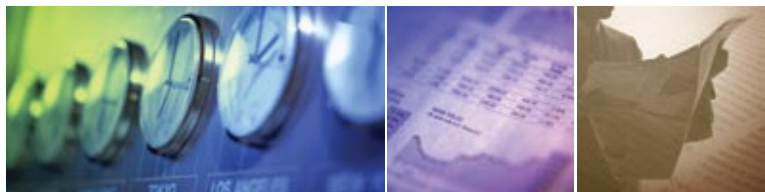


Key points

- Recession in Europe, US still at risk (40%)
- Better chances of early policy easing in China
- Not out of the woods yet with Euro crisis
- Defensively positioned. Cautious on equities, real estate and Europe

HOUSEVIEW



ING Investment Management Asia Pacific

October 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 (6m forecast)		
US	1.8%	2.1%
Germany	1.5%	2.1%
Japan	0.8%	1.0%

Bear market of Q3 sets stage for relief rally

September closed off a weak quarter for financial markets. A further drift down in economic data and rising fiscal headwinds, particularly in Europe, led to growing fears of a slowdown in global economic growth. Some US data towards the end of the month surprised on the upside, but even this slight silver lining could not prevent investor sentiment from turning risk averse.

The darkening in investor sentiment was predominantly led by the deepening and spreading of the Eurozone system crisis. Confirmation of the crisis' deepening was provided by the double downgrade of Italy, dragging the EMU sovereign with the largest debt pile squarely into the spotlight of markets. Confirmation of the crisis' spreading came in the form of interbank lending drought surrounding Europe's most vulnerable financial institutions, claiming Dexia as its first victim.

The performance of risky asset classes across the globe suffered in September, leading many investors to take an even more cautious stance. The increased risk also affected Emerging Market assets, which were further plagued by growing concerns on the Chinese economy. Finally, commodities fell victim in September to a wave of broad based profit taking. As gold had reached all time highs, precious metals took the lead in the sell-off.

October has fared much better so far on the back of hope that the Dexia debacle will spark a comprehensive bank recapitalization plan from European politicians. Equities in the US and Europe have rallied 7-8% and fixed income credit spreads also recovered. We fear, however, that this may be little more than a bear market relief rally. We would rather wait to see if the forthcoming EU Summit and G20 meetings deliver on market expectations before we reverse our defensive stance.

View: we caution that the rally is weakly underpinned

Our base case is now one of positive, but well below potential growth in developed markets as a whole. The global economy will in all likelihood continue to be dragged down by the Eurozone crisis. Policymakers could still come up with a comprehensive solution and history indeed suggests that they will, once a certain pain threshold is reached. However, whether or not we are close to this threshold is still an open question and we remain sceptical. In view of this, our tactical positioning is underweight equities and real estate. We're neutral Treasuries (compared to cash). We upgraded commodities back to neutral.

Economy

EU recession now our base case, US still at risk

We have a base case outlook of a mild recession in Europe over the next two quarters, while we see a 30%-40% probability of a double-dip in the US.

The slide down in economic data, greater fiscal tightening, tighter credit conditions and a stronger negative feedback loop led us to revise our outlook for the European economy to that of a recession. For the Eurozone and UK economies we are factoring in two quarters of negative growth starting in Q4'11. Our expectation is of a mild recession, turning the corner at the end of Q1'12 and resulting in flat GDP growth over the year 2012.

Central Banks in these regions (ECB and Bank of England) eased policy further at the start of October, though neither by cutting key interest rates. The ECB instead agreed to offer longer maturity loans and to buy covered bonds, and the Bank of England agreed to another round of QE to the tune of 75bn GBP. We expect the ECB to cut rates back to 1% in early 2012 (25 bps in November and January). While this should all be helpful, the unfortunate reality is that the effectiveness of monetary policy is still impaired.

The outlook for the US economy meanwhile has improved slightly. With economic data coming in better than expected and policy makers, including Fed's Bernanke in recent days, signalling a greater openness towards anti-cyclical fiscal stimulus, the US is clearly diverging from Europe. Even so, economic growth in the US is expected to be weak at best, at 1.5% for the whole of 2012. The Fed has signalled that it expects to keep rates near zero until mid-2013 whilst also adopting an easing bias. We view that some form of QEIII is now a clear possibility.

The reasons for holding on to positive growth in the US and Japan are threefold: First, the impact of the oil and Japan shocks is abating. Moreover, employment as well as spending on capital and consumer durables goods are still (well) below pre-recession levels. This implies that the room to slash spending on these items is limited. Also, Japan is one of the few exceptions globally already affecting a stimulating fiscal policy stance. We expect the Japanese economy to move into positive growth in 2012. Yet, it is too early to say that Japan is at last entering fundamentally stronger growth.

All eyes now on China

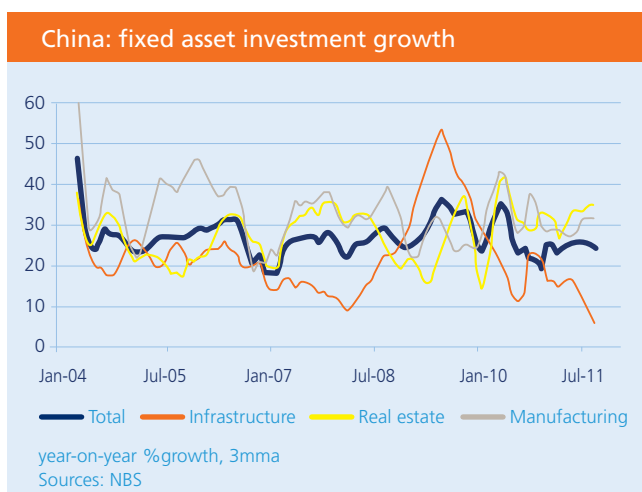
Elsewhere in Asia, the discussion around a soft or a hard landing for China became distinctly louder over the month September, exacerbating risk aversion sentiment and flows out of Emerging Markets. Our view is that Chinese economic data imply that the economic slowdown continues, but will not result in a hard landing. We expect the low-point of Chinese GDP growth to be at 7.7% in Q2'12, while still 7.9% for 2012 as a whole. Reasons for this expectation are not so much the better than expected September PMI numbers, but mainly signs that the Chinese authorities are progressively moving towards an easing policy.

We think that the sharp deterioration in the global environment, confirmed by the last trade data in Asia (with September PMI for Korea and Taiwan under the 50 mark) is enough for Beijing to stimulate domestic demand as soon as they feel comfortable with inflation. This should be the case in

one month when the October inflation figures will show some improvement due to base effects, declining commodity prices and the economic slowdown. Until then, we are likely to get more indications that the economic policy stance is shifting from a tightening to an easing bias.

Credit conditions for small and medium-sized companies had already started to improve. Earlier this week, the announcement of the first local bond issuance since the early 1990s was the first serious evidence that the authorities are starting to take action to push fixed investment growth higher. Issuing bonds at the local level will not only improve the structure of the local financing system by adding transparency and accountability in comparison with the current local government financing vehicles (LGFVs). It will moreover give a boost to local infrastructure investment programs.

In the current environment of slowing global demand for Chinese goods, with private real estate investment having been discouraged for a few quarters and consumption growth unlikely to move up, other growth engines are becoming more important to prevent a sharp fall in the overall growth rate.



The timing of the Chinese stimulus will be decisive. If the authorities wait several more months before they start increasing loan quota or fiscal expenditure, we would see considerable downside to our growth forecasts. Nevertheless, we strongly believe that the global trade picture has deteriorated enough for them to come into action. The recent underperformance of the equity markets is in our view overdue.



Asset Allocation

The global economy is currently slowing down again. This is most evident in those DM economies characterised by household and financial sector deleveraging. Nevertheless, core Europe as well as the EM space is also affected through a slowing of external demand. There are two broad reasons behind this. First, the oil and Japan disaster shocks have taken a greater toll on DM domestic demand growth than previously anticipated. Furthermore, there are increasing concerns about the competency of policymakers on both sides of the Atlantic to deal with the challenges facing them. In the US this has raised the prospect of more near-term fiscal tightening without a solution for the long-term fiscal problems, while in Europe it implies a heightened degree of systemic risk.

Risk aversion has risen considerably over the past few weeks. This potentially opens the door to a self-fulfilling negative feedback loop between financial conditions and confidence, on the one hand, and growth, on the other. Flattening economic growth, tighter fiscal policy settings, sovereign stress and negative feedback loops combine to keep risk at low levels.

In view of all this, our tactical positioning is underweight equities and real estate. We are neutral Treasuries (compared to cash). With policymaking driving the agenda and with news of economic weakness fading, it is prudent to marginally reduce some of our defensive risk exposure. As a consequence, we upgraded commodities back to neutral.

Equity

October kicked off with a textbook risk rally based on hope and positioning but few facts. We fear that this rally has more to do with position squaring than with conviction. Euro equities have underperformed dramatically, valuations are at recession levels (although not at systemic risk levels) and according to surveys, the Eurozone underweight has reached extreme levels comparable to March '09. Hence, a removal of the tail risk may ignite a bounce of 20% in the European equity markets.

Yet an important factor to watch is corporate earnings. Although we do expect these to rise relative to the same period of last year, we fear that they will fall short of expectations, especially in cyclical sectors. Managements' comments on revenues and margins will also be very important. We consider 2012 consensus earnings as far too optimistic and expect these to come down significantly over the coming weeks.

Therefore, we maintain our defensive positioning by underweighting Europe, financials and cyclicals and overweighting defensives and Japan. The main reason for our preference for Japanese equities is the faster than anticipated recovery in industrial production. Japanese companies are also adapting to the power shortages by among other things shifting production to night-time or the weekend. The reconstruction effort can now start in earnest.

Our allocation to Emerging markets has been reduced to neutral. During the past weeks, EM suffered from a sell off showing that despite superior long-term fundamentals, financial decoupling is still a myth. The high correlation with developed equity markets and the high beta of EM makes these markets vulnerable to a surge in global risk aversion. Their currencies sold off massively making returns worse for foreign investors. In addition, the link with commodity prices remains very strong and in a period of lower global growth and high risk aversion it

is hard to imagine commodities rising.

In that context, we feel that recent underperformance of the Chinese equity market, due to concerns about Chinese growth, is overdone. The 12-month forward PE has fallen to 7.5 times, which is exactly the same level as the low reached in the 2008 crisis. Also, for the first time for more than ten years, China is trading at a discount to GEMs. Given China's relatively strong domestic demand growth picture in a global environment where growth is becoming increasingly scarce, we do not think that a sizeable Chinese discount is justified. The limited downside risk of the renminbi continues to be another good reason to like the Chinese market.

Apart from China, we continue to have a preference for India, the other market that stands out with a relatively solid domestic demand growth picture. We continue to keep underweights in the markets with the highest sensitivity to developed markets growth, such as Korea and Mexico, and to markets where currencies are most vulnerable to a sharp correction, such as Brazil and South Africa.

We maintain a neutral position on Asia ex Japan. Loose US monetary policy combined with resilient Asian growth underpins these markets. Australia is sensitive to fluctuations of commodity prices. The recent weakness in commodity prices following a slowdown in global growth may hurt the Australian market. Regional valuation is comparable to other developed markets. Hong Kong is still benefitting from high liquidity as this market couples lower-for-longer (US)-like interest rates and exchange rate with a higher (China)-linked economic growth.

We still prefer high dividend, underscoring the increasing importance of dividends in the total return of a portfolio. The low pay out ratio, healthy cash rich balance sheets and the strong cash flow generation limit the downgrade risk for dividend payments.

Fixed income

September has been a volatile month for Treasury yields that traded sideways from their close to historic low levels in Europe and US. With yields currently trading between 1.7% and 2%, we believe that risks and returns are now more or less balanced for AAA government bonds. We have consequently revised our positive view of AAA-rated government bonds to a neutral view. At the same time we remain cautious on spread products, as system risks remain uncomfortably high.

Within the fixed income credit spread asset class, we remain more constructively positioned towards Emerging Markets assets, supported by fundamentals and relative momentum indicators. Meanwhile, European related assets like Euro investment grade and Euro Aaa ABS remain underweight.

The fundamental outlook for the corporate sector in Asia remains relatively good, with the slower growth in developed markets having limited direct impact on the strength of Asian corporate issuers and financial institutions. However, concerns regarding the refinancing ability of weaker companies have increased since domestic funding conditions in some Asian countries have deteriorated and access to the USD bond market has become difficult for these companies. Valuation levels for Asian hard currency bonds have become highly attractive following the recent sell off. However, in the near term, the USD bond market in Asia is driven predominantly by technical factors (forced sellers, no buyers of risky assets). Given the uncertainties regarding the macro economic outlook for the US and the European sovereign debt crisis, we expect risk appetite

to remain muted in the near term, with volatility remaining high. Persistent global macro headwinds have led to some moderation of our near term bullish outlook on Asian local currency debt markets. However, the concerns about large scale outflows appear exaggerated in our view. We expect more currency led volatility in the immediate future, but with inflation peaking, fundamentals remaining robust and valuations getting cheaper, the Asian local currency asset class continues to remain attractive on a medium term horizon.

Foreign Exchange

General risk aversion hit the FX market during September. Most Asian currencies were about as weak as Latam or East-European currencies, all dropping around 3-4% versus USD (for Asian and Latam FX) or versus EUR (for East-European FX). In general, Asian currencies are less volatile and suffer less during risk aversion (the KRW being a notable exception). The fact that Asian FX was so weak can probably be explained by the fact that it was the most popular long in EM FX, so the position shake-out that took place last week had a relative large impact on Asian FX.

Since the beginning of October, all risk-driven currencies recovered from their lows against the USD we are now back to around mid-September levels across the board.

A number of EM central banks have shifted their monetary policy stance toward more easing. Since the European crisis unfolded and the global cycle started to slow, this is the first time central banks in the emerging world took pre-emptive measures to support their domestic economy. It is worth noting that in the latest selloff emerging market central banks have been intervening to tame FX volatility. This should prevent or at the very least temper sharp currency decline going forward.

Regarding the Eurozone, we continue be concerned about the lack of a comprehensive long-term solution on the sovereign debt issue, and see room for further EUR weakness versus a range of currencies. Euro weakness versus the USD will be restrained by the weak US fundamentals, but on balance we see EUR/USD lower in the next several months.

Based on short-term interest rate differentials, with both the US and Japan official rates being close to zero, we don't expect meaningful changes in the USD/JPY rate. Rumours that Japan is aiming to 'peg' the yen versus the dollar appear baseless.

Global Markets Performance

Equity: Selected Indices	1M	3M	YTD	1Y
MSCI AC World NR USD	-9.44	-17.42	-13.56	-6.01
MSCI AC Asia Ex Japan NR USD	-13.18	-20.87	-19.94	-14.57
DJ Industrial Average TR USD	-5.91	-11.49	-3.90	3.83
S&P 500 Composite	-7.05	-13.96	-8.96	0.73
NASDAQ Composite PR USD	-6.36	-12.91	-8.95	1.97
FTSE 100 TR GBP	-4.74	-12.93	-10.58	-4.41
FSE DAX TR EUR	-4.89	-25.41	-20.42	-11.67
S&P/ASX All Ordinaries TR	-6.27	-11.28	-13.05	-8.43
Nikkei 500 PR JPY	-0.64	-8.92	-10.99	-2.76
Hang Seng HSI PR HKD	-14.33	-21.46	-23.63	-21.32
KSE KOSPI Korea PR KRW	-5.88	-15.76	-13.72	-5.51
TSEC 50	-5.87	-15.14	-18.63	-10.10
FTSE ST All Share PR SGD	-7.83	-15.52	-18.80	-15.99
Shanghai SE Composite PR CNY	-8.11	-14.59	-15.98	-11.16
Shenzhen SE Composite PR CNY	-12.14	-13.10	-22.18	-14.07
Bond: Selected Indices	1M	3M	YTD	1Y
BarCap Global Aggregate TR USD	-2.31	0.97	5.40	4.00
JPM EMBI Global TR USD	-4.20	-1.82	3.18	1.28
HSBC Asian USD Bond TR	-3.74	-1.54	1.57	-0.48

Source: Morningstar Direct as of 30 September 2011, measured in the base currencies

ING IM 2011 Market outlook

Bond yields (10y)				
quarter end (%)	Q4'11	Q1'12	Q2'12	Q3'12
Countries				
US	2.0%	1.8%	2.0%	2.5%
Eurozone	2.0%	1.5%	2.0%	2.3%
Japan	1.0%	0.8%	1.0%	1.2%
UK	2.3%	2.0%	2.3%	2.8%
Corporate bond (IG) yields				
quarter end (%)	Q4'11	Q1'12	Q2'12	Q3'12
Countries				
US	4.1%	4.1%	4.0%	4.1%
Eurozone	4.7%	4.7%	4.6%	4.5%
Japan	0.8%	0.8%	0.8%	0.8%
UK	5.6%	5.6%	5.5%	5.5%
Equity				
quarter end	Q4'11	Q1'12	Q2'12	Q3'12
Countries				
S&P 500	1100	1045	1100	1150
Euro stoxx 600	216	205	200	210
TOPIX	775	736	800	825
FTSE 100	5000	4750	5000	5250
MSCI EM Free	890	846	940	970
Foreign exchange rates				
quarter end	Q4'11	Q1'12	Q2'12	Q3'12
Currencies				
EUR/USD	1.30	1.25	1.20	1.30
USD/JPY	74	76	75	80
GBP/USD	1.50	1.45	1.40	1.50
EUR/JPY	96	95	90	104
EUR/GBP	0.87	0.86	0.86	0.87

Source: ING IM (12/10/2011)

ING IM Global Economic Outlook

	Real GDP			Inflation			Policy Rates (% , YE)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
World	5.0	3.5	3.1	3.0	4.0	3.0			
Developed	2.6	1.2	1.0	1.4	2.5	1.6	0.45	0.53	0.45
US	3.0	1.5	1.5	1.6	2.8	1.9	0.13	0.13	0.13
Euro	1.7	1.5	0.0	1.6	2.6	1.8	1.00	1.25	1.00
Japan	4.0	-0.4	1.8	-1.0	0.4	0.0	0.1	0.1	0.1
UK	1.8	0.7	0.5	3.3	4.4	2.3	0.5	0.5	0.5
Emerging	8.1	6.4	5.9	5.2	5.9	4.7			
China	10.4	9.2	8.2	3.0	5.5	3.8			

	Unemployment rate			Budget balance			Current account		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Developed	9.1	8.8	9.2	-8.1	-7.7	-6.0	-1.3	-1.4	-1.3
US	9.7	9.1	9.5	-9.1	-9.4	-7.4	-3.5	-3.8	-3.6
Euro	10.3	10.3	11.0	-6.4	-4.5	-3.5	0.0	0.3	0.1
Japan	5.1	4.8	4.5	-8.0	-9.3	-7.0	3.5	2.3	2.8
UK	7.9	7.9	8.4	-10.1	-8.8	-7.8	-2.2	-1.8	-1.3
Emerging									
China	6.1	6.5	6.4	-2.2	-1.7	-1.6	6.1	4.3	3.9

Source: Forecasts from ING IM, historical data from IMF (GDP, inflation) and Economist Intelligence Unit (rest data)

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