Quarterly Strategy Outlook
First Quarter 2012

Written by Asia Pacific Equities team, Hong Kong

Table of Contents

Summary

- **Regional stock markets rebounded at the end of the year, but in general, 2011 was a depressing reminder of the limits of decoupling.** Despite healthier balance sheets and higher absolute levels of growth, Asia ex-Japan markets generally underperformed, as equity market volatility and a retreat from risk-hit cyclical assets. In the first half of the year, investors retreated from Asian markets based on home-grown growth concerns due to rising inflation. In the second half of the year, they retreated when global growth worries intensified. Market performance was narrow, with so-called defensives in the form of consumer discretionary, staples, health care and telecoms, outperforming the more cyclical sectors of information technology (IT), materials, energy and industrials. Unfortunately, the latter constitutes nearly three-quarters of regional benchmark composition.
- **The 2012 global outlook presents significant challenges for Asia ex-Japan and its stock markets — most prominently in the form of weaker economic growth.** Recession in Europe and arising subpar growth in the U.S. will create significant growth headwinds for the region, as Europe and the U.S. account for significant end demand for Asian exporters, despite growing trade links with China over the past decade. Smaller, more open economies, such as Singapore and Hong Kong, will experience greater growth risks in this regard. Asia's larger economies will slow but have offsetting growth drivers in the form of relatively buoyant domestic consumer and investment demand.
- **A second risk to the region is via the liquidity channel, which we saw in the weakening of regional exchange rates last year.** Renewed concerns over global liquidity or a fresh bout of risk aversion and bank deleveraging could hurt economies, such as India, that have large external financing needs. External balances for the region, while likely to come in lower, will still be in positive territory. But potential account vulnerabilities are likely to come under greater investor scrutiny, and the outlook for near-term currency appreciation is weak.
- **Despite a challenging external environment, we see several positive offsets for Asian markets.** First, policy parameters in the region have started to switch more firmly toward maintaining growth — nowhere more evident than in China. While we expect China's near-term outlook to remain under pressure from weaker external demand and ongoing restrictions in the property market, we believe that fears of a hard landing in China, which were a major overhang for regional markets last year, should begin to dissipate. The signs of policy flexibility exhibited by economic authorities over the past few months and a shift to a more nuanced approach to economic management suggests that we could see further positive policy surprise designed to buoy domestic growth and, importantly, domestic stock markets.
- **Asia ex-Japan as a whole enjoys greater policy flexibility than developed markets (and many emerging market peers).** As inflationary pressures have come off on the back of softening food and commodity prices, several regional central banks have begun to cut rates, boost liquidity or shift to a more dovish tone regarding growth and inflation tradeoffs. While we do not anticipate that monetary policy will be as assertive in this down cycle, given the low level of real interest rates throughout much of the region, fiscal policy tools could also see greater play in the coming year. Relatively healthy fiscal balances and government debt dynamics (with some exceptions), alongside a busy 2012 political calendar for the region, are likely to underpin progrowth fiscal initiatives of one form or another.

- **The derating of equities and steady downgrades in earnings over the second half of 2011 has discounted much of the bad news.** However, we recognize the possibility of continued market volatility brought on by global factors, particularly the large amount of refinancing that is coming due in European bond markets in the first part of the year. As such, we remain somewhat defensive in our approach to country allocation and stock selection where we are focused on economic growth and earnings visibility. This approach keeps our bias toward consumer-related names and markets where we have greater confidence in the outlook for domestic demand. Nevertheless, the exceptionally strong performance of such sectors leads us to believe that the strategy of overweighting domestics is a consensus trade, and we look to add to cyclicality on a selective basis.
- **Our main portfolio decisions for the quarter were to boost our weighting in Korea, at the expense of India and Singapore, and add to our overweight in the Philippines.** We remain concerned about the multiple macro issues facing India, including inflation-interest rate dynamics, currency vulnerability and what appears to be a loss of reform momentum. The Philippines continues to show positive growth momentum and has proven to be exceptionally resilient to global slowdown.
- **Overall, the macro picture for non-Japan Asia is not without risks, but not uniformly dire, either**. Growth risks from the spillover impact of eurozone troubles and weaker U.S. growth remain significant, but the underlying positive fundamentals and domestic growth drivers within the region should provide some offset. In our view, non-Japan Asia will continue to be one of the relatively brighter growth spots in an otherwise subpar growth world. While global catalysts for an overall market rebound may be in short supply in coming months, the severe sell-off we saw during the latter half of 2011 has created attractive entry points for long-term investors who want to take advantage of Asia's secular growth story. In this environment, we believe the role of active management and careful stock selection is critical.

Regional Stock Market Performance

		Percentage Local currency return		Percentage U.S. dollar return	
	Dec. 31, 2011	Q4 2011	YTD 2011	Q4 2011	YTD 2011
Australia (ASX)	4,111.04	1.0	-15.2	6.5	-15.0
China (MSCI China)	53.00	7.8	-20.4	8.1	-20.3
Hong Kong (HSI)	18,434.39	4.8	-20.0	5.0	-19.9
India (BSE100)	7,927.94	-8.0	-25.7	-15.1	-37.5
Indonesia (JCI)	3,821.99	7.7	3.2	3.8	1.4
Korea (KOSPI)	1,825.74	3.2	-11.0	5.4	-13.0
Malaysia (KLCI)	1,530.73	10.4	0.8	11.3	-2.0
New Zealand (NZX50)	3,274.71	-2.1	-1.0	-0.2	-0.9
Philippines (PCOMP)	4,371.96	9.3	4.1	9.3	4.0
Singapore (STI)	2,646.35	-1.1	-17.0	-0.6	-17.9
Taiwan (TWSE)	7,072.08	-2.1	-21.2	-1.5	-24.1
Thailand (SET)	1,025.32	11.9	-0.7	10.4	-5.2
MSCI AC Far East ex-Japan[1]	812.04			5.3	-14.5
MSCI AC Asia ex-Japan[2]	841.56			3.3	-17.1
MSCI AC Asia Pacific ex-Japan[3]	812.12			4.4	-15.4

Source: Bloomberg, as of Dec. 31, 2011

1 The **MSCI AC Far East ex-Japan Index** consists of the following nine developed and emerging market indices: China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

2 The **MSCI AC Asia ex-Japan Index** consists of the following 10 developed and emerging market indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

3 The **MSCI AC Asia Pacific ex-Japan Index** consists of the following 12 developed and emerging market indices: Australia, China, Hong Kong, India, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, and Thailand.

Quarterly Strategy Outlook — Q1 2012

Quarterly Review

Market Review

Asian Market Performance since Jan 1989
MSCI AC Asia Pacific ex-Japan Total Return Index

Source: Bloomberg
Data as of Dec. 31, 2011

Asian Market Performance since Jan 2004
MSCI AC Asia Pacific ex-Japan Total Return Index

Source: Bloomberg
Data as of Dec. 31, 2011

Regional markets closed the year on a positive note, with the Asia Pacific ex-Japan Index gaining 4.4% in the fourth quarter, as measured by MSCI in U.S. dollar terms. Nevertheless, 2011 proved to be a difficult year for equity investors, with extreme volatility commencing in the second half, resulting in violent market swings and sharp sector rotation. The MSCI AC Asia Pacific ex-Japan Index lost 15.4% in U.S. dollar terms for the year.

Regional market trends exhibited two distinct calendar halves. In the first half of the year, markets were generally sideways, as inflation trended higher and monetary policy tightened. In the second half of the year, more generalized concerns over global growth and the eurozone crisis led to a sharp derating in Asia emerging markets as risk aversion spiked and commodity prices declined. In terms of fund flows, emerging market equity funds recorded a net redemption of U.S.$34 billion in 2011, the largest since 2008. Asia ex-Japan regional funds accounted for nearly half of this outflow with a net redemption of U.S.$16.6 billion (both figures to Dec. 31, 2011).

Overall, emerging market equities underperformed developed market equities by 13% for the year — the poorest relative performance in 11 years. Investors paid scant attention to fundamentals, as risk and cyclical asset classes were sold down sharply and indiscriminately. By contrast, domestic and defensive sectors were extremely resilient, as consensus viewed these sectors as less vulnerable to developed economy downturn. Consumer discretionary, consumer staples and utilities ended the year with mild losses, while telecommunication posted an impressive 10% gain in a difficult environment.

Regional markets in 2011 were also not helped by a series of natural catastrophes, starting with Queensland flood in Australia, which is estimated to reduce Australia's GDP by A$30 billion. This was followed by the biggest earthquake ever recorded in Japan in Fukushima, resulting in the devastating tsunami that triggered a nuclear crisis at the Tohoku power plant. The shock resulted in product line suspension and shortage of auto components and other specialized materials temporarily, before gradual resumption of facilities in subsequent months. In the second half of the year, major floods hit Thailand, affecting Bangkok and most provinces in Southern Thailand. Global supply chains for hard disk drives were severely disrupted, as Thailand is the second-largest producer and accounts for approximately 25% of worlds' production. The World Bank estimated that the flood ranks as the fourth costliest disaster, surpassing only by the Tohoku earthquake, the Kobe earthquake in 1995 and Hurricane Katrina.

During the quarter under review we witnessed a significant turnaround in central bank policy stances, shifting from inflation control to progrowth strategies. The Reserve Bank of Australia (RBA) executed back-to-back 25bps interest rate cuts, its first reduction in more than two-and-a-half years, citing Europe's fiscal crisis as a key threat to the nation's commodity exports. Indonesia's central bank cut its policy rate twice during the quarter, with an aggregate 75bps cut, making it one of the more aggressive central banks in Asia. The Bank of Thailand also cut its policy rate by 25bps to 3.25%. Perhaps most significant was the move by the People Bank of China (PBC) to reduce its reserve requirement ratio (RRR) by 50bps, following the coordinated effort from global central banks to reduce strains on liquidity. While primarily a response to address domestic liquidity shortfalls following capital outflow, the move marked the end of 23 months of progressive hikes in the RRR since January 2010.

Regional Highlights

Greater China markets generally bounced back during the quarter, despite weaker macro data. China saw further evidence of weakening growth momentum in the form of a weaker purchasing managers index (PMI). The November PMI fell below the critical level of 50% to 49%, signaling a contraction in manufacturing, before modestly rebounding to 50.3% in December. On a positive note, inflation eased meaningfully to a 4.2% year-over-year (YOY) rate in November, the lowest reading in 14 months. Hong Kong interbank and deposit rates crept up during the quarter, with tighter HK dollar base liquidity and deposits gradually shifting to renminbi, offered higher yield and appreciation potential. Coupled with the imposition of punishing stamp duty measures, the Hong Kong residential market remained sluggish, with muted transaction volume. Residential mortgages in negative equity also surged from a low base, with the majority arising from highly geared loans. Taiwan was the weakest market in the Greater China region, as macro headwinds from developed economies weighed further on Taiwan's exports and IT sector, resulting in negative returns for the local exchange.

The Indian market extended its losses in the final quarter, making it one of the worst-performing stock markets worldwide. Unlike the rest of the region, inflation continued to be sticky and register high monthly readings. In addition, a widening current account deficit on the back of weaker exports, and the Indian Rupee depreciated another 8% in the fourth quarter following a 9% loss in the previous quarter. Following a series of repo rate hikes, the Reserve Bank of India cited a current growth-inflation tradeoff and more rate hikes may not be warranted.

The Korean market also rebounded, despite a mixed picture for macroeconomic data and the political shock of the death of North Korean leader Kim Jong-Il. Third quarter GDP expanded 0.8% quarter on quarter (QOQ) in the three months through September, and 3.5% YOY, marginally ahead of the previous quarter, but inflation remained stubbornly high. December CPI came in at 4.2%, the fastest growth in four months, driven by seasonally higher food prices (7.5% YOY in December versus 6.0% in November). As a result, the Bank of Korea kept rates unchanged for the sixth consecutive month, with little guidance on any easing bias. Equity markets took a temporary dive following news on Dec. 19 of the death of North Korea leader Kim Jong Il, but quickly rebounded, keeping with previous patterns of stock market performance following North Korean political developments.

ASEAN emerging markets continued to show resilience over the quarter, led by Malaysia and Thailand. In Malaysia, a new financial sector blueprint was released by Bank Negara, focusing on strengthening the competitiveness and efficiency of the financial sector and raising the sector contribution from 8.6% to 10% to 12% for the coming decade. Indonesia ended the year on a positive note, as the long-awaited sovereign debt rating upgrade to investment grade finally materialized in December. Fitch granted Indonesia a BBB- rating with a stable outlook, returning the country to investment-grade status after its downgrade 14 years ago on the heels of the Asian financial crisis. Another positive headline was the passage of legislation designed to facilitate the land acquisition process, seen as a boost to domestic infrastructure. Thailand was hit with the worst flooding seen in 50 years, which affected more than two-thirds of the country and caused disruptions to agriculture and manufacturing production and tourist arrivals. With consensus forecasting a sharp contraction in fourth quarter GDP, the Bank of Thailand revised down its 2011 GDP forecast from 2.6% to 1.8%, while boosting its 2012 GDP estimate to 4.8% from 4.1% previously. Philippine GDP growth edged higher to 3.2% in the third quarter from 3.1% the previous quarter. Negative contribution form weak external demand was offset by strong private consumption and gross investments. Given the relatively robust state of the economy, the Philippines central bank kept benchmark rate unchanged at 4.5% for the quarter, citing manageable inflation risks in the target range of 3% to 5% for 2012. Singapore was the poorest-performing ASEAN market for the quarter, given its reliance on exports to developed economies. The latest non-oil domestic exports grew at a modest 4.0% YOY, primarily due to a volatile pharmaceutical sector. The cyclical nature was reflected in its advance GDP, which stood at -4.9% QOQ.

Strategy Review

MSCI AC Far East ex-Japan Strategy

The representative portfolio registered a positive return of 2.6% in fourth quarter 2011, underperforming the benchmark by 2.7%, as MSCI AC Far East ex-Japan Index gained 5.3%. The underperformance was mainly driven by stock selection and some country weightings to a lesser degree. The overweight in China added value as the market was the third-best performing market (+8.1%) during the fourth quarter of 2011; however, it was offset by the overweight in Singapore, which proved to be the worst regional performer (-1.0%). At a stock level, the selections in Indonesia, the Philippines and Taiwan added value, while stocks in China, Hong Kong and Thailand detracted from returns. At a sector level, the overweight in consumer discretionary and the underweight in both financials and industrials subtracted value. For the full year 2011, the model underperformed the benchmark by 1.5%, as the former registered a negative return of 16.0% as compared with the MSCI AC Far East ex-Japan Index loss of 14.5%. The overall country allocation was positive, as the overweight in Indonesia and Thailand worked well. Overall stock selection was negative, primarily due to the selection in China (exposure to materials and industrials stocks), Hong Kong (underweight utilities) and Taiwan (overweight tech hardware).

MSCI AC Asia ex-Japan Strategy

The Asia ex-Japan portfolio registered a positive return of 1.2% in the fourth quarter 2011, underperforming the benchmark by 2.1%, as the MSCI AC Asia ex-Japan Index gained 3.3%. Both country allocation and stock selection detracted from returns. Stock selection in India, Indonesia and the Philippines added value but was unable to offset the negative contribution from stock selection in China, Hong Kong, Korea and Thailand. The underweight in India and stock focus contributed positively to performance. In India, exposure to consumer discretionary (ITC) and tech software (TCS) added value. For the full year 2011, the model portfolio registered a negative return of 17.6%, slightly underperforming the benchmark by 0.5%, as MSCI AC Asia ex-Japan Index declined 17.1%. The overweight positions in Indonesia and Thailand and the underweight in India added significant value. On the sector level, selection in energy stocks was positive but selection in consumer staples and telecom detracted from returns.

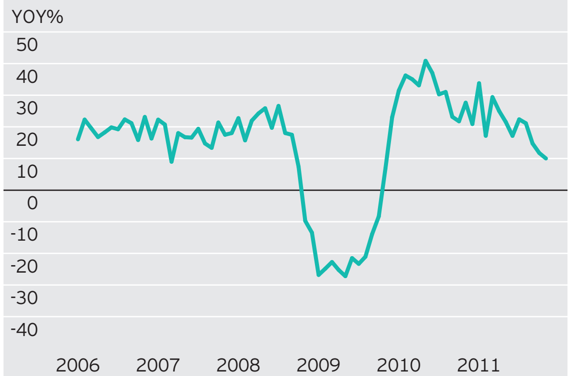
MSCI AC Asia Pacific ex-Japan Strategy

During the quarter ended December 2011, the Asia Pacific ex-Japan representative portfolio posted a positive return of 3.6%, compared with a positive return of 4.4% from the benchmark MSCI AC Asia Pacific ex-Japan Index, thus underperforming by 0.8%. Both the overweight and stock selection in Australia added value to performance. In Australia, the exposure to resources and financial stocks contributed positively to performance. For the full year 2011, the model portfolio registered a negative return of 15.3%, in line with the benchmark, as the MSCI AC Asia Pacific ex-Japan Index declined 15.4%. Both the overweight in Australia and its stock selection added value.

Regional Outlook

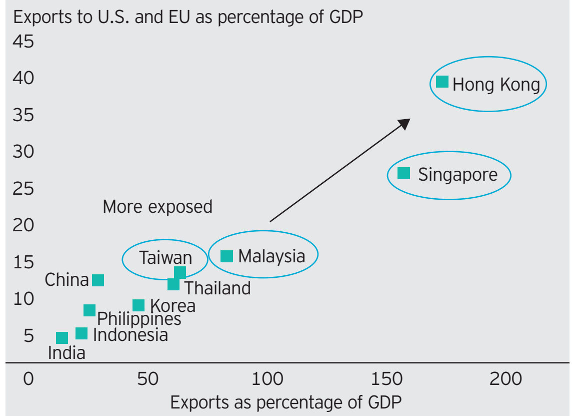
We see several key risks for the region in light of ongoing uncertainties in developed markets. The first is obviously through the growth channel. While it can be debated whether 2012 will see a breakup of the EU in its current state or some form of muddling-through scenario, the impact of the ongoing eurozone sovereign crisis will be additional austerity and recession in Europe. The U.S. economic picture has looked marginally better judging by recent activity indicators, but as a whole, we expect the U.S. to experience subpar growth in the medium term, as the household sector continues to rebuild balance sheets and housing market activity remains weak. Export growth has begun to slow meaningfully over the past few months for the region. While there has been some uptick in various forward-looking indicators, such as the U.S. PMI, we believe the outlook for manufacturing and exports in the first quarter remains weak relative to 2011.

Asia Ex-Japan Exports Are Slowing



Sources: Bloomberg, Invesco
Data as of Jan. 2, 2012

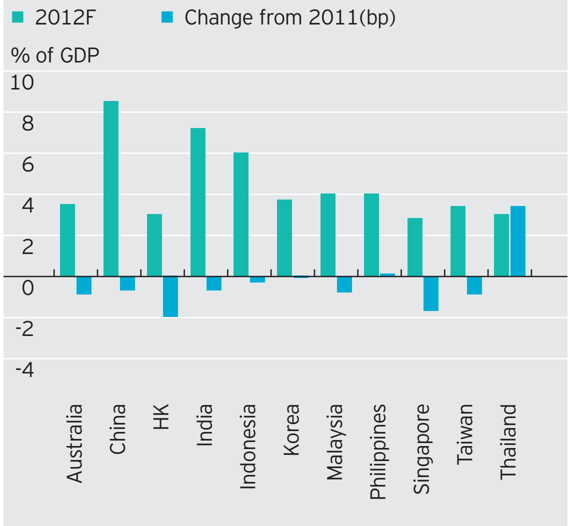
Exposure to Exports Slow



Sources: Bloomberg, UBS, Invesco
Data as of Jan. 2, 2012

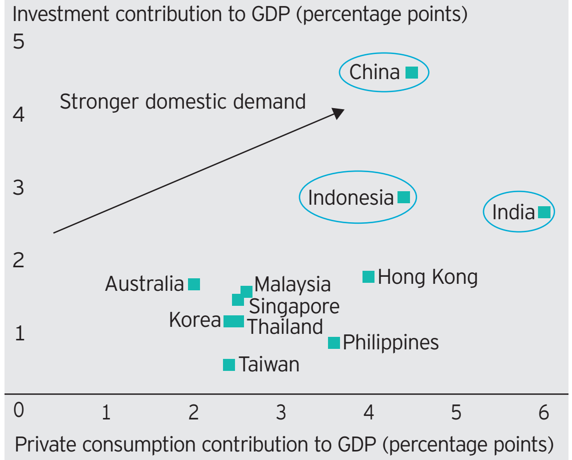
Small, open economies are more vulnerable in the current environment. Hong Kong and Singapore are the most exposed, given the intensity of exports within the economies as a whole and the reliance on the eurozone and U.S. as end markets. We are likely to see the sharpest slowdown in GDP in these two economies, although Hong Kong should see some positive offset from continued mainland tourist spending, which is buoying domestic consumption. Taiwan, Korea and Malaysia are also relatively more exposed to global trade slowdown. Countries with larger domestic economies — notably India, China and Indonesia — possess some offsetting growth buffers, but will not emerge unscathed given weaker external sectors and lower commodity prices. We also see relative resilience in the Philippines, given the strength of domestic demand and Thailand, where we expect a strong rebound from post-flood disruptions this year.

GDP Forecasts for 2012



Source: Invesco
Data as of Jan. 2, 2012
F = Forecast

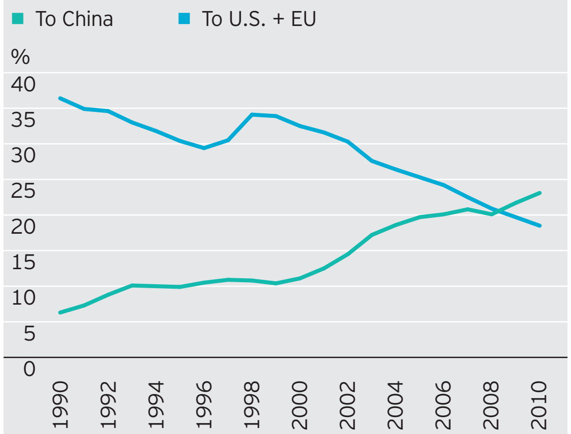
Where is Domestic Demand Strong?



Sources: JP Morgan, Invesco
Data as of Jan. 2, 2012

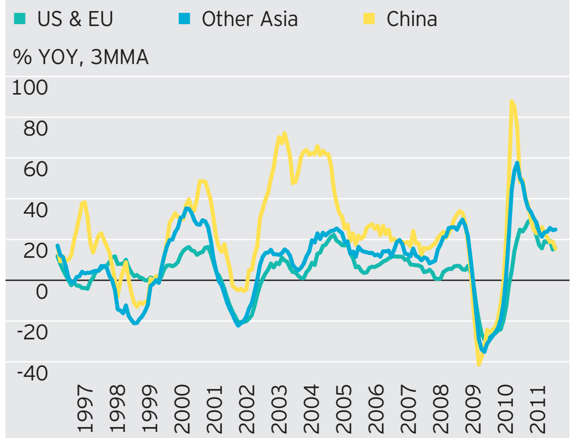
China has been a growing trade partner to much of Asia but is unlikely to serve as a compensating engine for Europe and the U.S. China's accession to the WTO at the end of 2001 was the catalyst for further integration into the world economy and growing economic dominance within the region. By 2009, China had become the largest trading partner for much of the rest of Asia ex-Japan, with more goods destined for the Chinese market than the U.S. and EU combined. However, much of this trade represents the various links in production chains consisting of parts and intermediate goods for exports destined for final demand outside the region. A study by the Asian Development Bank estimates that in 2009, approximately 46% of intraregional exports and 75% of regional imports were in parts and components, compared with 17% and 15%, respectively, for Latin America. As such, intraregional trade remains highly correlated with trends in trade with the U.S. and EU. Analysis on GDP sensitivity to changes in U.S. and EU growth and changes relative to Chinese growth also confirms the continued importance of developed markets to the rest of the region. While we believe that China's longer-term goals to boost domestic consumption will be more supportive growth engine over time, in the short term, Asia remains a high-beta growth play on the developed world.

Non-Japan Asia (ex-China) Exports by Country



Sources: Deutsche Bank, CEIC, Invesco
Data as of Dec. 20, 2011

Asian (ex-China, India) Exports by Destination

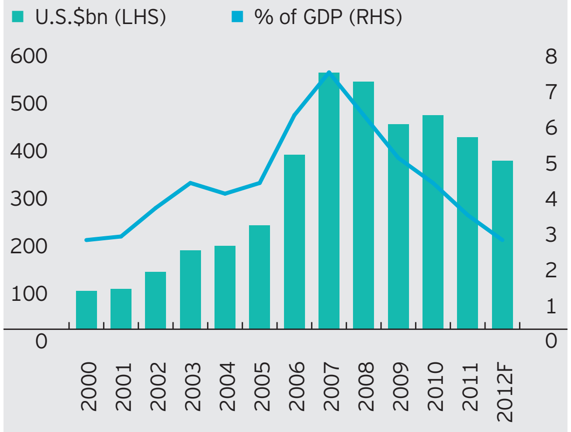


Sources: Deutsche Bank, CEIC, Invesco
Data as of Dec. 20, 2011

A second risk to the region comes in the form of tighter global liquidity. As seen in the behavior of regional exchange rates in the second half of 2011, countries with weaker account balances or those that have relatively high short-term debt relative to GDP are more vulnerable to contractions in global liquidity. Ample global liquidity and surging foreign capital inflows were a source of currency strength (and indeed policy frustration) for most of the region in 2010, with virtually all currencies strengthening over the course of the year and into the first half of 2011. As the selloff in risk assets and bank deleveraging ramped up in the second half of the year, markets with higher funding needs saw greater currency weakness. India, like other emerging markets with higher funding needs or reliance on short-term capital inflows (e.g., Hungary, Poland, South Africa, Turkey), saw a sharp weakening in foreign exchange of double-digit levels.

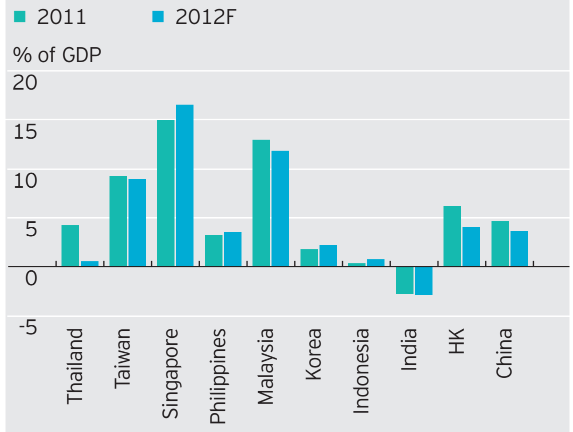
While weaker trade will erode external balances next year, most Asian external balances will remain in surplus. India remains an exception in this regard, and we can expect the exchange rate to remain under pressure if we see renewed concerns over global liquidity and funding. Thailand and Indonesia also have slightly more precarious external positions as well, but on the whole, Asia's external fundamentals in terms of foreign reserves, trade balances and levels of short-term debt remain quite manageable. This is particularly the case when looking at other emerging market peers in other regions. While market volatility and renewed concerns over global growth could cause some weakening in regional exchange rates on the whole, we believe the longer-term case for currency appreciation remains intact.

Asia ex-Japan Current Account Surplus will be Lower



Sources: IMF, UBS, Invesco
Data as of Dec. 20, 2011
F = Forecast

Current Account Balance by Country
as percentage of GDP



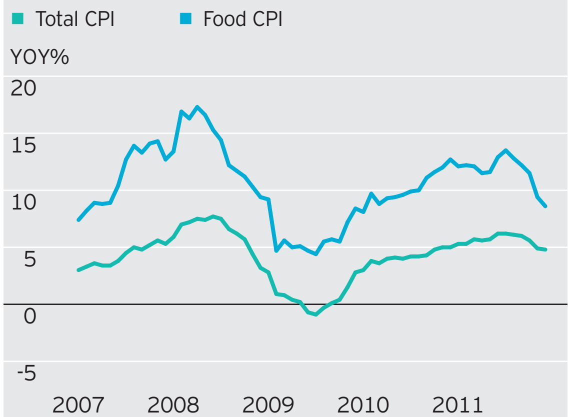
Source: UBS, Deutsche Bank, Invesco
Data as of Dec. 20, 2011
F = Forecast

China hard landing fears have been another source of concern for the region. Although the economy has shown gradual moderation in growth, reports of hidden leverage by local governments, more-frequent private sector bankruptcies and the growth of a shadow banking sector stoked investor fears that the China's financial system is inherently unstable, particularly as the property market corrects, and that risks of more profound collapse are rising. Through most of 2011, China bears appeared to carry the day, with Chinese equity markets – financials in particular – among the worst-performing equities in the region,

China still faces considerable uncertainties in managing the path to a soft landing given further downturn within the property sector, but we believe the fears of economic collapse are overblown. For one, there are offsetting buffers to growth in the form of continued growth in urban incomes, which will be supportive of consumption growth, and a relatively benign outlook for public sector property spending and nonproperty investment growth. Second, balance sheets of the corporate, financial and government sector remain relatively healthy. Third, with inflation peaking in the second half of 2011, policy parameters have switched from anti-inflationary strategies to a more nuanced approach to supporting growth. Selective measures to ease the various pressure points in the economy (local government debt, financial distress on small and medium enterprises) have been introduced, while the cut in the required reserve ratio (RRR) in November of last year, coupled with some evidence of a pickup in lending activity at the end of the year, suggest that the worst of credit tightening may now be behind us. Finally, it's worth remembering that property slowdown in China has been policy-induced, and recent statements by authorities recognizing the need to be vigilant over the extent of market correction suggests that the government could relax controls before an extremely bearish scenario is reached.

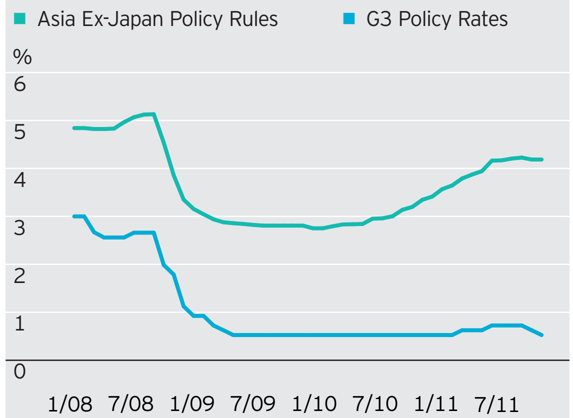
The signs of policy action in China are a reminder that non-Japan Asia as a whole possesses greater policy flexibility than developed markets, where fiscal discipline is required and monetary firepower is more limited. The easing of inflationary pressures as commodity (and food) prices have come off has given regional central banks some scope for easing policy. In addition to China's RRR cut, we have started to see some cuts in rates (Indonesia, Thailand) and more dovish statements regarding the balance between inflation and growth from other central banks in the region. Monetary options are weaker than in the pre-2008 period. Sticky inflation levels in some economies (e.g. India), concerns about property speculation (e.g. Singapore, HK and China) and low real interest rates throughout much of the region are likely to temper monetary responses. Nevertheless, we believe central banks stand ready to act in the event of another bout of tight liquidity or heightened capital market risks.

Asia Ex-Japan Inflation



Sources: Bloomberg, Invesco
Data as of Dec. 20, 2011

Asia Ex-Japan Interest Rates



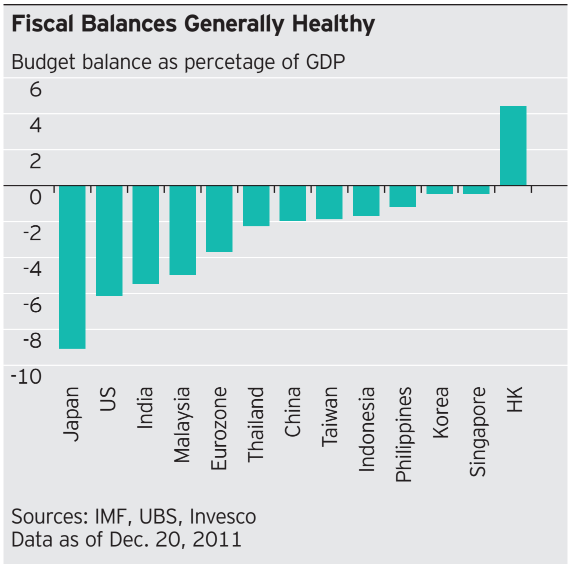
Sources: Bloomberg, Invesco
Data as of Dec. 20, 2011

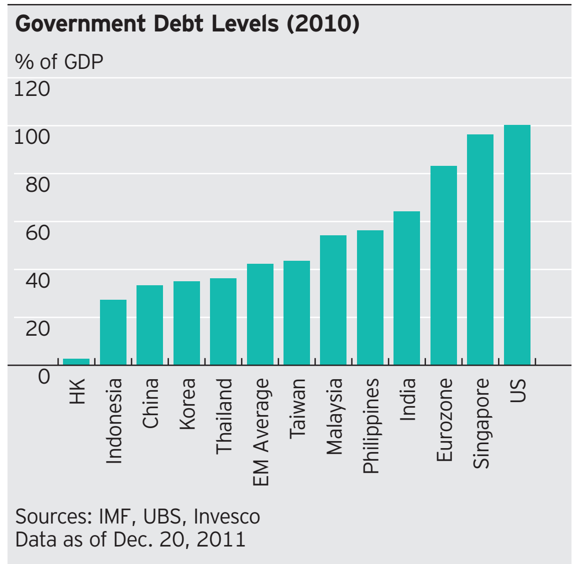
Government balance sheets are also in relatively good shape and with a busy election calendar for 2012 in Asia, stimulus could come in the form of fiscal measures. In 2012, we will see executive and legislative elections in Taiwan, Hong Kong, Korea, and possibly Malaysia, as well as state elections in India. China's five-year leadership transition to a new generation of leaders in 2013 is also likely to take further shape over the course of 2012. Fiscal initiatives could come in the form of stepped-up reform measures to bolster medium-term investment spending as we have recently seen in the Philippines and Indonesia; new tax initiatives such as China's VAT reforms to support specific economic sectors; planned hikes in minimum wages as expected in Thailand in 2012, amongst others.

Political Change in Asia

January	Taiwan	Legislative and Presidential Elections
February	Malaysia	General Election (tentative)
March	Hong Kong	Selection of Chief Executive
April	South Korea	Parliamentary
May	India	State elections for Goa and Uttar Pradesh
September	Hong Kong	Legislative elections
October	China	Leadership change
November	India	State elections (tentative)
December	South Korea	Presidential

Source: Invesco
Data as of Dec. 20, 2011





Given the more challenging macro environment for 2012, what is the outlook for markets? Any constructive outlook for the Asian markets has to begin with a switch back into cyclicality. While markets have rallied into the year and volatility indicators such as the VIX have declined, we believe markets remain vulnerable to negative news on the growth and liquidity fronts. Our cautious view on consumption in the developed market remains unchanged, since we believe that the deleveraging process is likely to extend through 2012. Ongoing concerns over sovereign debt downgrades will continue to limit the scope for countercyclical public spending.

Liquidity channels could also come under pressure as countries and corporates look to roll over a large amount of debt this year and banks continue to deleverage to fulfill higher capital ratios. Dislocations could not only roil market sentiment, but more importantly, cap investor inflow into the region. After inflows of over U.S.$84 billion in emerging markets in 2010, redemptions through October 2011 hit U.S.$34 billion – nearly at the post-Lehman levels of U.S.$39 billion in 2008. Nearly half of these came from Asia ex-Japan equity funds.

Our regional portfolios are therefore biased toward domestic themes. The sector preference of our regional portfolios remains focusing on consumer discretionary, energy and telecom. Defensive sectors like consumer staples, telecom and utilities were the top-performing sectors in the highly volatile markets for 2011. The strong performance of these sectors last year makes us believe that the strategy of overweighing defensive sectors may now be a consensus trade. However, given the severe selloff in more cyclical segments of the market and lack of underweight investor positioning, we have begun to add selectively to cyclicality in specific markets.

First Quarter Country Allocation

We derive our country allocation by ranking regional markets on the basis of quantitative factors relating to growth, liquidity, valuation and external balance (fundamental scores), as well as the degree of change in these factors from the previous quarter (momentum scores). For the coming quarter, the fundamental scores for most countries fell slightly on the back of another round of earnings and economic growth downgrades. China and Hong Kong topped the fundamental score list, but both also saw a sharp decline in momentum scores due to steep decline in economic activity after the stock market selloff in the third quarter. The Philippines was the only country that showed an upward momentum score. Downward growth momentum in Taiwan and Indonesia has also stabilized. Based on the overall scores, Taiwan bounced back to be the top-ranked market for the first quarter of 2012, followed by the Philippines and China. India, Thailand and Malaysia anchor the bottom end of the ranking table, because of their weak momentum scores.

Overall Scores of Fundamental and Momentum Factors

Sources: Invesco Hong Kong
Data as of Dec. 31, 2011

MSCI AC Far East ex-Japan Strategy

The allocation outcome for the first quarter of 2012 is to overweight Taiwan, the Philippines, China, Indonesia and Korea. The key change is to swap positions between South Korea and Singapore, returning South Korea to a slight overweight position. The latest GDP figures from Singapore confirm our belief that the country is vulnerable to developed market slowdown, while additional measures to cool the property market are likely to cool domestic demand. Hong Kong, another externally dependent market, is likely to follow Singapore with weak economic growth over the near term. The property market saw sharp drop in transactions, but property prices remain firm due to strong investment demand. Our regional portfolios are underweight both markets in the first quarter of 2012.

Elsewhere in Greater China, Taiwan tops our ranking table despite sharp downward earnings revisions, especially in the IT sector, low earnings and political visibility. However, earnings downgrades appear to be stabilizing. Near-term uncertainty may come from the upcoming presidential election in mid-January. If the incumbent government, KMT, were to retain the Presidency, closer economic and political ties with China is likely to bring short-term positivity to the market. **China lagged regional markets in 2011, but our model continues to overweight the market.** Growth has slowed noticeably, especially the external sector, as well as within the property sector. The cut in reserve requirement ratio in November 2011 has provided the market with positive expectations about further easing if the growth momentum decelerates.

Within ASEAN, we added to our overweight position in the Philippines and maintained our positive stance on Indonesia. The Philippines continues to grow without running up a fiscal deficit and has shown exceptional resilience to external slowdown, as remittances from overseas workers have provided a durable source of foreign capital funding domestic credit growth. In Indonesia, monetary easing, a sovereign credit upgrade and the continued strength of domestic demand continue to support our overweight. Thailand dropped to the bottom of our ranking table, on the back of a sharp downturn in economic momentum following flood disruptions. Infrastructure spending earmarked for rebuilding the flooded regions will provide source for growth, but it is likely to materialize in the second half of 2012.

MSCI AC Asia ex-Japan Strategy

We remain underweight the Indian market in our broader Asia ex-Japan portfolios. Indian equities proved to be one of the worst global performers in 2011 and we remain concerned about the near term growth outlook as well as additional earnings downgrades over the next two quarters. India is currently battling with multiple issues ranging from high inflation and interest rates to what appears to be a more fundamental policy paralysis, which has resulted in investment delays by the private sector and a negative impact on foreign capital flows. The commitment to reform has been brought under question by several populist measures by the government over the last few years which have resulted in deteriorating financial health. As markets focused on liquidity risks, the currency weakened severely in the second half of last year and in our view remains vulnerable. While we expect the Reserve Bank of India (RBI) to start easing over the next few months as inflation and growth momentum begins to fall, the move may not be sufficient to restore private sector confidence and market sentiment.

MSCI AC Asia Pacific ex-Japan Strategy

We have reduced our overweight position of Australia in our Pacific portfolios. Earnings downgrades for the commodity sector have begun to be downgraded as commodity prices have fallen, while the rebound of Australian dollar against the USD is likely to exacerbate the slowdown in demand for exports. One silver lining is cuts in interest rates by the Reserve Bank of Australia in December 2011 and room for additional cuts going forward.

Asia Ex-Japan Forward P/E

Source: Invesco
Data as of Jan. 5, 2012

Asia Ex-Japan Forward P/B

Source: Invesco
Data as of Jan. 5, 2012

Economic and Valuation Tables

Economic Summary

		Australia	China	Hong Kong	India	Indonesia	Korea	Malaysia	New Zealand	Philippines	Singapore	Taiwan	Thailand
Population (million)		22.7	1,341.0	7.1	1,186.0	234.2	48.9	28.3	4.4	94.2	5.0	23.1	63.9
GDP per capita (U.S.$)		55,197	4,384	31,835	1,370	3,017	20,757	8,417	31,930	2,296	44,316	18,601	4,992
GDP Growth (%)	2008	2.1	9.0	2.5	9.0	6.1	2.5	4.7	0.4	4.6	1.3	0.5	2.6
	2009	1.3	8.7	-2.7	6.7	4.5	0.2	-1.7	-2.1	0.9	-2.0	-1.9	-2.3
	2010	2.7	10.2	6.8	7.4	6.1	6.1	7.3	0.6	7.3	14.6	10.8	7.8
	2011F	1.6	9.2	5.0	8.5	6.3	3.8	4.8	1.5	3.9	4.5	4.5	0.6
	2012F	3.5	8.5	3.0	7.2	6.0	3.7	4.0	2.3	4.0	2.8	3.4	4.0
India Y/E March	2013F				7.5								
INFLATION, M2, RATES													
CPI (%)	2008	4.4	5.9	4.3	4.6	9.8	4.7	5.4	4.0	9.3	6.5	3.5	5.5
(Period Average)	2009	1.8	-0.7	0.5	8.5	4.8	2.8	0.7	3.3	3.4	0.6	-0.9	-0.8
	2010	2.9	3.3	2.4	3.8	5.1	3.0	1.7	1.9	3.8	2.8	1.0	3.3
	2011F	3.8	5.5	5.3	8.9	5.4	4.0	3.5	3.8	4.8	5.0	1.4	3.8
	2012F	3.8	4.0	4.6	7.0	5.8	3.5	2.9	2.9	3.5	3.2	1.3	3.5
India Y/E March	2013F				6.0								
M2 Growth (%)	2008	13.5	17.8	2.7	19.0	16.1	13.5	13.8	7.2	8.1	10.8	2.7	5.4
(Period End)	2009	3.3	29.6	7.3	20.5	16.0	10.3	8.3	7.3	13.1	11.3	6.8	8.3
	2010	4.1	19.3	10.0	18.5	15.3	8.7	8.4	-1.7	9.0	8.9	4.6	8.0
	2011F	11.1	13.5	11.0	16.0	16.0	5.0	10.0	5.2	9.0	9.0	5.7	15.0
	2012F	11.2	14.5	7.0	16.0	15.0	6.0	7.0	5.6	8.0	7.0	5.6	8.0
India Y/E March	2013F				16.0								
Loans Growth (%) (Period End)	2008	6.5	15.0	10.9	23.0	25.0	14.1	10.9	3.8	17.8	23.2	2.5	8.5
	2009	1.7	30.0	0.0	24.0	10.0	3.9	8.9	3.2	13.1	5.2	-1.5	3.6
	2010	4.2	21.5	30.0	16.4	22.8	3.5	11.4	1.6	15.0	9.6	5.0	10.0
	2011F	3.4	14.6	20.0	21.2	21.0	5.0	12.0	2.0	18.0	20.0	8.0	16.0
	2012F	5.2	14.4	10.0	18.0	19.0	6.0	7.0	4.0	13.0	5.0	5.0	12.0
India Y/E March	2013F				18.0								
Interest Rate %	3-mth rate	4.47	5.45	0.36	8.47	5.30	3.35	3.22	2.21	1.71	0.13	0.89	3.27
(Latest Available)	Prime	4.25	6.10	5.00	9.87	14.82	3.55	6.55	2.50	5.74	0.39	5.04	3.25
EXCHANGE RATES, FOREX RESERVES													
Forex	2007	1.14	7.30	7.80	39.42	9,392.50	936.05	3.31	1.30	41.28	1.44	32.44	33.69
(U.S.$1 =)	2008	1.43	6.82	7.75	48.72	10,900.00	1,259.55	3.46	1.71	47.55	1.44	32.82	34.78
	2009	1.11	6.83	7.75	46.54	9,395.00	1,164.48	3.42	1.37	46.23	1.40	31.99	33.34
	2010	1.02	6.59	7.77	44.72	9,010.00	1,134.90	3.08	1.28	43.81	1.28	29.16	30.15
(latest)	2011	0.97	6.39	7.79	48.98	8,790.00	1,178.05	3.19	1.31	43.73	1.30	30.48	31.09
Forex Reserve	2007	24.2	1,528.0	152.6	266.6	54.7	261.8	100.6	17.1	30.1	162.5	270.3	85.1
(U.S.$bn)	2008	29.9	1,946.0	182.5	246.6	49.3	200.5	90.6	10.9	33.0	173.6	291.7	108.3
	2009	33.0	2399.2	255.8	258.6	60.6	265.2	92.9	14.0	37.5	186.0	348.2	133.6
	2010	32.8	2847.3	268.6	267.8	90.0	286.9	102.3	15.1	54.0	223.9	382.0	165.7
(latest)	2011	42.8	3202.0	282.5	302.1	106.8	308.6	130.1	20.6	67.9	241.0	388.0	169.6
Latest FX reserves /Total Import (in months)		2.4	22.0	7.0	9.4	7.3	7.1	8.9	7.3	13.2	8.8	16.6	9.1
Latest FX reserve per capita (U.S.$)		1,067.8	1,139.4	21,590.9	224.8	233.6	5,356.6	3,561.0	3,896.7	319.7	32,338.3	11,681	1,332.2

Economic Summary (continued)

		Australia	China	Hong Kong	India	Indonesia	Korea	Malaysia	New Zealand	Philippines	Singapore	Taiwan	Thailand
EXTERNAL TRADE													
Export Growth (%)	**2008**	28.0	18.1	5.1	28.9	17.2	14.4	13.1	14.0	-2.0	-1.8	3.6	15.6
	2009	-9.5	-16.4	-10.0	13.7	-20.0	-11.5	-19.5	-3.7	-21.9	-11.9	-9.2	-12.7
	2010	5.3	32.3	16.8	-3.6	35.4	24.3	27.6	4.8	34.0	31.3	25.6	28.0
	2011F	-1.7	22.0	11.3	32.0	29.0	18.5	14.0	1.3	-11.0	10.0	11.8	14.0
	2012F	5.1	16.0	5.6	20.0	15.0	9.1	6.0	2.6	3.0	1.0	4.9	2.0
India Y/E March	**2013F**				16.0								
Import Growth (%)	**2008**	18.8	20.0	5.4	35.1	40.0	22.3	6.6	12.6	2.0	31.0	9.7	27.6
	2009	-9.8	-9.4	-9.0	19.8	-30.0	-27.1	-21.0	-12.6	-24.2	-15.0	-13.7	-24.0
	2010	5.1	40.0	17.3	-2.6	39.0	33.0	33.4	-1.6	26.0	24.7	28.2	37.0
	2011F	11.3	25.0	12.1	26.0	32.0	23.1	6.0	10.2	13.0	6.0	11.5	21.0
	2012F	12.9	20.0	6.3	20.0	15.0	10.6	4.0	4.3	7.0	0.0	4.4	5.0
India Y/E March	**2013F**				18.0								
Trade Balance	**2008**	-3.0	296.3	-25.9	-127.0	12.2	-13.3	42.6	-3.8	-7.7	18.4	15.2	-2.8
(U.S.$bn)	**2009**	-3.2	195.6	-28.9	-90.8	29.3	40.4	33.6	-0.6	-4.7	24.0	29.3	17.2
	2010	15.4	183.1	-43.1	-106.5	26.0	41.2	34.1	0.7	-3.3	41.1	23.4	10.8
India Y/E March	**2011F**	23.4	181.5	-51.5	-127.8	29.5	29.2	52.0	-2.0	-16.1	57.6	26.9	-0.6
Current Account	**2008**	-47.1	412.4	29.5	-27.9	0.1	3.2	39.1	-11.6	3.6	27.6	27.5	2.2
(U.S.$bn)	**2009**	-41.9	261.1	18.0	-38.4	10.2	32.8	31.8	-3.3	9.4	34.9	42.9	21.9
	2010	-31.7	305.4	13.9	-44.3	6.3	28.2	27.5	-3.2	8.5	49.6	39.9	14.8
	2011F	-25.7	286	9.6	-48.8	2.7	18.0	31.8	-6.2	7.4	35.0	40.5	14.1
India Y/E March	**2012F**	-31.8	237	14.1	-54.5	6.0	24.0	29.9	-11.2	8.3	40.0	39.4	0.0
Current Account /Nominal GDP (%)	**2008**	-4.53	9.12	13.71	-2.29	0.02	0.34	17.63	-9.85	2.16	14.28	6.87	0.81
	2009	-4.53	5.24	8.55	-2.79	1.89	3.94	16.47	-2.61	5.83	19.15	11.37	8.30
	2010	-2.57	5.20	6.18	-2.73	0.89	2.78	11.56	-3.10	3.93	22.27	9.27	4.64
	2011F	-2.01	4.61	4.05	-2.80	0.36	1.71	12.91	-4.20	3.27	14.96	9.27	4.26
India Y/E March	**2012F**	-2.39	3.67	5.69	-2.93	0.76	2.20	11.80	-7.47	3.54	16.56	8.90	0.00

Note: India figure represents March Year End
Source: Invesco Hong Kong, DataStream, Jan. 2012
F = Forecast

Valuation Summary

		Australia	China	Hong Kong	India	Indonesia	Korea	Malaysia	New Zealand	Philippines	Singapore	Taiwan	Thailand
INDICES		ASX 200	MSCI-China	MSCI-HK	MSCI-India	JCI	KOSPI	KLCI	NZSE 50	PCI	STI	TWSE	SET
Index as of 12/31/11		4056.60	81.32	34,681.10	467.06	3,821.99	1,825.74	1,530.73	3,274.71	4,371.96	2,646.35	7,072.08	1,025.32
Currency as of 12/31/11		0.98	6.29	7.77	53.11	9,067.5	1,152.00	3.17	1.28	43.86	1.30	30.28	31.55
12-month Index forecast		4,700	90.4	39,000	620	4,200	2,060	1,600	3,600	5,100	3,100	8,500	1,200
% change		15.9	11.2	12.5	32.7	9.9	12.8	4.5	9.9	16.7	17.1	20.2	17.0
3-month Index forecast		4,200	83.6	33,452	500	3,900	1,920	1,550	3,300	4,600	2,800	7,200	1,100
% change		3.5	2.8	-3.5	7.1	2.0	5.2	1.3	0.8	5.2	5.8	1.8	7.3
12-month Currency forecast		0.98	6.20	7.78	46.0	8,600	1,050	3.10	1.32	43.0	1.25	29.5	31.0
% change		-0.5	1.5	-0.2	13.4	5.2	8.9	2.2	-2.6	1.9	3.6	2.6	1.7
3-month Currency forecast		1.01	1.01	7.78	52.0	8,800	1,100	3.15	1.33	43.5	1.29	30.3	31.0
% change		-3.6	84.0	-0.2	2.1	3.0	4.5	0.6	-4.0	0.8	0.5	-0.1	1.7
12-month U.S.$ forecast return		15.3	12.9	12.3	53.2	15.9	23.8	6.9	7.1	19.0	21.5	23.4	19.1
EARNINGS, VALUATIONS													
EPS Growth (%)	2008	2.0	9.0	-14.3	23.0	15.0	-32.3	-12.3	21.1	-15.0	-10.3	-43.0	-16.0
	2009	-16.0	12.0	4.0	4.0	12.0	60.0	-8.6	-20.2	19.0	-11.0	14.8	13.0
	2010	14.3	34.0	25.7	4.0	20.0	43.0	30.0	-19.1	27.5	25.7	76.0	33.0
	2011F	11.9	14.5	2.8	16.0	21.0	8.0	5.0	0.6	8.0	-2.0	-18.1	18.0
	2012F	9.1	11.2	3.3	13.5	14.0	10.0	8.0	3.9	12.0	4.0	19.6	12.0
India Y/E March	2013F				16.6								
P/E (x)	2008	10.6	10.4	10.0	15.9	8.3	12.5	10.2	13.2	10.2	7.9	17.8	8.0
	2009	17.5	15.6	20.8	17.4	16.3	12.0	18.2	13.3	14.0	17.5	23.3	11.2
	2010	16.2	13.8	18.0	22.4	17.0	11.2	16.4	17.2	15.1	14.5	14.7	13.6
	2011F	11.4	9.3	11.8	13.4	14.6	10.2	15.7	12.8	15.5	12.5	15.4	11.4
	2012F	10.4	8.2	11.4	14.1	12.6	9.1	14.5	12.3	13.6	12.0	12.4	10.1
India Y/E March	2013F				11.7								
5-year average P/E (X) (Historical)		14.23	14.44	15.94	17.09	13.93	11.55	15.18	14.01	15.13	14.59	18.29	11.18
3-month rate (%)		4.47	5.45	0.36	8.47	5.30	3.55	3.22	2.21	1.71	0.39	0.89	3.27
Earnings yield gap (%)	2008	5.0	4.2	9.6	-2.2	6.7	4.5	6.6	5.4	8.1	12.3	4.7	9.2
	2009	1.2	1.0	4.4	-2.7	0.8	4.8	2.3	5.3	5.4	5.3	3.4	5.7
	2010	1.7	1.8	5.2	-3.0	0.6	5.4	2.9	3.6	4.9	6.5	5.9	4.1
	2011F	4.3	5.4	8.1	-1.4	1.5	6.3	3.1	5.6	4.8	7.6	5.6	5.5
	2012F	5.1	6.7	8.4	0.1	2.7	7.4	3.7	5.9	5.6	7.9	7.2	6.7

Valuation Summary (continued)

		Australia	China	Hong Kong	India	Indonesia	Korea	Malaysia	New Zealand	Philippines	Singapore	Taiwan	Thailand
5-year average yield gap (%)		1.9	4.0	4.9	-0.1	-0.5	5.0	3.6	2.5	2.8	5.9	5.1	6.5
Earnings yield gap	**2007**	-0.4	-5.2	0.3	-4.6	1.2	-1.5	0.6	2.5	1.5	1.2	1.2	-2.0
	2008	3.0	0.1	4.7	-2.1	7.2	-0.6	2.9	2.8	5.3	6.3	-0.4	2.7
	2009	-0.7	-3.1	-0.5	-2.6	1.3	-0.3	-1.4	2.8	2.7	-0.6	-1.7	-0.9
	2010F	-0.2	-2.2	0.3	-2.8	1.0	0.3	-0.8	1.1	2.1	0.6	0.8	-2.4
	2011F	2.4	1.3	3.2	-1.2	2.0	1.3	-0.5	3.0	2.0	1.7	0.5	-1.0
	2012F	3.2	2.7	3.5	0.2	3.1	2.3	0.1	3.4	2.9	2.0	2.1	0.2
SOVEREIGN RATINGS													
Moody's	**Latest**	Aaa	Aa3	Aa1	Baa3	Ba1	A1	A3	Aaa	Ba2	Aaa	Aa3	Baa1
S&P	**Latest**	AAA	AA-	AAA	BBB-	BB+	A	A-	AA[1]	BB	AAA	AA-	BBB+

1 Sovereign Rating: Downgrade over the quarter
Note: India Y/E March (FY11=3/2011)
Source: Invesco Hong Kong, January 2012
F = Forecast

Important Information

This document may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialise or that actual returns or results will not be materially lower than those presented.

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