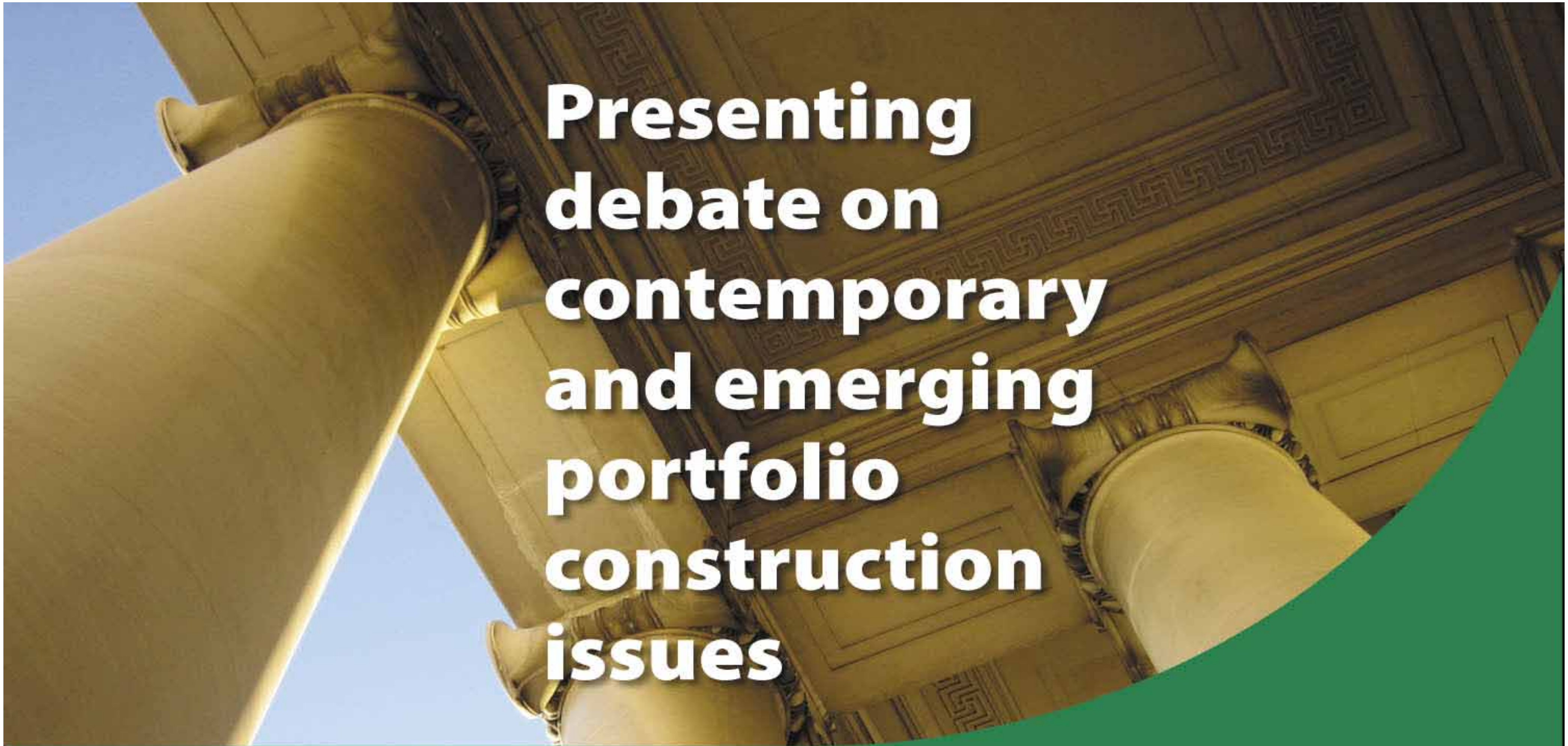

Presenting debate on contemporary and emerging portfolio construction issues

portfolio construction

CONFERENCE

15 & 16 August 2007 | AJC Convention Centre, Randwick, Sydney

Global Investing – a whole world of opportunity

Andrew Preston, Senior Investment Manager
Aberdeen Asset Management Limited

Presentation to PortfolioConstruction Conference 2007

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Myth 1 – Benchmarks are a good starting point for equity investors

- Benchmarks don't tell investors anything about the quality of companies
- Benchmarks don't reflect world productivity
- Biggest isn't necessarily best
- An MSCI index-driven global equity strategy means considerable exposure to the US

Being benchmark aware rather than benchmark driven allows fund managers to concentrate on finding high quality companies

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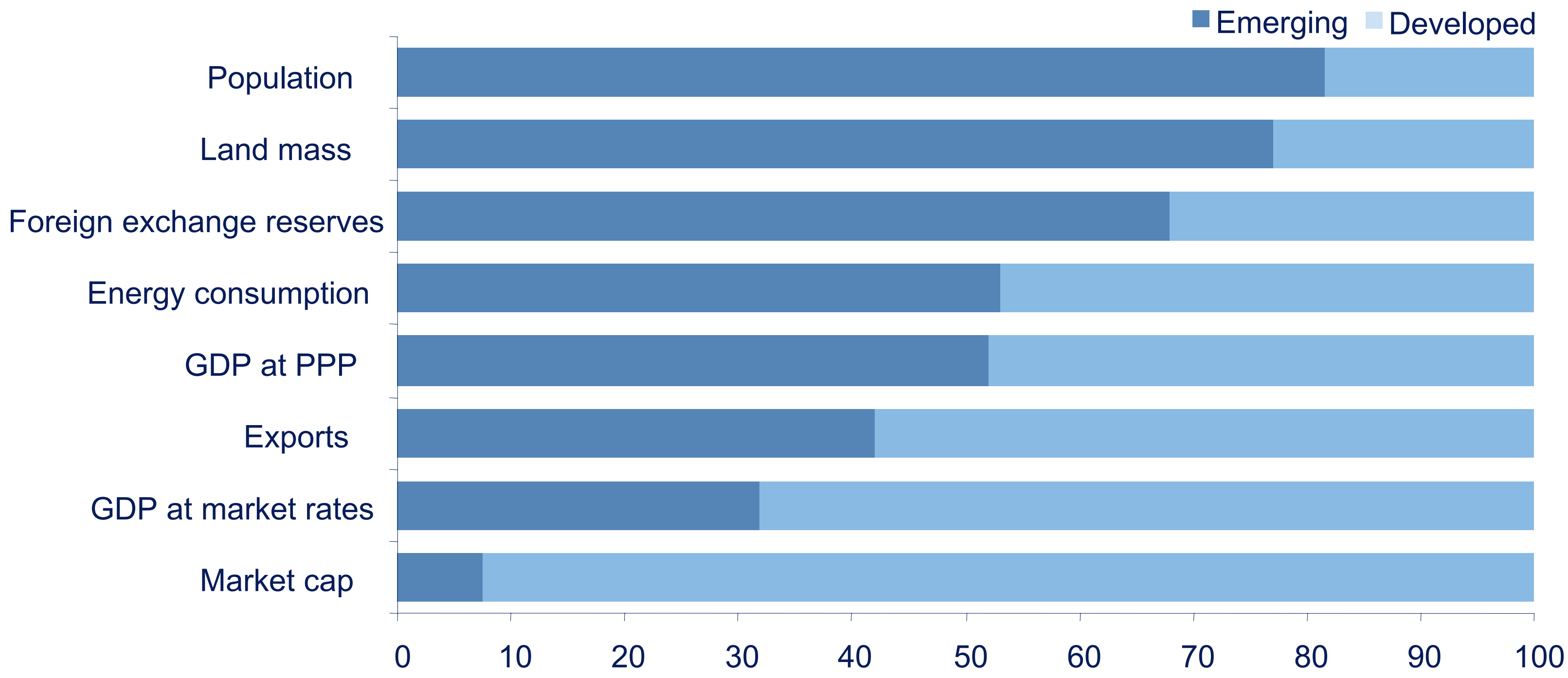
A new world order

Emerging economies as % of total world, 2005



- Emerging markets represent 80% of the world population, 75% of the land mass, 66% FX reserves and 50% GDP…
- …Yet accounting for only 7% of the world equity market capitalisation

Source: BP, IMF, MSCI, Merrill Lynch calculations, Nov 06

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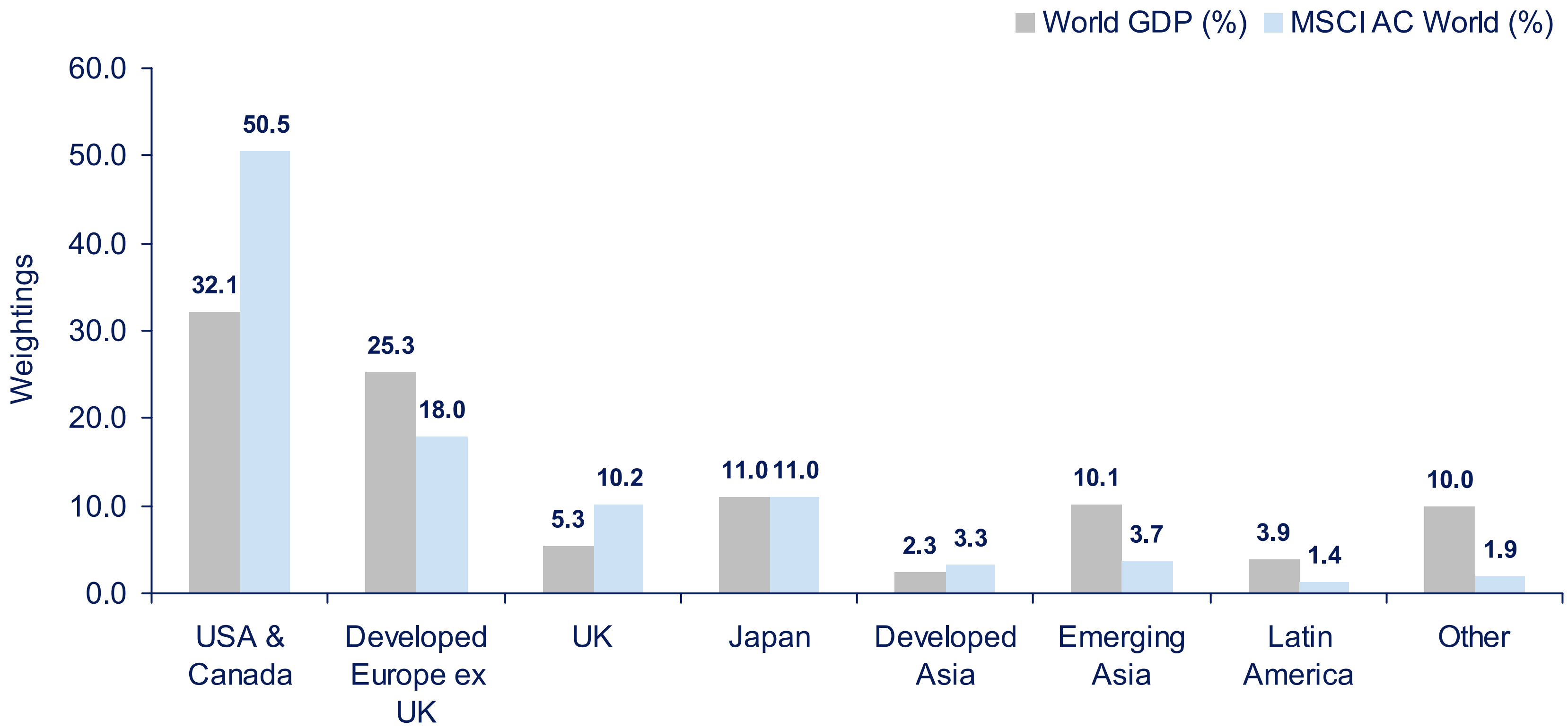
Regional % share of World GDP v MSCI AC World weights



Source: Deutsche Bank, IMF, MSCI, 31 Dec 05

Stock markets discount…!

Returns to end Dec 06

	2006	2005	2004	2003	2002	5Y	10Y
World	5.8	23.0	7.5	20.3	-27.3	4.1	6.6
USA	1.2	18.2	3.2	16.1	-30.1	0.0	6.9
UK	14.6	20.1	11.5	18.8	-23.4	6.9	7.3
Europe ex UK	19.6	24.5	14.1	29.2	-27.6	9.7	10.3
Japan	-6.7	40.5	8.1	22.4	-18.7	7.1	0.9
AC Asia Pacific ex Japan	16.8	35.3	14.7	33.7	-14.2	15.8	4.6
Emerging Markets	16.3	50.5	17.4	40.5	-15.0	19.7	7.9
Latin America	25.9	68.2	30.2	56.2	-29.9	24.7	15.6

- A benchmark strategy would have meant considerable exposure to the USA which has underperformed since 2002

Source: Aberdeen Asset Management, Lipper

Myth 2 – Diversification is about having a large number of portfolio stocks

- Research shows that beyond 20-25 stocks, risk reduction from extra securities becomes very small
- Importance of investing across a range of countries and sectors to gain the benefits of global diversification
- Risk protection - focus on understanding business models and trusting management

Diversification is best achieved by combining poorly correlated stock markets, risk may be seen as investing in a company whose model is not fully understood

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Diversifying across countries and sectors

Example of the flexibility of the global universe

Regional Opportunities

	USA	UK	Europe ex UK	Japan	Asia ex Japan	LATAM
Consumer	Harley Davidson	Tesco	Nestle	Toyota	Hyundai	Femsa
Energy	Exxon Mobil	BP	Total	-	Petrochina	Petrobras
Financial	Citigroup	HSBC	UBS	MTFG	ICICI	Bradesco
Technology	Microsoft	-	Nokia	Canon	Samsung	-
Telecoms	Alltel	Vodafone	Belgacom	NTT DoCoMo	China Mobile	-
Pharmaceuticals	Pfizer	Glaxosmithkline	Novartis	Takeda	-	-
Utilities	TXU	Scottish Power	E.On	-	CLP	-

Global Opportunities

Global Opportunities

Source: Aberdeen Asset Management, Sep 06. Model research example used for illustrative purposes only. Model portfolio holdings are not subject to market or economic conditions and may not be held by any Aberdeen portfolios

Myth 3 – Economic factors should dictate investment strategies

- Strong arguments for investment to be chiefly bottom up.
- China provides a good example where the macro story is strong, but there are a plethora of problems at company level
- Plenty of companies with good prospects in countries with poorly performing economies and vice versa.

Easier to understand good companies than predict market returns

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Myth 4 – Thematic investment is the future

- Danger of pet themes
- Valuations are often stretched by theme-driven strong demand for shares
- Themes can take decades to pay out
- Themes should only be derived from consistent presence of value

Sector or country themes should be a consequence of sustained value

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Myth 5 – Emerging market companies are risky.

- Robust GDP growth, supported by young population and resilient consumer spending
- Macro fundamentals are in good shape: current account surpluses, high reserves, stable currencies
- Companies have much stronger balance sheets, are more profitable, and corporate governance has improved – with increased commitment to shareholder value.
- Valuations are still reasonable relative to developed markets
- Emerging marker volatility is at its lowest for 20 years

Experienced fund management houses with strict quality criteria can exploit the opportunities

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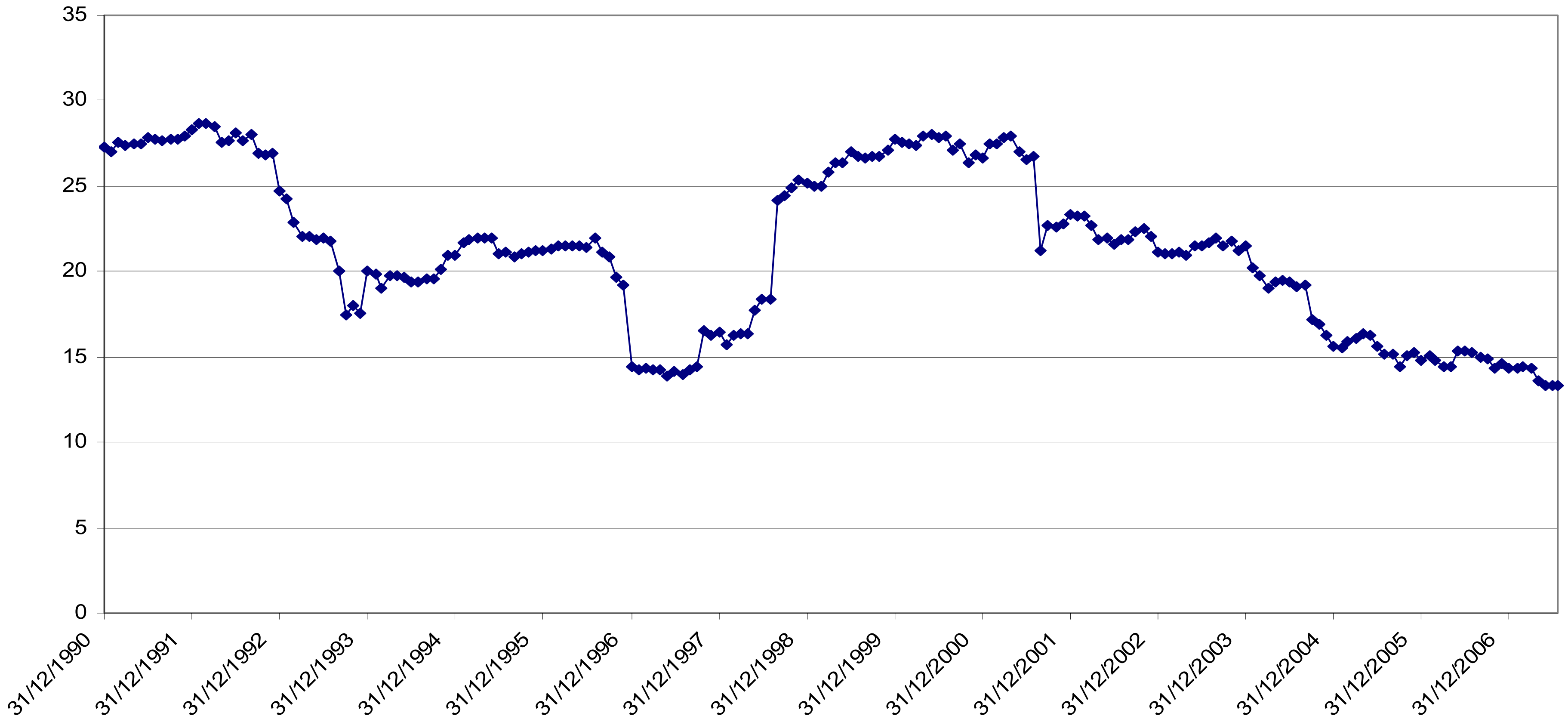
Volatility of MSCI Emerging Markets Index

-defined by annualised standard deviation in returns for a rolling 3 year period



Source: Aberdeen Asset Management

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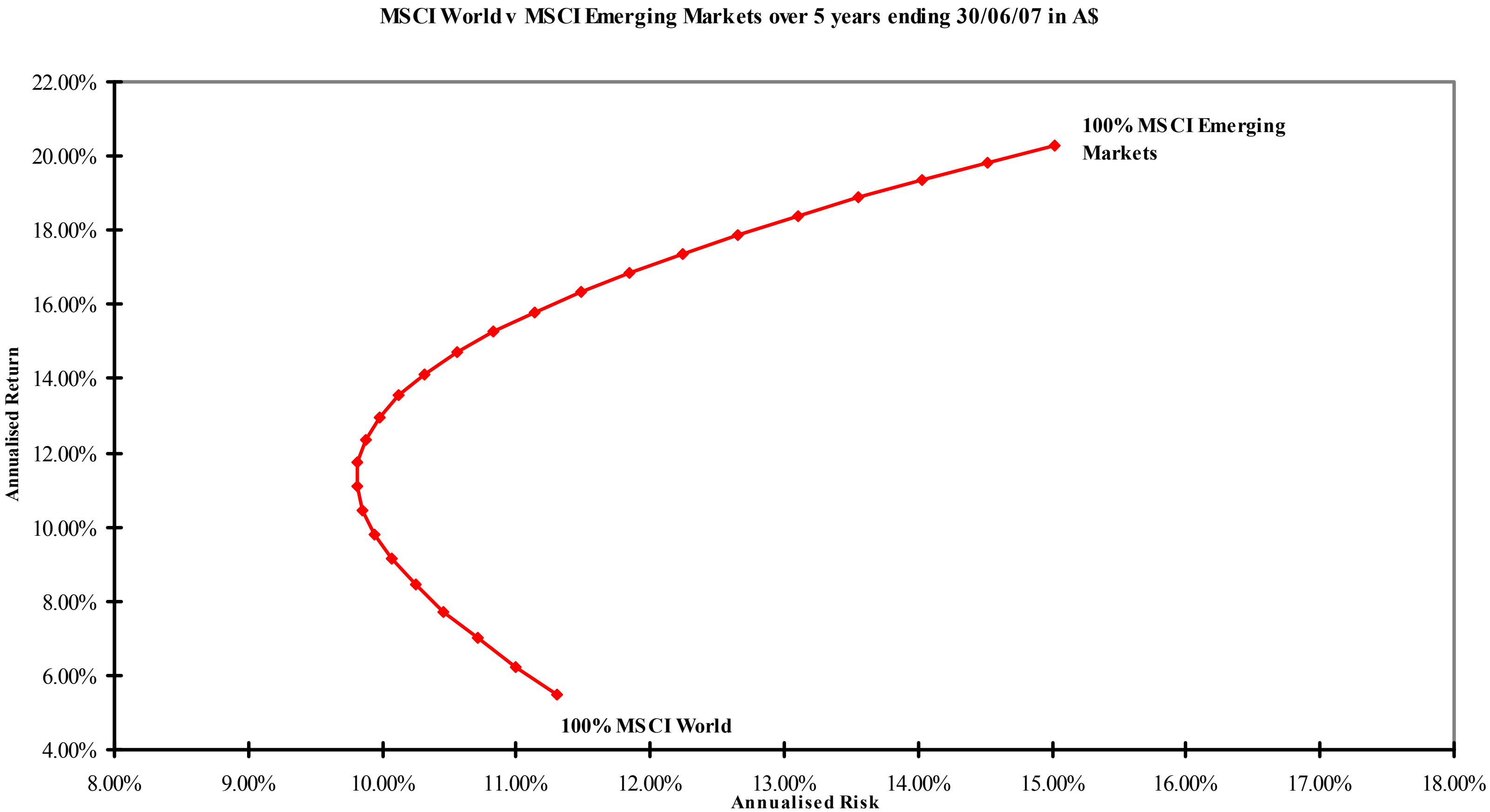
Using emerging markets to *reduce* risk

-defined by risk v return over 5 years



 Source: Aberdeen Asset Management, MSCI

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Myth 6 – Global equity portfolios have out-performed due to overweight positions in emerging markets

- Investing in healthy companies, irrespective of location, will provide out-performance
- Disregarding MSCI World benchmark weights allows access to impressive emerging companies, trading at more attractive valuations than their developed market counterparts.
- The energy sector provides a good example:

  Brazil's Petrobras is not only cheaper than the likes of BP in the UK, but also has a strong production growth and reserve life, plus high dividend yield………

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Comparative research example – Energy sector

Company	Region	P/E 07	P/E 08	P/E 09	P/B	Dividend yield	Dividend growth (5yr) %
Exxon Mobil	**USA**	**11.4x**	**11.9x**	**11.6x**	**3.6x**	**1.8%**	**6.8%**
Chevron Texaco	USA	9.9x	9.3x	8.9x	2.2x	3.0%	9.0%
EOG Resources	USA	14.4x	12.3x	9.8x	2.9x	0.5%	24.6%
Total	Europe ex UK	9.0x	9.1x	9.1x	2.8x	3.8%	16.1%
ENI	**Europe ex UK**	**8.9x**	**9.2x**	**9.6x**	**2.3x**	**5.5%**	**24.2%**
BP	UK	10.4x	10.0x	9.6x	2.3x	4.1%	6.4%
Petrochina	**Asia**	**10.5x**	**10.4x**	**9.7x**	**3.0x**	**4.1%**	**21.1%**
Petrobras	**Latin America**	**5.9x**	**5.8x**	**7.8x**	**1.8x**	**4.8%**	**18.3%**

- Emerging market companies are cheaper yet have stronger production growth estimates and longer life of reserves

Source: Aberdeen Asset Management and all numerical data from Bloomberg, Mar 07
Model research example used for illustrative purposes only

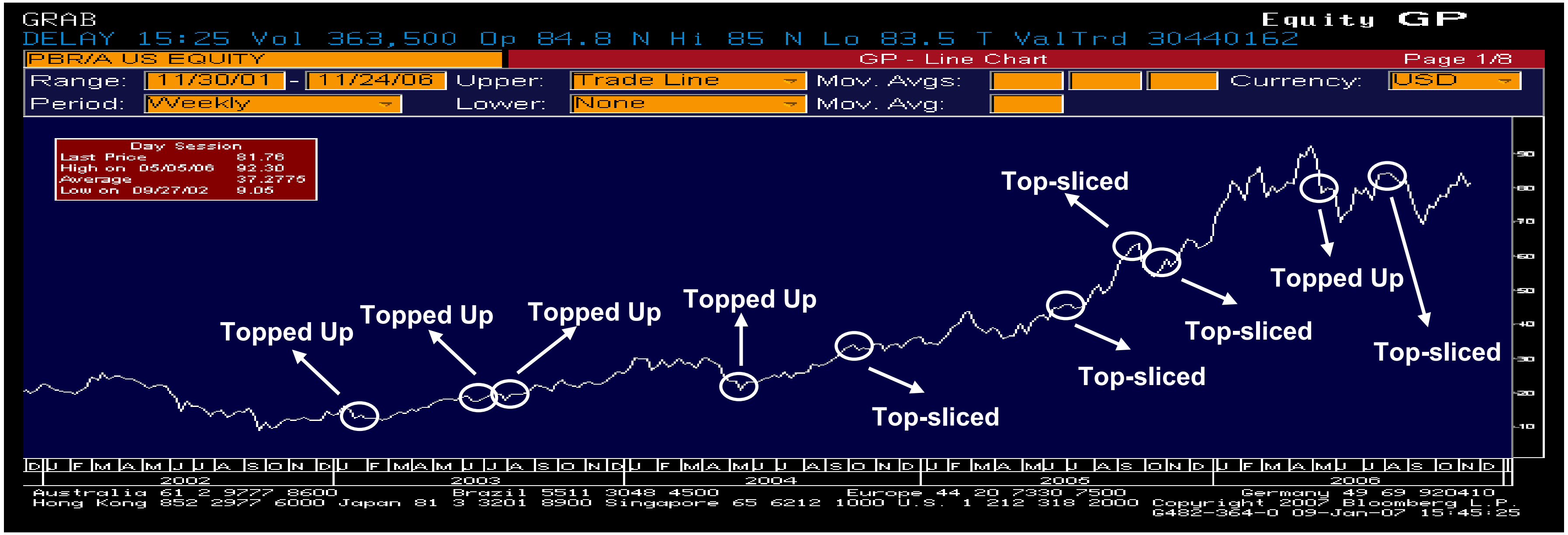
Myth 7 – Anyone can invest in emerging markets

- GEM and Asian markets have run up for the last consecutive 4 years – and investors are disregarding risks
- Political risks, inflationary risks, health of US economy, vulnerability to liquidity flows still exist and must not be ignored
- Poor companies can be found throughout the world but careful stock picking using first-hand research minimises the risk of investing in them
- Well resourced, experienced emerging market equity managers are better placed to avoid the pitfalls

Myth 8 – Volatility is your enemy

- Peaks and troughs provide opportunities for global equity managers with a long term view
- Short-term volatility can allow investment managers to top-slice on highs and top-up on weakness, backed by the confidence given by meeting management face to face

Petrobras trading history



Source: Aberdeen Asset Management, Bloomberg, Nov 06. This is an example of a model portfolio holding and an illustration of its trading history chosen because of building positions from Nov 05 - Nov 06. A full list of model holdings are available on request

Myth 9 – Active management is about high turnover

- With a long term view, stocks may be held for three to four years and perhaps far longer.
- Annual turnover can be just 25-30%, with activity driven by tactical top-ups or top slicing positions, rather than outright name changes
- Conservatively run portfolios, with an emphasis on traditional buy-and-hold, results in low turnover.

Active management doesn't have to imply churning portfolios

Myth 10 – the aim is to have all stocks performing strongly

- Long term performance is best served by a diversified portfolio with exposure to a number of markets that exhibit low correlation.
- Short term weakness is not necessarily bad, it presents the opportunity to buy good companies at cheap valuations
- If all stocks perform in-line, they are likely to be closely correlated and not provide the desired diversification

A diversified, non-correlated portfolio is the best way to maintain long-term performance

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Summary

- Globalisation has made traditional benchmarks less relevant: multi-national companies are increasingly diversified with increasingly segmented geographical earnings
- Investment managers should have the confidence to break free from the chains of benchmark weightings and gain true global diversification
- Quality companies should outperform in the long term, regardless of market capitalisation, sector or origin.

Experienced emerging market equity managers can compare emerging and developed companies and utilize exciting opportunities to add value through global investing

Aberdeen International Equity Fund

Management team -	Global Equity Team – 10 fund managers based in Edinburgh
Key differentiators -	1. high conviction, truly active 2. utilises investment teams located globally 3. long only, unhedged 4. strong performance
Positioning -	Complements traditional benchmark huggers
Research Ratings -	InvestorWeb – Strong Buy, S&P - 4 stars, Morningstar – 4 stars
Platform listings -	Macquarie Wrap, BT Wrap, Oasis, Navigator, Synergy

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A truly diversified portfolio - relative country positions

Country	International Equity %	MSCI AC World ex Aust %	Difference %
USA	19.2	44.7	-25.5
Canada	1.3	3.6	-2.3
Europe ex UK	25.3	21.1	4.2
United Kingdom	12.3	10.4	1.9
Emerging Europe & Middle East	0.0	1.6	-1.6
Japan	16.3	9.6	6.7
Asia Pacific ex Japan	14.4	6.3	8.1
Latin America	5.6	1.9	3.7
Africa	0.0	0.8	-0.8
Cash	5.6	0.0	5.6
Total	**100.0**	**100.0**	**-**

- Portfolio is balanced in absolute sense with view to regions. Benchmark has significant exposure to the US. Build from the bottom-up.

Source: Aberdeen Asset Management Asia Limited, end June 07

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