



Emerging Markets
Investing in the new reality...



CONFERENCE

The outlook and opportunities for global emerging market equities

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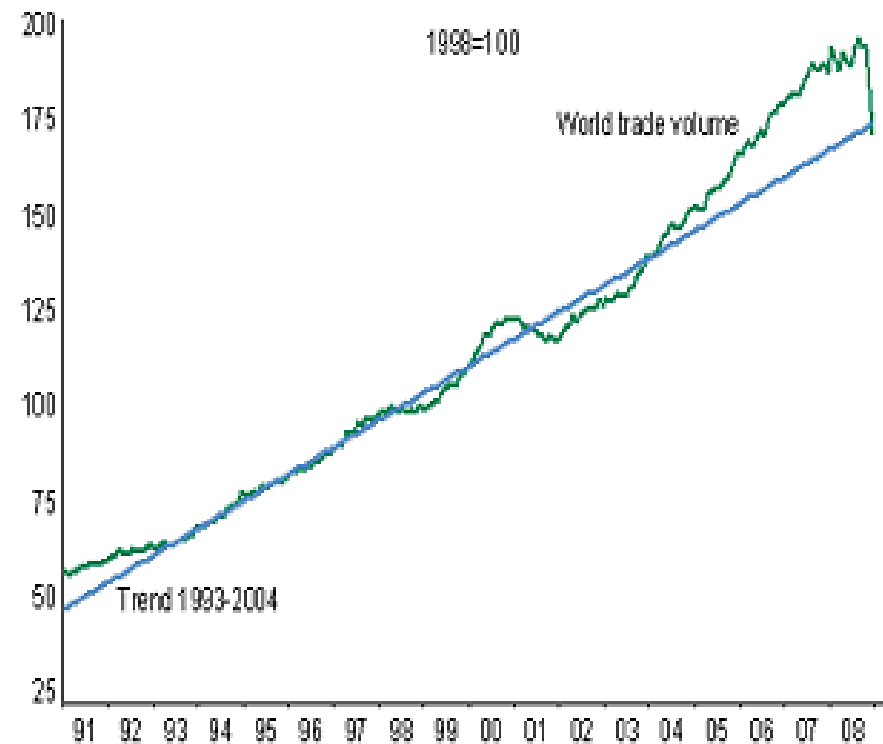
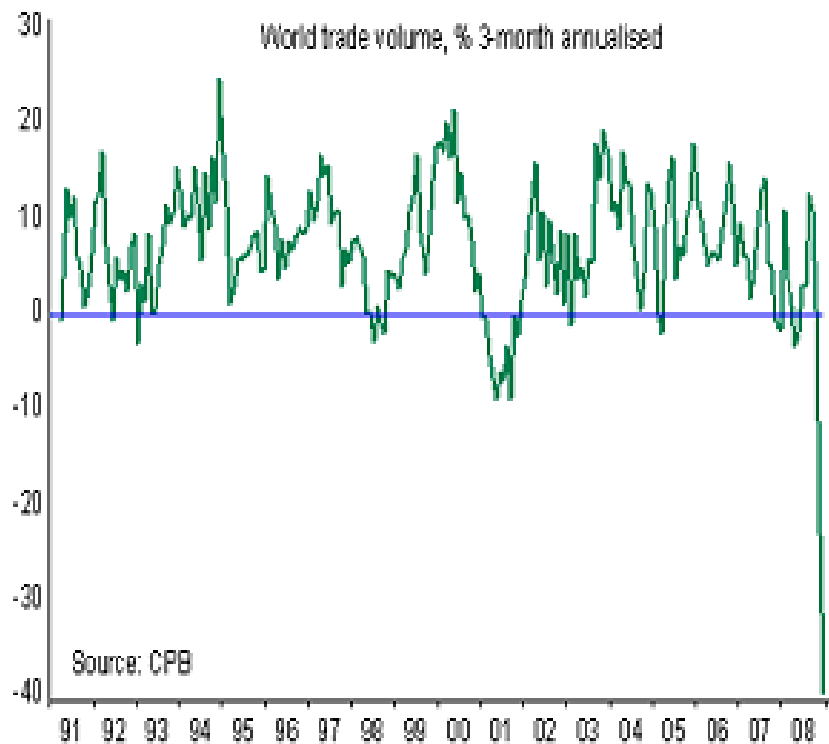


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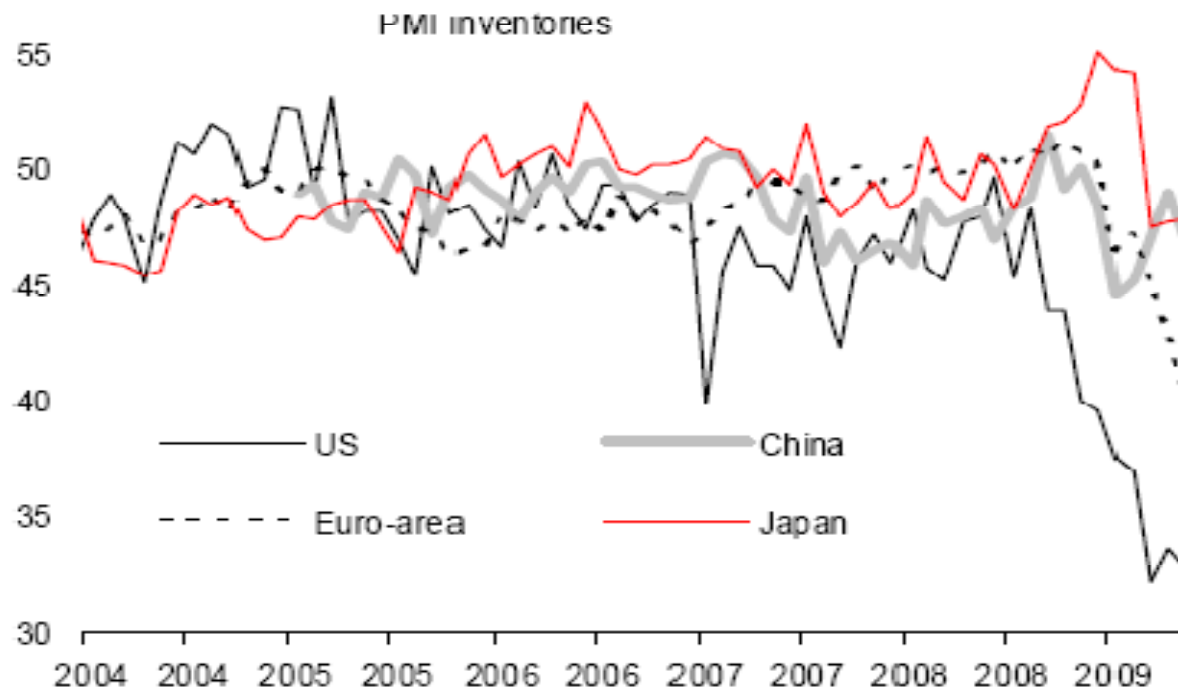
World Trade Collapse...

-39% annualised in 4th Qtr 2008



Inventory cycle

Figure 1: PMI Inventories



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In fact inventories fell a LOT more than retail sales

Figure 3: The gap between the fall in global IP and retail sales is higher than at any point during the past decade

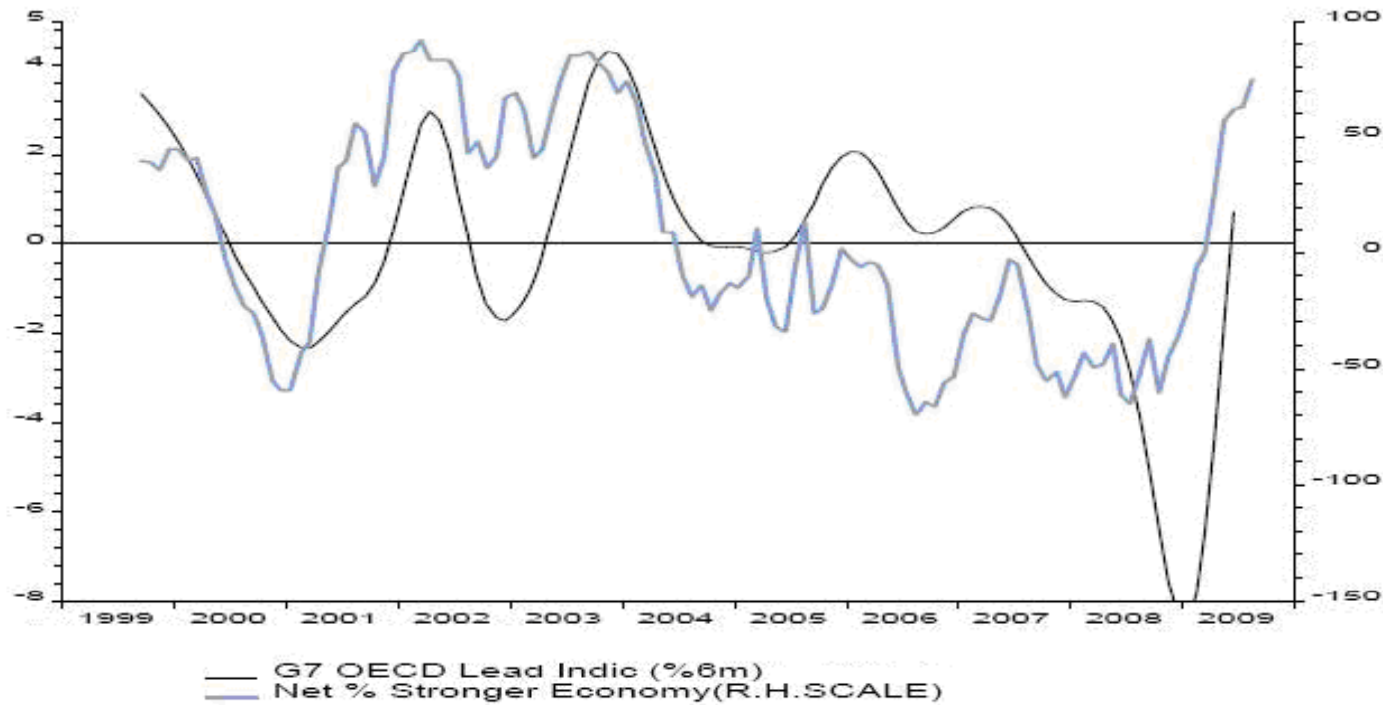


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Market now believes in a V-shaped recovery



Fund managers' growth expectations & OECD leading indicator



Source: Banc of America Securities – Merrill Lynch

Old versus new cycle

Old cycle

1. Fed cuts rates
2. Value of financial assets rises
3. US consumer and property rebound
4. US\$ strengthens
5. Exports from Europe and ASIA pickup
6. Europe and Asia come out of recession lagging the US
7. End point... Fed raises rates

This cycle

1. Fed cuts rates and prints money
2. Value of financial assets rises
3. US consumer and property stalled
4. China stimulates
5. Chinese consumption expands
6. Commodity prices rise
7. Income to commodity producers rise, funding inter-regional trade
8. US\$ weakens
9. Exports from developed world pick up
10. World comes out of recession emerging markets leading
11. What is the end point?

“Buy humiliation?”

S&P Rolling 10-yrs annualized monthly returns since 1926, %

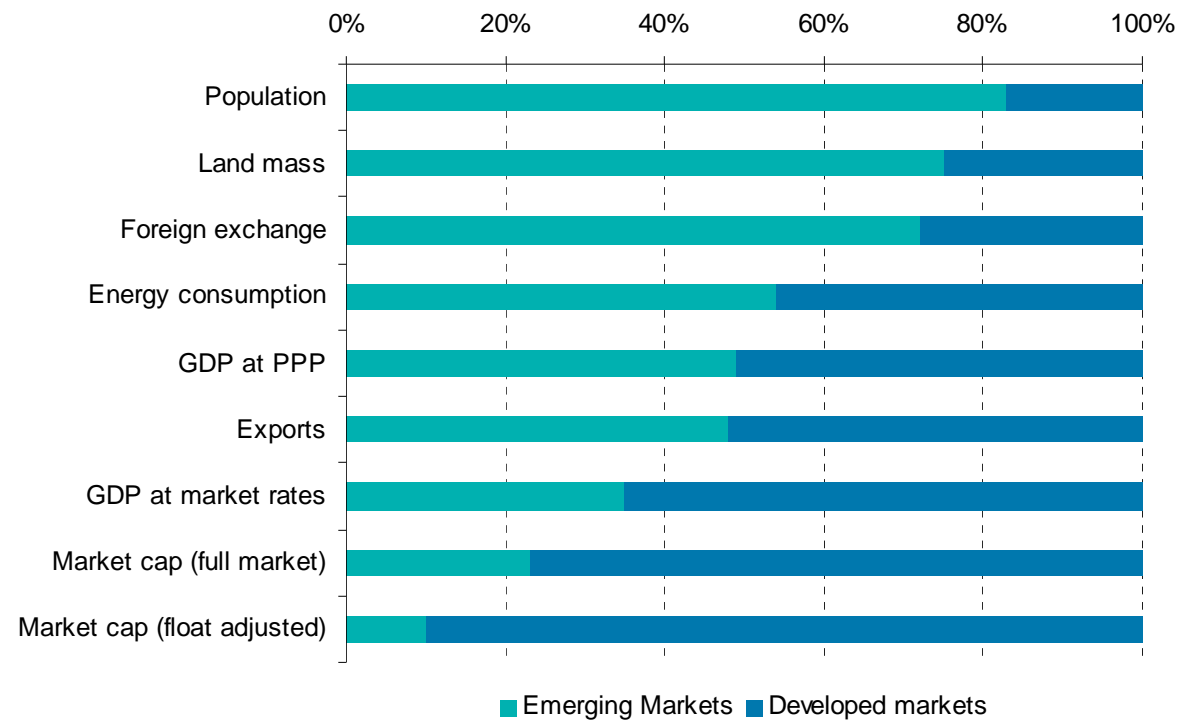


Source: Banc of America Securities – Merrill Lynch

The GEM secular growth argument



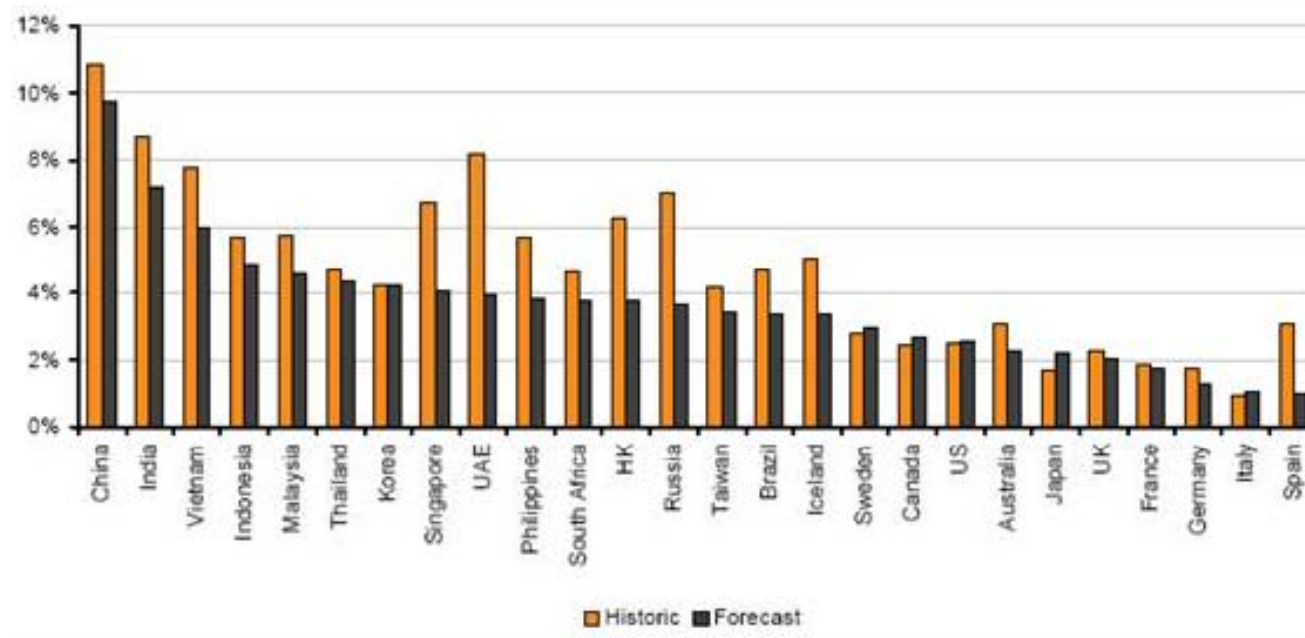
Emerging economies as % of total world, 2008-09



Source: Banc of America Securities – Merrill Lynch

GEM-led growth

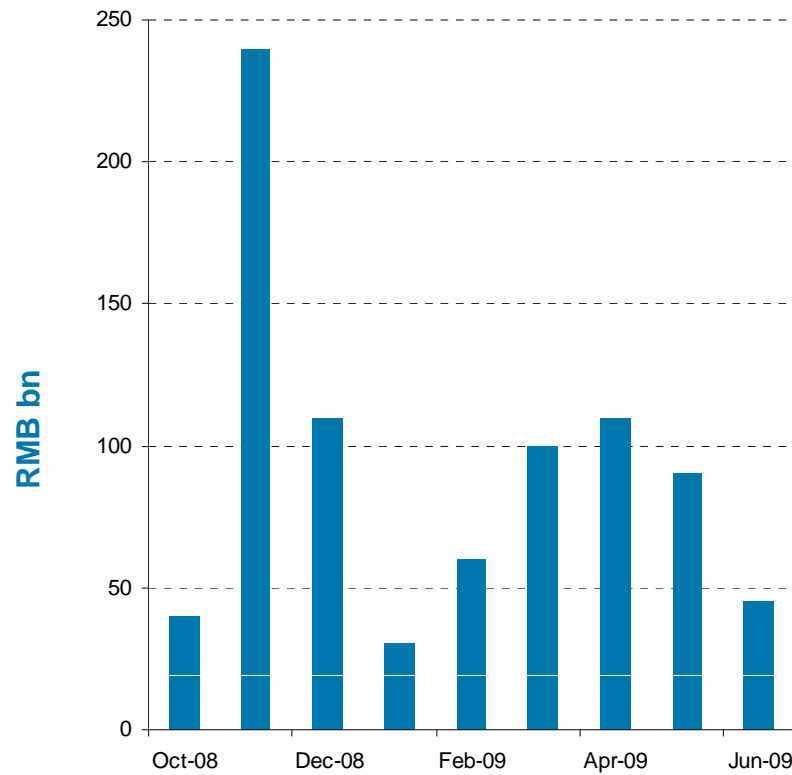
Real GDP growth – five year historical and five year forecast CAGR



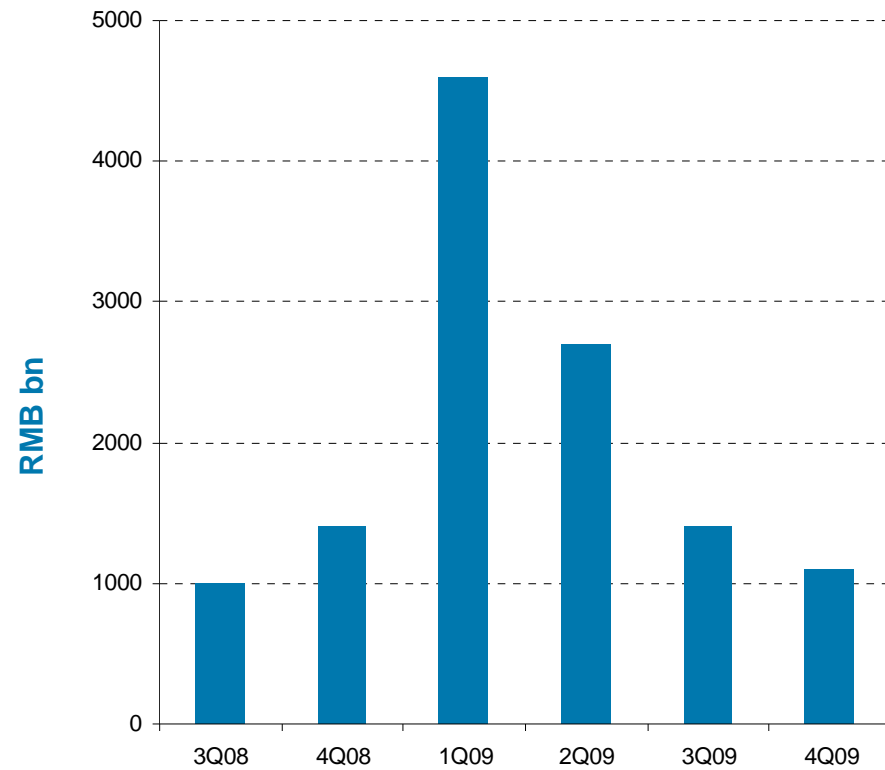
Source: ABN AMRO forecasts, IMF

China stimulus

Amount of projects approved by gov't



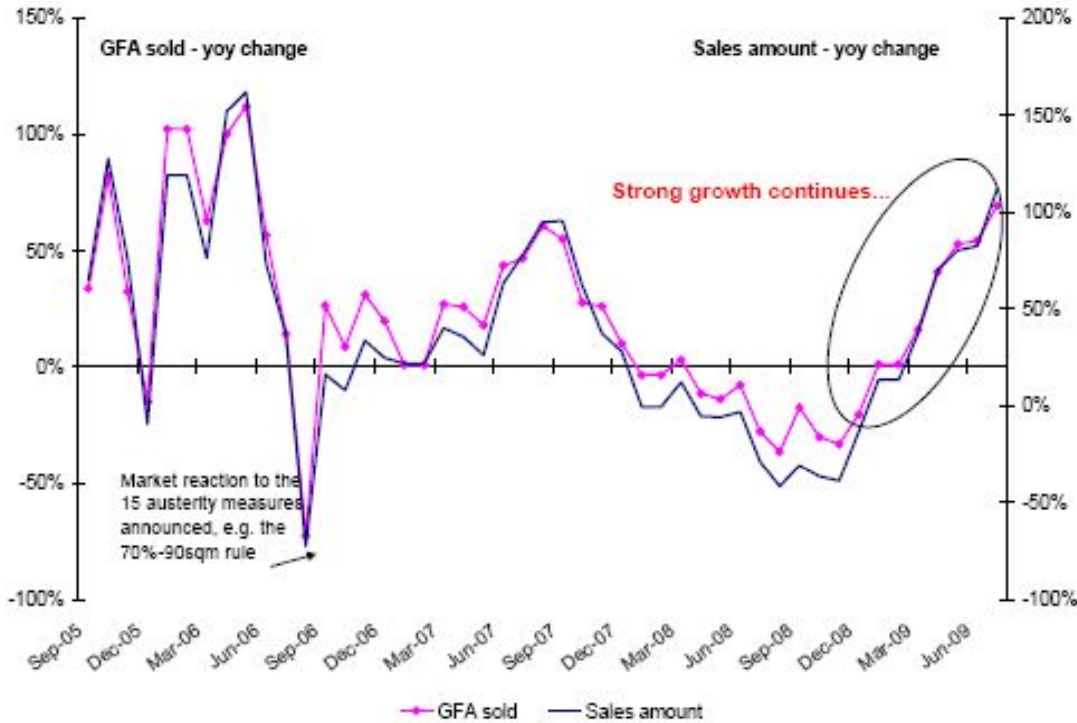
New lending peaked in 1Q09



Source: CEIC, Deutsche Bank

Property sales in China

China National Residential Sales

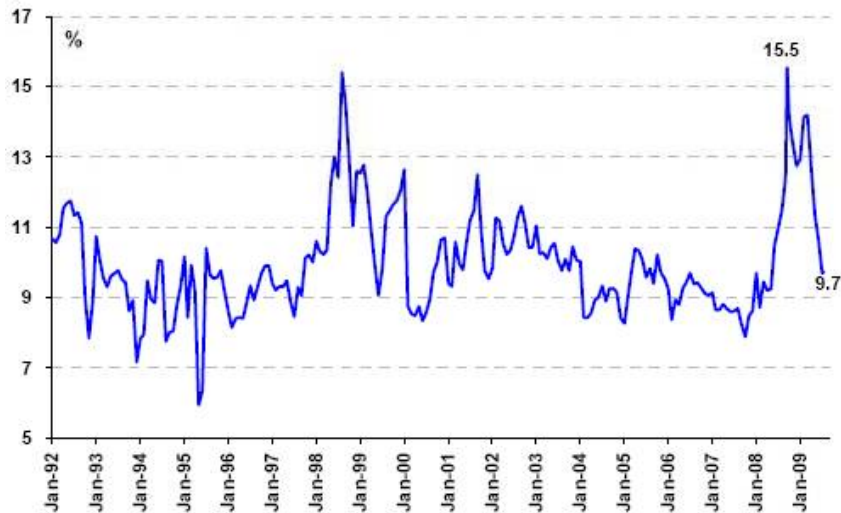


Source: CEIC, Morgan Stanley Research

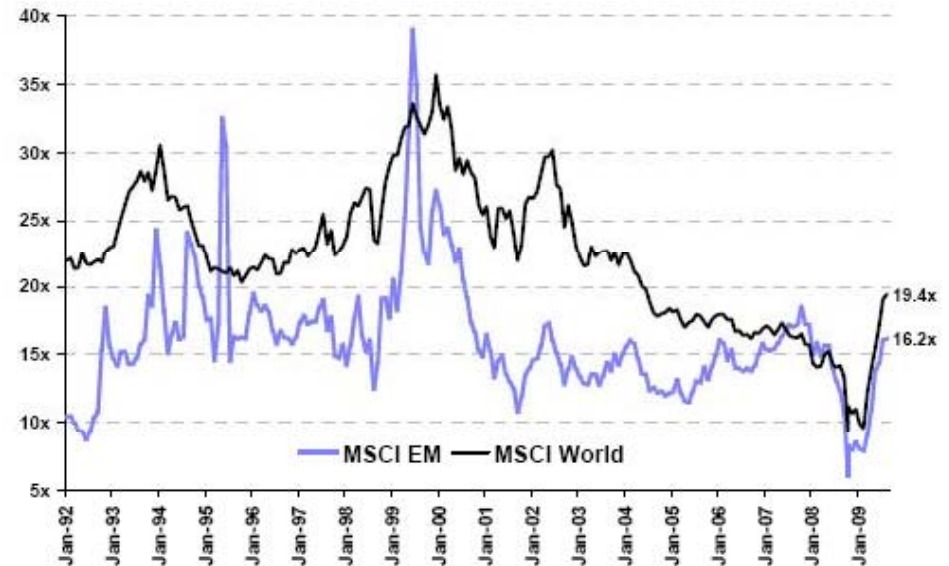
Mid-cycle valuations in GEM



MSCI EM US\$ Implied cost of equity



Trailing P/E, 1992-2009: MSCI EM vs MSCI World

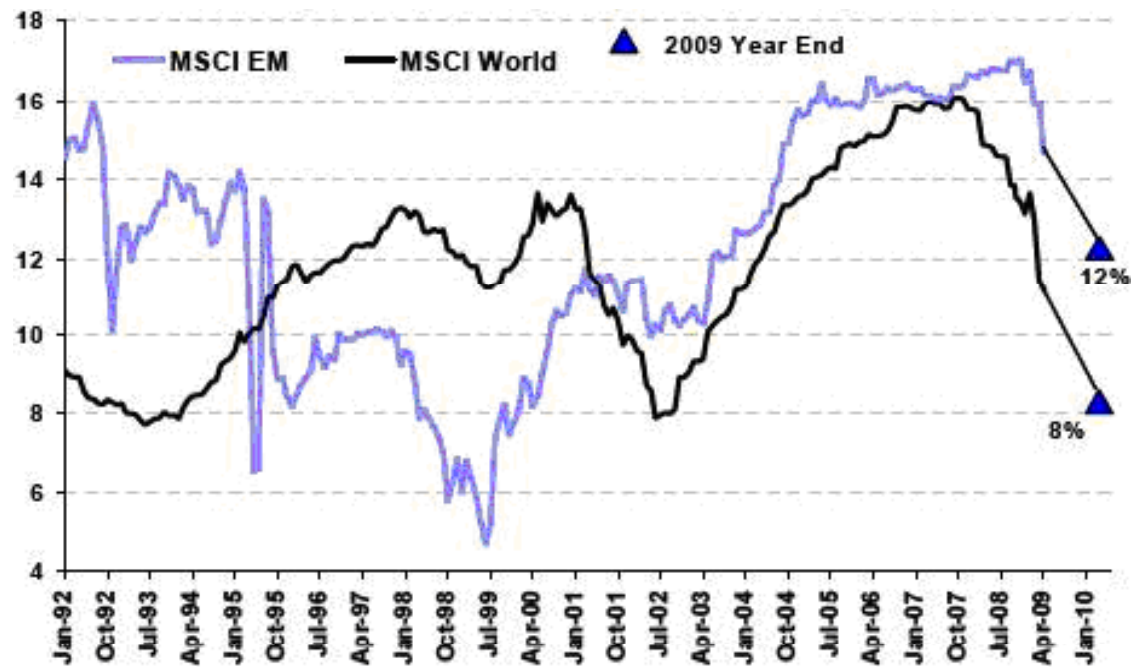


Source: MSCI, FactSet Morgan Stanley Research.

High ROE, but lower debt in GEM



Trailing ROE: MSCI EM vs MSCI World, 1992-2008



Source: MSCI, FactSet, Morgan Stanley Research

Local vs Global Stocks



Company	Main Product Lines	% Est Sales from GEM	Fwd PE	Yield	PBV	ROE
Hengan International	Nappies & Tissues	100%	24.7x	1.8%	7.0x	22.4%
China Life	Life & Health Insurance	100%	27.6x	0.8%	4.8x	12.8%
CHALCO	Aluminium	100%	Loss	0.7%	1.9x	0.0%
Bharti Airtel	Mobile Telecommunications	100%	15.0x	0.5%	7.0x	-
ZTE Corp	Mobile Telecom Equipment	80%	24.2x	1.0%	3.7x	
Shandong Weigao	Medical Consumables	100%	30.3x	0.8%	7.5x	25.4%
Average			24.4x	0.9%	5.3x	
Procter & Gamble	Health & Personal Care	34%	14.2x	3.2%	2.6x	14.0%
Prudential	Life Insurance & Investments	50%	6.9x	3.6%	2.8x	-7.0%
Rio Tinto	Iron ore, Aluminium, Copper	41%	14.2x	2.9%	2.3x	-
Vodafone	Mobile Telecommunications	28%	9.2x	5.9%	0.8x	3.8%
Nokia	Mobile Telecom Equipment	60%	15.7x	4.7%	2.5x	27.5%
Varian Medical Systems	Oncology & X-ray Equipment	23%	14.6x	0.0%	3.8x	31.2%
Average		39%	12.5x	3.4%	2.5x	
Premium / Discount for direct GEM plays			95.5%	-72.6%	114.9%	

Source: Factset, Five Oceans Asset Management

Is GEM a “crowded trade”?

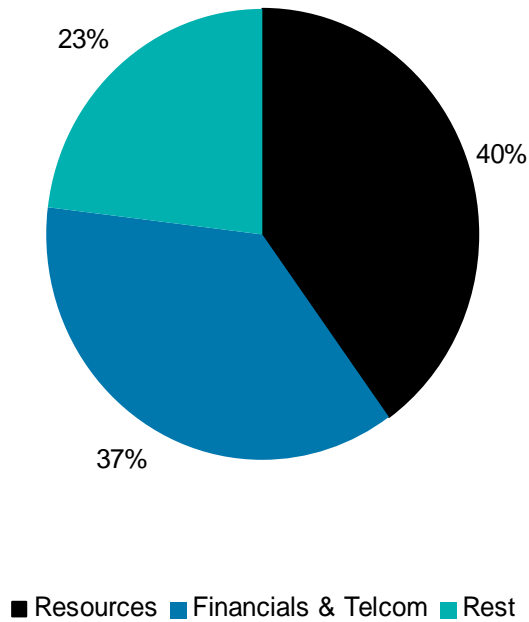


Source: Banc of America Securities – Merrill Lynch

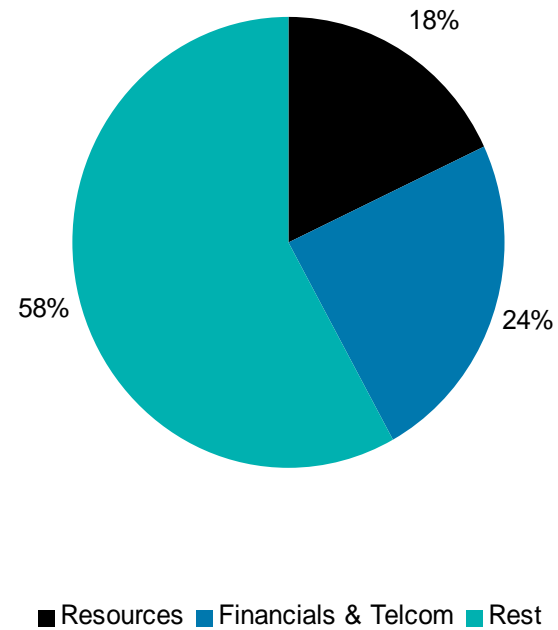
BRIC = Resources + Financials + Telecom



MSCI BRIC index breakdown (%)



MSCI DM index breakdown (%)



Source: MSCI Thomson, Datastream

Importance of ESG in GEM – with a focus on “G”

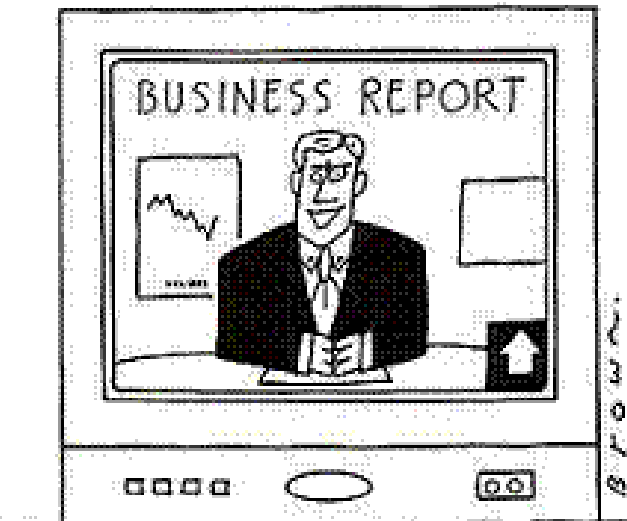


Do Chinese companies manage in shareholders interests?

	MSCI China	Ownership	National service requirement
China Mobile (HK)	13.1%	Govt	Develop TD-SCDMA
China Construction Bank	6.9%	Govt	Lending for GDP growth
China Life Insurance	6.3%	Govt	Develop welfare system
ICBC	5.7%	Govt	Lending for GDP growth
Bank of China	5.5%	Govt	Lending for GDP growth
CNOOC	4.7%	Govt	Supply domestic Oil & Gas
PetroChina	4.7%	Govt	Develop Natural Gas
Sinopec	2.8%	Govt	Provide refining capacity
Tencent Holdings	2.6%	Mangt	Social stability / control
China Overseas Land & Investment	1.8%	Govt	Affordable housing
% of MSCI China	54.1%		

Source: MSCI, Five Oceans Asset Management

Risk management



"Due to a change in its orbit, the giant asteroid destined to collide with earth today is not expected to hit until Monday. World stock markets rallied on the news."

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