INVESTING INSIGHTS

EQUITIES: GLOBAL INDICES LEAD WHILE EMERGING MARKET EQUITIES CLOSE 2014 ON MIXED PERFORMANCE

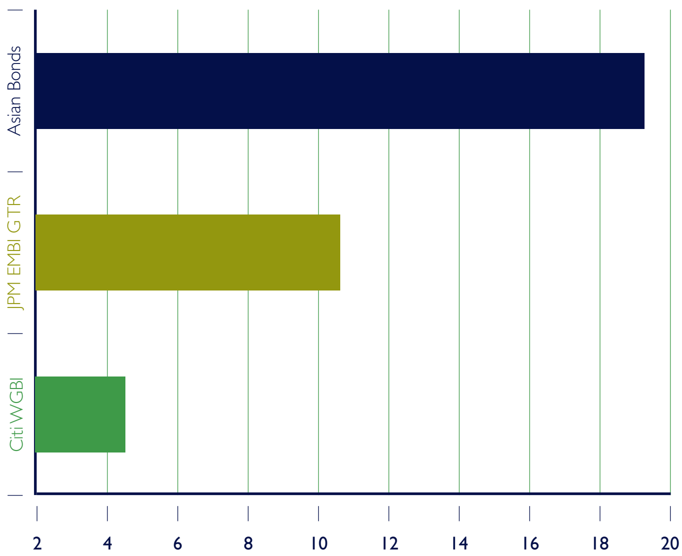
Global markets continued a defiant climb up the charts in 2014, in spite of a year filled with political and economic clamour. While Europe's FTSE100 was the only exception closing the year down by 2.7%, the US Dow Jones Industrial Average gained 8.4% in 2014, breaking 38 new highs along the way. The S&P 500 and Nikkei 225 followed suit with gains of 12.4% and 9.7% respectively.

In comparison, Emerging Market equities, particularly the BRIC group of countries, experienced vast disparities in performance in 2014. Brazil's heavy dependency on commodities exports led to a difficult year of battling declining commodity prices. The Russian economy also experienced significant setbacks and a halving of the value of the rouble, owing to sanctions imposed by the west due to the Ukraine conflict, coupled with falling investor confidence and low oil prices.

China, however, continued its positive momentum of growth. Whilst its recorded growth of 7% in 2014 was decidedly less scintillating than its previous extraordinary record 10% a year on average in the last three decades, this appears to have been accepted as the economy's settling down to a "new normal". The Shanghai Composite put in a good showing of a 30% rise, calming fears of a hard landing in 2014. India also experienced significant growth in 2014. The new pro-business government model has seen a marked positive growth in investor confidence, as evidenced by a 53% gain on the SENSEX.

BONDS: ASIAN MARKETS OUTSHINE GLOBAL INDICES

In fixed income, Asian bond markets outperformed global and emerging market counterparts, registering a 19.6% gain at the close of the year.



Fixed Income Index Returns 2014

Asian Bonds measured by JPM EMBI Plus Asia TR USD closed the year with a 19.6% growth, in contrast to Citi WGBI USD's recorded growth of 4.4% and the JPM Emerging Markets Bond index TR USD gain of 10.8%.

OUTLOOK FOR 2015

Bullish in US, mixed in Europe and emerging markets

General investing sentiment for 2015 appears to indicate that once again, the world economy will likely muddle through what is expected to be a bumpy path in the year ahead. On the global front, the outlook for the US economy is comparatively more bullish than Europe. Strong corporate earnings, low commodity prices, optimism about the shale gas boom and a supportive government make the US a more compelling story in contrast to Europe with its threat of recession and uncertainties surrounding "Grexit", i.e. Greece exiting the Euro.

Emerging markets also present a mixed bag with the outlook relatively more positive for Asian markets – China and India. Further outflows of funds back into developed markets are expected to impact Brazil and Russia owing to continuing low commodity prices.

Divergent economic impact of QE

Adding to this uneven scenario is the divergent impact of central bank policies, particularly on the quantitative easing ("QE") monetary policy front. After years of pumping money into its economy, the US has called a halt to its QE. It has been six long years of growth for the US market from March 2009. The USD has gained against all other major currencies for the first time since 1989, and both the Dow and the S&P have more than doubled. The question is – how much of this growth can be accounted for by fundamentals? QE has also resulted in inflated asset prices which benefit the wealthy but shrink the economic pie for other income classes. This inequality in the distribution of wealth between labour and capital is a potential flash point.

Europe on the other hand, is launching another round of QE to attempt to pry itself out of its pit of sluggish growth, leading to fears of a currency war as can be seen in the Swiss government's recent decision to remove the long-standing Swiss franc currency peg to find its own mark. Japan's own QE policy efforts have resulted in a depreciating Japanese yen for some time now. There are bound to be disruptive unforeseen consequences from these actions.

Whither reforms?

Economic reform has also emerged as one of the major themes for 2015. In Japan, while Prime Minister Abe's proposed "third arrow" for reforms received an overall positive response in 2014, the key to economic recovery still lies in the actual execution of the plan. President Xi's efforts have been applauded and well received outside China. There is a possibility however that impacted groups within the country may begin to show some resistance to change as the transition from export-led growth to one led by domestic consumption takes its time to play out.

In India, Prime Minister Modi's pro-business stance and reforms have led to generally positive market reactions, tempered only by domestic uneasiness in reaction to his religious leanings. Closer to home, the election of President Joko Widodo brought about a breath of fresh air in Indonesia with his firm pledge to accelerate reforms. While the momentum has been widely positive so far, it is admittedly early days yet for the new administration.

Regional and global political headwinds

Ongoing conflict in the Middle East and the resultant political headwinds across the globe continue to dominate world headlines. In the region, tensions between China and Japan in the East China Sea remain a potent risk to dampening Asia's growth.

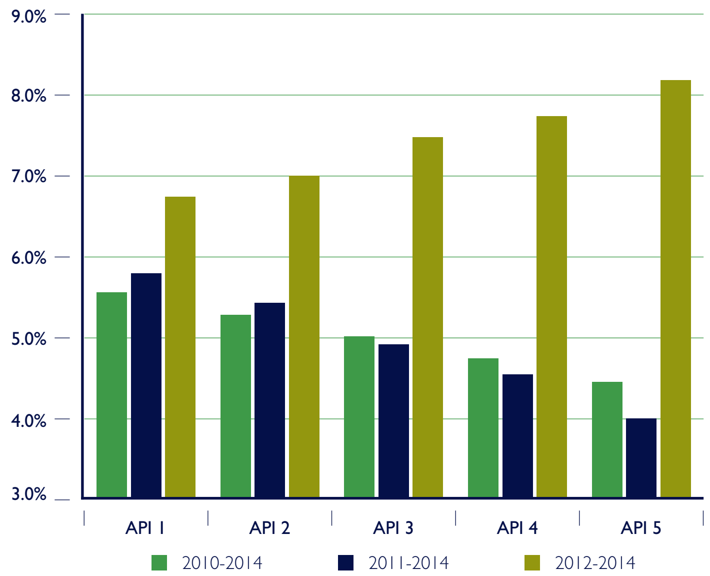
OUR RECOMMENDATION

In spite of the East China Sea tension, we believe that Asia's demographics, together with its stronger relative fiscal strength and higher expected rate of growth place it in a more favourable investing light relative to other regions. In the emerging markets sector, China in particular, is cheap both from a relative and historical standpoint, barring a hard landing. In fixed income, Asian bonds are expected to continue to do well, but more adventurous investors may also want to consider US or European high-yield.

Our recommendation for 2015 is an investment strategy with a more regional focus, in particular our Asia Power Income (API) Asian balanced portfolio. In 2014, this portfolio returned between 10% to 12% on the cash portion, and 7% to 10% on the CPF portion. This is in marked contrast to our global balanced portfolio which posted a gain of between 2.7% to 3.6% on the CPF portion, and a 3% decline on the cash portion. The decline on the cash portion of the global portfolio was attributable to a 27% drop in the sector fund focused on gold stocks.

With an asset mix diversified across regional equities and bonds, we believe our API portfolio, coupled with regular re-balancing, will provide a defensible investment strategy and a reasonable measure of risk protection against susceptibility to global economic and political currents in the coming year.

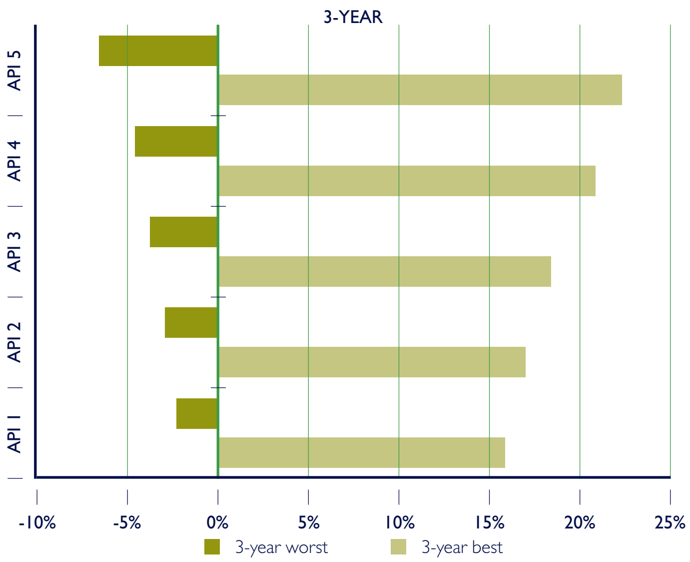
Latest API Portfolio Performance measured in 3-year, 4-year and 5-year investing horizons.

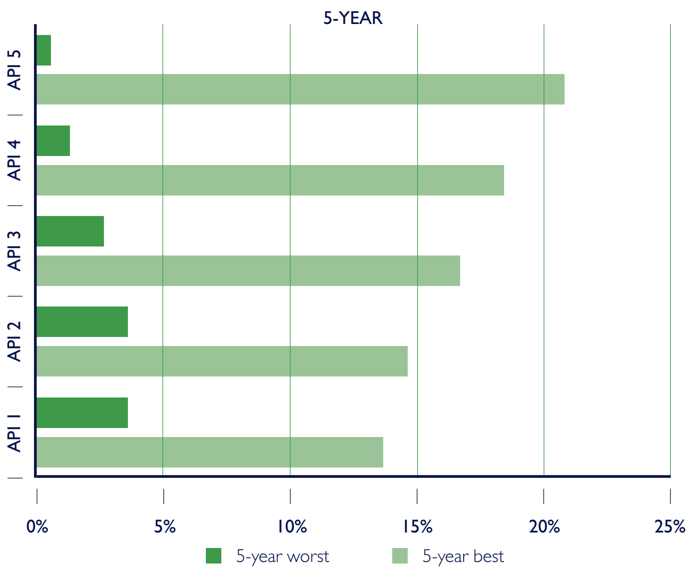


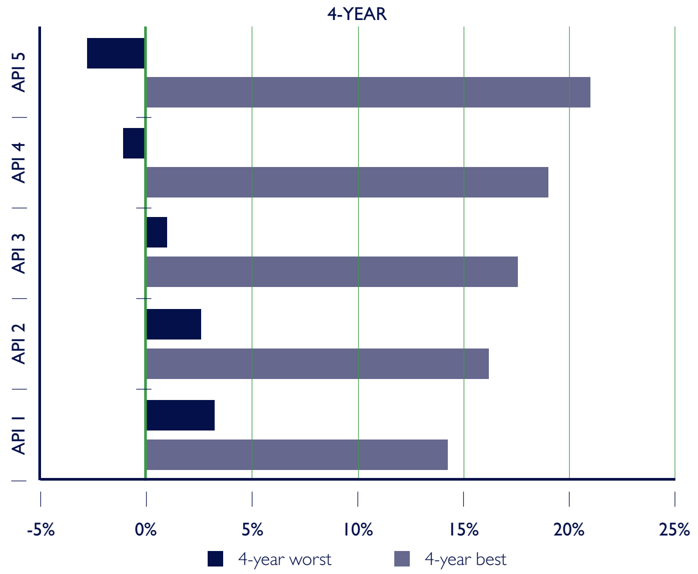
Average portfolio returns from 2000 - 2014

The API has produced average returns from 7.7% to 8% over the last 15 years. Returns on this portfolio in recent years, range from 4.5% to 5.6% per year between 2010 to 2014; 4% to 5.9% per year between 2011 to 2014, and from 6.7% to 8.1% per year between 2012 to 2014.

API Portfolio Performance - Highs and Lows measured in 3-year, 4-year and 5-year investing horizons in the last 15 years.







API portfolio returns from 2000 - 2014

Maximum gains outweighed maximum losses across all the API portfolios. The shorter term 3-year and 4-year investing horizons sustained the highest impact in terms of loss of value, due to the 2008 global financial crisis. However, when held over a 5-year investment horizon, all portfolios produced positive returns.