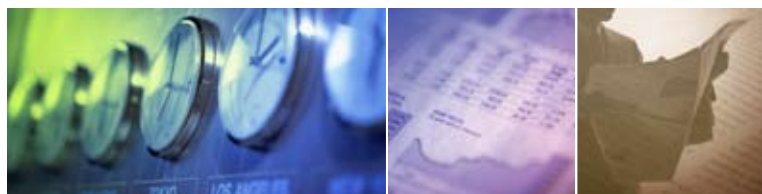


Key points

- Strong macro data and spreading turmoil
- Allocations to risky assets / sectors reduced

- Neutral on Equities, Real Estate and Fixed Income; Overweight Commodities maintained
- High Yield and EMD LC are our favourites in Fixed Income space

HOUSEVIEW



ING Investment Management Asia Pacific

March 2011

positive (+), neutral (=), negative (-)

Asset Classes	Current Month	Previous Month
Equities	=	+
Fixed Income	=	-
Real Estate	=	+
Commodities	+	+

Equity Sectors	Current	Previous
Energy	+	+
Materials	+	=
Industrials	-	-
Durable consumer goods /services	-	-
Consumer staples	-	-
Health care	=	+
Financials	=	-
Technology	+	+
Telecommunications	+	+
Utilities	-	-

Equity Regions	Current	Previous
United States	+	+
Europe	-	-
Japan	+	+
Asia Pacific (ex Japan)	=	=
Emerging markets	-	=

Bonds	Current	Previous
Investment grade credits	=	-
High yield credits	+	+
Emerging market debt		
Hard currency	-	=
Asian HC	-	=
Local currency	+	+
Asian LC	+	+
	Forecast	Current
10-y bond yield (3m forecast)		
US	3.5%	3.4%
Euro zone	3.3%	3.2%
Japan	1.3%	1.2%

Strong macro data and spreading turmoil

Despite the spreading turmoil in the Middle East and further monetary tightening in emerging markets, risky assets moved higher in February. Good corporate results and positive economic data surprise fed investors' risk appetite, although rising oil prices triggered a correction at the end of the month.

Tensions in Egypt and Libya could not completely derail optimism about global growth. US consumer sentiment and business activity data surprised positively. German business confidence reached a record high on booming exports. Inflation numbers in China, the euro zone and the US generally came in higher than expected. But the central banks in the developed world made clear that an interest rate hike is still some time away. The USD was quite volatile but lost overall further ground to the EUR.

Global equity markets gained 3.0% in USD terms in February, leading to a year to date performance of 4.6%. Overall, developed markets equities continued to strongly outperform emerging markets (-0.9%), as growth and inflation dynamics are still in favour of the developed economies. Japan was the best performing equity region. Not surprisingly the energy sector (5.8%) was the best sector as it is positively correlated with oil price movements. The outperformance of the consumer discretionary sector (+3.6%) was a big surprise as the sector is most vulnerable to a combination of rising input costs and lower growth. Also, the material sector (+3.4%) outperformed the broad market. Utilities (+1.8%), IT (+1.9%) and industrials (+1.9%) were the weakest sectors. Global real estate also gained more than 2% in February. In the fixed income area, German and US 10y bond yields continued to rise in the first half of the month, but fell back in the second half, to finish the month more or less unchanged. Spread products outperformed government bonds, while peripheral concerns re-emerged.

View: Allocations to risky assets reduced

Risks have risen in recent weeks, playing against quite firm macro support and generally constructive quantitative signals for risky assets. Broadening of Middle East geopolitical tensions, the spike in oil prices, lingering Euro sovereign concerns and the prospective earlier monetary tightening in Euroland each act, however, as headwinds that offset the tailwinds associated with the improving fundamental environment in the developed world. Therefore, we reduced risk near the end of February. We currently have a neutral view for equities, fixed income and real estate. Preferences for commodities and spread products are maintained.

Economy

Economic momentum robust in DM

Recent data confirm that global economic momentum is improving, evident in accelerating retail sales and global business confidence. US economic signals remain on an improving track, supported by ongoing monetary and fiscal policy accommodation. Europe's economic path is still divided somewhat along Core/Periphery lines, with the former countries in the ascendancy. Germany remains particularly resilient assisting in bringing forward monetary policy tightening expectations. Fear of policy error – i.e. tightening too early, choking off economic growth – may develop in the months ahead, undermining risky assets to a degree. Policy tightening is underway in China in what appears to be a soft rather than hard landing.

Geopolitical tensions in the Middle East rose to new levels recently, impacting oil prices. A supply side shock to the system is an outlier event which cannot be excluded. EMU sovereign turmoil is still in play, albeit to a less negative degree in recent weeks. Nevertheless, prudence dictates cognizance of the tail risks with these unpredictable and potentially contagious events.

Oil signals downside risks to base case of strong growth

Until last week oil prices drifted steadily upwards along a more or less linear trend that started in September 2010. With hindsight the start of this trend thus roughly coincides with the point at which global growth started to accelerate, which suggests that the oil price rise was largely demand driven. Nevertheless, over the past few days we are seeing the beginnings of what could be a non-linear upward trend in oil, which suggests that worries about the supply side are now beginning to be felt.

Whether we will actually see a supply shock or not is impossible to predict, as even the most well-informed political analysts admit that future developments in the Middle East region are shrouded in a lot of uncertainty.

Hence, it seems only natural to make a downward adjustment to the DM growth outlook on the back of all this. Nevertheless, at this point we are still reluctant to do so because the virtuous spiral between improving financial conditions and accelerating global growth has actually played out a bit stronger than we anticipated a few months ago. Not only does this imply somewhat stronger than expected nominal income growth but confidence should prove to be more resilient to this shock as well. In addition to this, the current oil shock may prove to be short-lived if the Middle East turmoil does not materially spread to key oil producers in the region (Saudi Arabia, Iran). For now we therefore decide to flag increased downside risks to our growth outlook without altering the base case.

...but may cause central banks to hike earlier than expected

Nevertheless, we have raised our inflation forecasts for DM space because not only energy but also food price inflation is likely to make a bigger contribution to headline CPI than seemed likely a few months ago.

Indian food price inflation falling

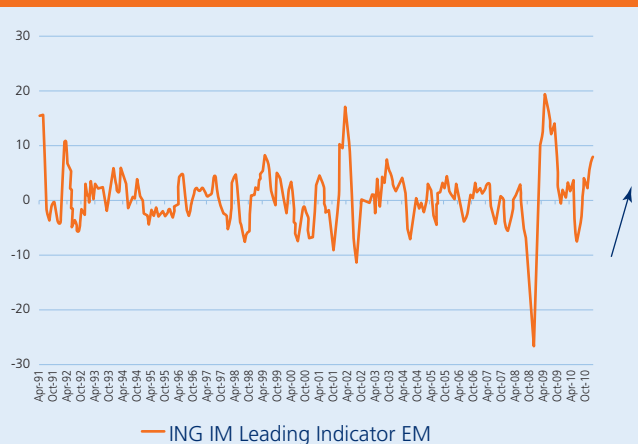
In India, food price inflation continues to come down. The headline, year-on-year number reached 11%, down from 18% in December and 23% in June last year, when a peak was reached. More important is that the food price index is also declining. Since the end of January, the index has fallen by 5%. India was one of the first emerging economies hit by rising food prices. The central bank in India was also one of the first central banks that started to hike interest rates, since the spring of last year. With economic growth slowing and food price momentum improving, inflation in India has room to come down, although the level of inflation remains one of the highest in the emerging world, at 8%. The central bank is likely to hike rates once or twice more in the coming months.

More evidence of Chinese growth slowdown

Chinese business sentiment in the manufacturing sector declined for the third month in a row, suggesting that economic growth may slow from peak levels reached in Q4 2010. The February Manufacturing PMI came in at 52, down from the 53 recorded a month earlier. The decline was mainly due to a drop in domestic new orders. Other data, such as credit and money supply growth also declined, indicating that domestic demand has started slowing down due to tighter credit conditions. Consumer confidence continues to fall as the inflation rate continues to rise. Our base-case scenario remains one of gradually slowing growth, with the authorities getting close to the point where their monetary policy stance gets back to neutral.

The input price index in the PMI survey, at 70, continued to be high. It is clear that inflationary pressures remain high, particularly because of raw materials and energy prices. Core inflation in China, at 2.6%, is still on a rising trend, albeit from low levels. For the headline inflation rate, it remains crucial to look at food prices. In the past few weeks, food prices have come down a bit, suggesting that the headline food inflation rate should start to decline in the coming months. Some economists have already started to reduce their inflation expectations accordingly. We continue to believe that inflation in China would peak in the summer. Our average CPI forecast for 2011 is 5%. For 2012 we are expecting 3.5%

EM momentum remains firm despite mixed signals from China



Source: Datastream, ING IM data as of 15 February 2011

Asset Allocation

Rising and broadening Middle East geopolitical tensions as well as EUR sovereign concerns and, more recently, prospective earlier monetary tightening in Euroland, each act as headwinds that offset the tailwinds associated with a broad policy-supporting improvement in economic growth in the Developed world.

In view of these concerns and unknown tail risk potential, we have reduced risk further across multi-asset portfolios. The modest overweight position in Equities was scaled back to neutral, funded by Fixed Income/Cash. A detuned but still meaningful overweight position in commodities is maintained.

Preference for commodities

Meanwhile, our outlook for commodities remains bullish, as positive drivers for commodity investing are outweighing the risks. The positive factors are the global cyclical rebound, solid EM growth and increasing supply constraints. Commodities historically have performed well during major oil shocks, both demand and supply driven. Risks remain and take the form of (over-)tightening in China, solvency stress contagion, commodity trading regulation and protectionism. These risks are likely to lead to higher volatility but are currently outweighed by the positive drivers. Escalating geopolitical risks make Energy and Agriculture our preferred commodity segments.

We have a neutral view on real estate. Improving fundamentals and the search for yield are supportive for the asset class. On the contrary, excess inventories remain high and valuations are no longer cheap.

In our view, equity fundamentals are still supportive. Indeed, the price/earnings ratios are still at, or slightly below, their long-term averages in the various equity regions, while low bond yields contribute to the attractiveness of equities. Although corporate earnings growth will probably slow, it should still be above trend in 2011. Rising concerns and unknown tail risk potential made us more cautious over the month. For tactical reasons, we now have a neutral view on equities.

Equity

We did not make any changes in our regional allocation. Given an increase in our risk assessment (monetary dynamics, rising food and oil prices, politics, and so on), emerging markets remain underweight. Earnings momentum is weaker than in developed markets. On top of that, emerging market economic growth is more oil intensive. Finally the rise of in oil prices will continue to have an impact on food prices and given that inflationary pressure is building in emerging markets, we do expect further monetary tightening.

Within EM, we keep the focus on the domestic consumption theme. In EM Asia, we favour China and Taiwan at the expense of Malaysia. So far this year China has been one of the strongest performers in emerging markets.

The positive growth dynamics in the developed markets, on the other hand, continues.

Europe remains underweight. We feel that the additional risk premium currently associated with investing in European equities is not rewarding enough. The region's sovereign issues are far from solved, and despite positive rhetoric, there is still a lack of concrete action plans. In our base case, the EU will muddle through at least until the end of March or until a new speculative attack against a member country breaks loose and necessitates decisive action. Portugal is clearly the weakest link within the framework.

Factors supporting Japan are the probable end of its de-rating relative to other developed markets, its high expected earnings growth (high operational leverage) and a turn in the money flows and investor positioning. Japan could also be a beneficiary of higher DM inflation. The wild card however will be the evolution of the Yen as this is inversely correlated with the equity market. Japan is also one of the most energy efficient economies.

We have a neutral position on Asia ex Japan. Loose US monetary policy combined with high Asian growth underpins these markets. Australia is also driven by rising commodity prices. Valuation is in line with other developed markets. We currently like Hong Kong, as it could become a prime beneficiary of this liquidity increase as this market couples lower-for-longer US-like interest rates and exchange rate with higher China-linked economic growth. We also feel that the banking sector, which represents almost 40% of the Hang Seng benchmark, will outperform in the short-term given a steepening of the yield curve. Chinese tightening could be a potential headwind.

Elsewhere we continue to focus on commodities, balance sheet quality and dividend growth. Overall we have a balanced sector allocation, with preferences for Telecom, IT and Energy. We still like high dividend stocks as we expect that dividends will outgrow earnings and represent a larger part of the total return in 2011.

Fixed income

Improving macro momentum does not materially change our outlook for core inflation or monetary policy, as the degree of slack in DM is currently so big. Large output gaps in major economies remain in place, pointing to a deflationary bias over the coming 1-2 years. The need for balance sheet repair remains present from a medium to longer term perspective in household, financial and sovereign sectors, limiting the DM growth outlook in the coming years. German and US 10y yields will hover within the top half of their ranges of the past 1.5 years. It is unlikely though that they will break out of these ranges in the next 6 months. US yields are likely to remain below 4% and German yields should stay below 3.5%. Japanese bond yields are likely to move between 0.9% and 1.4%.

Within fixed income, we have a modest overweight in spread products on the back of the search for yield, improved cyclical outlook and ongoing market momentum. Within spreads we prefer non-financial corporate exposure (High Yield / Senior Bank Loans), which benefit from solid inflows, low defaults and strong corporate fundamentals. We keep a small overweight in diversified emerging Forex exposure as a possible use of currencies to fight inflationary pressures make the risk-return trade-off attractive. Also, investment grade credit and AAA ABS is now neutral, while treasuries in both DM and EM space are small underweights.

The outlook for Asian hard currency debt remains attractive on the back of strong regional credit fundamentals and declining default expectations. The impacts on Asian issuers by events in MENA and higher oil prices are manageable. Monetary policy normalization and inflation concerns continue to exert downward price pressure on Asian local currency debt markets. However, the expected policy tightening is priced in by now, and we expect inflation to peak in the region over the next few months. Local currency bond returns will benefit from controlled FX appreciation.

Foreign Exchange

For 2011, we expect that any further positive return of commodity and EM FX will be more moderate than in 2010, as valuations and positioning are becoming more stretched. Still, based on our global economic outlook, we do expect that returns on high yielding FX investments will continue to be positive, especially in H1'11, when economic momentum is expected to be strong.

The JPY has been the most surprising performer in 2010, e.g. versus the USD. The main explanation was the ongoing decline in the USD-JPY 2yr rate spread. Going forward, it is difficult to see a further decline in USD 2 yr yields. However, a rise is only possible if markets would start to anticipate tighter US monetary policy in 2012. Based on rate differentials, a sideways performance of USD/JPY is therefore expected.

Global Markets Performance

Equity: Selected Indices	1M	3M	YTD	1Y
MSCI AC World NR USD	2.91	12.18	4.53	21.54
MSCI AC Asia Ex Japan NR USD	-3.87	0.44	-4.82	20.57
DJ Industrial Average TR USD	3.16	11.76	6.11	21.60
S&P 500 NR USD	3.36	12.79	5.77	21.85
NASDAQ Composite PR USD	3.04	11.37	4.88	24.31
FTSE 100 TR GBP	2.64	9.02	2.07	15.51
FSE DAX TR EUR	2.75	8.73	5.18	29.90
S&P/ASX All Ordinaries TR	2.19	6.15	2.26	10.20
Nikkei 500 PR JPY	4.06	9.19	4.62	7.75
Hang Seng HSI PR HKD	-0.47	1.43	1.31	13.24
KSE KOSPI Korea PR KRW	-6.30	1.82	-5.45	21.62
TSEC 50	-6.23	4.45	-3.45	14.90
StreetTRACKS Straits Times Idx	-4.98	-4.98	-6.44	11.21
Shanghai SE Composite PR CNY	4.10	3.01	3.45	-4.81
Shenzhen SE Composite PR CNY	8.19	-0.92	0.38	10.53
Bond: Selected Indices	1M	3M	YTD	1Y
BarCap Global Aggregate TR USD	0.59	2.09	0.77	5.84
JPM EMBI Global TR USD	0.29	-0.58	-0.25	9.79
HSBC Asian USD Bond TR	0.22	-0.81	0.29	8.77

Source: Morningstar Direct as of 28 February 2011, measured in the base currencies

ING IM 2011 Market Outlook

Bond yields (10y)				
quarter end (%)	Q1'11	Q2'11	Q3'11	Q4'11
Countries				
US	3.5%	3.6%	3.6%	3.7%
Eurozone	3.3%	3.5%	3.6%	3.8%
Japan	1.3%	1.3%	1.3%	1.3%
UK	3.7%	3.8%	3.9%	4.0%
Corporate bond (IG) yields				
quarter end (%)	Q1'11	Q2'11	Q3'11	Q4'11
Countries				
US	4.1%	4.1%	4.1%	4.1%
Eurozone	3.7%	3.8%	3.9%	4.0%
Japan	0.7%	0.8%	0.9%	1.0%
UK	5.6%	5.6%	5.7%	5.8%
Equity				
quarter end	Q1'11	Q2'11	Q3'11	Q4'11
Countries				
S&P 500	1340	1360	1380	1400
Euro stoxx 600	300	303	307	310
TOPIX	975	1000	1025	1050
FTSE 100	6150	6300	6450	6600
MSCI EM Free	1150	1200	1250	1300
Foreign exchange rates				
quarter end	Q1'11	Q2'11	Q3'11	Q4'11
Currencies				
EUR/USD	1.30	1.30	1.30	1.25
USD/JPY	80	85	90	95
GBP/USD	1.44	1.53	1.57	1.56
EUR/JPY	104	111	117	119
EUR/GBP	0.90	0.85	0.83	0.80

Sources: ING IM, IMF, Economist Intelligence Unit

ING IM Global Economic Outlook

	Real GDP			Inflation			Policy Rates (% , YE)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
World	5.0	4.2	4.3	3.0	3.2	3.0			
Developed	2.6	2.3	2.5	1.4	1.7	1.5	0.45	0.74	1.31
US	2.9	3.1	3.2	1.6	1.7	1.5	0.13	0.13	0.75
Euro	1.7	1.8	2.0	1.6	2.1	2.0	1.00	1.75	2.50
Japan	4.0	1.5	2.0	-1.0	-0.2	-0.1	0.10	0.10	0.10
UK	1.8	1.8	2.1	3.3	3.5	2.0	0.50	1.00	1.50
Emerging	8.1	6.7	6.5	5.1	5.1	5.0			
China	10.1	9.0	9.0	2.9	4.1	4.0			

	Unemployment rate			Budget balance			Current account		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Developed	9.0	8.6	8.1	-8.0	-7.4	-5.8	-1.3	-1.3	-1.4
US	9.7	9.0	8.5	-8.9	-9.0	-7.0	-3.5	-3.9	-3.9
Euro	10.0	9.7	9.4	-6.4	-4.8	-3.7	0.0	0.1	-0.2
Japan	5.1	4.7	4.3	-8.0	-7.9	-6.1	3.5	3.6	3.5
UK	7.8	7.8	7.5	-10.1	-8.6	-7.6	-2.0	-1.7	-1.2
Emerging									
China	6.1	6.5	6.4	-2.2	-1.7	-1.6	6.1	4.3	3.9

Sources: ING IM, IMF, Economist Intelligence Unit

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