



Are we there yet?



MARKETS SUMMIT

Tuesday 16 February 2010

Theme 3

Global equity markets



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Global equity markets

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Schroder Australian Equities

Presentation to PortfolioConstruction Markets Summit 2010

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Representing Schroders:

Martin Conlon - Head of Australian Equities

Australia in 2009 - A year of recovery



Commodities



Banks



**Financial
Leverage**

Australia was a popular destination for foreign capital

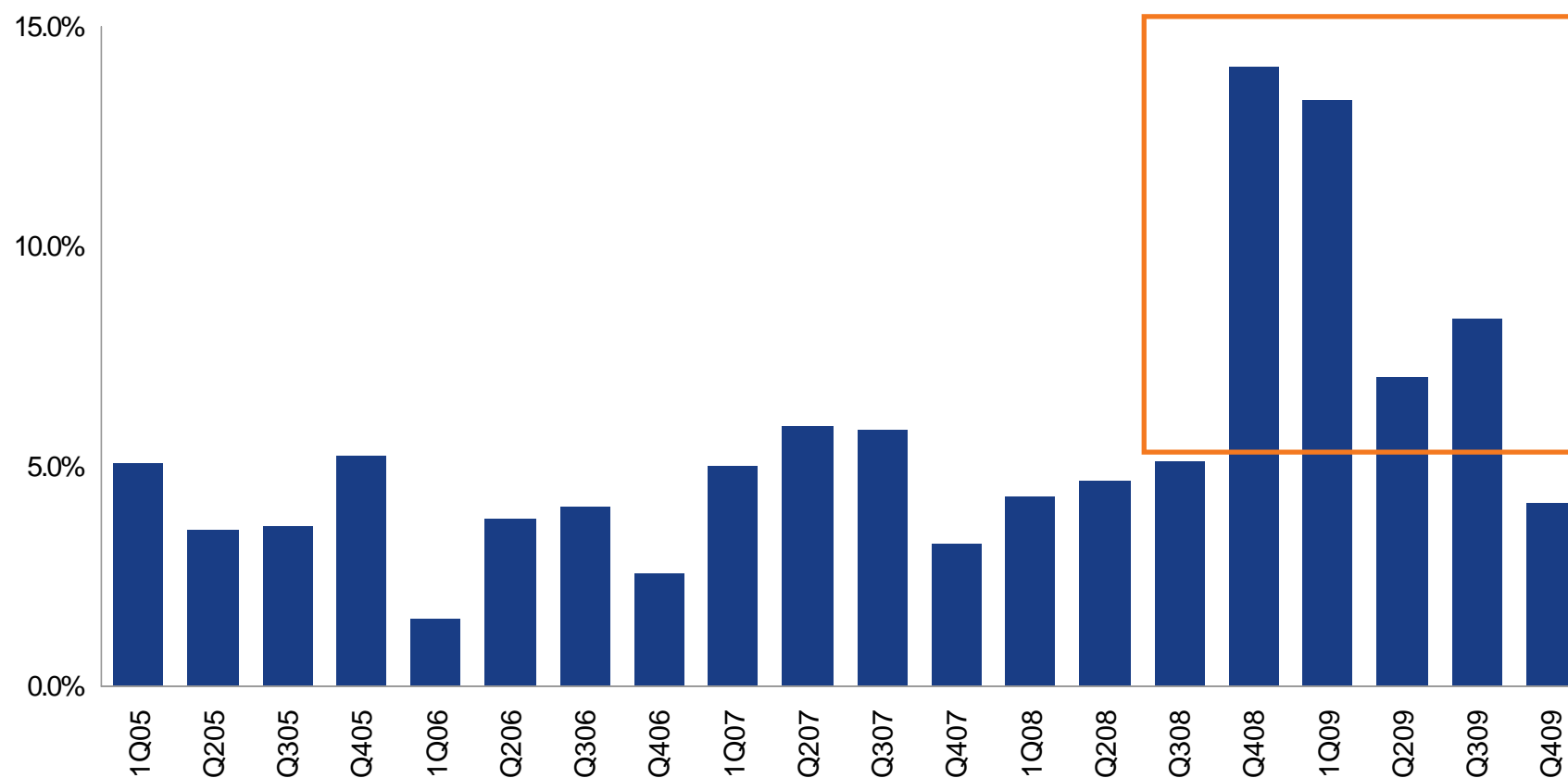


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Surprises

Extent of domestic capital raising

Australian capital raising as a % of global issuance



Australian businesses lowered gearing more aggressively than global peers



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What we got right

The impact of leverage works both ways



RIO
TINTO

In times of panic, perceived safe havens are rarely opportunities



Australian banks were not subject to the decimation of global peers



Not a year for following the crowd



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What we got wrong

Sharp rebound in the appetite for more speculative stocks



Materials rebound passed some stocks by...



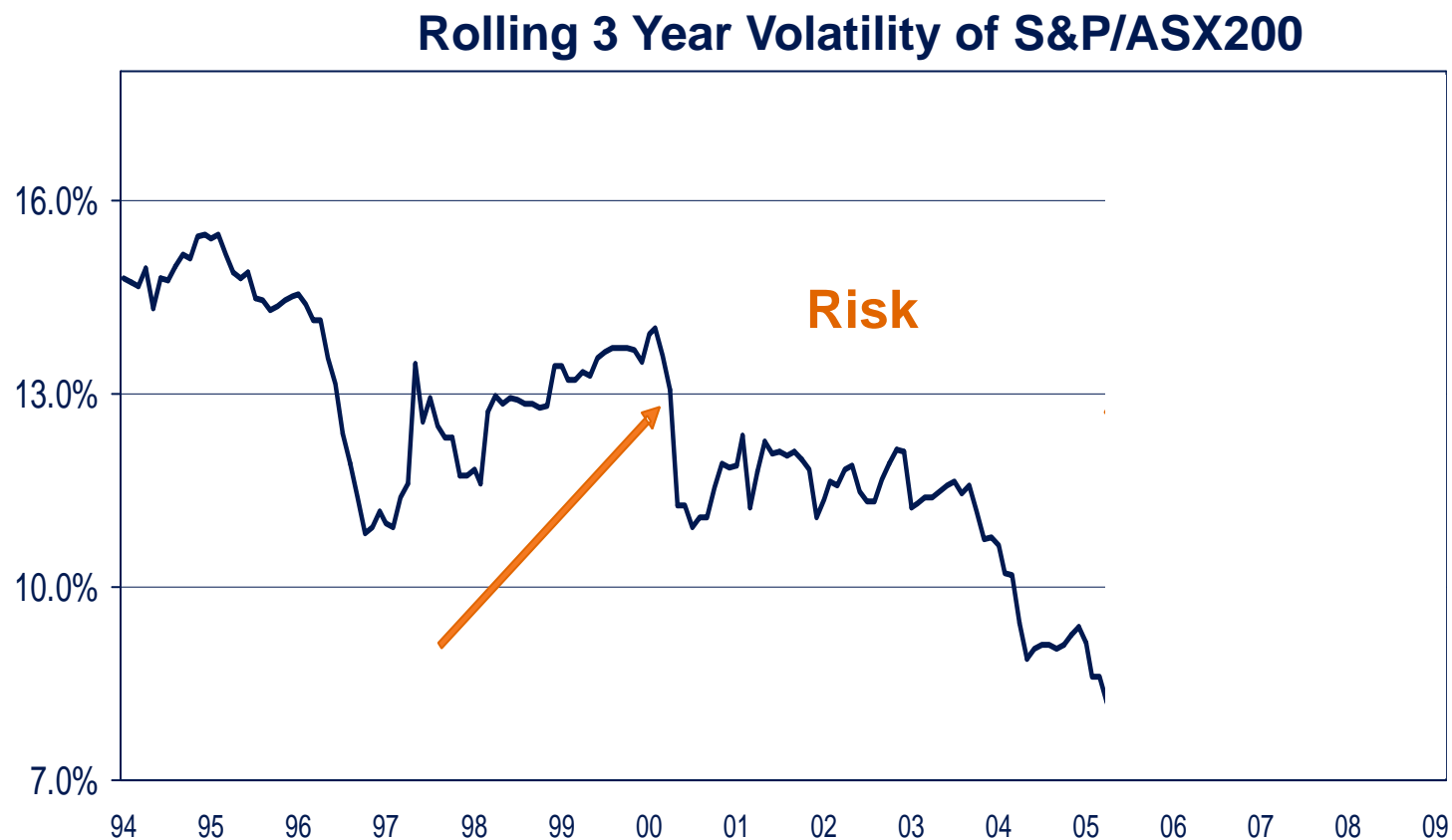
A rising tide doesn't quite lift all boats



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Lessons from 2009

We still have a lot to learn about risk



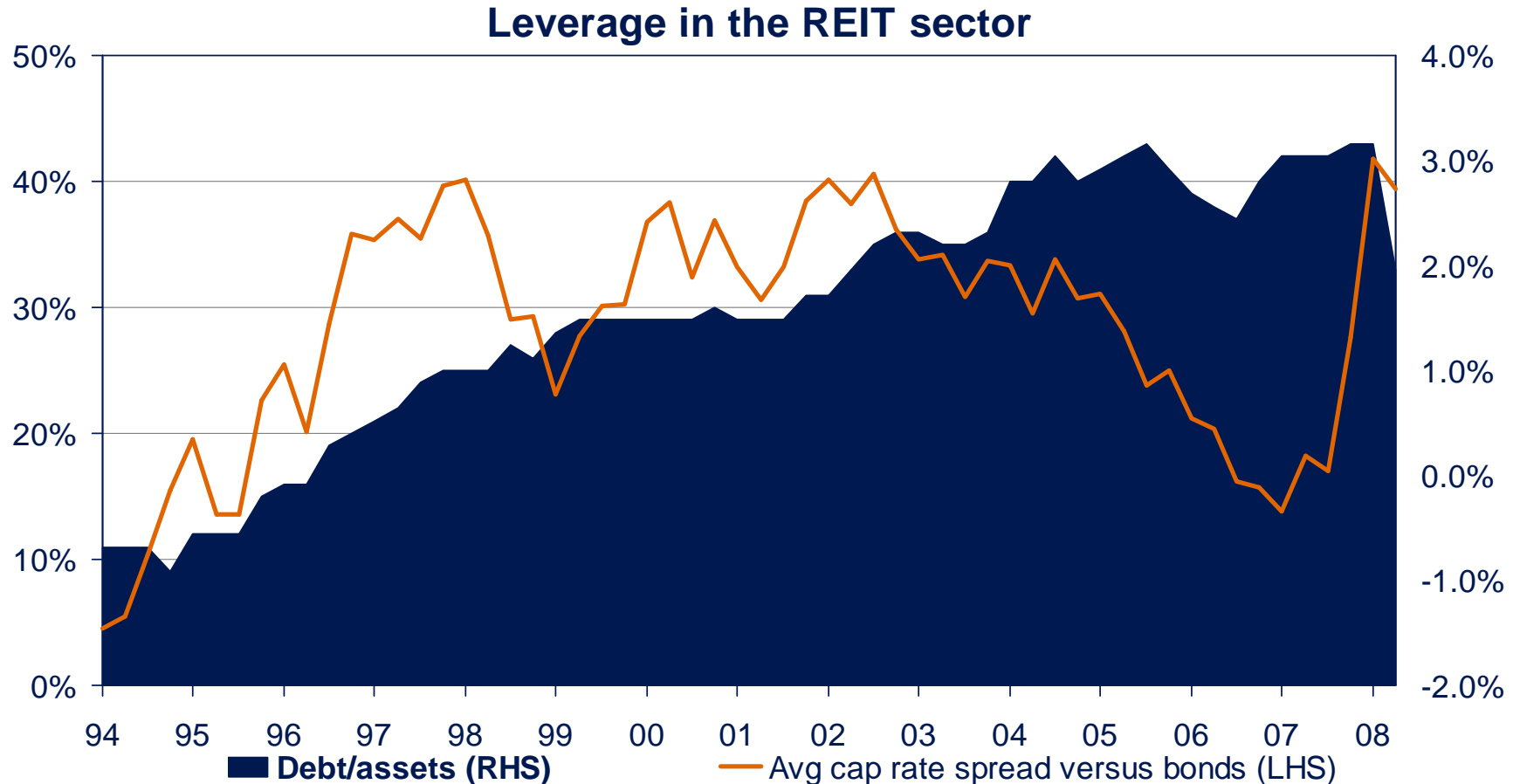
Focusing on fundamental risk rather than volatility was essential



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Lessons from 2009

Financial leverage needs to be understood, not just avoided

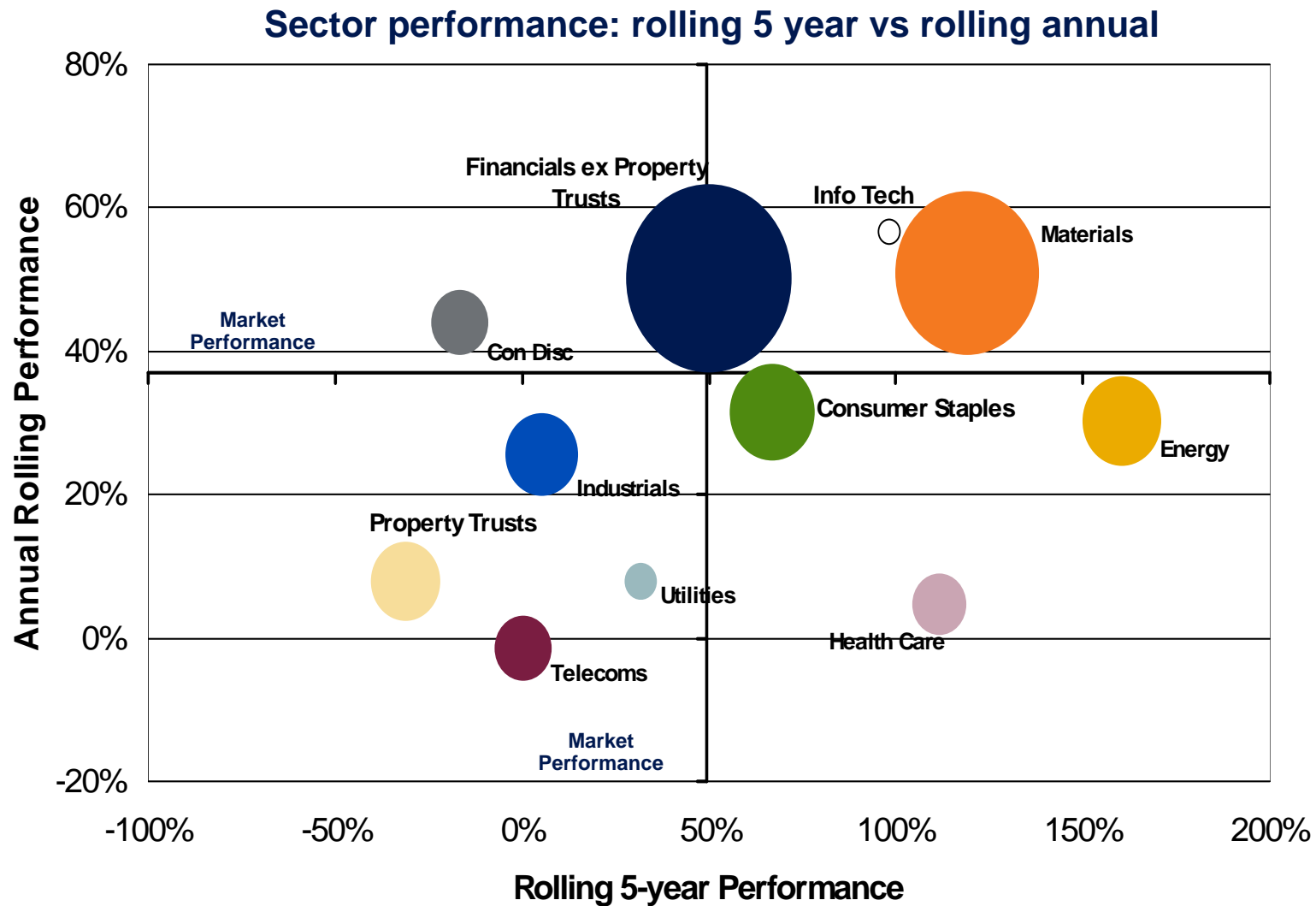


Leverage is often used most aggressively at the wrong time



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The last 5 years



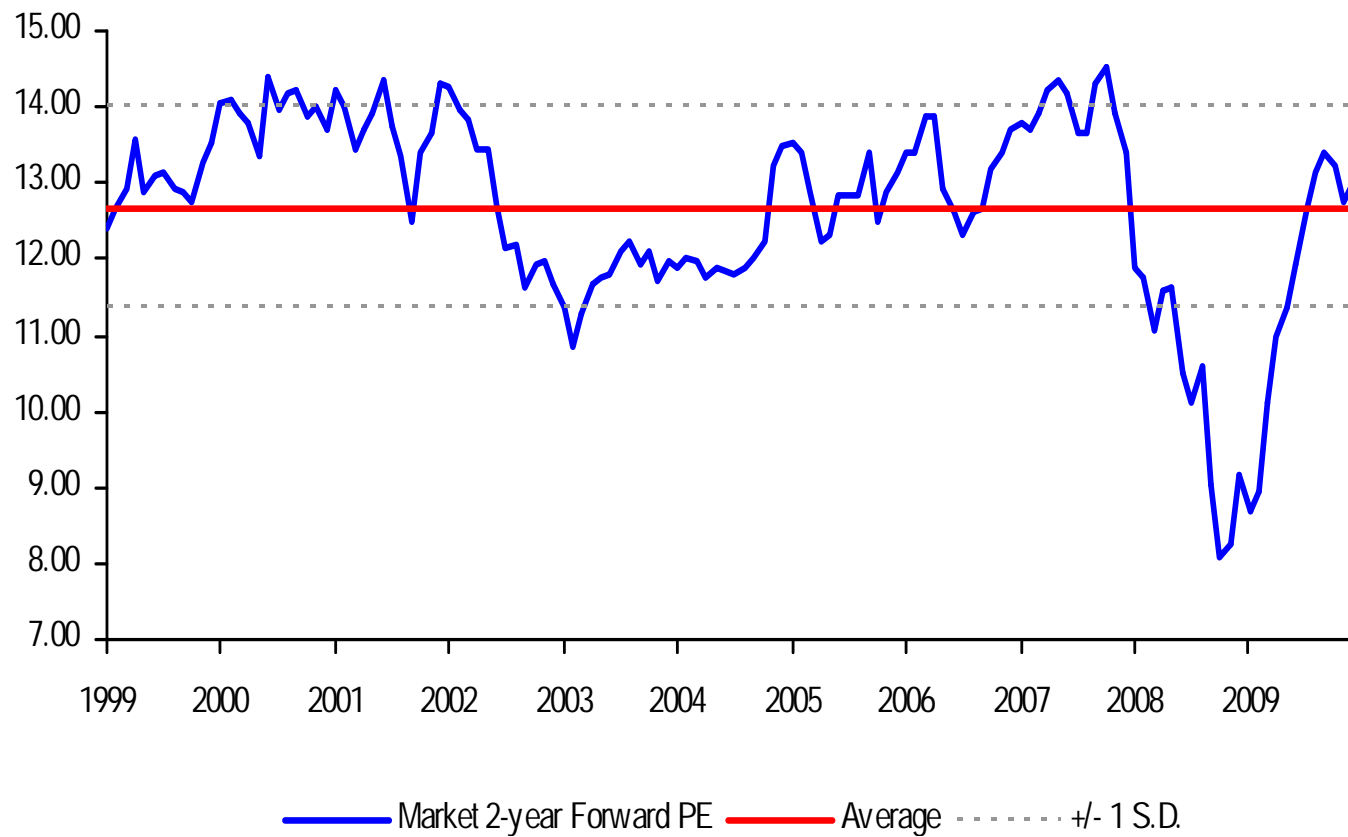
Resources and banks have been key drivers



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Where are we now?

Market Valuation on Conventional PE

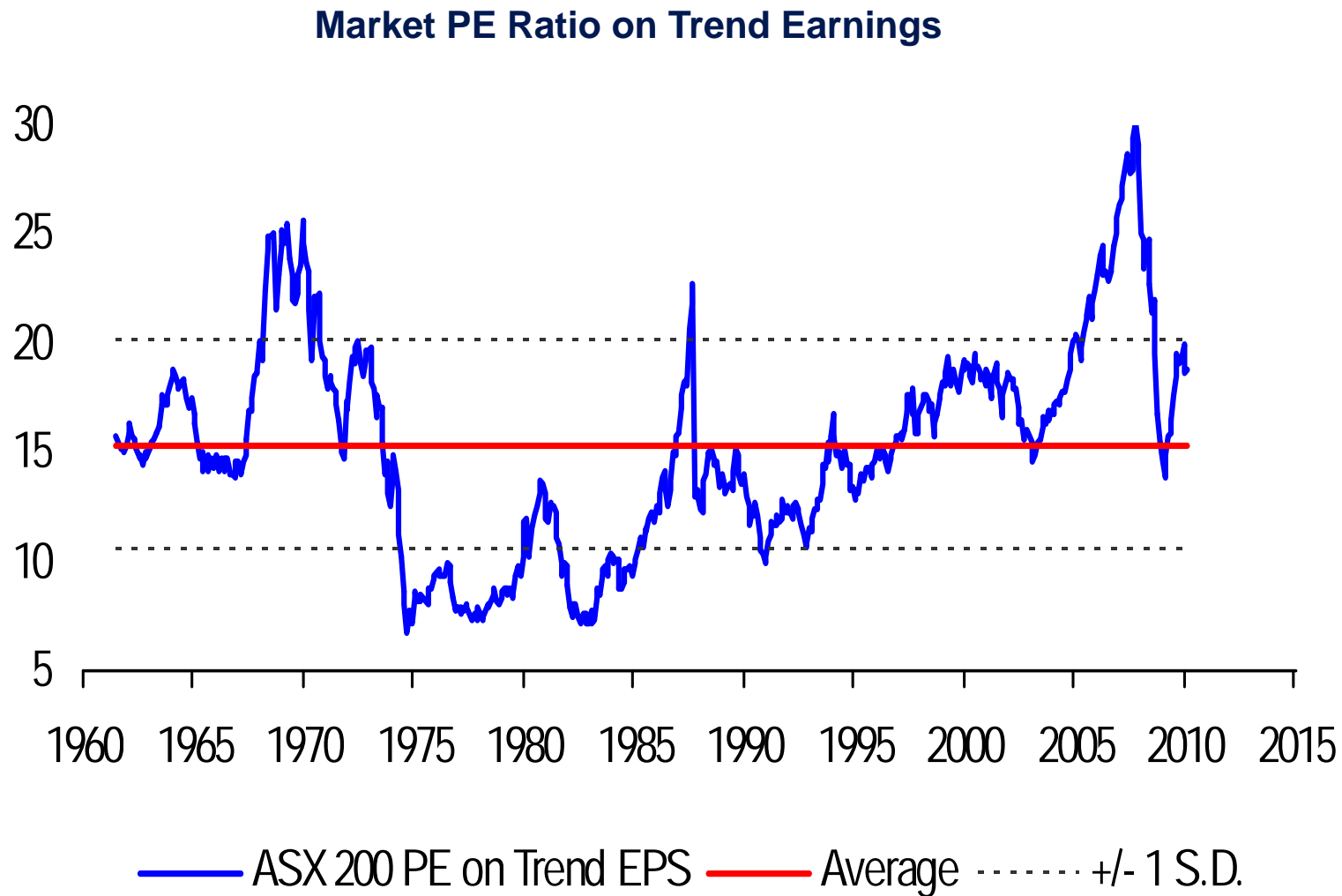


Most conventional measures see the Australian market at around fair value



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But earnings have been buoyant



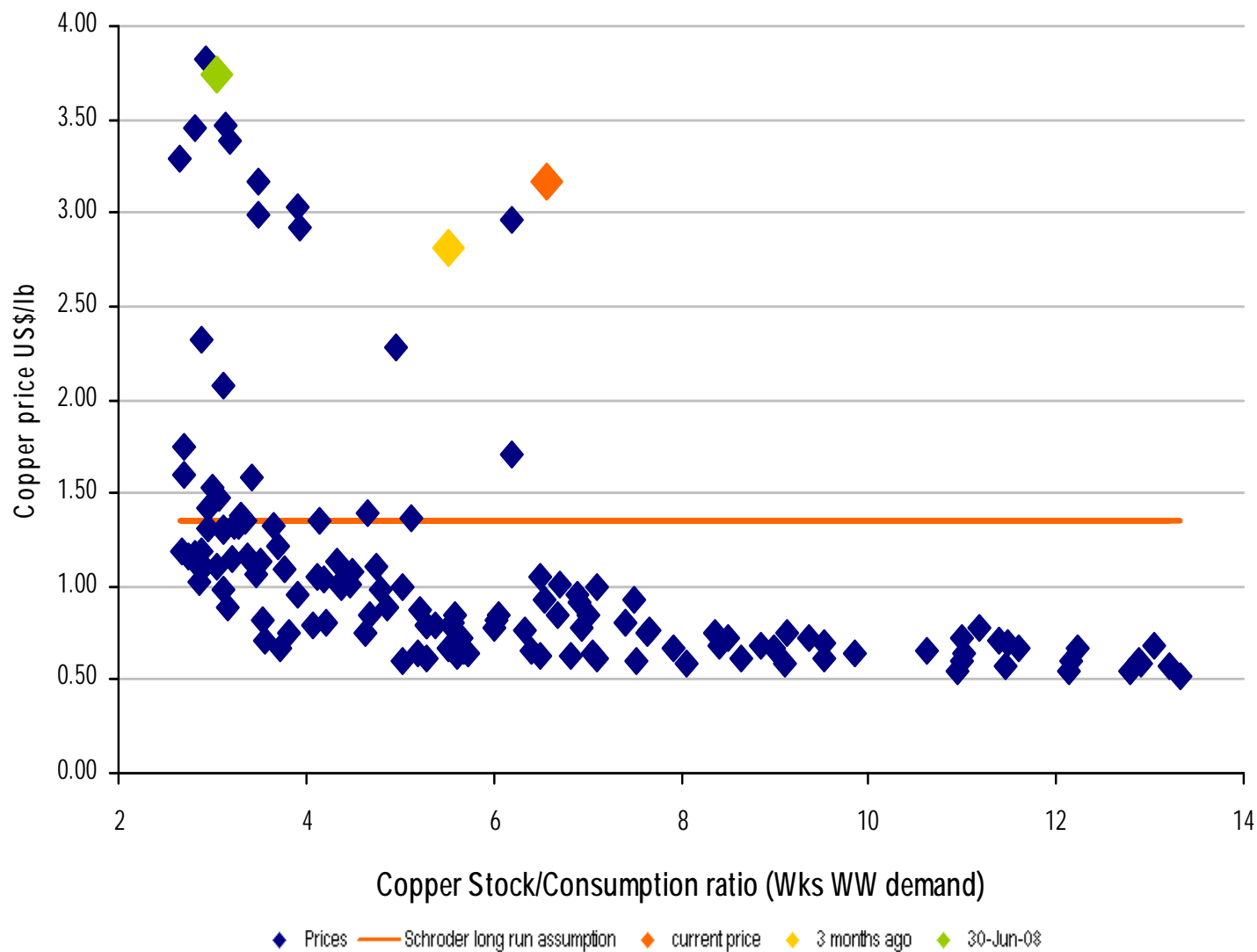
Australian earnings remain significantly above trend



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Outlook

Our resource scenario



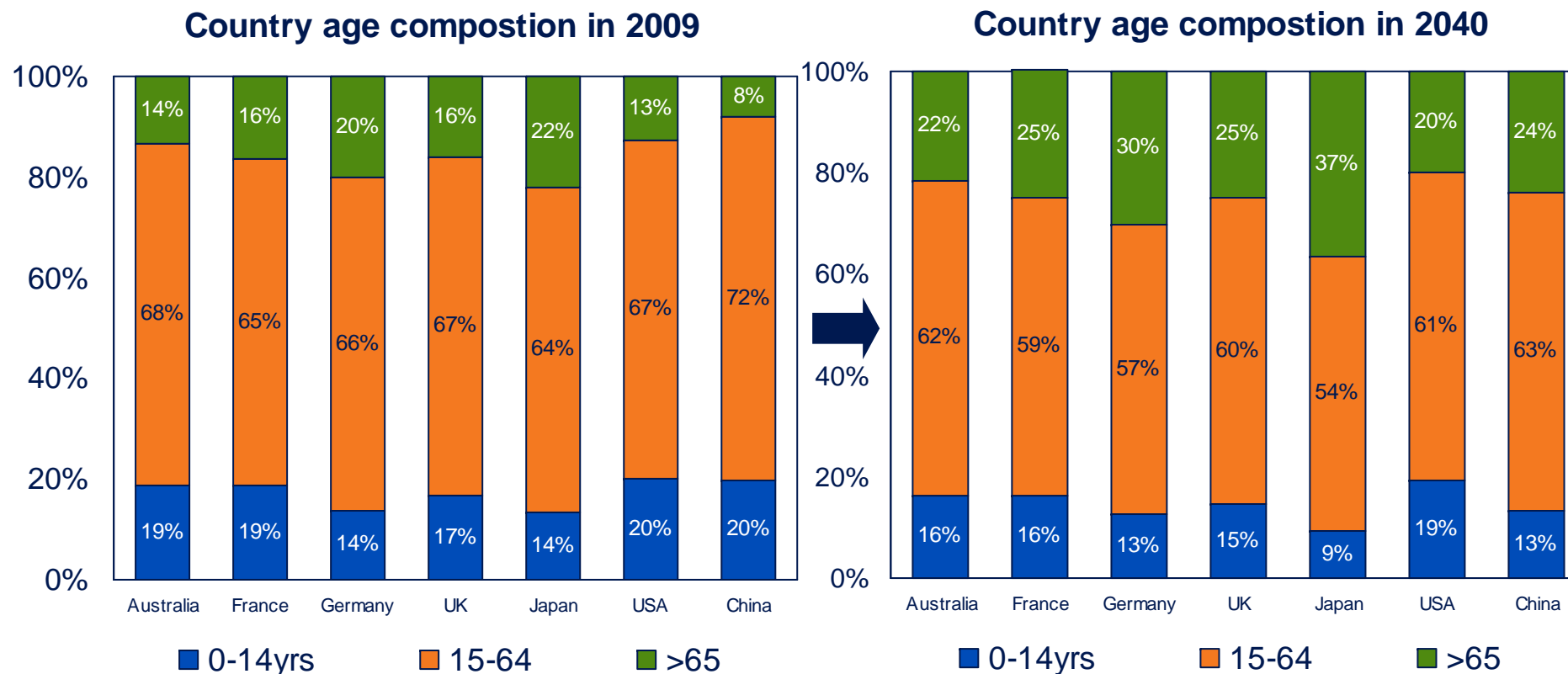
Expecting continued elevated prices may not be wise



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Risks

The demographic headwind



Ageing investors with changing asset allocation pose significant risks

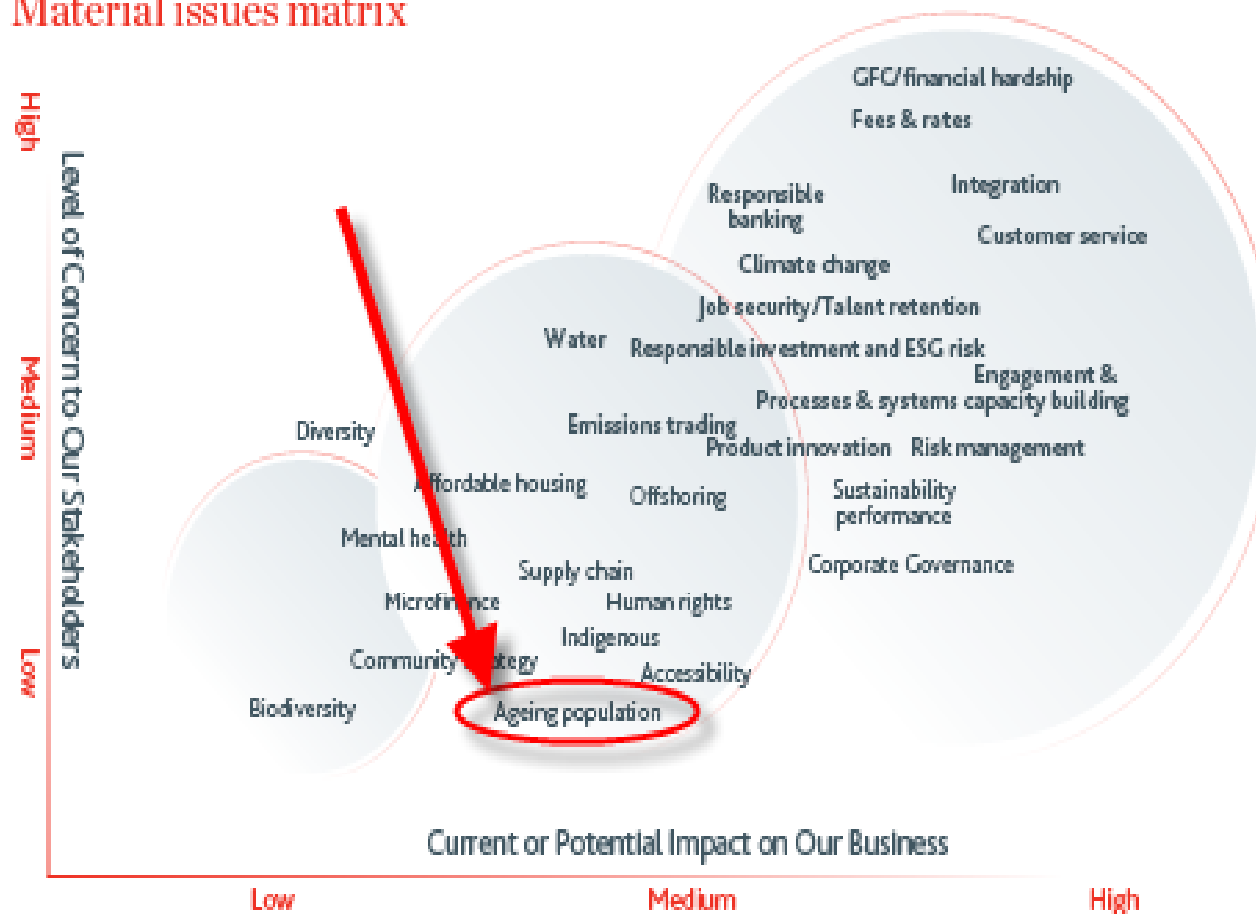


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Risks

The demographic headwind

Material issues matrix



Note: Issues in bold are material and discussed in this report.

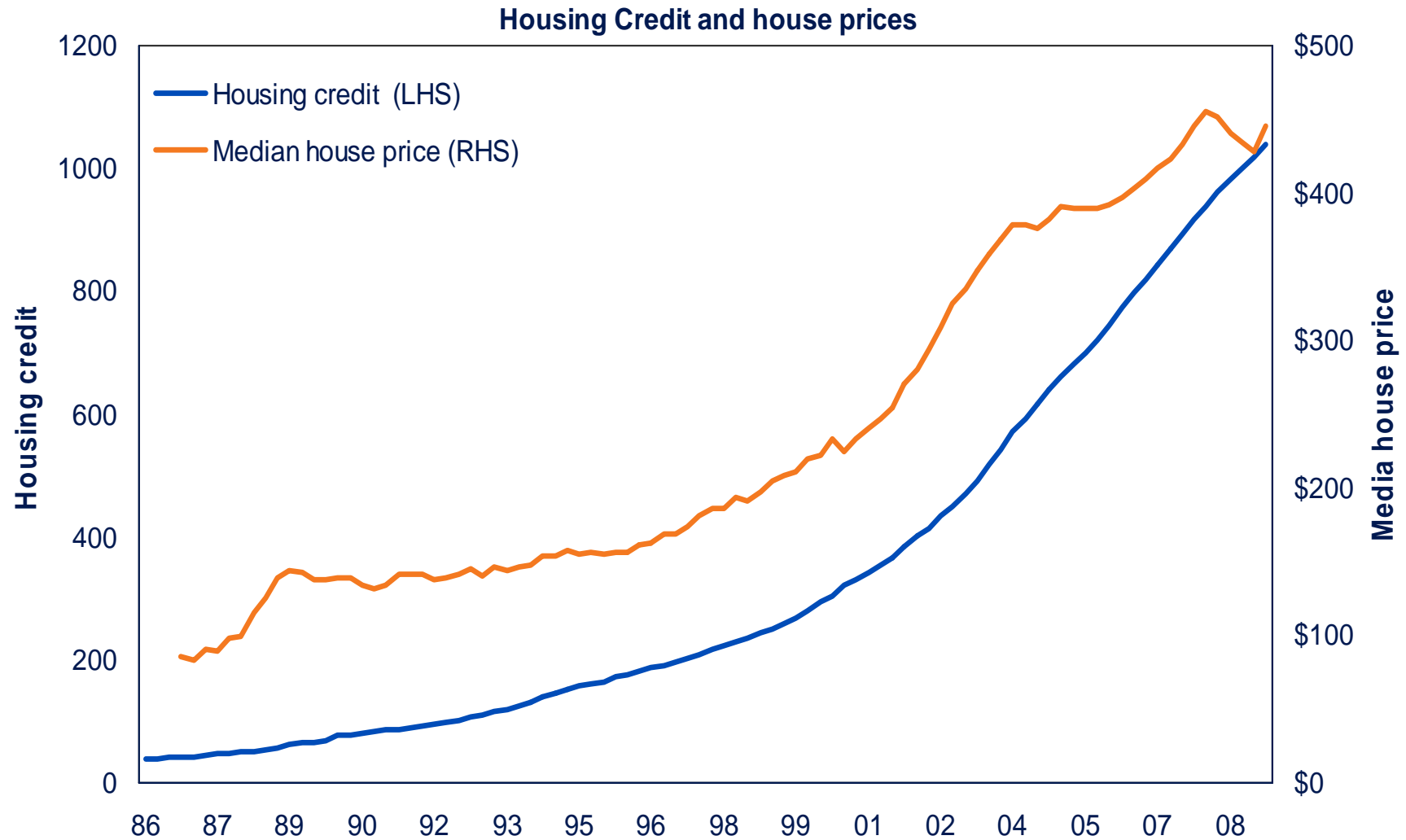
Ageing investors with changing asset allocation pose significant risks



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Risks

An overly buoyant residential property market



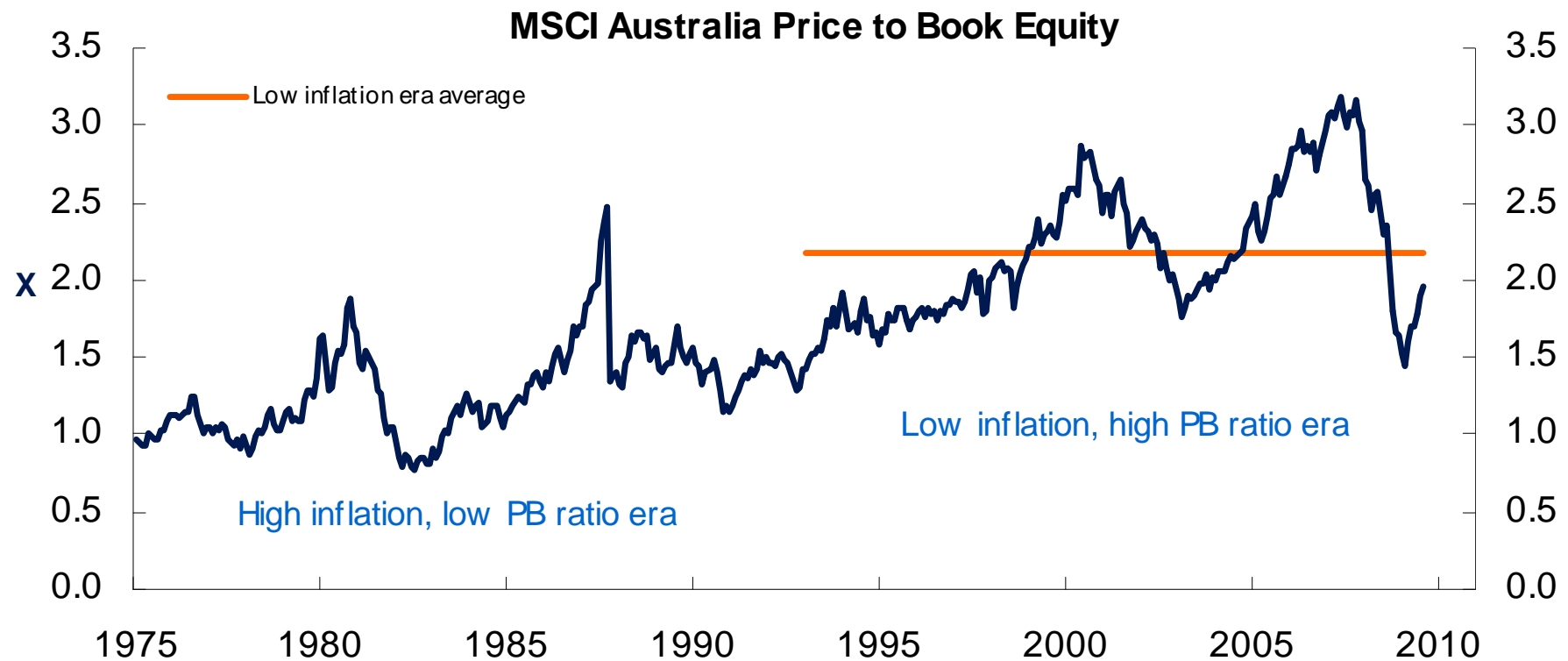
Credit growth remains strong and its use dubious



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Risks

Does the great moderation last forever?



Maintaining trust is crucial to asset pricing



How do Australian equities stack up?

Positives

- Economic starting position
- Conservative government debt position
- Better demographics than most peers
- Companies have aggressively addressed excessive gearing
- Well capitalised banking sector



Negatives

- Excessive private debt, particularly in residential property
- Overly buoyant resource sector
- Relatively full valuations

Outlook is far less exciting but with far fewer structural issues than most



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Signposts

- Commodity inventory levels
- Clarity on funding of ballooning sovereign debts
- Finalisation of regulatory structure for banks
- Property prices



Confidence remains fragile and structural issues have not disappeared



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