



Emerging Markets
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CONFERENCE

Global Emerging Markets

The Strategic and Tactical Considerations for Portfolio Construction

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INVESTMENT MANAGEMENT



Agenda

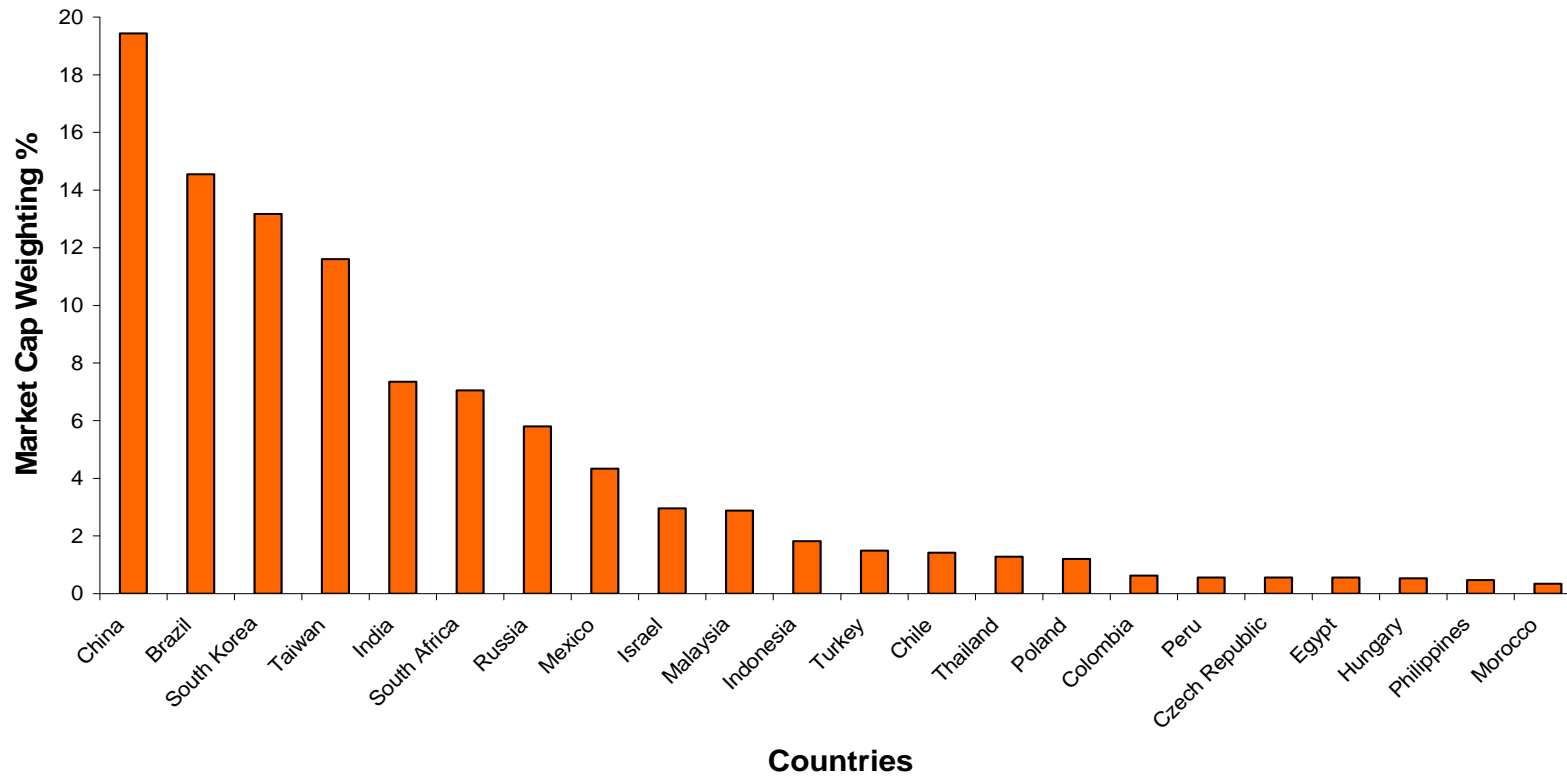


- Benchmark Deconstruction
- Evolution
- Themes
- Access Global vs Emerging
- Portfolio Construction Factors
- Ideas for Alpha

MSCI Emerging Markets - Deconstruction



Country Weightings - July 2009



Top 10 markets account for 90% of the Benchmark and drive the beta

Source: MSCI, INGIM Research

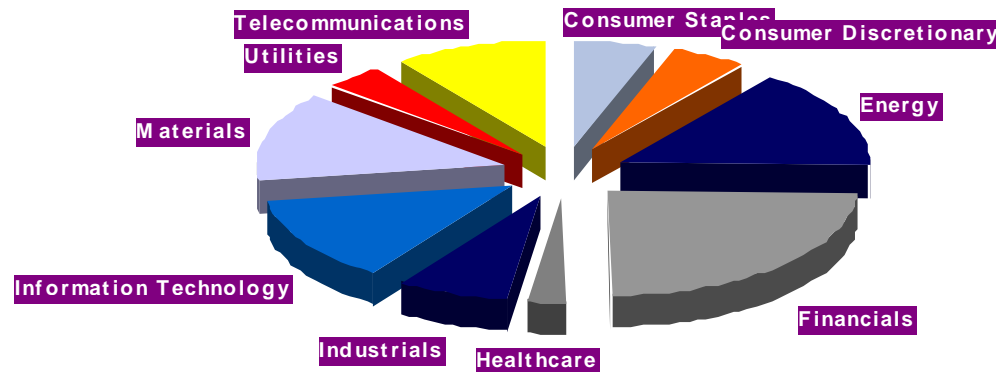


Dominated by Resources/Banks – Cyclical



Cyclicals take up 65% of exposure – which makes the benchmark more “risky” than global developed equities

Benchmark risk is dominated by names like Gazprom, Vale, Petrobras, Lukoil and Sasol



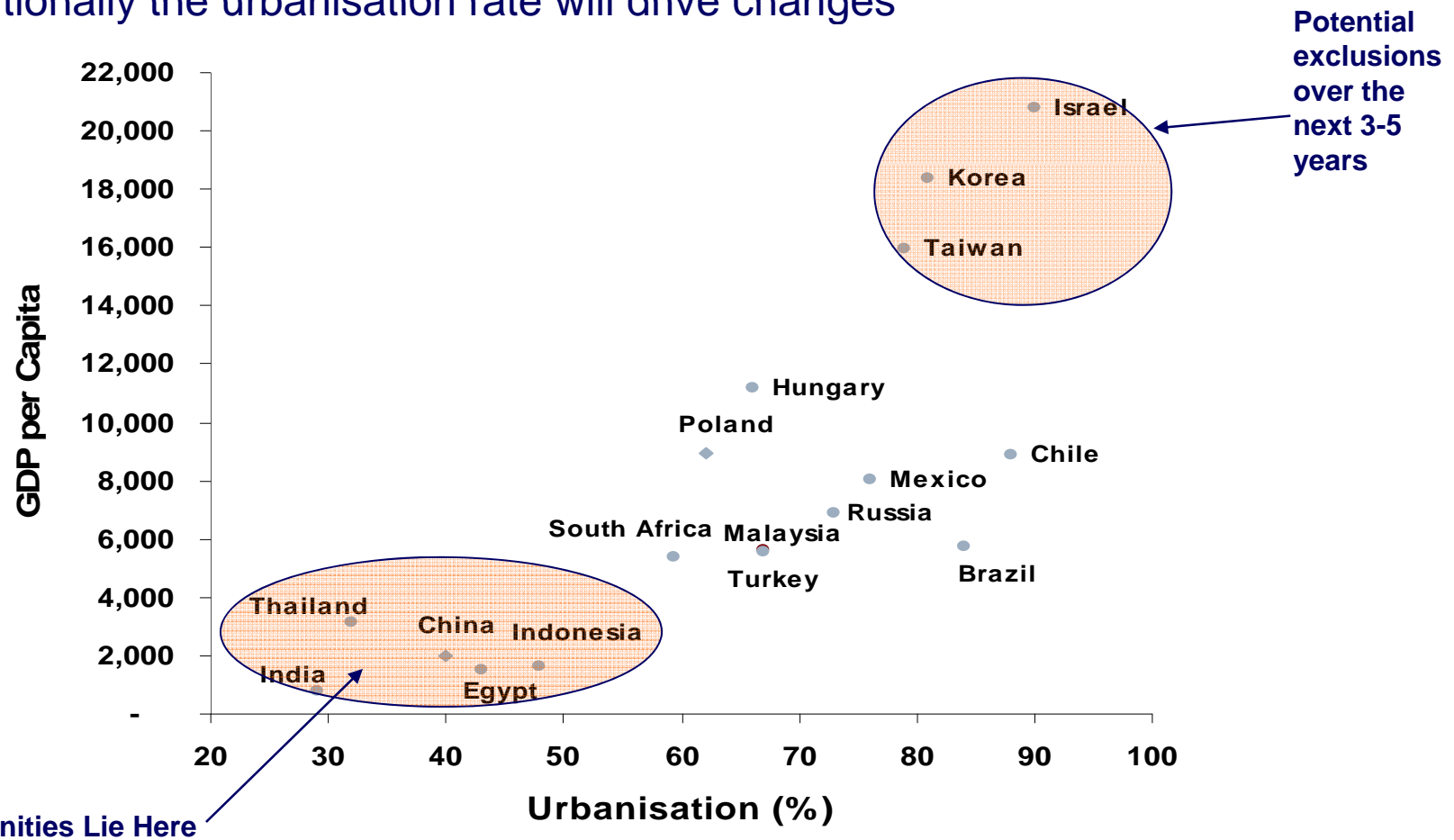
Key Evolution Points

- Strong economic growth from countries like China, India & Brazil
- Privatisation of China – could be closer to 25%
- Global redistribution of wealth, population demographics
- Hard Assets, Competitive Advantages

	Top 10 Stocks 1996	Top 10 Stocks 2009
	Kepeco	Petrobras
	Cathay Financial	Gazprom
	Hua Nan Bank	Vale
	First Financial	China Mobile
	China Steel	Samsung
	ICBC	America Movil
	Changh Hwa Bank	Lukoil
	Akbank	Taiwan Semiconductors
	Telmex	Sasol
	Posco	Teva Pharmaceuticals
Leading Sectors	Banks and Financials	Resources, Telco/Tech
Leading Countries	Korea and Taiwan	Competitive Advantages

Market Cap/Index Changes

- A driver of index changes in classification of a market as developed or emerging is GDP per capita
- Additionally the urbanisation rate will drive changes



Source: IMF, World Bank, Pioneer Investments

Consumer – Dominant Theme

- Consumerism is a dominant theme in emerging markets. Yet the exposure from a listed perspective is limited. Thus depth is required to access growth provided by the Asian consumer
- Consumer companies make up 10% of the MSCI – a small representation given expectations. Several are lower down the cap curve
- To access the “true” consumption story – greater depth is required
- Example – Chinese Government giving low-middle class income earners discounts on white and brown goods
- Example – the growing wealth of the Indian middle class wanting to better lifestyles
- Themes played through global companies with revenues generated in emerging economies are diluted and with more leveraged balance sheets

MSCI EM – Depth vs Local Indices

- One of the main issues with using purely Global Emerging Market managers to access this asset class with diversification is the depth.
- The MSCI Emerging Markets Index country components

Country	China	Brazil	India	Russia	Mexico
Last Stock Position	35	44	48	9	14
Locally listed stocks	6,757	6,450	16,639	8,170	2,065

Source: INGIM Research

Greater Inefficiencies

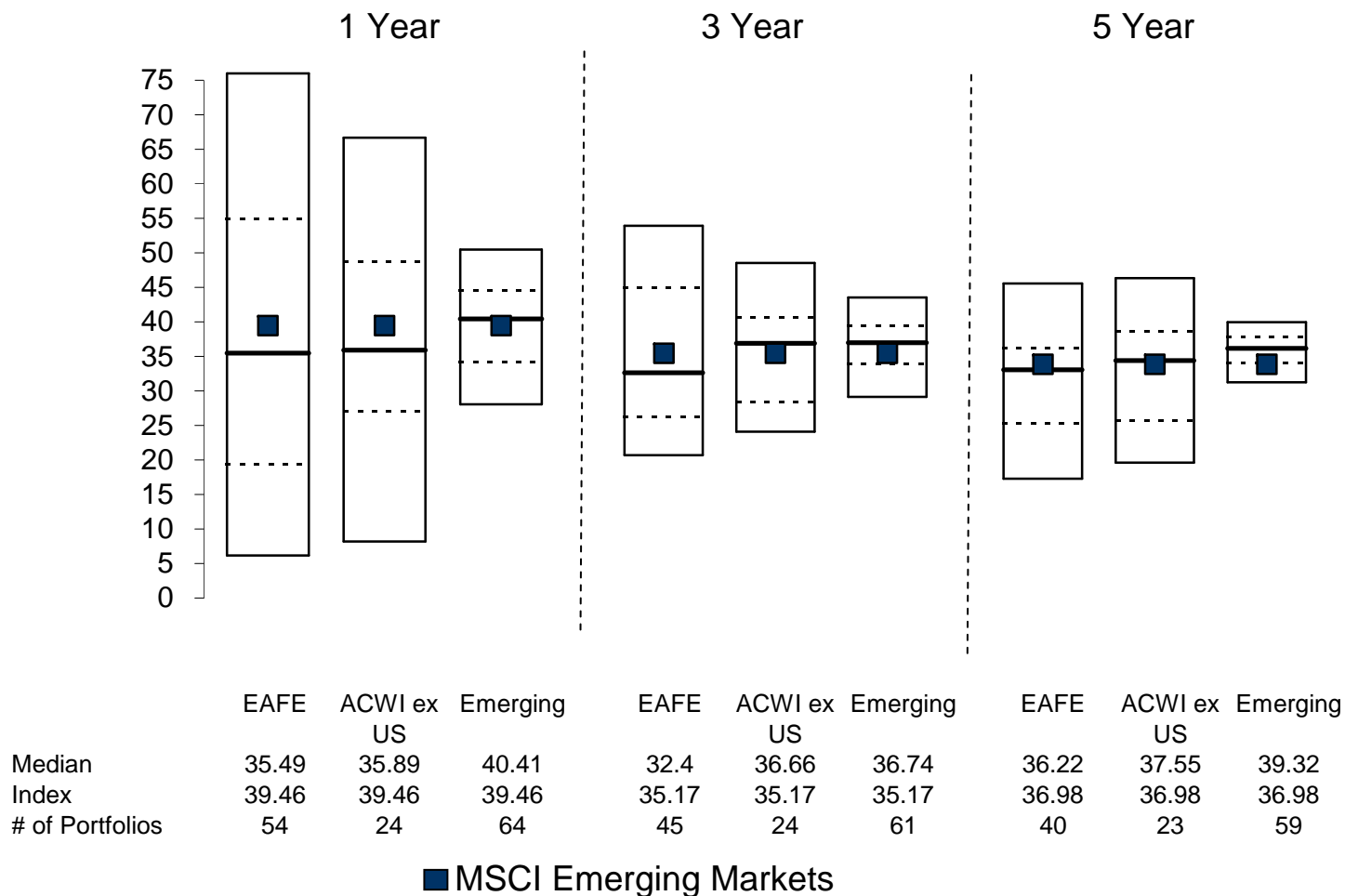
- Whilst corporate governance, market disclosure and management has improved dramatically, there are factors which create a more inefficient market
 - Lower number of analysts – both buy and sell side
 - Greater volatility of liquidity
 - Lack of transparency
- Key factors have been investible and drawn consistent alpha
 - Momentum (liquidity/technical trading)
 - Earnings Revisions (smaller number of brokers – greater reliance)
 - Earnings Growth (weak form efficient markets)
 - Book to Price (property plays, financials)

Access via Global Managers



Emerging Markets Returns within Broad and Specialist Mandates

as of 12/31/2007



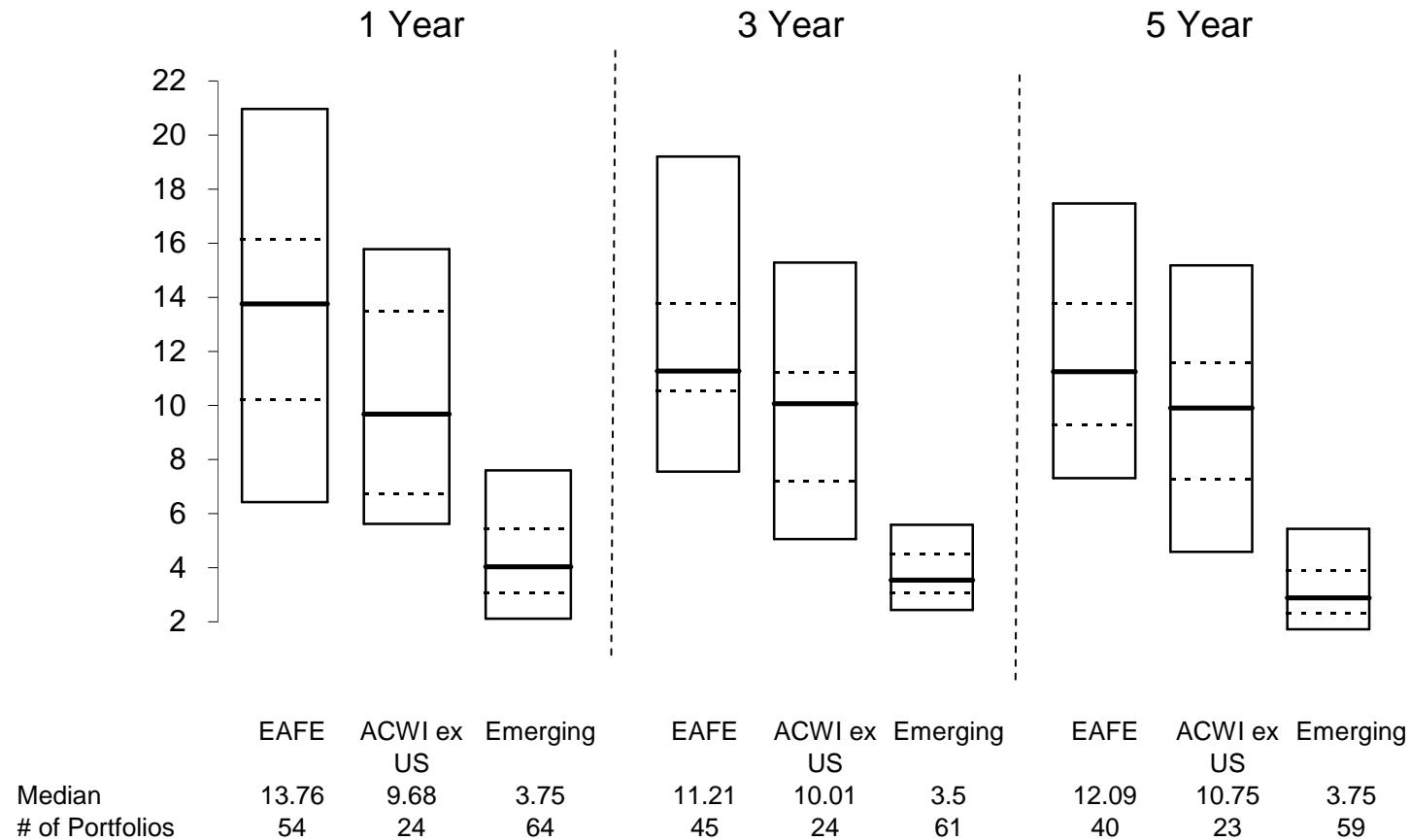
Source: Intersec Research, Schroders



Low Breadth – Higher Tracking Error



Emerging Markets Tracking Error within Broad and Specialist Mandates as of 12/31/2007



Source: Intersec Research, Schroders



Portfolio Construction



Factors	Strategy
High rate of evolution of the benchmark – including index inclusions and exclusions	Top Down
Understanding competitive advantages across regions and industries, rather than purely assessing on country risk premiums	Sector/Analyst Focus
Market depth to access “true” growth companies	Local Managers
Accessing markets which are relatively attractive but are difficult to invest in e.g. China A-shares, Gulf shares	ETF's, Market Neutral
Extracting Inefficiencies	Quant

Portfolio Considerations & Ideas

“Strategic Dirty Beta’s”



- **Eclectic Stock Picker** – skills in index unaware stock selection
- **Gulf Markets** – Key markets like Saudi Arabia and Kuwait. Also a hedge on oil prices and the impact of inflation on the asset class
- **Satellite China** – A shares access provides a different spread of companies and is a play of Chinese retail investor liquidity.
- **Infrastructure** is a key theme which is likely to benefit from government spending to improve productivity bottlenecks
- **Local Managers** – alpha dependent on the “information premium” which can be significant

OptiMix Global Emerging Markets Fund Portfolio Configuration



Core-satellite approach used to:

1. Control risk by anchoring the portfolio to less risky managers
2. Capture intended/ niche exposure through satellites

Core

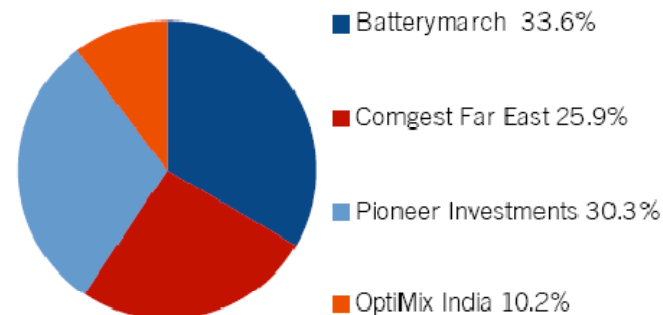
- Pioneer
 - Bottom up stock picker with Thematic Overlay and ability to generate alpha at the country, sector and stock level.
- BatteryMarch
 - Quantitative stock picker with factor models on Country, Sector and Stocks.



Satellite

- Comgest
 - Quality, contrarian, benchmark agnostic stock picker
- India
 - Optimix India with on the ground team.
- China A Shares ETF
 - Play on the growth potential of China via the A Shares market
- Middle East ETF
 - Play on both growth potential and hedge against commodity induced inflation.

MANAGER ALLOCATIONS AS AT 30 JUNE 2009



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