of economic recovery from the 2008/09 financial crisis. As a result, in April 2011 credit spreads were at their tightest end of 2011. However, sentiment quickly took a turn for the worse when investors started to focus their attentions on the sovereign debt issues in the developed world. Negative sentiment was further acerbated when Standard & Poor's downgraded the US credit rating, the Eurozone debt crisis worsened and there was talk of a hard landing for China's economy, leading to a sharp sell-off in September 2011. While markets recovered from the lows, credit markets remained volatile, trending along with headlines underlining ongoing uncertainty surrounding the long term resolution of the Eurozone crisis and the possibility of a recession in the euro area.

While the JACI composite benchmark still managed to pull in positive total returns of 4.12% for the whole year, this was largely helped by the rally in US treasury yields, which had a stellar performance of 9.14% return, reflecting the risk aversion mood of markets. In effect, credit spreads over treasuries widened by 143bp, finished the year as wide as 374bps, and subtracted around 5% from total return.

By sector, Sovereigns was the best performer in tandem with the strong US treasury performance, finishing the year with 9.14% return, followed by Quasi-sovereigns with a return of 5.90%. Corporates, on the other hand, lagged the overall performance on the back of poor performance by High Yield ("HY") Corporates which chalked up -5.85% as risk aversion caused investors to reduce their risk exposures to these higher beta credits. Similarly, risk

aversion also caused the HY sector to underperform, returning 2.85%, while High Grade ("HG") fared better with a positive return of 4.92%. By country, Philippines, Thailand and Indonesia topped the list with a return of 10.47%, 7.82% and 7.73% respectively while Pakistan, China and India being the worst three, returning -9.4%, -5.84% and -1.65%.

On the primary market, after a strong start in the first half, the market was effectively shut after August. The total new supply amounted to USD60.8 billion in 2011, down from the USD68 billion raised in 2010. Volatility clearly kept investors on the sidelines in the second half of the year, which accounted for only 25.9% of full-year issuance (and just 6.6% for the high-yield segment). Nonetheless, this still made 2011 the second busiest year from the perspective of the USD primary market.

In the HG sector, while Korean names continue to dominate, we saw heavy issuances from Chinese quasi-sovereign space. In the HY sector, in addition to heavy Sovereigns issuance (the Philippines, Indonesia, Vietnam and Sri Lanka), we saw record HY Issuance from China, driven primarily by HY property names which needed access to funding to sustain their growth and by the HY industrial names, which turned to the USD bond markets as the onshore liquidity turned tighter. These credits managed to gain access to cheap funding and were relatively well absorbed by the market in the 1H 2011. However, as euro-area debt issues came to the forefront in 2H 2011, USD issuance tapered off. Chinese issuers have increasingly looked to other sources of funding to meet their liquidity requirements, such as the "Dim Sum" bond market, i.e. renminbi-denominated bonds issued in Hong Kong.

Flows into risk assets in 2011 followed a similar pattern to their performance; they were strong in 1H 2011 but relatively subdued in 2H 2011. According to EPFR Global, cumulative flows into Emerging Market ("EM") bond funds stood at USD8.5bn for 2011 (as of 21 December), compared to the USD48bn of cumulative flows seen in 2010. As such, support for EM bond funds from fund flows was fairly limited, especially in 2H 2011.

In the meantime, trading liquidity in the secondary market also turned light in the 2H 2011, driving wider bid-offer spreads as well as higher volatility.

Outlook/Strategy

While Asia continue to enjoy a higher growth trajectory than the West and other EM regions, growth is likely to slow in 2012 as Asian economies are closely linked to the EU and US which given their global economic dominance and status as Asia's biggest trading partners. With European banks in the process of de-leveraging, a pullback by European banks would certainly impact funding base and liquidity. Closer to home, various tightening measures in China are unlikely to be withdrawn in the near future, which may lead to further weakness in the economy. As such, 2012 is likely to be a challenging year for businesses in Asia.

In the medium to longer term, the development of Asian credit fundamentals depends firstly on the evolving fate of the European Union and broader developed market growth story, and secondly on China-specific risks. We will expect to see a greater divergence in terms of credit fundamentals among the issuers. Nonetheless, we think that the first three months of 2012 could continue to be challenging as the European debt problem will continue to dominate headlines.

On the new issues supply, while we expect the USD liquidity squeeze in Asia to drive new issuances from HG corporates and banks, weak market sentiment from the ongoing euro-area crisis and China's economic hard-landing concerns is likely to limit demand from investors. The Chinese HY sector is likely to be the worst hit, and as such expect limited issuance from this space in the first quarter.

In terms of strategy, we will overweight defensive high-grade sectors with good secondary market liquidity such as Korean and Chinese quasi-sovereigns in the short term as better quality names continued to stay in demand but the weaker issues were avoided on risk aversion. We will only add high beta names when the macro environment starts to show signs of stabilization.

- ***US/EUROPE***

Market Review

The European crisis and global growth concerns were the main market themes which escalated sharply in the second half of 2011. The year was a story of two halves; beginning on a promising note with bullish growth expectations but turning down dramatically after mid-year as the European Sovereign Debt Crisis came to the fore. For the second half of the year the market became preoccupied with the headlines from 3 main sources; the European Economic and Monetary Union ("EMU") crisis, US economic recovery and signs of a soft-landing in China. Volatility ruled the day and liquidity disappeared as dealers pared their balance sheets and refused to carry inventory.

Most risky assets like equity benchmarks and commodity markets recorded negative returns while High Yield credit was lackluster compared with the spectacular performance put up by Developed Market Government Bonds.

Total returns for US Treasuries, German Bunds and UK Gilts were 9.9%, 9.7% and 16.7% respectively, mostly driven by strong performance in the second half of the year. For credit, while cash benchmarks were mostly positive on a total return basis, this was largely a reflection of the strong performance in core yields that helped offset the negative excess returns. Global credit derivative indices were net wider for the year. The US CDX IG index was the relative outperformer, gapping out only 35 bps to end the year at 120 while Asia Pacific indices underperformed with the Asia IG, Australian iTraxx and Japan iTraxx finishing the year +130, +78 and +84 respectively.

Outlook/Strategy

2012 might just turn out to be a mirror image of 2011. The new year has started with a spill-over of bearish sentiments and defensive positions (generally abnormally high cash levels). Difficult market conditions are likely to prevail at least in the first quarter with the EMU crisis remaining front and center. While far from resolved, the crisis appears to be under control for the moment. The initial steps toward a needed fiscal union have been made and the European Central Bank, while not quite ready to launch full scale bond-buying, has indicated it was prepared to provide almost unlimited liquidity support to the banks. Further progress will likely be incremental and full of setbacks but the alternative of a full-blown dissolution of the EMU is a low probability event at this point. A few key events to watch include the Greek debt restructuring in the early part of the year as well as Italian and Spanish government debt refinancing.

In the US, recent data releases continue to paint a picture of steady moderate improvement in the economy and there are indications that the Federal Reserve would stand ready to further expand its balance sheet should the need to do so arise. But until things in Europe stabilize, core benchmark yields are not likely to head significantly higher despite being at historically anomalous levels. In the low yield environment, corporate credit, other than financials, should benefit from the reach for yield.

LION GLOBAL INVESTORS

APPENDIX 1

Market Valuations

Date: 31 Dec 2011	EPS Growth (%)			3-mth chg. In EPS est. (%)		P/E (x)			P/B (x)	DY (%)
	2011E	2012E	2013E	2011E	2012E	2011E	2012E	2013E	current	current
Asia/Pacific										
Japan	**51.6**	**1.1**	**28.5**	**(11.1)**	**(5.9)**	**14.5**	**14.3**	**11.2**	**0.9**	**2.7**
Topix Index	21.0	25.1	27.9			15.2	12.2	9.5	0.9	2.5
Nikkei 225	3.5	26.9	20.8			16.1	12.7	10.5	1.1	2.3
Australia	**17.9**	**7.2**	**9.9**	**(3.6)**	**(3.0)**	**11.7**	**10.9**	**9.9**	**1.7**	**5.1**
S&P/ASX 200 Index	17.9	11.2	7.9			11.3	10.1	9.4	1.7	5.3
China	**12.4**	**10.6**	**13.7**	**(1.4)**	**(3.0)**	**9.2**	**8.3**	**7.3**	**1.6**	**3.1**
Shanghai SE Composite Index	29.7	16.4	1.2			8.8	7.6	7.5	1.8	3.2
Shenzhen SE Composite Index	58.4	25.7	(0.8)			13.0	10.4	10.5	2.4	-
Hong Kong	**19.7**	**(10.0)**	**12.6**	**(2.0)**	**(2.7)**	**12.0**	**13.3**	**11.8**	**1.2**	**3.0**
Hang Seng Index	(10.1)	12.3	13.8			9.5	8.4	7.4	1.3	4.2
India	**7.5**	**16.6**	**15.1**	**(3.0)**	**(3.0)**	**13.0**	**11.1**	**9.7**	**2.5**	**1.4**
BSE Sensex 30 Index	5.0	14.9	10.9			13.8	12.0	10.8	2.6	1.8
Indonesia	**20.1**	**15.0**	**15.5**	**(0.4)**	**(0.5)**	**14.7**	**12.8**	**11.1**	**3.9**	**2.4**
Jakarta Composite Index	30.4	17.5	6.9			13.1	11.2	10.4	2.9	2.5
Korea	**18.3**	**11.8**	**13.5**	**(6.2)**	**(4.9)**	**9.1**	**8.1**	**7.1**	**1.2**	**1.3**
KOSPI Index	115.1	15.2	11.3			8.8	7.6	6.8	1.1	1.6
Malaysia	**7.3**	**12.8**	**10.8**	**(1.5)**	**(1.6)**	**16.3**	**14.5**	**13.1**	**2.2**	**2.8**
FTSE Bursa Malaysia KLCI	15.1	10.6	0.7			14.1	12.7	12.7	2.3	3.7
Philippines	**7.8**	**11.9**	**10.4**	**0.2**	**(0.2)**	**15.5**	**13.9**	**12.6**	**2.6**	**2.6**
PSEi - Philippine SE Idx	20.1	10.7	2.2			13.3	12.1	11.8	2.5	2.9
Singapore	**(2.3)**	**5.9**	**10.9**	**(3.4)**	**(4.7)**	**12.5**	**11.8**	**10.6**	**1.5**	**3.7**
Straits Times Index	(46.3)	11.7	5.9			12.4	11.1	10.5	1.3	3.6
Taiwan	**(20.3)**	**19.6**	**20.6**	**(8.4)**	**(9.6)**	**15.6**	**13.0**	**10.8**	**1.7**	**4.8**
Taiwan Taiex Index	21.0	19.2	(6.5)			12.7	10.7	11.4	1.6	5.3
Thailand	**22.3**	**11.7**	**12.9**	**(1.6)**	**(1.2)**	**11.2**	**10.0**	**8.9**	**2.2**	**3.3**
Stock exchange of Thai Index	16.8	12.6	(5.3)			10.9	9.7	10.2	2.0	4.0
Vietnam	**(3.9)**	**28.7**	**15.9**	**n/a**	**n/a**	**7.4**	**5.7**	**4.9**	**1.2**	**5.3**
Asia Pacific	**6.9**	**16.0**	**14.4**	**(6.8)**	**(4.8)**	**12.4**	**10.7**	**9.4**	**1.3**	**3.1**
Asia ex Japan	**8.3**	**9.9**	**14.2**	**(3.6)**	**(4.1)**	**11.2**	**10.2**	**8.9**	**1.6**	**2.8**
Asia Pac ex Japan	**10.4**	**9.4**	**13.0**	**(3.5)**	**(4.0)**	**11.3**	**10.4**	**9.2**	**1.6**	**3.4**
Europe	**3.4**	**7.2**	**9.9**	**(3.2)**	**(4.4)**	**10.0**	**9.3**	**8.5**	**1.4**	**4.2**
DJ Stoxx 600 € Pr	16.5	11.3	8.2			10.0	9.0	8.3	1.4	4.4
S&P Europe 350 Index	13.8	10.8	7.9			9.8	8.9	8.2	1.4	4.5
United States	**15.5**	**10.0**	**12.2**	**0.0**	**(1.4)**	**12.9**	**11.8**	**10.5**	**2.0**	**2.2**
S&P 500	11.0	11.7	10.3			12.1	10.8	9.8	2.1	2.3
Dow Jones Industrial Average	8.3	9.9	7.8			11.8	10.8	10.0	2.6	2.7
NASDAQ Composite Index	56.1	17.7	12.9			14.4	12.3	10.9	2.7	1.5

Source: Credit Suisse, Bloomberg, MSCI, Thomson

Note: PE and EPS growth number for Australia and Japan correspond to June 11-13 and Mar 11-13; and EPS change numbers correspond to Jun 11- 12 and Mar 11-12, respectively.

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APPENDIX 2

Date: 31 Dec 2011

Economic data	Real GDP % YoY			CPI % YoY			Current Official policy rate (%)	Government bond yield (%)				Exchange rates				Unemploy-ment (% of labor force)	Current account balance (% GDP)	Fiscal balance (% GDP)	Business confidence		Consumer confidence	
	2011E	2012E	2013E	2011E	2012E	2013E		2 yr	5 yr	10 yr	10-2yr		Spot	% 3M chg	%12M chg	2012E	2012E	2012E	latest	% 3M chg	latest	% 3M chg
Asia/Pacific																						
Japan	-0.4	1.8	1.3	-0.3	-0.3	-0.1	0.1	0.1	0.3	1.0	0.9	US$/¥	76.9	0.2	5.5	4.5	2.5	-11.0	44.3	-0.7	37.7	-2.1
Australia	1.5	3.7	4.0	3.5	2.4	3.1	4.3	3.3	3.3	3.7	0.4	A$/US$	1.0	-5.4	0.2	5.0	-1.7	-1.8	47.7	-5.2	94.8	-2.2
China	9.1	8.4	8.6	5.5	4.1	4.3	3.5	2.9	3.1	3.4	0.6	US$/CNY	6.3	1.4	5.0	4.2	2.0	-2.0	133.4	-1.6	100.5	-2.8
Hong Kong**	5.0	3.5	4.2	5.3	3.8	3.1	0.5	0.3	1.0	1.5	1.1	US$/HK$	7.8	0.2	0.1	3.7	10.3	2.2	69.1	-13.6	74.6	-7.4
India*	7.1	7.0	7.7	9.5	7.5	7.0	8.5	8.1	8.4	8.6	0.5	US$/INR	53.1	-7.7	-15.8	N/A	-3.0	-8.0	N/A	N/A	75.2	-100.0
Indonesia	6.5	6.3	6.5	5.5	5.7	5.6	6.0	5.2	5.4	6.0	0.9	US$/IDR	9,069	-2.1	-0.8	6.3	-0.3	-1.0	N/A	N/A	116.6	1.4
Korea	3.6	3.7	4.4	4.4	3.3	3.2	3.3	3.4	3.5	3.8	0.4	US$/KRW	1,152.5	2.2	-2.3	3.3	1.2	0.7	79.0	-1.2	99.0	0.0
Malaysia	4.8	5.0	5.3	3.2	2.7	3.0	3.0	2.9	3.2	3.7	0.8	US$/MYR	3.2	0.7	-3.3	3.0	10.5	-5.0	104.5	-8.3	108.7	0.7
Philippines	3.7	4.0	4.5	4.5	4.1	4.6	4.5	2.0	5.1	5.4	3.4	US$/PHP	43.8	-0.2	-0.1	7.3	2.1	-2.0	38.7	13.5	N/A	N/A
Singapore**	5.3	3.0	5.0	5.2	3.0	3.0	0.4	0.3	0.6	1.6	1.3	US$/S$	1.3	0.8	-1.0	2.3	15.0	1.0	-5.0	-150.0	N/A	N/A
Taiwan	4.5	4.0	4.5	1.4	1.4	1.7	1.9	0.8	1.0	1.3	0.5	US$/TW$	30.3	0.7	-3.2	4.3	8.7	-2.0	N/A	N/A	67.6	-100.0
Thailand	1.7	3.0	5.0	3.9	3.4	3.5	3.3	3.1	3.2	3.3	0.2	US$/THB	31.6	-1.1	-4.7	1.3	0.9	-3.8	39.0	-19.6	71.0	-13.2
Vietnam**	5.8	6.0	6.3	18.7	11.8	8.1	9.0	12.5	12.6	12.5	0.0	US$/VND	21,034	-1.0	-7.3	4.7	-5.2	-4.8	N/A	N/A	N/A	N/A
Europe																						
Euro Area	1.5	-1.2	-0.2	2.7	2.0	1.1	1.0	0.1	0.8	1.8	1.7	€/US$	1.3	3.3	3.3	10.5	-0.9	-4.2	-0.4	633.3	-21.2	11.0
UK	0.9	0.5	1.2	4.5	2.7	2.4	0.5	0.3	1.1	2.0	1.7	£/US$	1.6	0.3	0.4	9.2	1.6	-8.5	88.9	-0.7	40.0	-11.1
Switzerland	1.9	1.0	1.2	0.3	-0.4	-0.5	0.0	0.0	0.2	0.7	0.7	CHF/US$	0.9	-3.2	-0.3	3.3	12.5	0.6	-20.0	-205.8	N/A	N/A
Sweden	4.3	2.1	2.6	3.0	2.0	2.2	1.8	0.8	1.0	1.6	0.8	US$/SEK	6.9	-0.2	-2.6	7.4	6.5	0.4	100.3	-2.4	2.8	-50.9
Norway	2.7	2.9	3.0	1.4	1.8	2.2	1.8	1.3	3.3	2.4	1.1	US$/NOK	6.0	-1.8	-2.6	3.2	14.3	12.5	N/A	N/A	9.7	-47.8
United States	1.7	1.9	1.9	3.2	1.8	1.7	0.3	0.2	0.8	1.9	1.6	-	-	-	-	8.9	-2.5	-7.3	52.0	-1.9	64.5	39.0

Source: Bloomberg, CEIC, CIRA Estimates

* India: Wholesale price index (WPI) is used to measure inflation

** Hong Kong: Hong Kong base rate (HKBASE Index) is used as official policy rate

Singapore: 3-month SIBOR is used as offical policy rate

Vietnam: Base lending rate is used as official policy rate

31-Dec-11	Spot	% chg 3M	% chg 12M
VIX	22.2	-41.2	30.6
Gold (US$/ounce)	1,614.6	-1.6	17.1
WTI Crude oil (US$/barrel)	102.9	28.4	8.1

Source: Bloomberg

LION GLOBAL INVESTORS

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