



Emerging Markets
Investing in the new reality...



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Emerging Asia

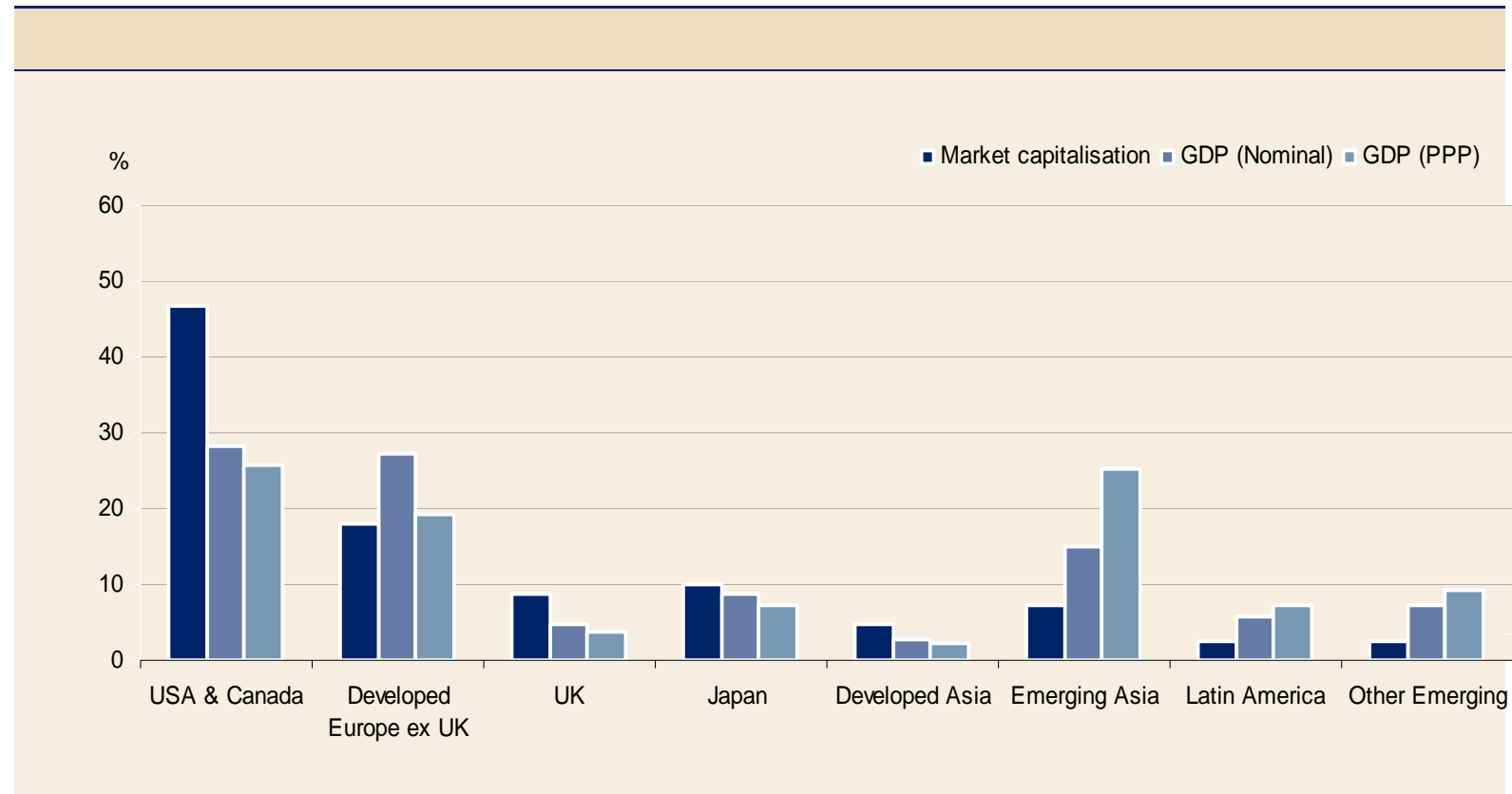
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Asia is under represented in indices

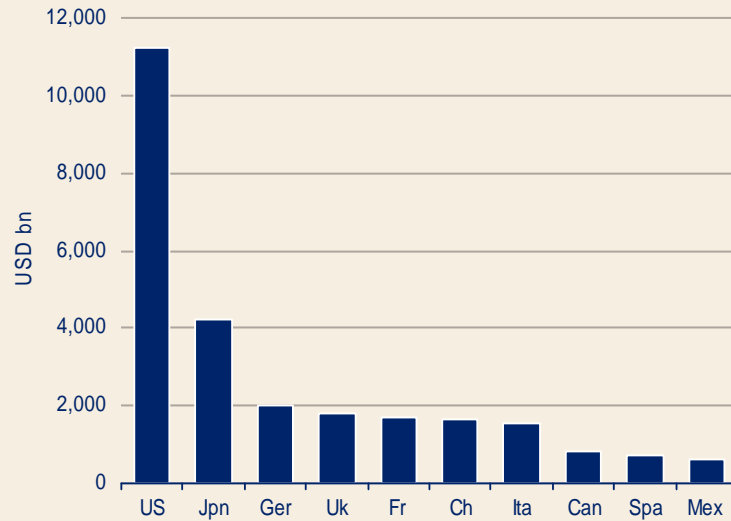


- Indices present a distorted picture of the world
- Relative to their GDP, Asian markets are under-represented
- By ignoring indices, one is able to see long-term investment opportunities

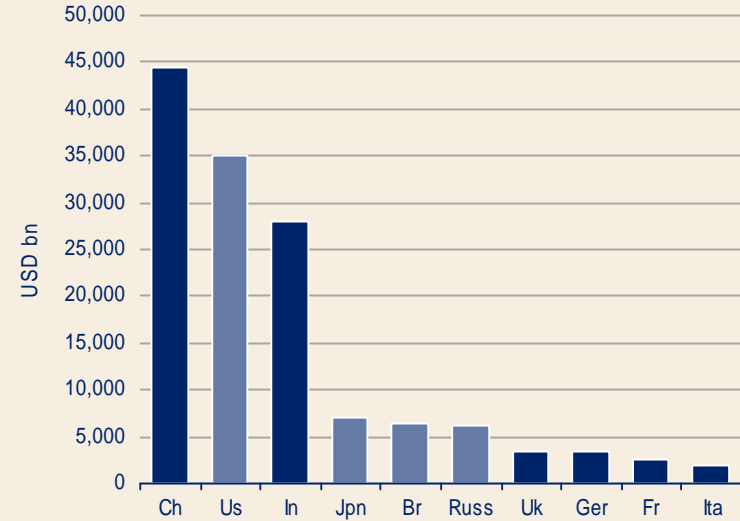
Brave new world

Largest economies in 2004 and 2050

2004 GDP

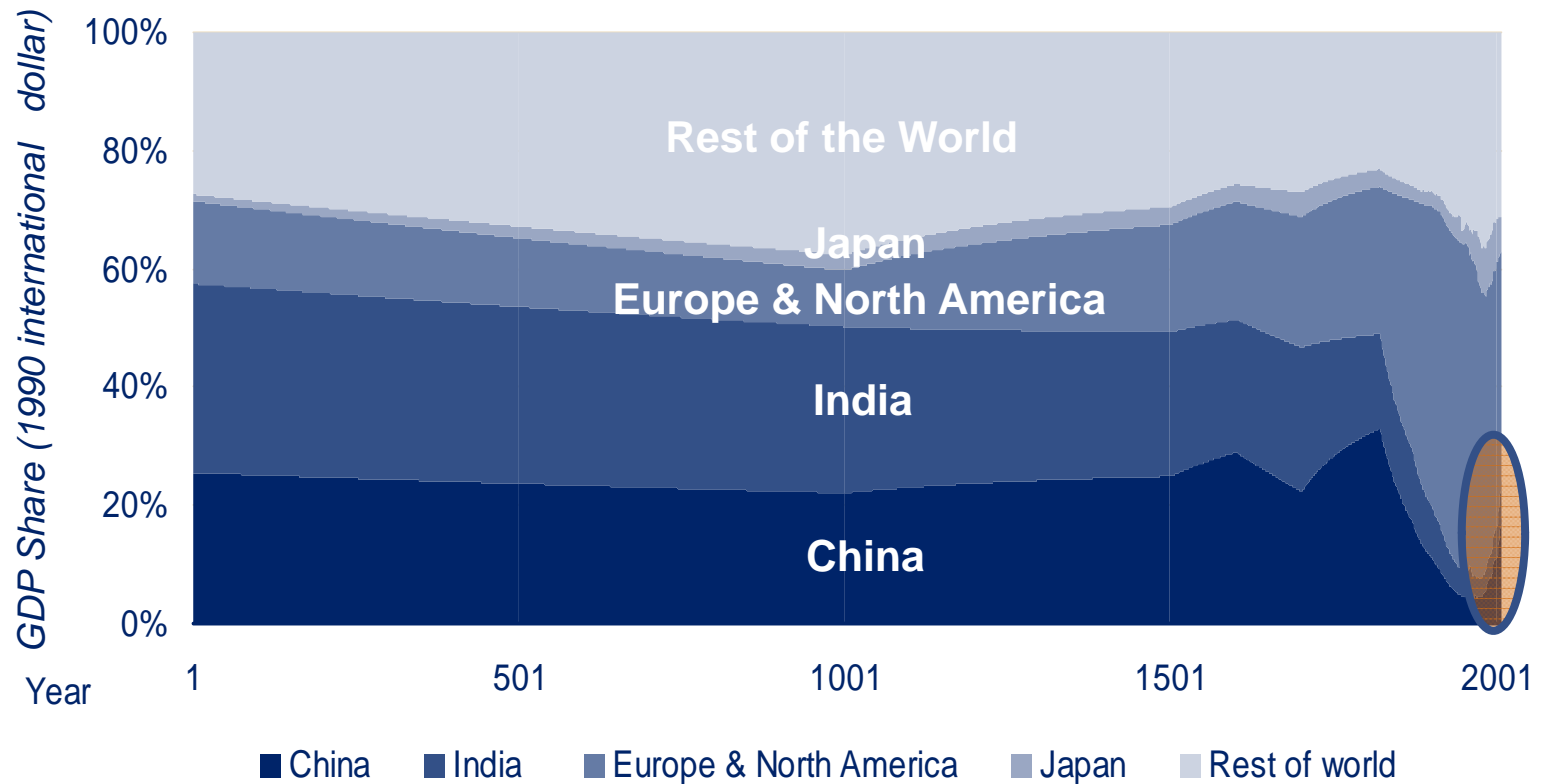


2050 projected GDP



Share of Global GDP is reverting to more “normal” levels

Share of total world GDP (1 – 2006 AD)



Source: Angus Madison “Historical Statistics for the World Economy:1-2006 AD”, DB GMR

The case for emerging Asia

Reasons to be cheerful - fundamentals remain strong

- Robust GDP growth, supported by young population and resilient consumer spending
- Macro fundamentals are in good shape: current account surpluses, high reserves, stable currencies
- High savings levels and low consumer and corporate debt
- Now the lenders rather than the borrowers
- Scope for fiscal stimulus
- Companies have much stronger balance sheets, are more profitable, and are committed to shareholder value
- Valuations

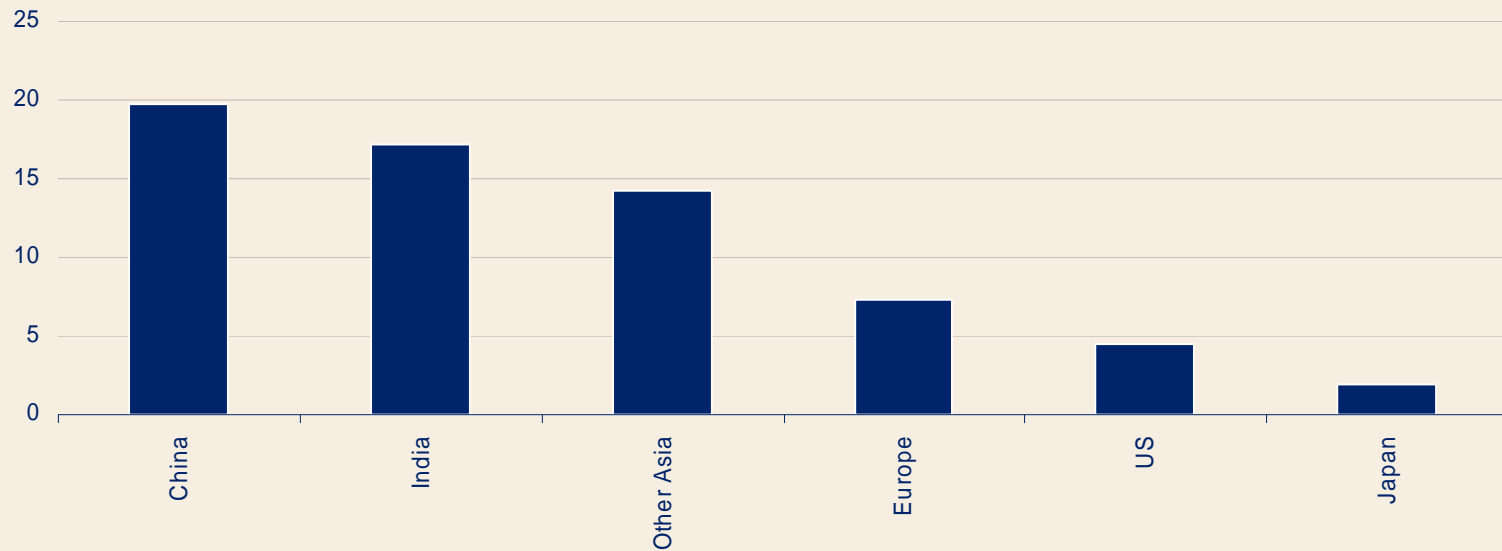
Recession is striking harder in the west

Real GDP %	2008E	2009E	2010E
Global Economy	1.6	-2.5	2.1
Developed Markets	0.7	-3.4	1.4
Emerging Markets	5.0	0.9	4.8
US	1.1	-2.7	-1.9
EMU	0.7	-3.2	-0.4
UK	0.7	-3.2	0.8
Emerging Europe	4.3	-2.3	1.8
Japan	-0.7	-6.5	2.2
Asia ex Japan	5.8	3.0	6.6
China	9.0	7.2	8.5
Latin America	3.9	-1.3	3.1

- There is no early return to growth in sight for the developed world, with all the major trading blocs facing a contraction

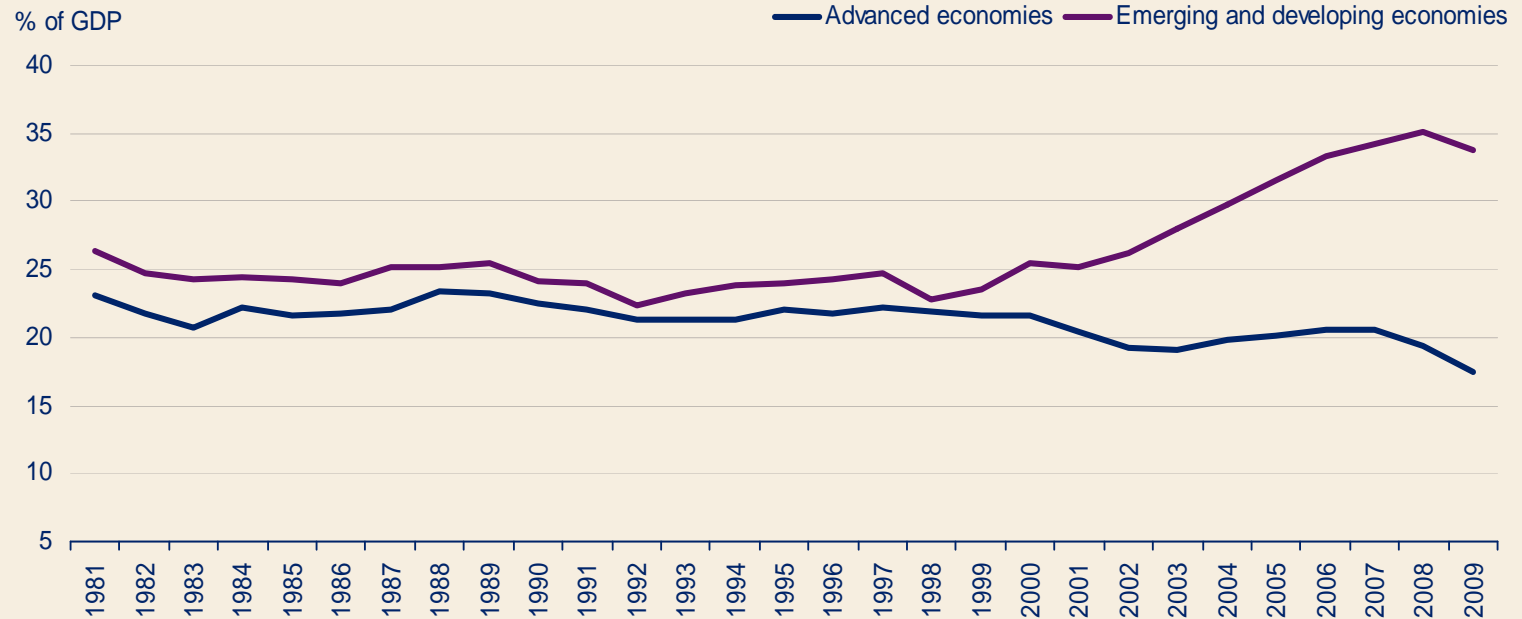
The growth potential: Over half the people on the planet live in NJ-Asia

Population, % of world population, 2008



High savings rates

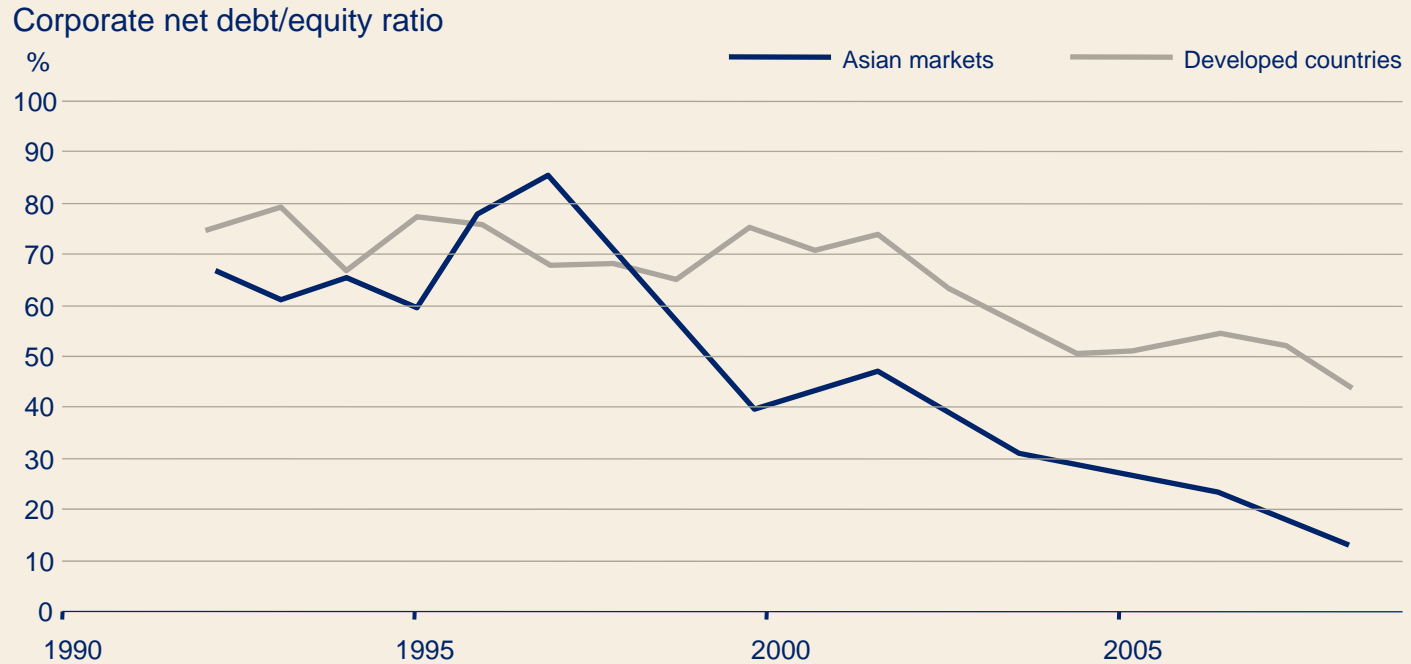
Gross national savings



- Underdeveloped safety nets account for high relative savings rates across GEM, which has helped underpin surpluses

De-levering has been going on for years

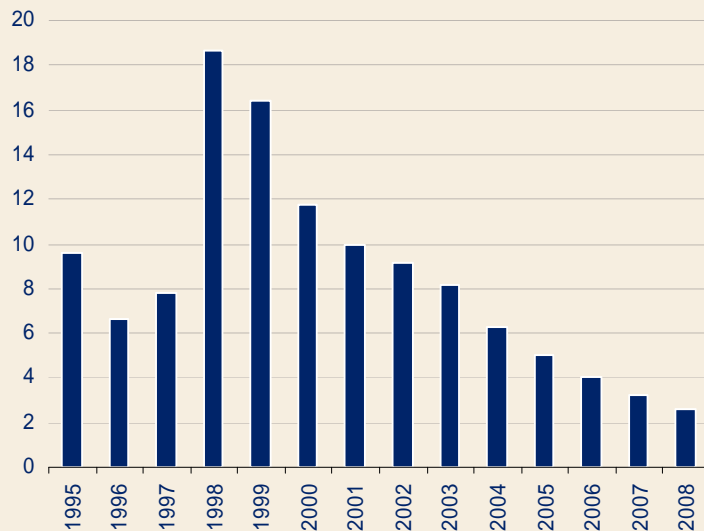
Corporate gearing



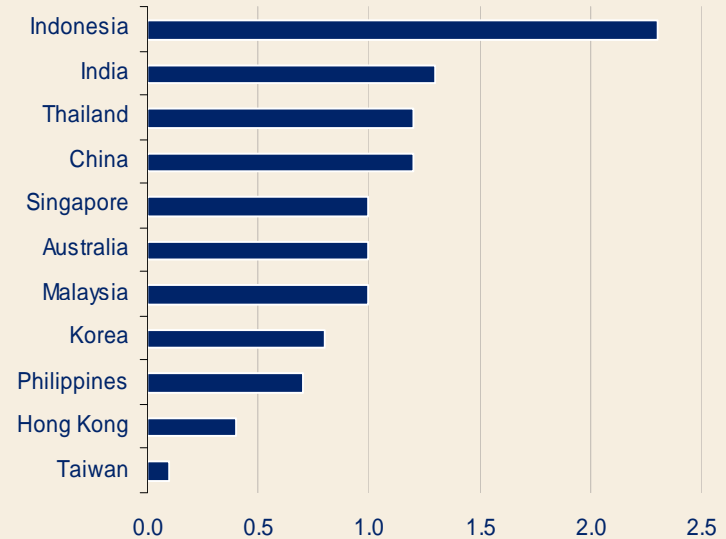
- Asia looks better at both the country AND company level because of a decade of prudence

Asia's banking sector is healthy and profitable

Non-performing loans as % of total loans (average Asian bank)



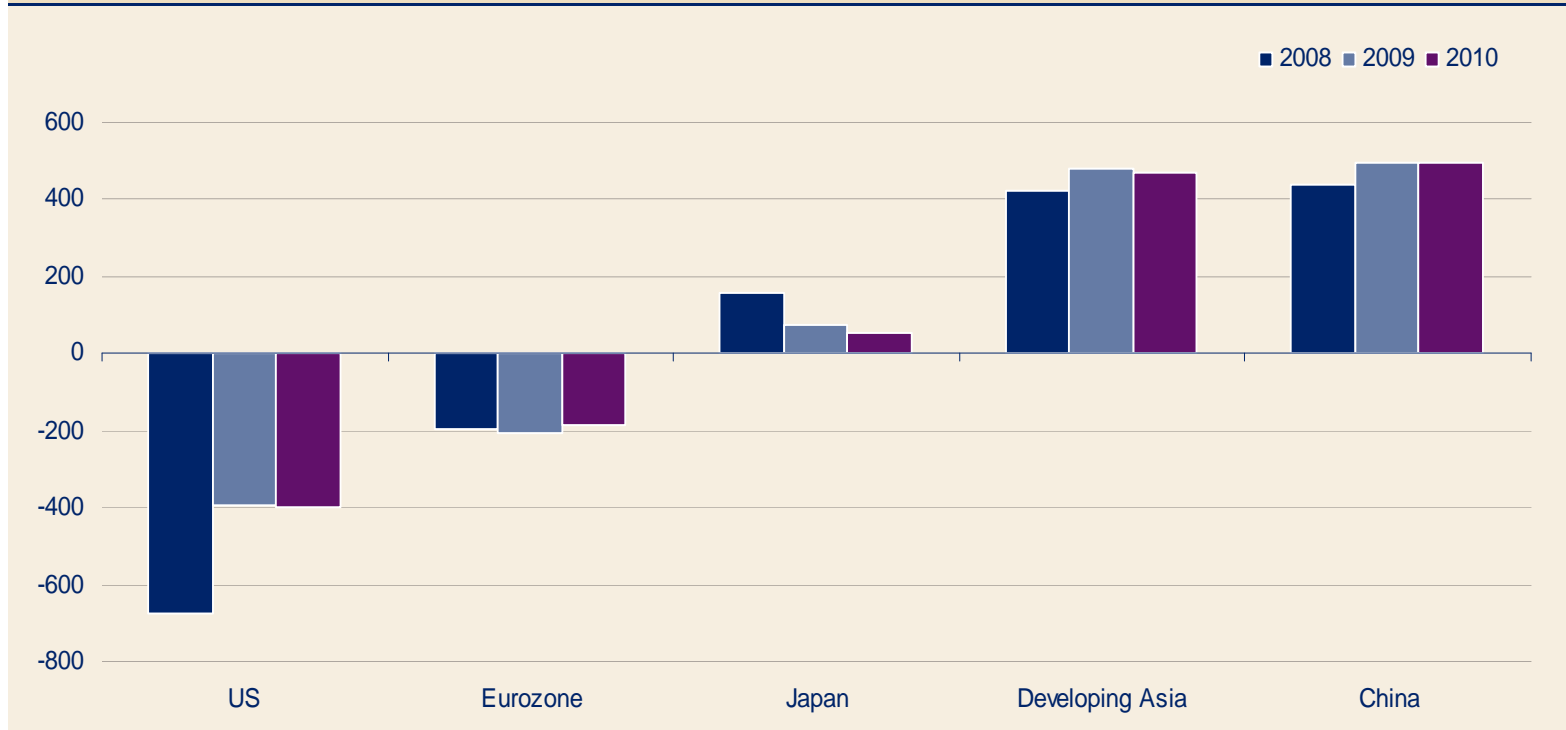
Asian bank ROA - 2008



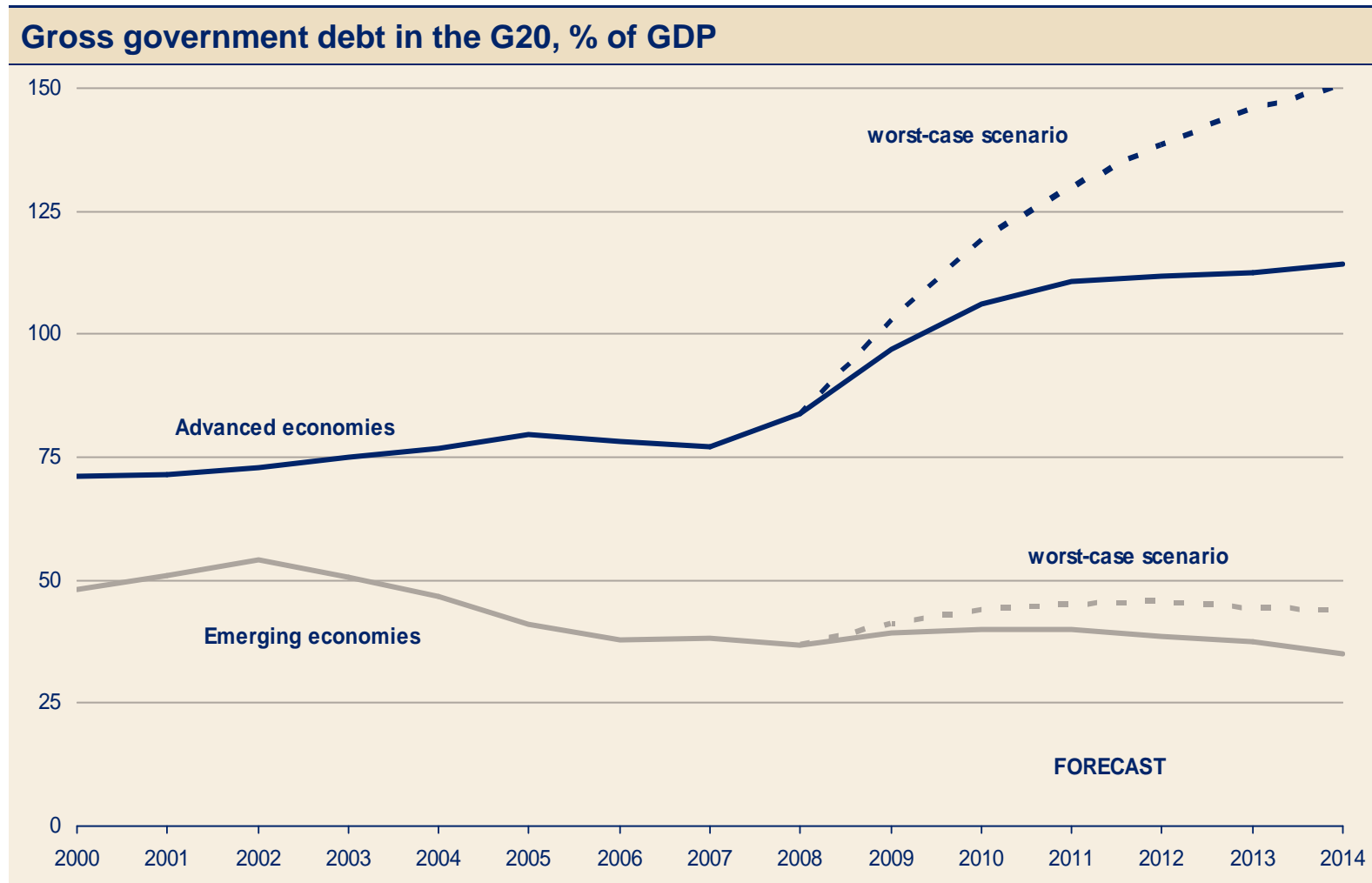
- Because of healthier banking systems, Asian banks are less likely than Western ones to react to the crisis by refusing to lend.

The region runs substantial current account surpluses

Current account balance, USD billions



Government debt levels in emerging countries low and staying low



Reasons to be cautious

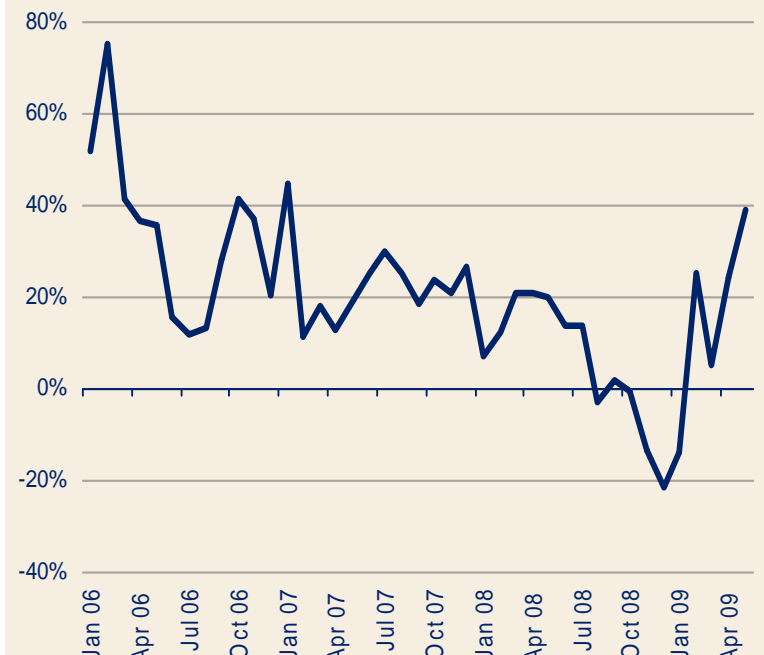
- Recovery in China may be over stated
- World trade remains flat
- Company earnings
- Recent rally may be over done – risks remain
- Geopolitical risks

All the attention on China

China loan growth, %YoY



China passenger car sales, %YoY



- China's US\$586bn stimulus package is aimed at compensating slowing export growth, but has revived hopes that it can lead GEM decoupling

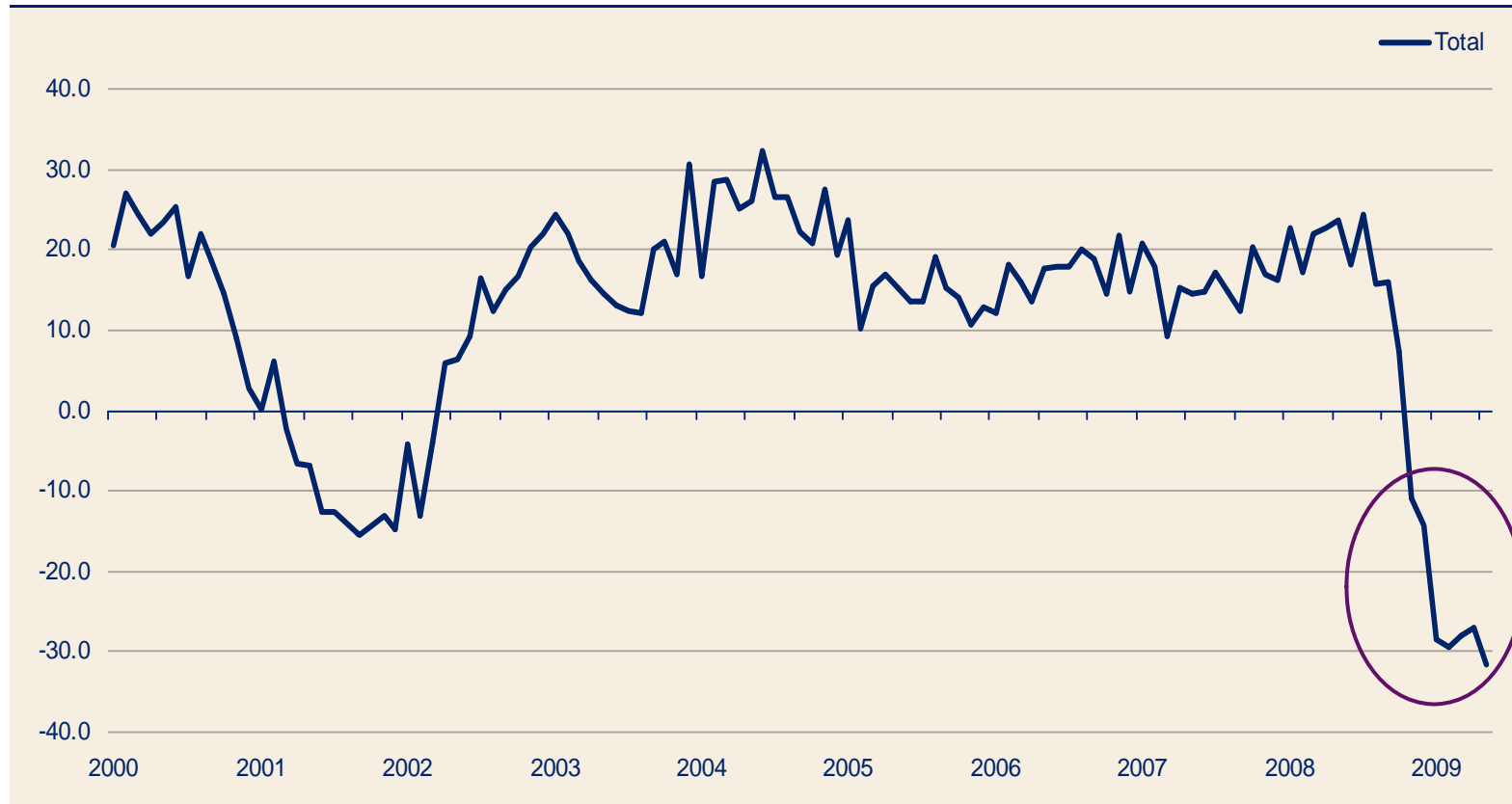
Decoupling belief was symptom of over-optimism

Share of Asian exports by destination

% of Total	1990	1995	2000	2005	2007	Change 90-07
US	25.7	22.0	23.7	18.4	16.2	-9.4
EU	18.3	15.4	16.1	15.6	16.0	-2.3
Japan	8.8	8.6	8.6	7.3	6.4	-2.4
China	3.9	7.1	8.1	12.8	13.1	9.1
Asia ex China & Japan	28.6	34.3	31.6	31.8	31.4	2.8
Non-EU Europe	2.8	1.5	1.4	2.3	3.2	0.5
Middle East	2.9	2.5	2.6	3.3	4.0	1.1
Latin America	2.2	3.0	2.9	2.8	3.6	1.3
Others	6.8	5.6	5.0	5.7	6.1	-0.7

- Although GEM's economic clout had been increasing, there was still a marked dependence on developed world demand

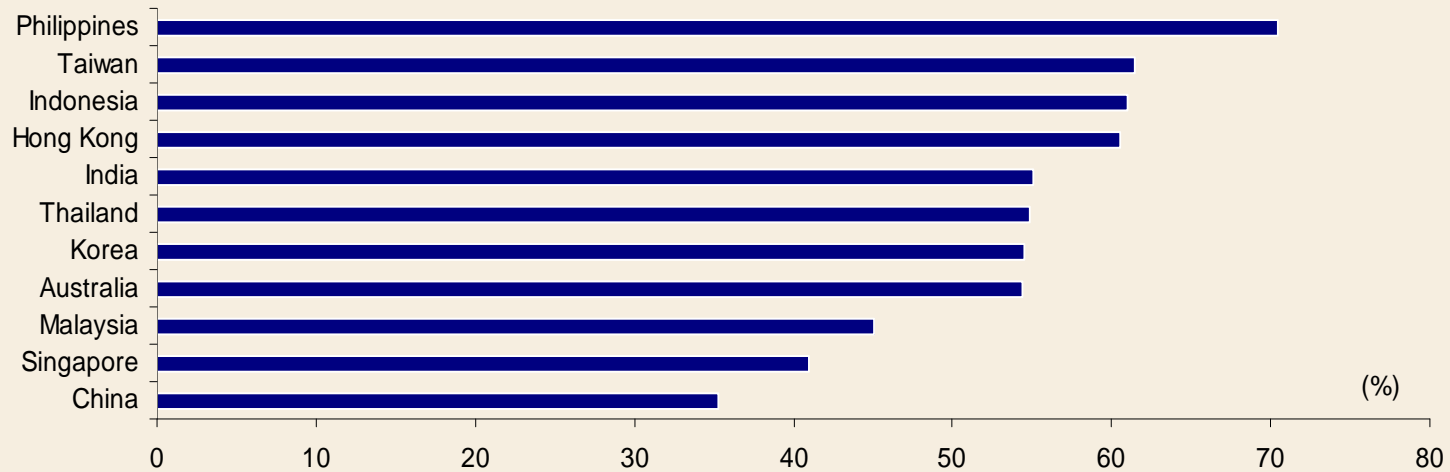
Demand for Asia's exports has collapsed



- Exports to developed countries unlikely to rebound in near future but domestic fiscal stimulus should boost regional trade

Asia must learn to spend

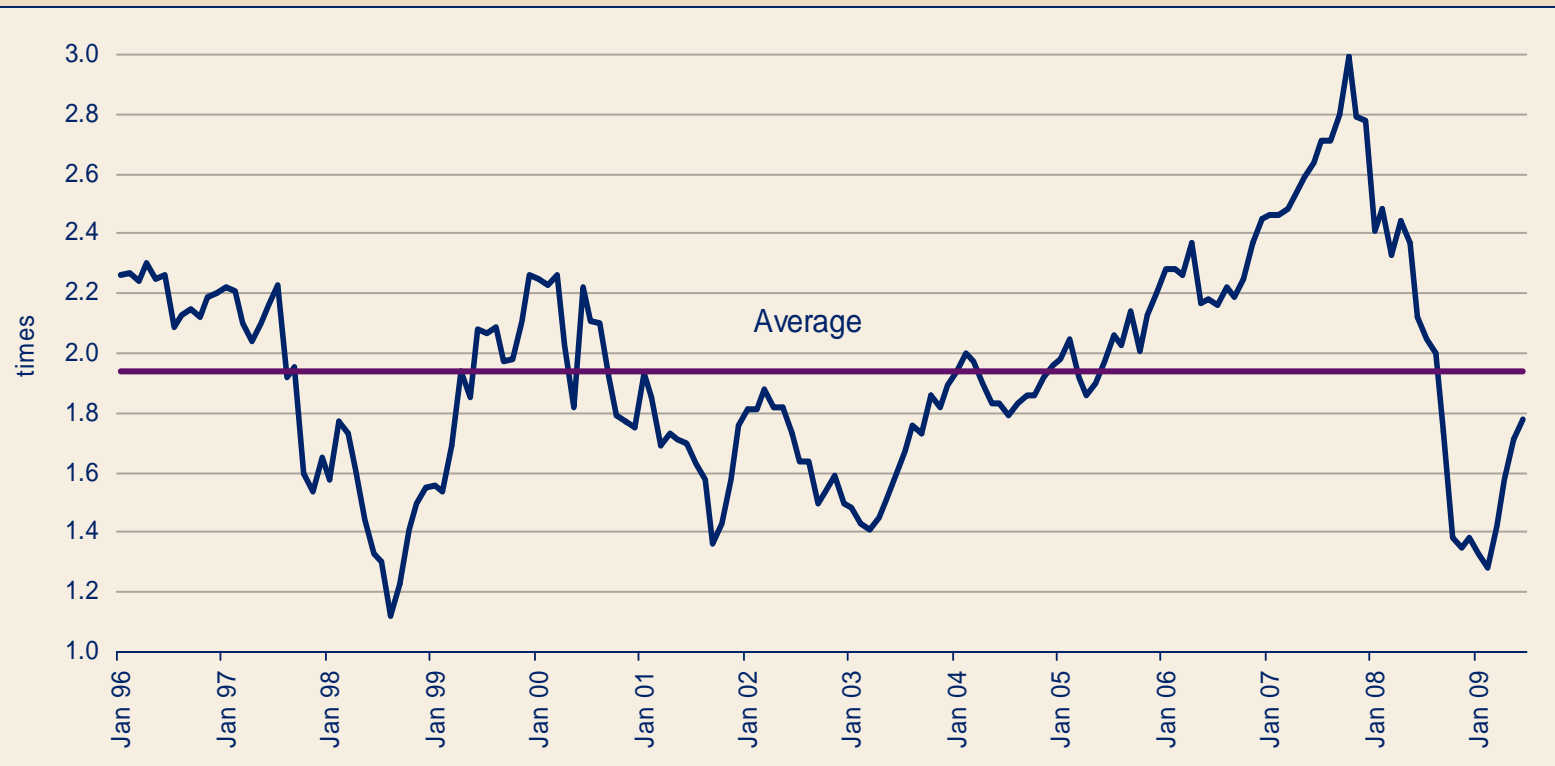
Private consumption as % of nominal GDP



- Private consumption has been growing across the region but had fallen as a component of growth as exports and investment were, until recently, growing faster
- Challenge for all countries is to steer growth towards the domestic sector to rebalance their economies and, by extension, global demand

Reasonable value, but not a bargain

MSCI Asia Pacific ex Japan index Price-to-Book ratio



- Historical average of 1.9 times
- Current PBR of 1.8 times slightly expensive, given environment of lower returns of lower returns on capital

Asia in the black versus December 2005, unlike the West

Asia versus the world (US\$)



- Equity market rise due to perceived stabilisation of global economy
- Fiscal and monetary conditions have also been very loose

Why Asia - summary

- Over half the people on the planet live in Asia
- The Asian region is in reasonable financial shape relative to the western world
 - For example:
 - Current account surpluses
 - Some of the largest central banks in the world are in Asia
 - Larger increasing GDP
- Asia is a material proportion of Global GDP, and contributes significantly more (almost 40%) when compared in constant prices
- Yet within the major indices Asian NJ is a very small proportion
- Indices however are backyard looking
- Therefore look to increase your investment in a growing region like Asia
- Good opportunities exist but they need to be found



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