Emerging Markets

Investing in the new reality...

portfolio construction CONFERENCE

EAST CAPITAL

Emerging Europe

Sydney

25 August 2009

East Capital in brief

- Leading asset manager dedicated to Eastern Europe, founded in 1997
- USD3.4 billion in public and private equity
- 37 investment professionals, 160 employees
- Offices in Stockholm, Paris, Moscow, Hong Kong, Tallinn, Oslo, and Vienna
- Diversified client base across segment and geography
- 11 year track record, first fund launched in 1998 and awarded best Russia Fund in the world by Morningstar in 2008
- Independently owned and managed
- Founders and main owners still active at senior management level

Agenda

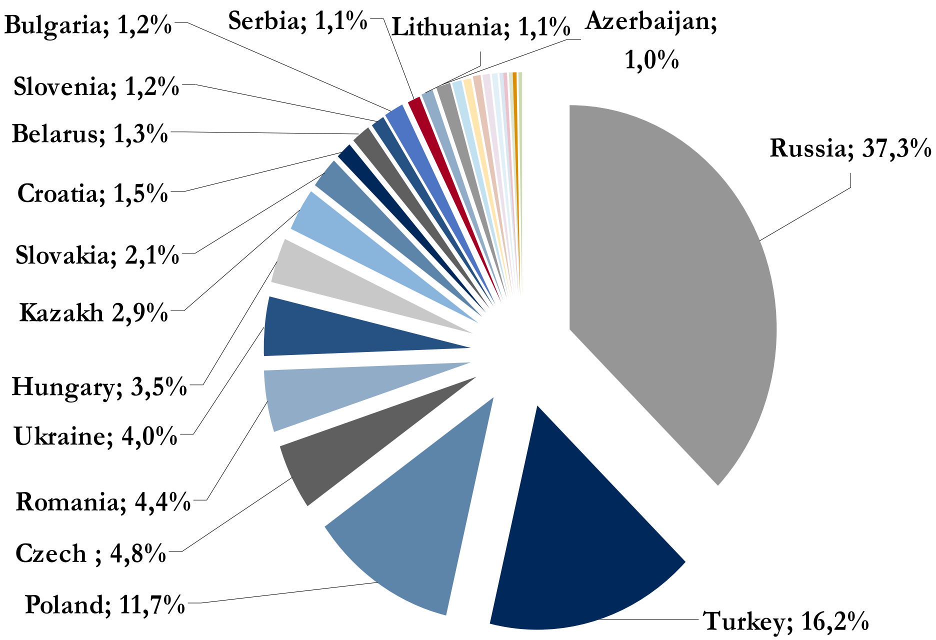
- **Region**
- Crisis
- Economies & Markets
- Outlook

The sheer size and variety of East Capital universe

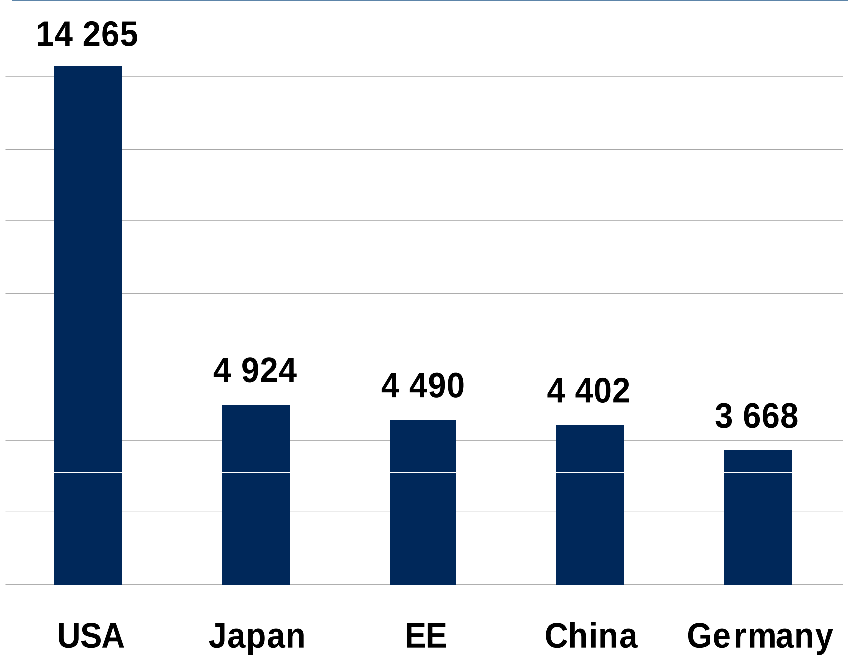
EAST CAPITAL

Eastern Europe the size of China and Japan

EE GDP Breakdown in 2008



Largest economies in 2008 (USDbn)



Nominal GDP tripled over the past five years in Eastern Europe

Source: IMF

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Dire Prognoses

Forecast

1. Russian Rouble to repeat ’98 performance.
2. Western banks to cease supporting their subsidiaries in Eastern Europe.
3. Widespread social unrest.
4. Eastern Europe debt crisis to cripple Western financial system.

Fact

1. 30% managed depreciation. Currency now stable.
2. Not one bank has withdrawn.
3. None.
4. Crisis contained.

Crisis Contained

- **Global Fiscal Stimulus**
  - Substantial Russian package
- **Strong policy response at G20**
  - IMF 2.0
  - EU, Vienna initiative, IFI Action Plan
- **Bond markets re-opened**

Leverage : Prudence pays off

- Small and vulnerable:
  - 13 small economies in the region on IMF support.
  - Only large country exception : Hungary
- Big and beautiful:
  - the largest the least leveraged
  - 4 largest economies in the region – Russia, Turkey, Poland and the Czech Republic – >70% of the region’s GDP

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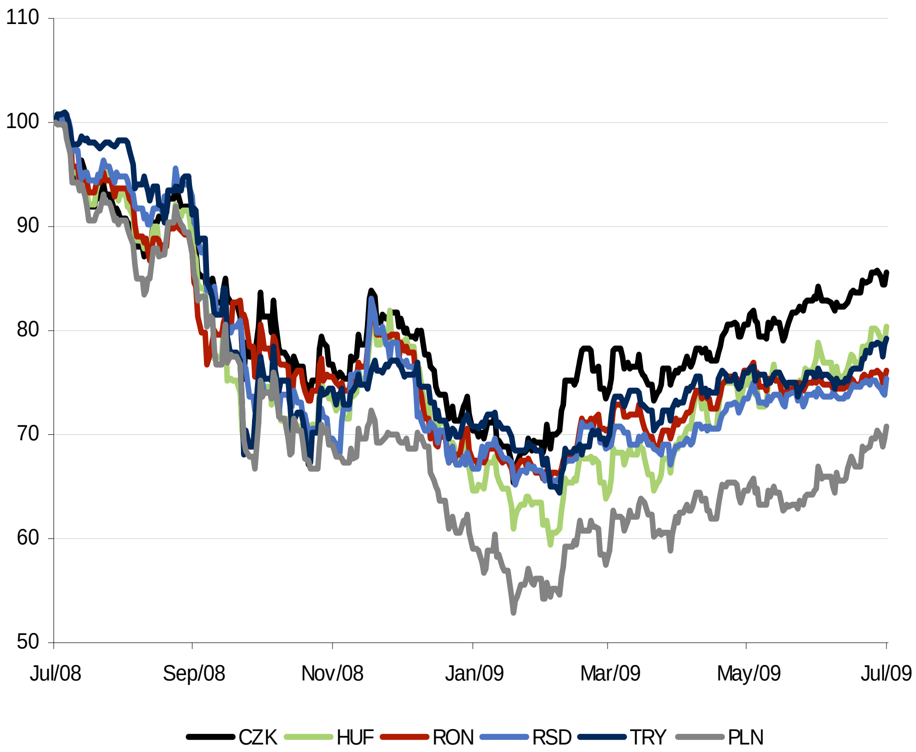
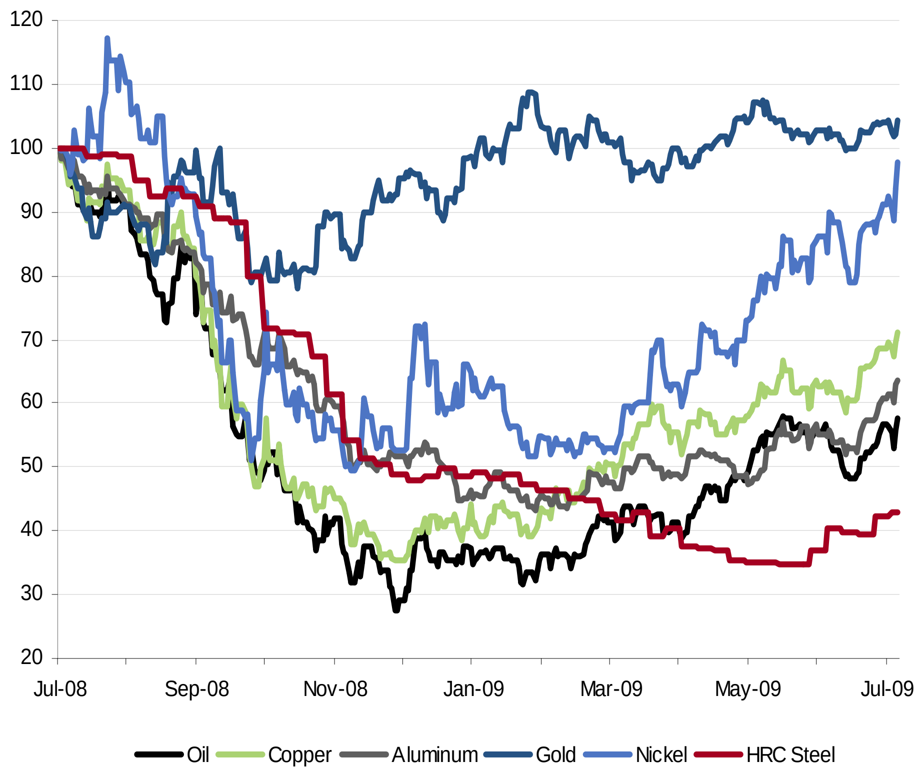
Currencies & commodity prices (July 2008=100)

Currencies strengthening



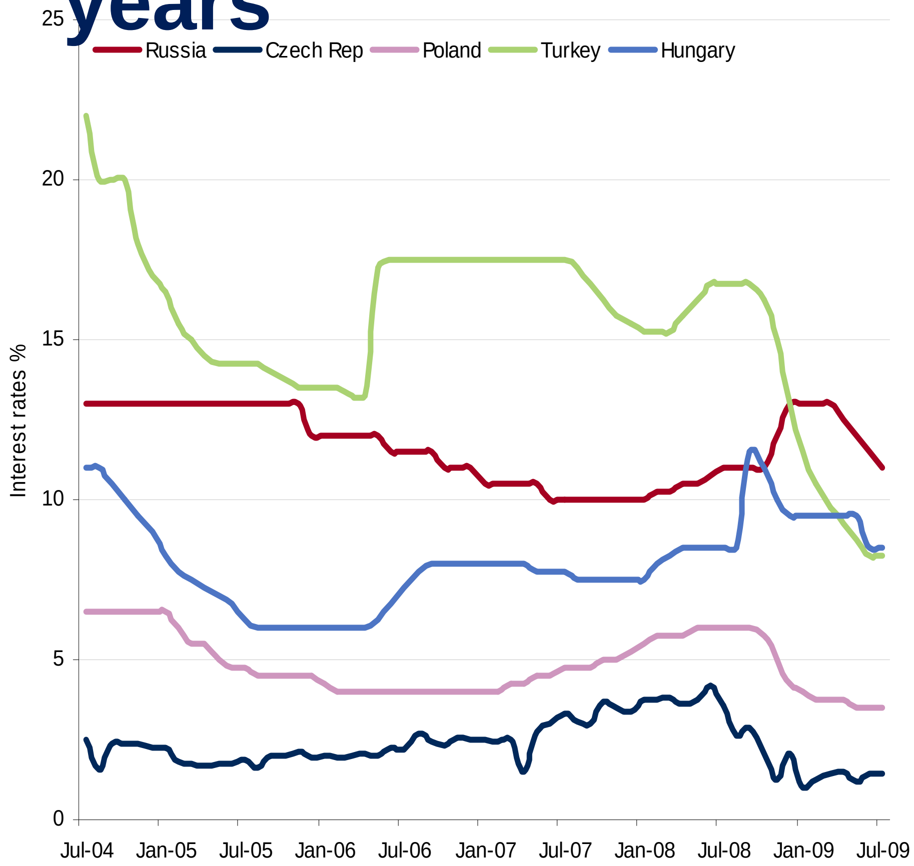
Commodity prices recovering

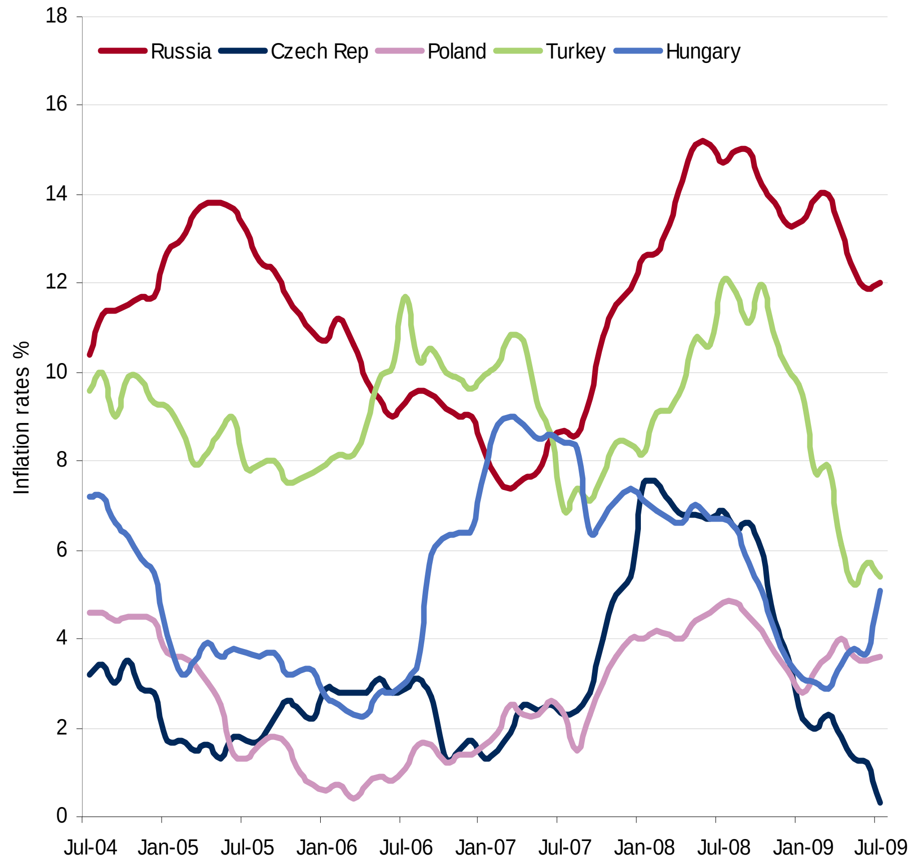


Most EE currencies are approaching recovery after the initial sell-off in autumn '08. Commodities are a bit more mixed, but in general increased in Q2

Source: Bloomberg, as of 31 July 2009

Inflation & interest rate development last 5 years

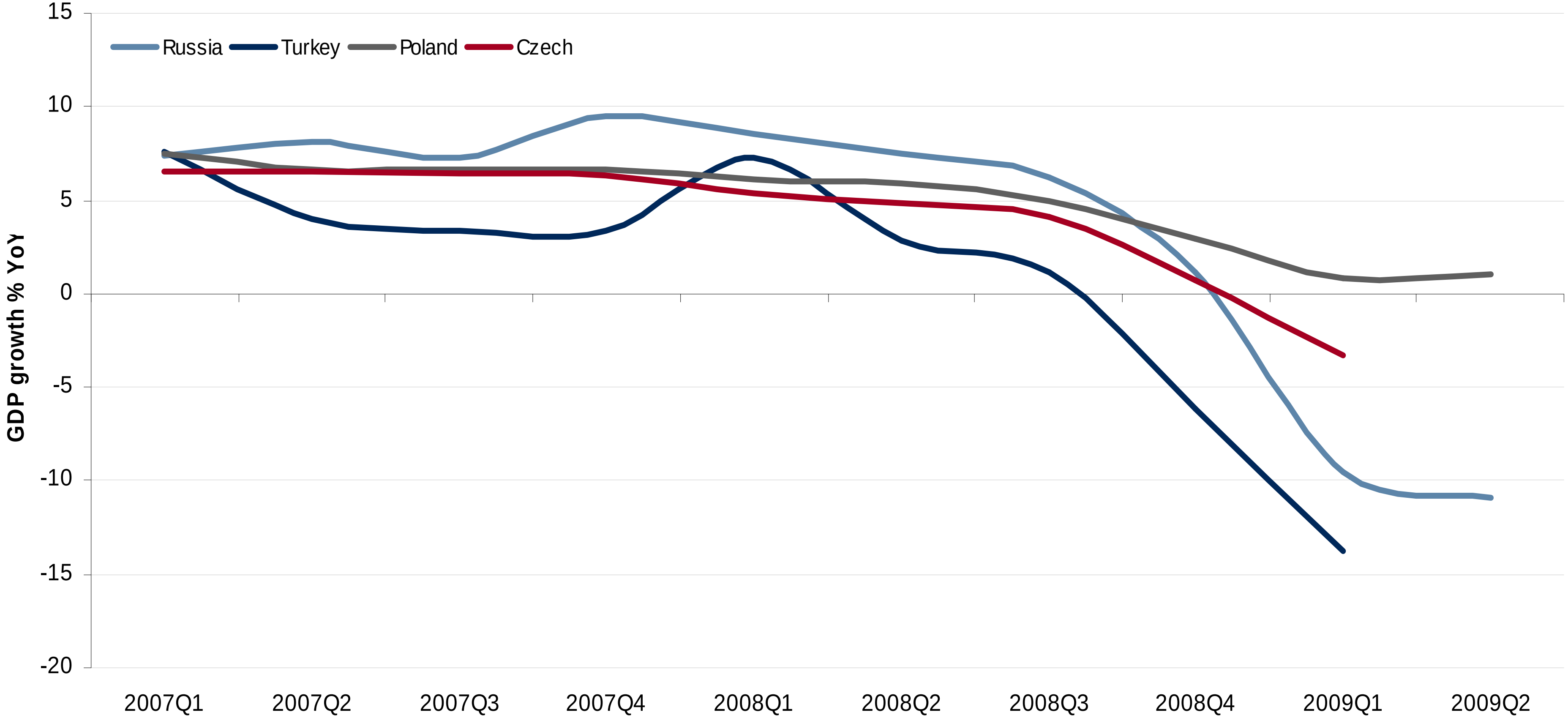




Inflation and interest rates are falling again in EE. Turkey has recorded all-time low inflation and interest rates at 5.6% and 8.25% respectively

Source: Bloomberg (end of period)

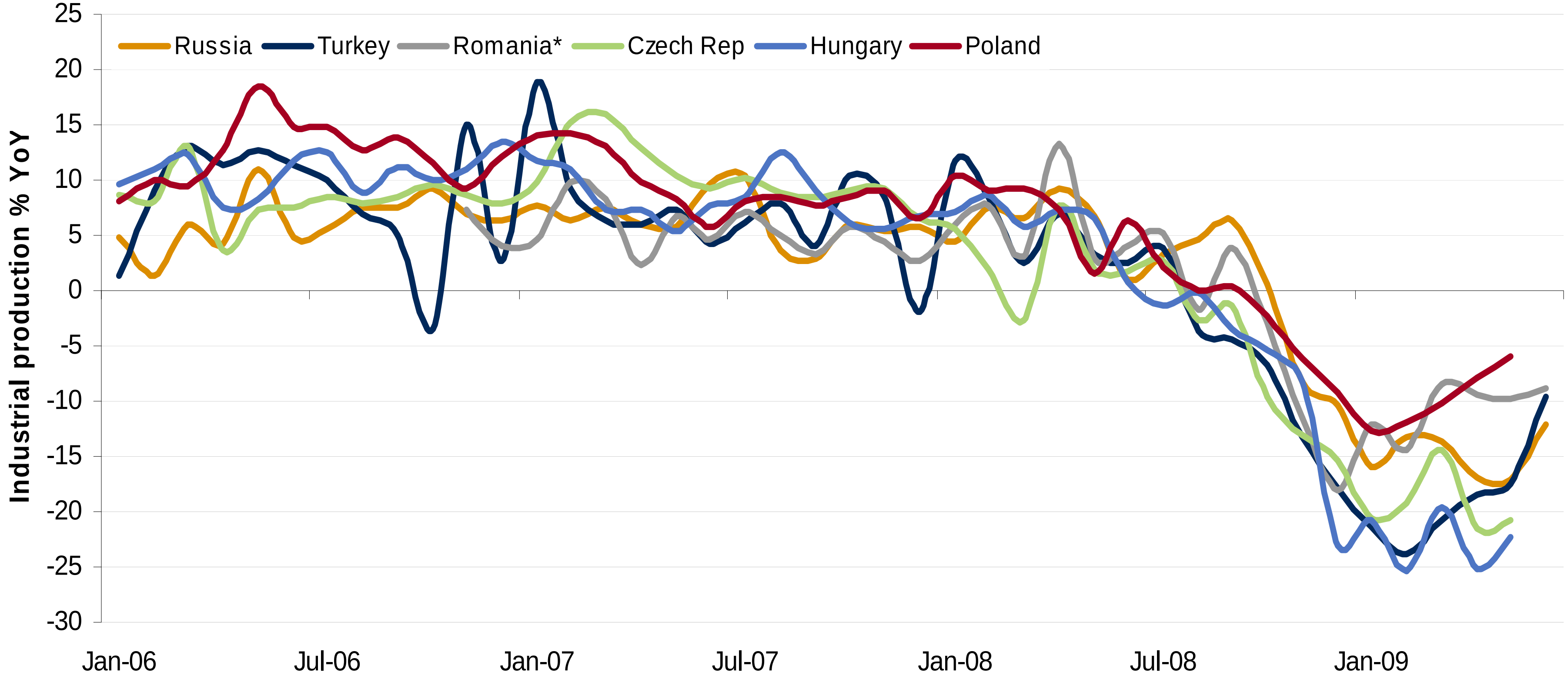
Growth still falling rapidly in EE, but . . .



Sharp contraction across Eastern Europe. Poland is a positive exception

Source: Haver, National Statistics

Industrial production picking up

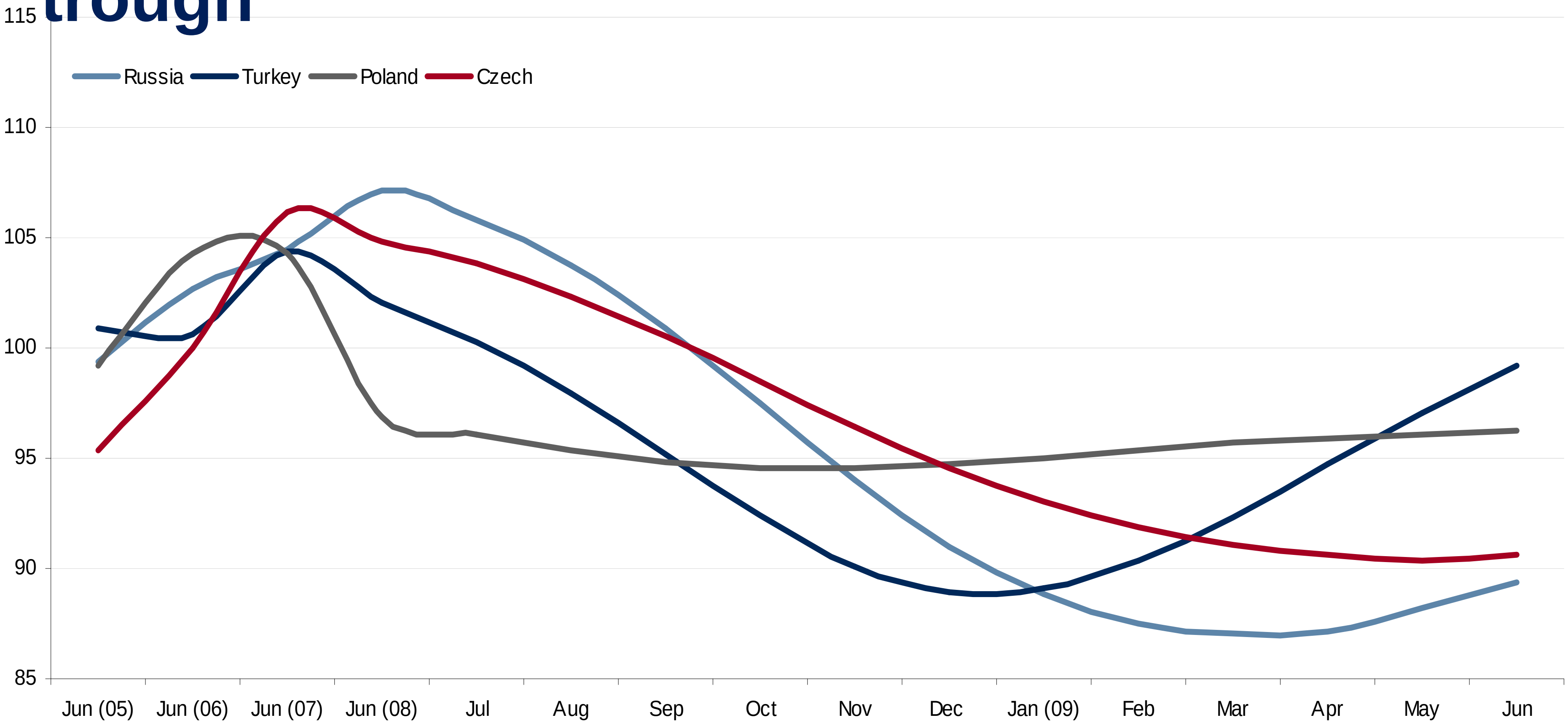


**Romanian national statistics agency changed methodology starting January 2009*

Very sharp contraction on the back of falling demand and inventory destocking. Signs of improvement last couple of months

Source: CBR, Turkstat, INSSE, OECD (Data as of 30 June for RU,TU,RO, 31 May for CZ,HU,PL)

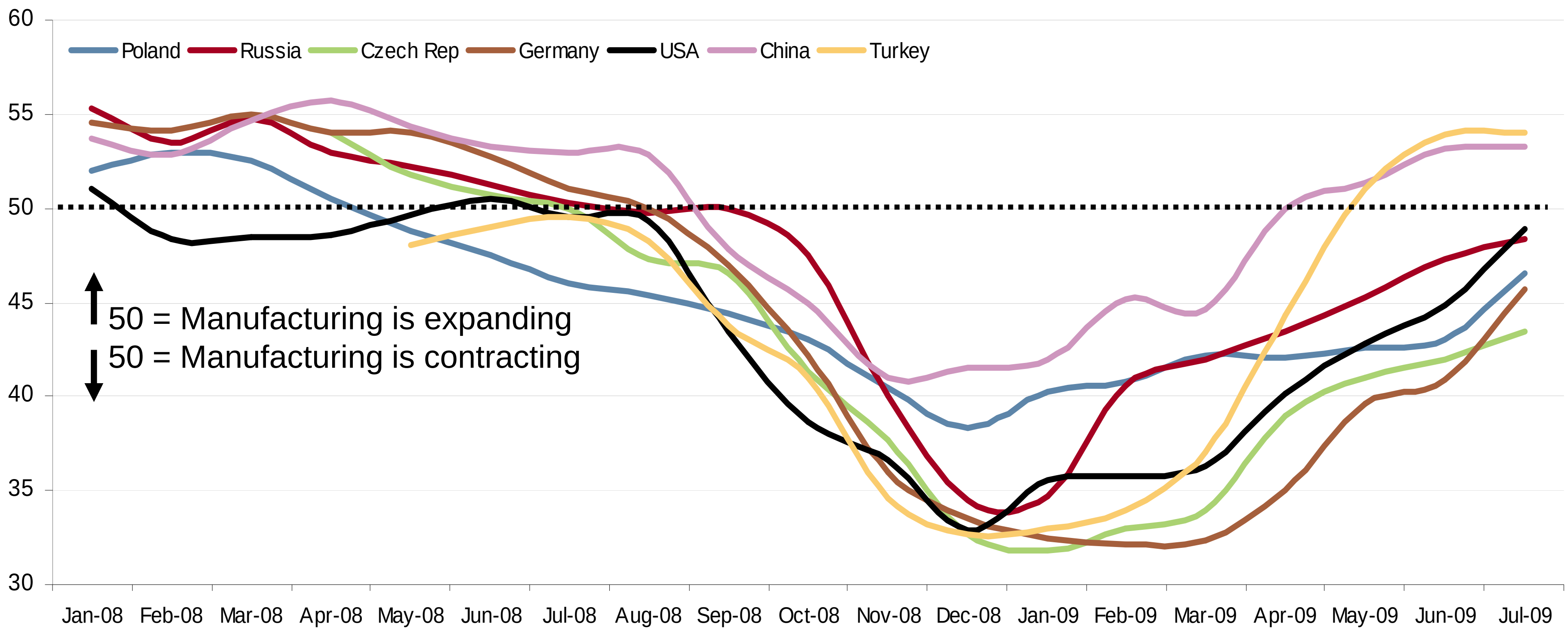
Leading indicators suggest EE is beyond trough



OECD composite indicators (indices of industrial production) indicate EE has entered the recovery phase

Source: OECD

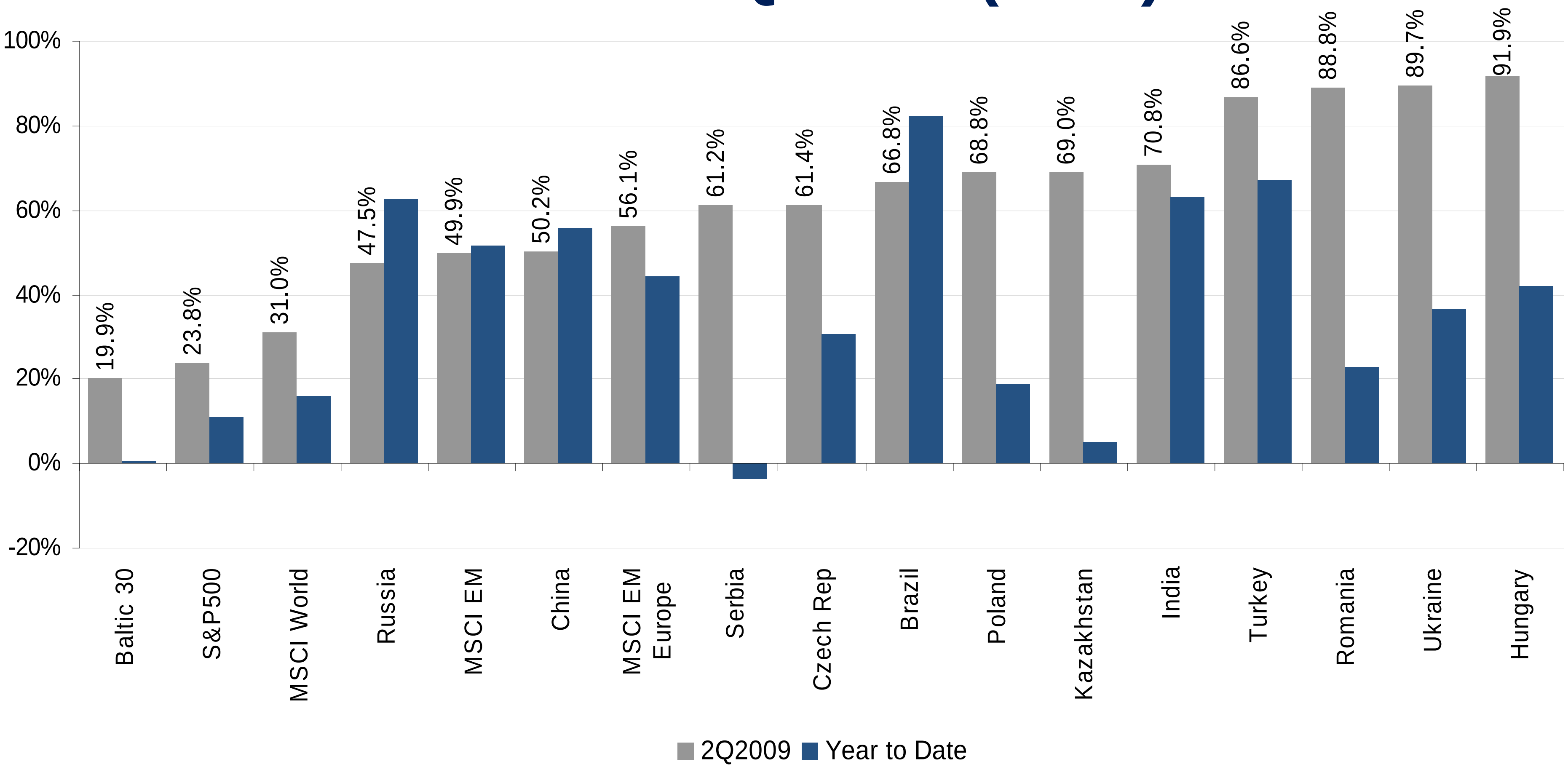
Purchasing Managers' Index improving



While macro numbers remain weak, leading PMI numbers for nearly all countries have been strengthening recently

Source: Various press releases

Performance YTD & 2Q2009* (USD)

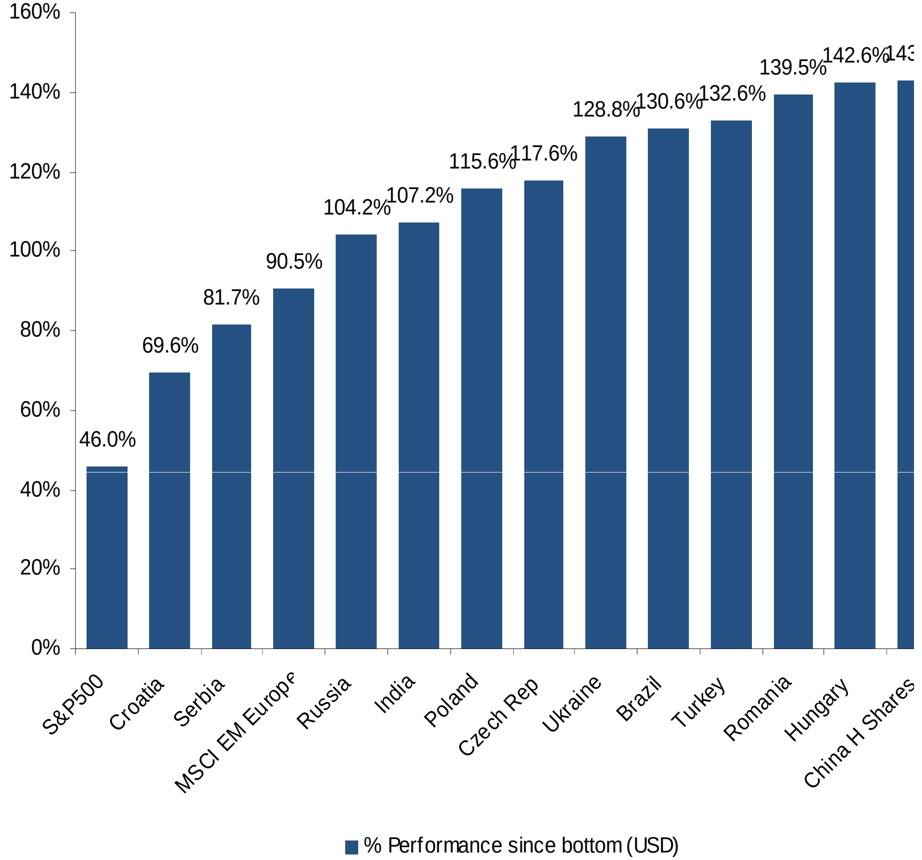


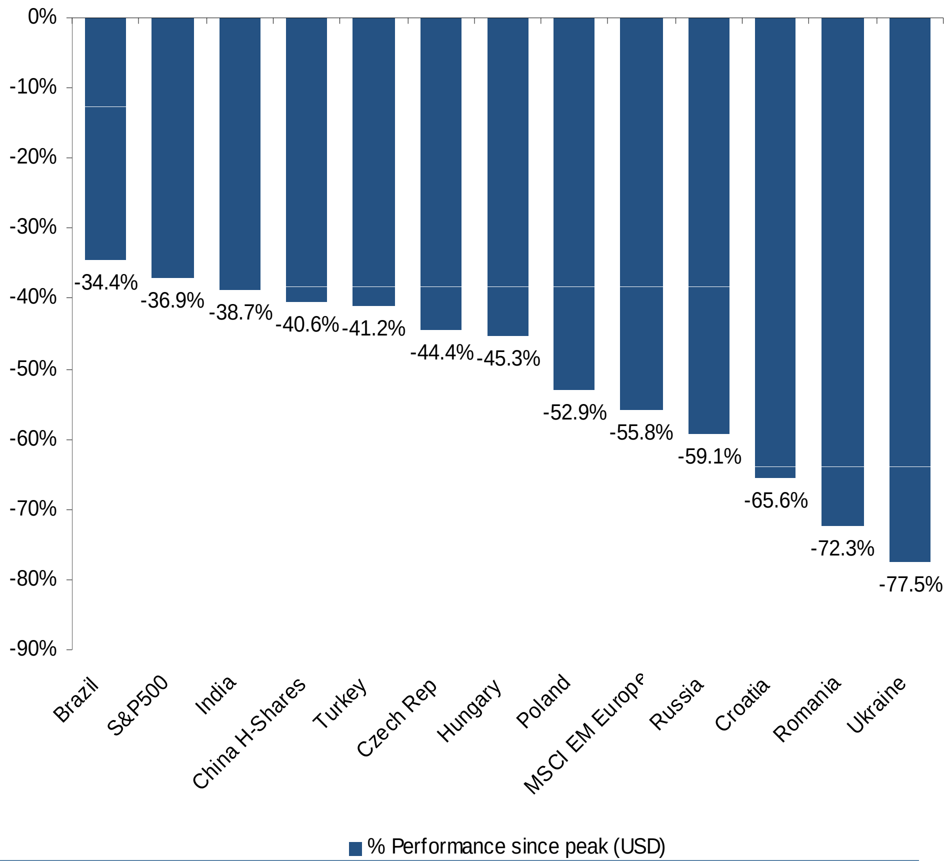
Solid performance around the world in Q2. EE markets among top performers

Source: East Capital, Bloomberg (As of 31July 2009)

2Q2009 = 31March – 31July 2009

Performance since respective peak & bottom (USD)

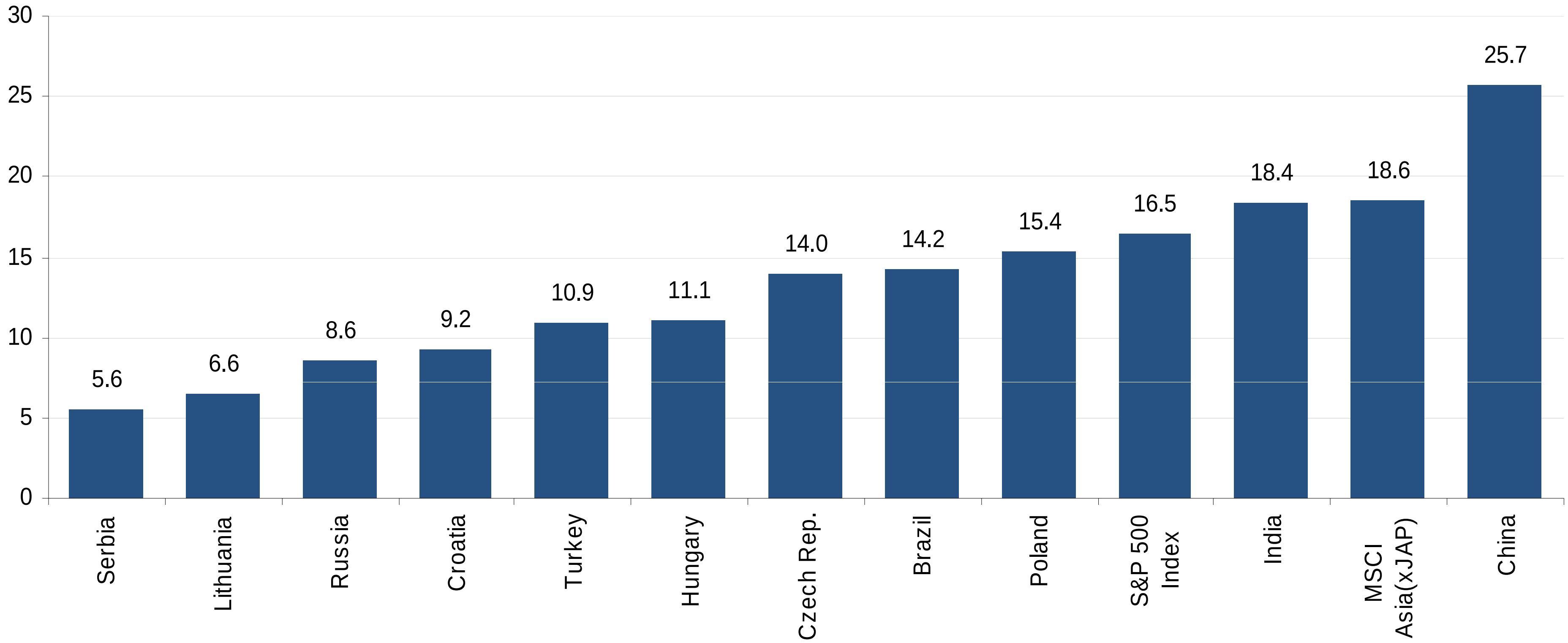




BRICs and EE markets have performed well since their respective bottoms. But despite strong gains in Q2, EE markets are still some 40 – 80% off their peaks

Source: Bloomberg (As of 31 July 2009)

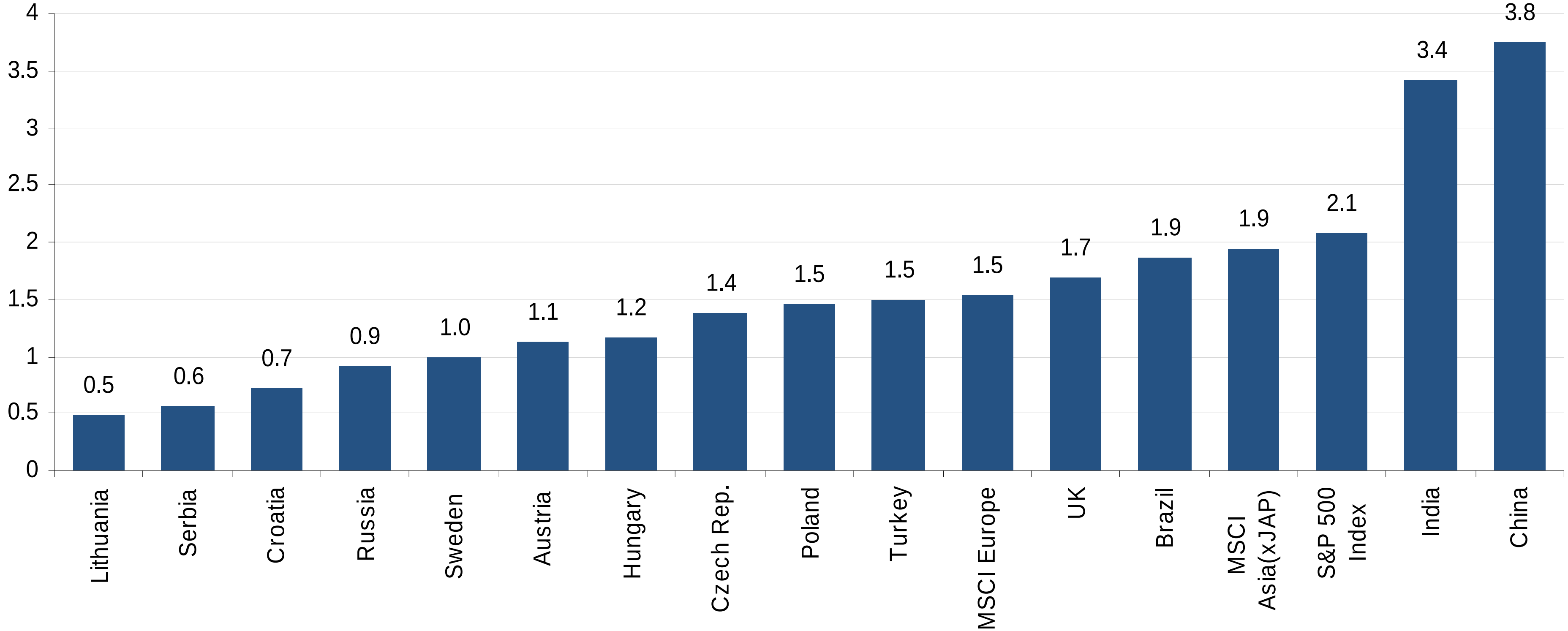
P/E (forward looking, 2009e)



Despite strong performance in Q2, Russia and EE are still among the lowest valued markets

Source: Bloomberg (As of 31July 2009)

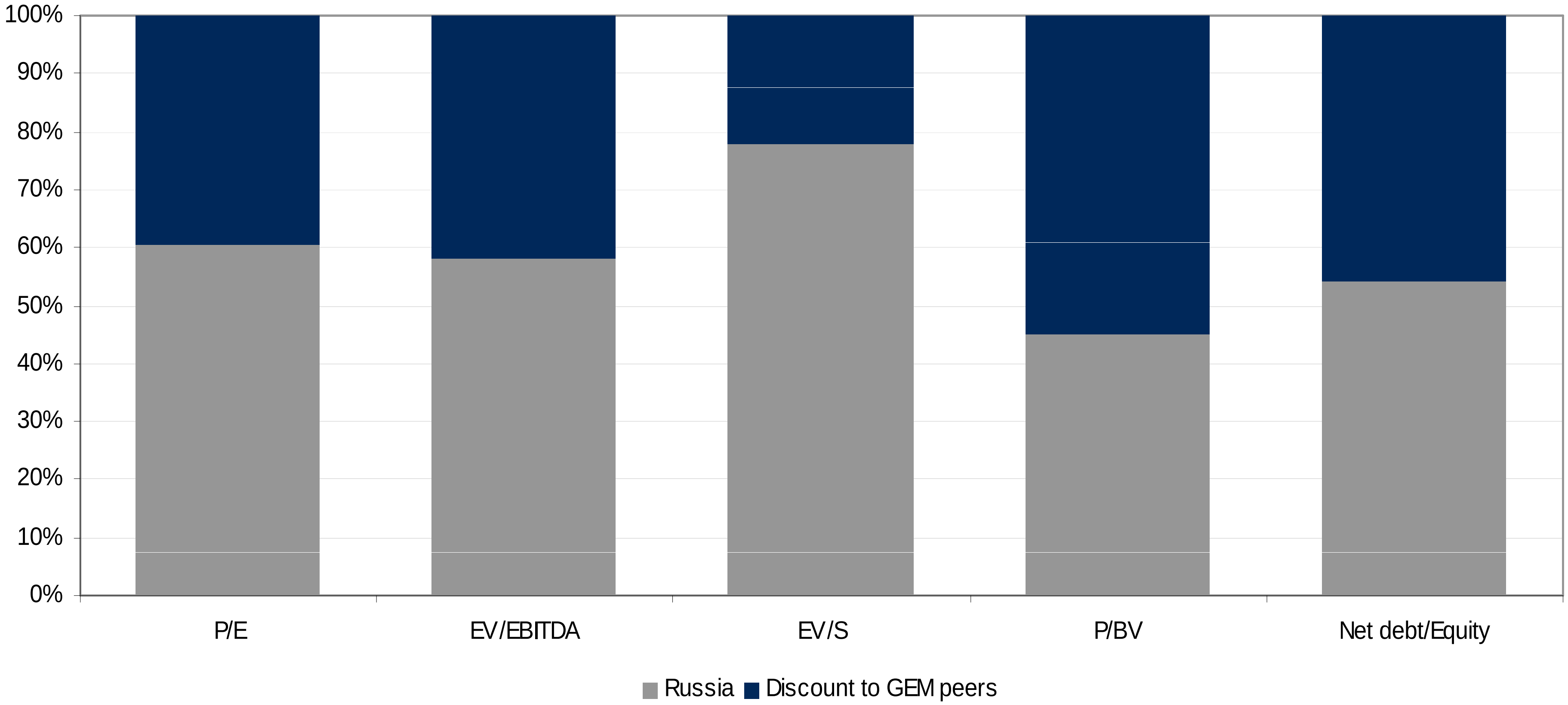
P/BV – Eastern Europe cheapest among BRICs



Russia has a P/BV ratio which is 3-4 times lower than India and China. Most of Eastern Europe can still be bought for approx 1x book

Source: Bloomberg (As of 31 July 2009)

Russia vs. GEM peers, 2009E



Using any indicator, Russia is substantially undervalued compared to Global Emerging Markets peers

Source: Troika (August 2009)

Summary : better picture emerging

- Markets rallied while the macro picture deteriorated in Q2
- Higher commodity prices and stronger currencies
- Record high correlation between Russian stock market and oil price
- IMF programs
- Improved political climate

Macro numbers in general are still rather poor but the overall situation has stabilised and we see the first signs of economic recovery

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Drivers / Assumptions

- Durability of early indicators
- Datapoints give an impulse
- Macro environment improving
- Consumer spending to stabilise
- Bank lending to gradually return
- Unemployment

We believe that we have seen the worst in terms of macro figures in Q2. Bank lending and unemployment are the largest uncertainties going forward

EE will follow & not lead

- In the short term, Russia and EE will continue to take direction from global market sentiment

- In the short to medium term, plenty of upside

- Market consolidation ?

We think Q3 will be more of a consolidating quarter but with positive underlying momentum

Current Positioning

- Large markets should outperform
- Poland – unlikely laggard
- Mid-cap stocks at astounding value

The sheer size and variety of East Capital universe

Disclaimer

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