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Regulated by the Securities and
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The Asia Pacific Fund, Inc. Investment Outlook & Strategy

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Equity Market Sentiment Sliding down the “Wall of Worries” !



Macro concerns are likely to continue to cause volatility and opportunities!

Global Economic Outlook

Recession is a risk, not our base case forecast

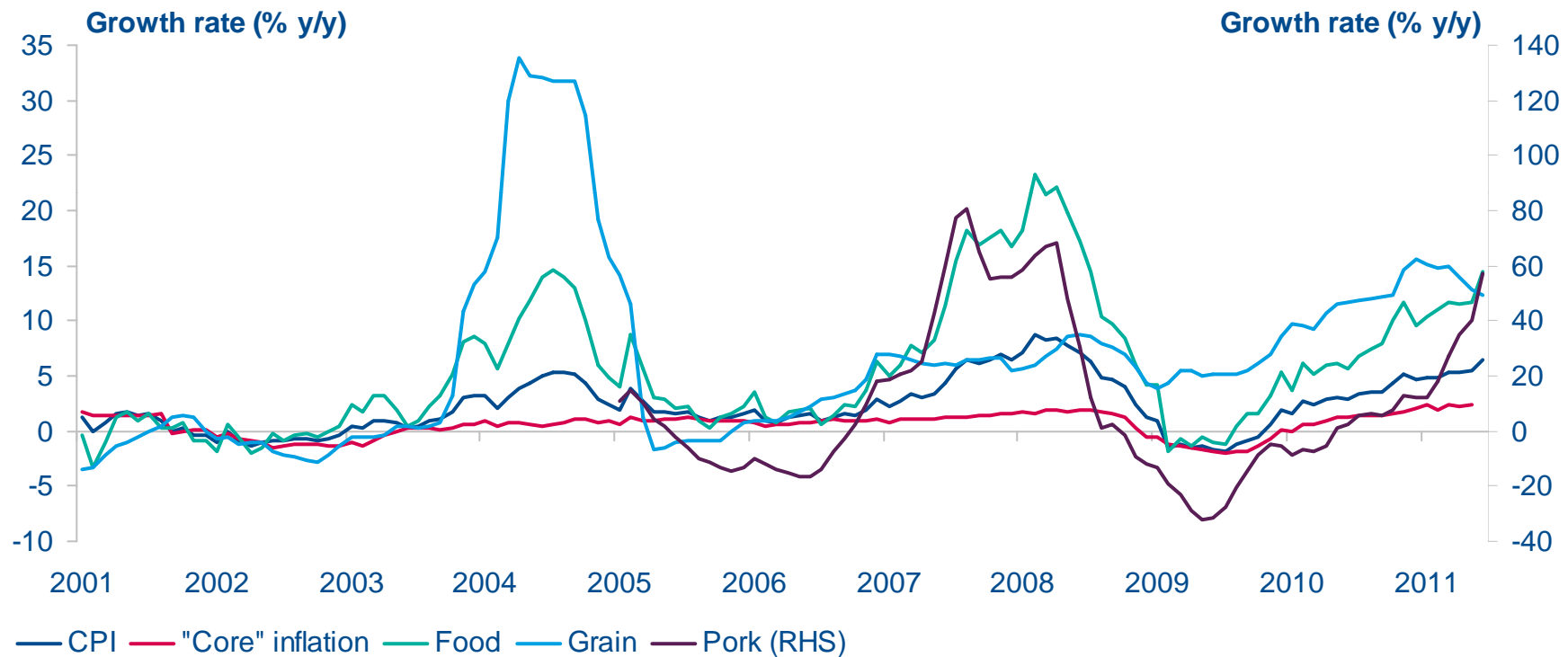


	GDP Growth (%)		
	2010E	2011F	2012F
World	3.9	2.8	3.2
US	2.9	1.7	2.2
Eurozone	1.7	1.9	1.6
Japan	4.0	-0.3	3.3
China	10.3	9.1	9.0
Asia ex Japan	9.1	7.3	7.4
Global Emerging	7.3	5.9	5.8

More recent downgrades in US and Europe than in Asia (more policy flexibility in the region).
 Barings assigns only a 15% probability to a global recession case.



Medium-term Issue: China Inflation Serious or contained issue ?



Could the current phase of 'risk aversion' help inflationary pressures in China to ease in coming months (via lower commodity prices) ?

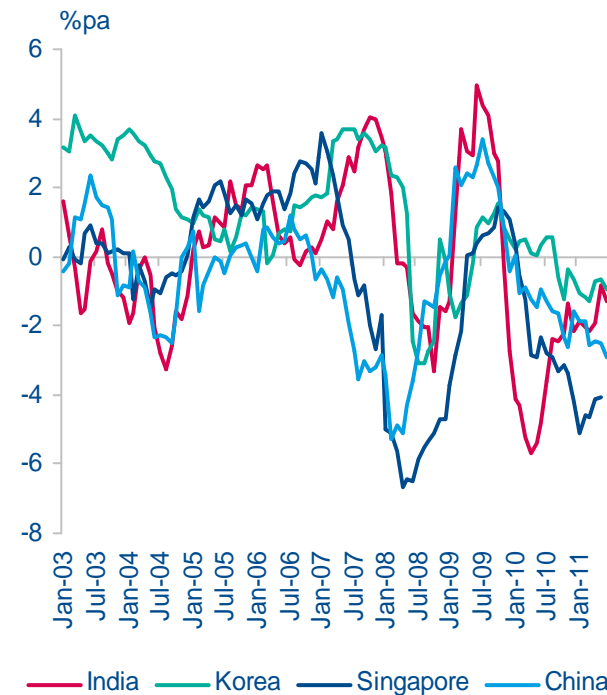




Asian Real Interest Rate Still negative, or already neutral ?

	1-year Government Bond Yield (% p.a.)	Core CPI Inflation Rate (% yoy)	Real Interest Rate (base on core inflation) (% p.a.)	Headline CPI Inflation Rate (% yoy)	Real Interest Rate (based on headline inflation) (% p.a.)
China	3.5	2.5	1.0	6.4	-2.9
India	8.1	7.2	0.9	9.4	-1.3
Korea	3.4	3.7	-0.2	4.4	-1.0
Hong Kong	0.2	4.4	-4.2	5.3	-5.1
Taiwan	3.3	1.2	2.1	4.1	-0.8
Singapore	0.4	2.1	-1.7	4.5	-4.1
Indonesia	5.3	4.6	0.6	5.5	-0.3
Malaysia	3.0	1.9	1.1	3.3	-0.4
Philippines	3.4	3.3	0.0	4.6	-1.3
Thailand	3.1	2.6	0.5	4.1	-1.0

Real interest rates (based on headline inflation)



Note Latest June 2011 data. May 2011 data used for Hong Kong, Singapore and Malaysia.

While they are expected to continue to tighten, Asian central banks have already done a fair amount





Asian & Global Equities

Earnings growth forecasts and valuations

Country	P/E (x)		Div. Yield (%)	P/BV (x)	Earnings growth (%)				ROE (%)
	Current Trailing	12m fwd	Current Trailing	Current Trailing	2009	2010	2011E	2012F	2011E
Global *	14.0	11.9	2.5	1.8	+5	+26	+15	+14	14.2
USA *	15.3	12.9	2.0	2.2	+7	+15	+14	+10	18.0
Emerging Asia	12.9	11.3	2.5	1.9	+31	+33	+15	+15	16.0
China	11.5	9.8	2.8	1.9	+17	+35	+19	+15	18.4

* Market forecast numbers are derived from bottom-up calculations of each individual MSCI constituents using I/B/E/S estimates. US trailing PE is calculated as per reported earnings. For all other markets and sectors, forecast numbers are derived from bottom-up calculations of each individual MSCI constituents using JPM estimates for covered stocks and I/B/E/S estimates for the rest. Companies with different yearends are calendarised to December yearends and are free float adjusted for aggregation. Historical numbers are from MSCI.

The delivery of forecast earnings growth is crucial in determining the direction of markets in 2011-12



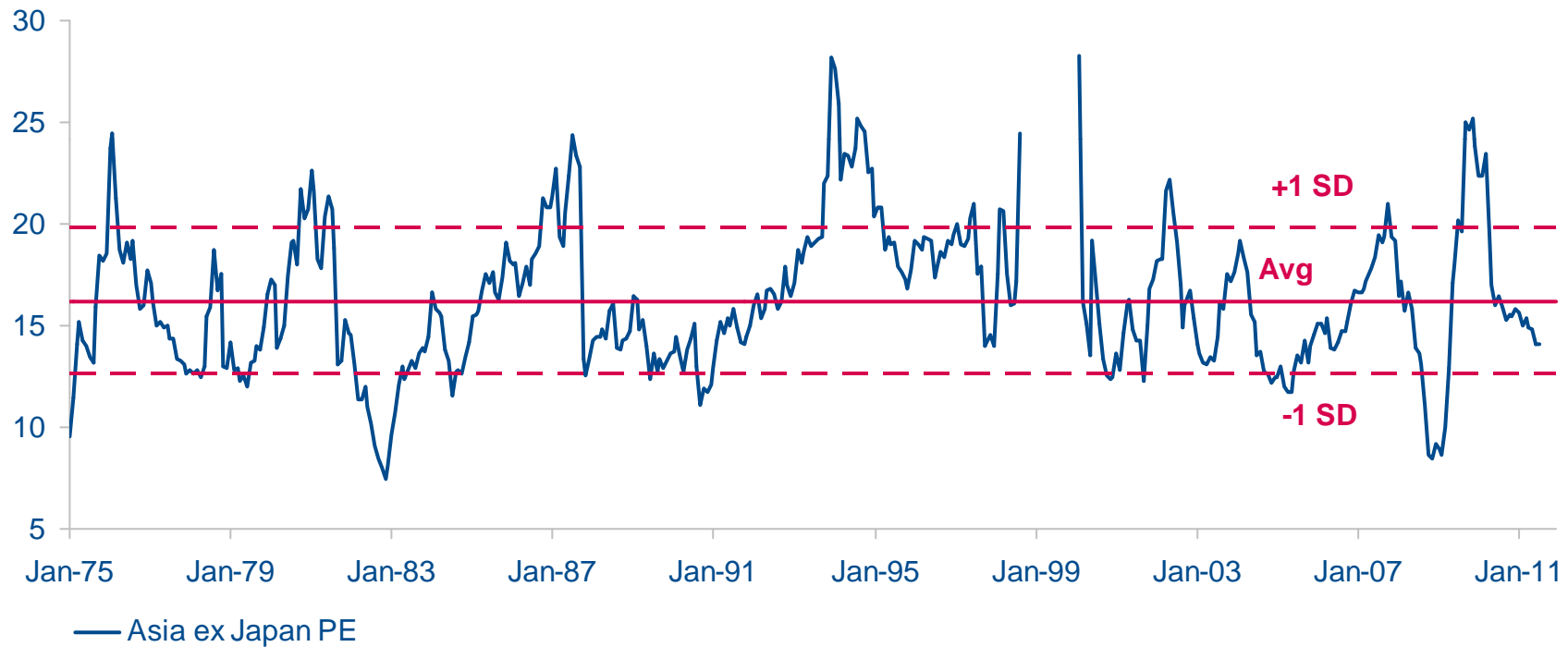


Asian Equities

Current valuation versus long-term history



Asia ex Japan P/E



Increasingly cheaper versus long-term average





Asian Equities

Share price versus EPS trends



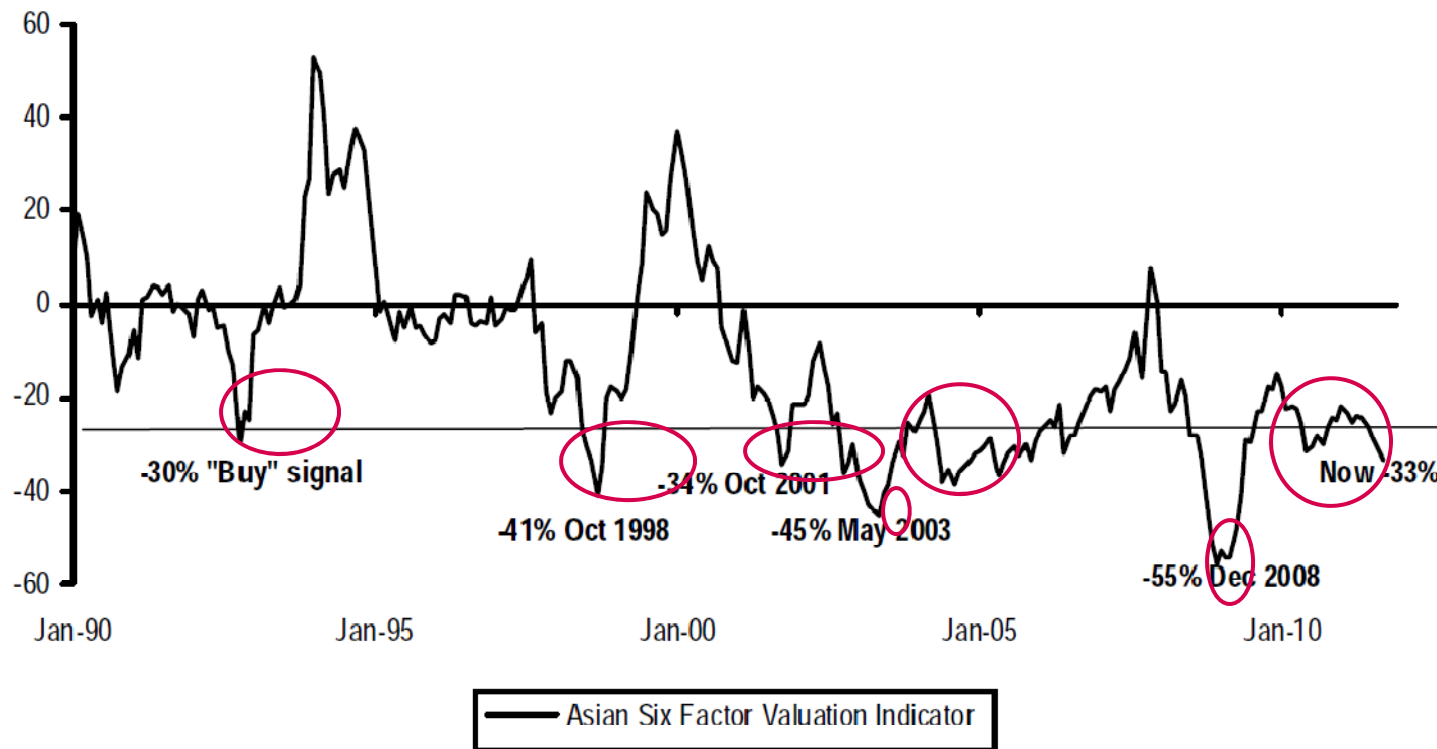
Earnings made new highs and are expected to rise further.
But prices are still lagging: room for prices to catch up
once sentiment improves ?



Asian Equities How cheap ?



CS Asia's 6-factor valuation composite index



Asian equities appear to price in a global and regional recession !



Asian Investment Outlook

Sentiment vs Fundamentals



- Investor's sentiment is becoming very pessimistic
- Unless we are heading towards a global recession, Asian equity markets are cheap
- Should Asian markets experience a “liquidation panic selling” phase (similar to Oct 2008), we plan to leverage up the portfolio
- In the meantime, our portfolio holds some cash and is focused on quality and secular growth themes



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