



building  
shock resistant  
portfolios

[ Markets]

I've been thinking about...

**... the seeds of potential  
future failure**

**Chris Selth**

CIO & Lead Portfolio Manager

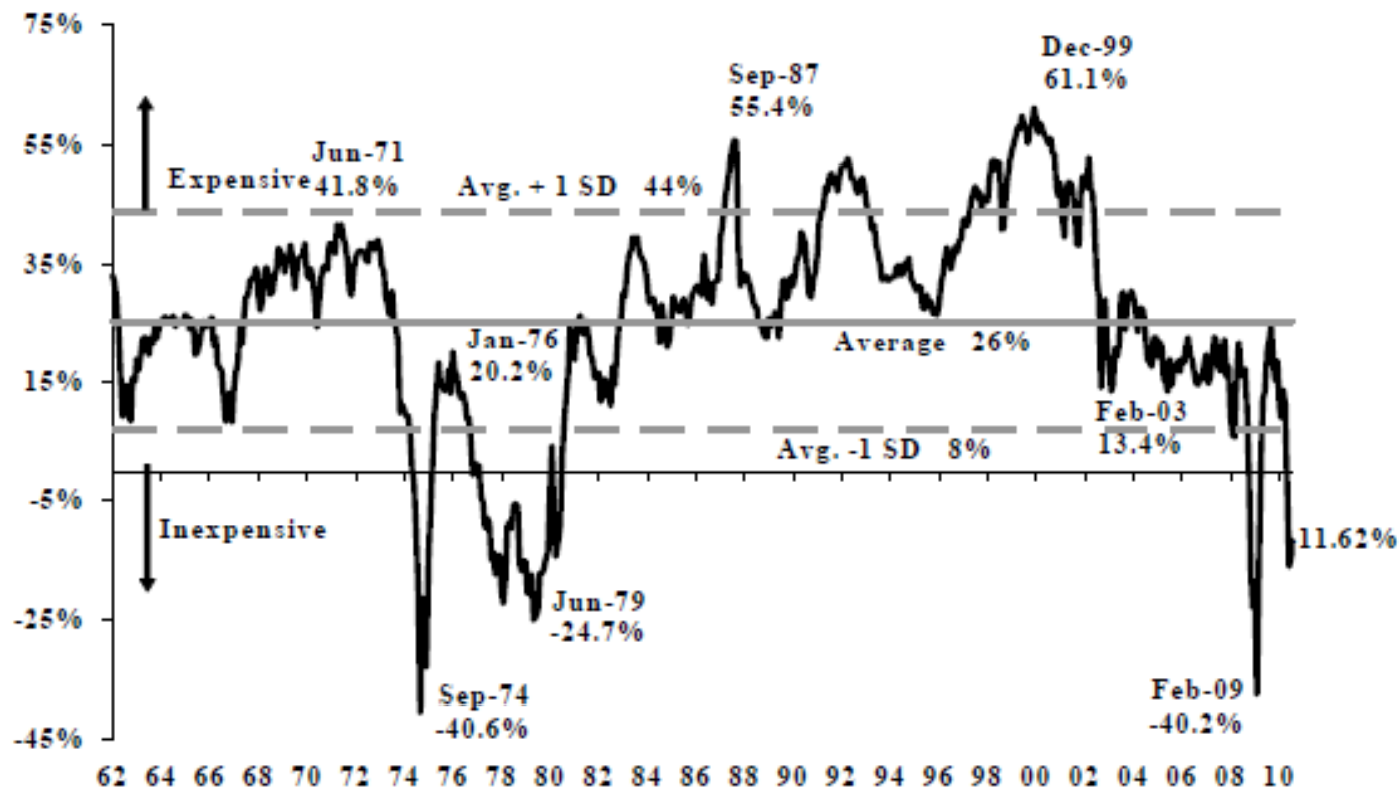
5 Oceans Asset Management Australia



CONFERENCE

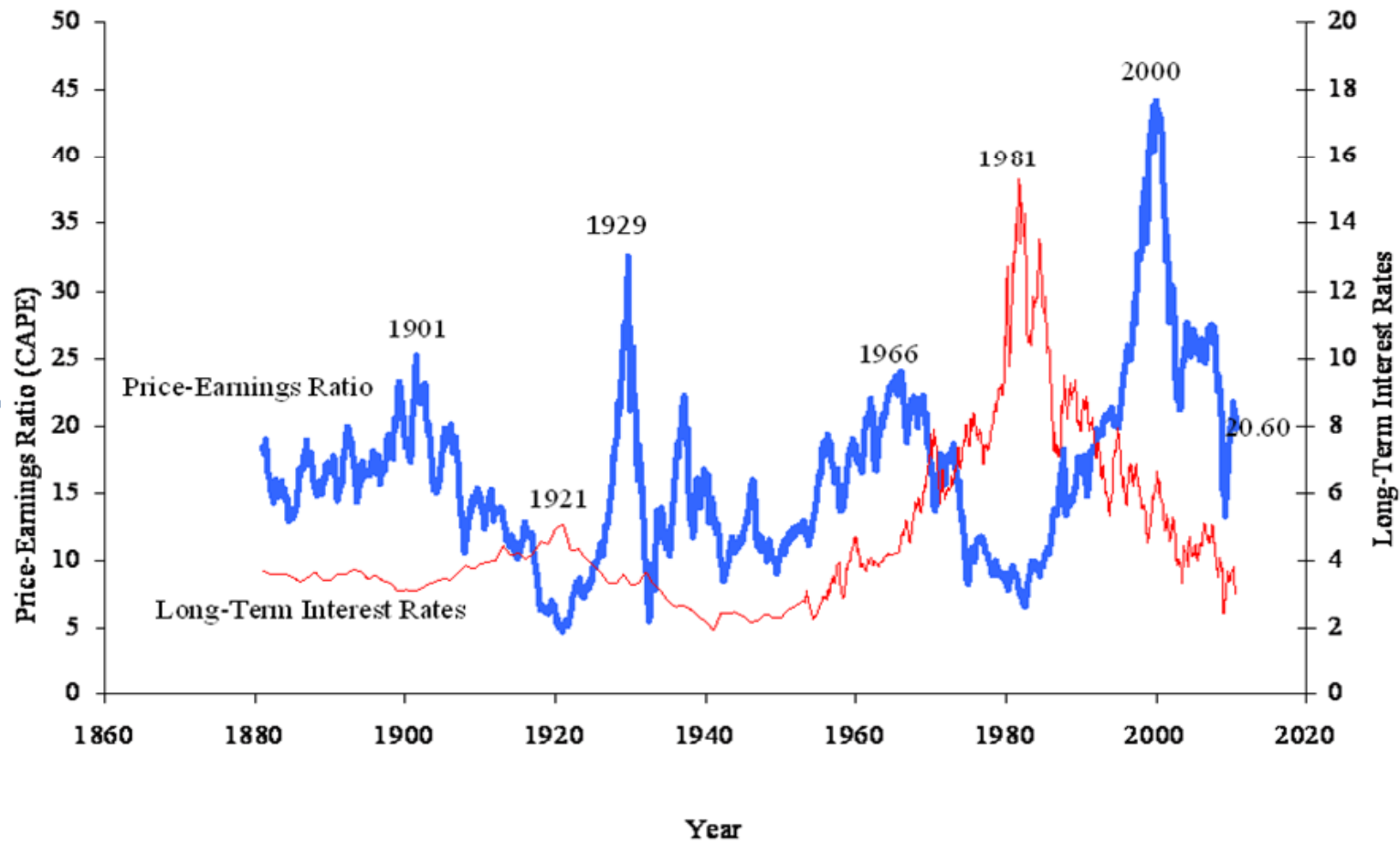
# Valuation; Bull Reading

**Value assigned to future growth for S&P 500**

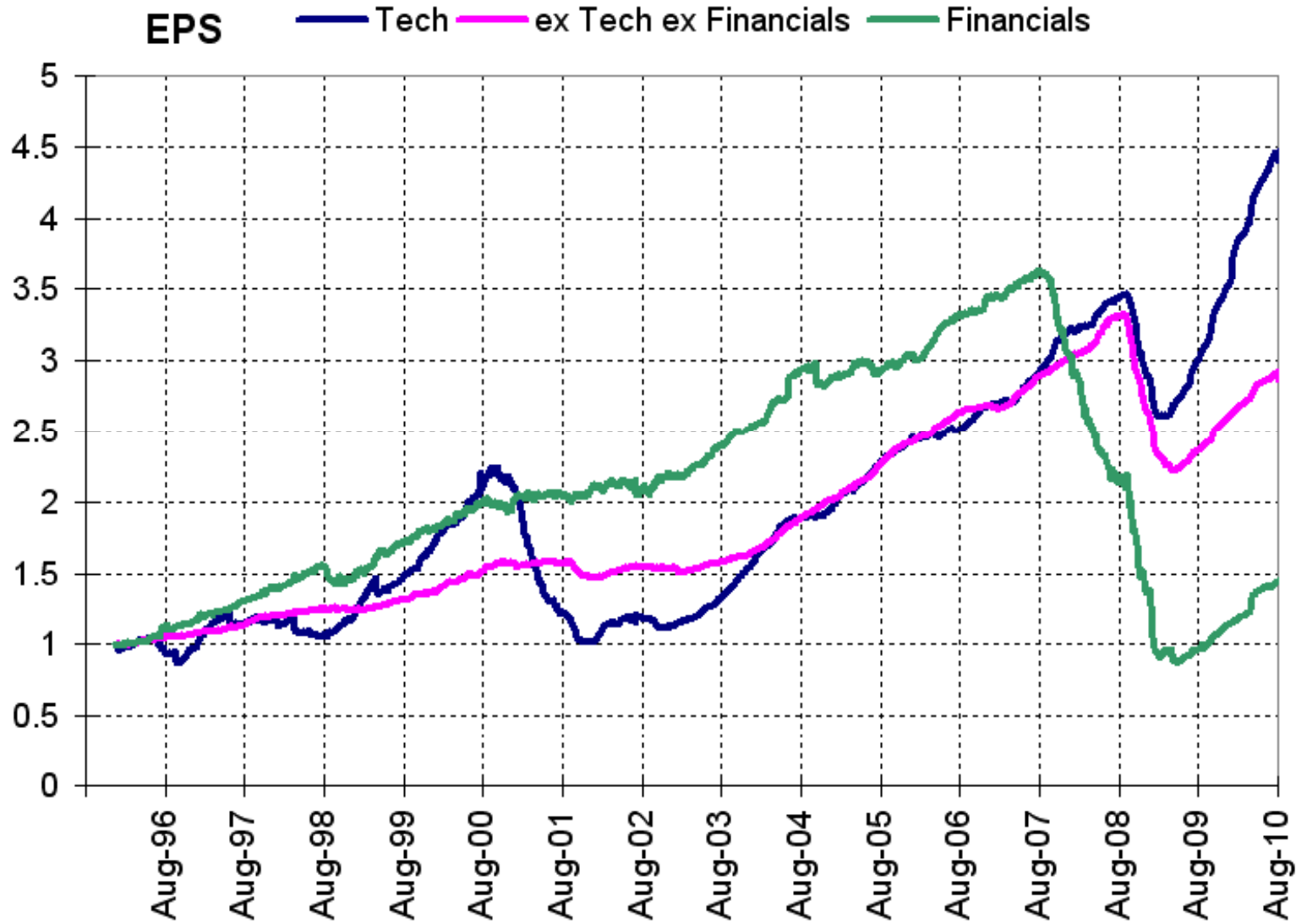


Source: MSCI, Factset, Morgan Stanley Research, Data as of Aug 05, 2010. \*Value assigned to Future Growth is defined as  $1 - (\text{Current Value of Operations} / \text{Price})$  where  $\text{COV} = \text{LTM EPS} / \text{ke}$  (10 yr US treasury + 3.5% ERP)

# Bear Reading – Shiller PE

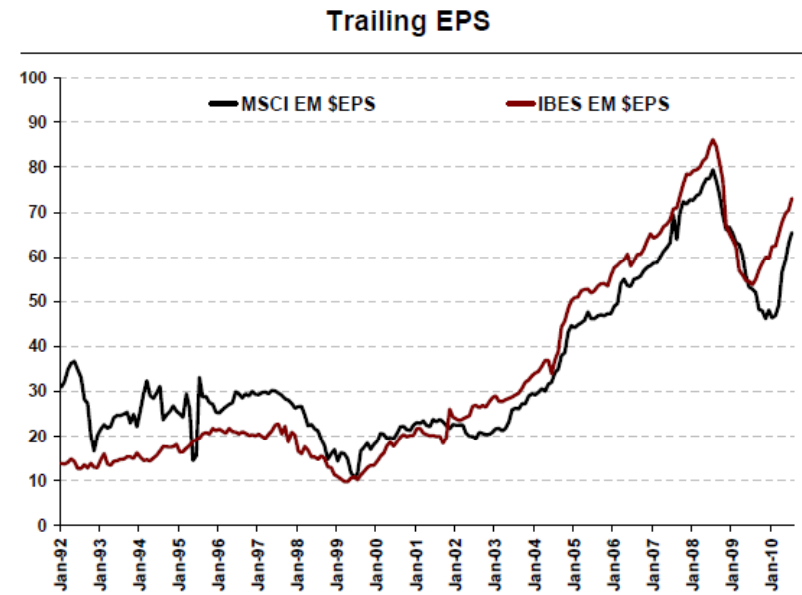
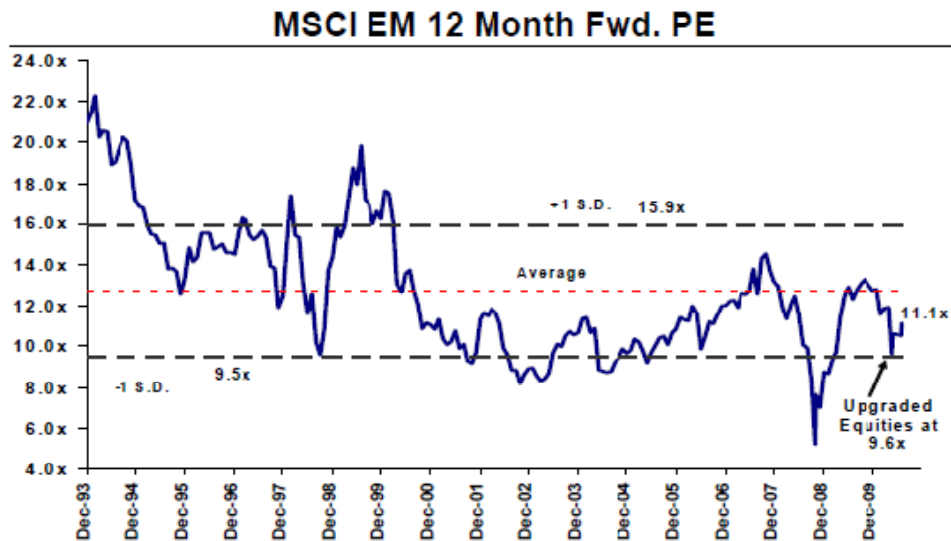


# S&P500 sector EPS moves



Source: Factset, Five Oceans Asset Management

# Emerging market valuations not expensive if earnings growth is sustainable

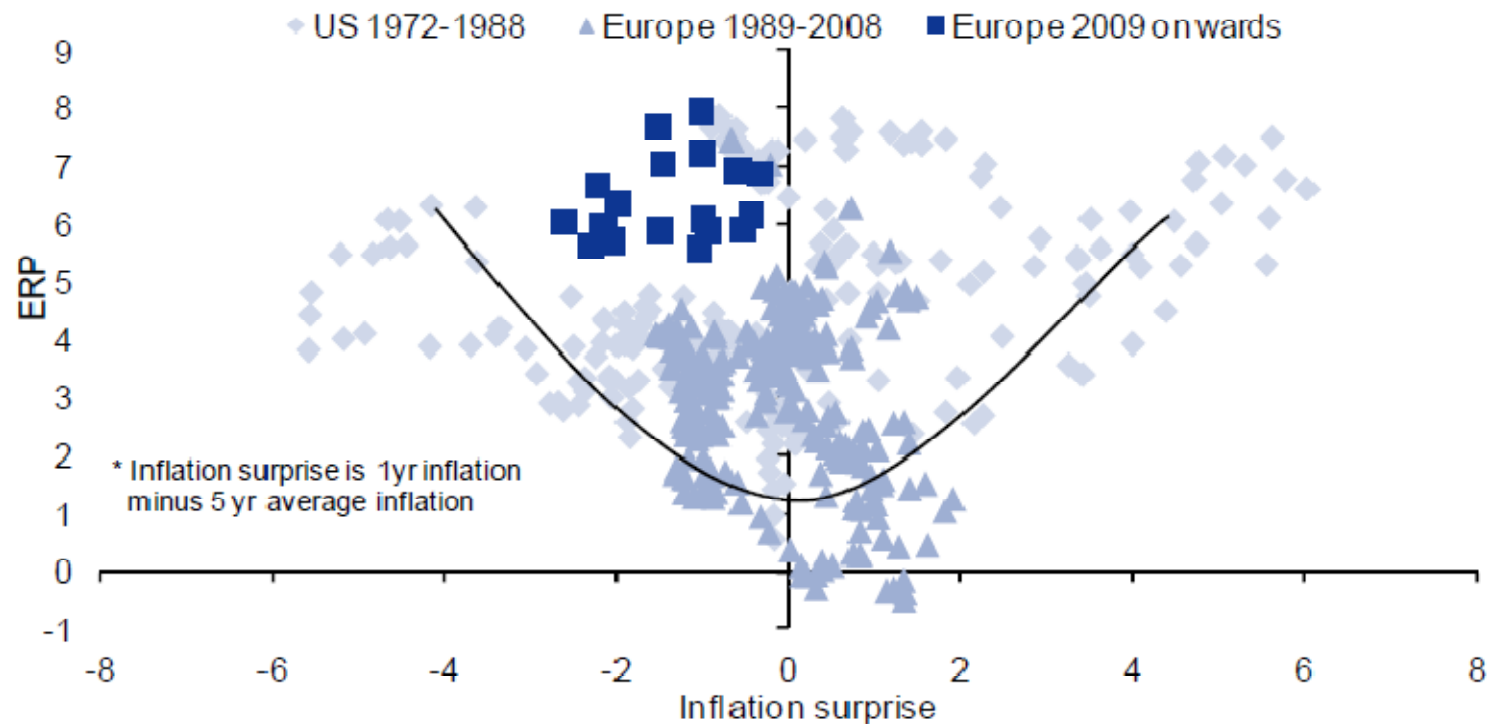


IBES, Factset, Morgan Stanley Research, Data as of July 31, 2010.

Source: MSCI, IBES, Morgan Stanley Research

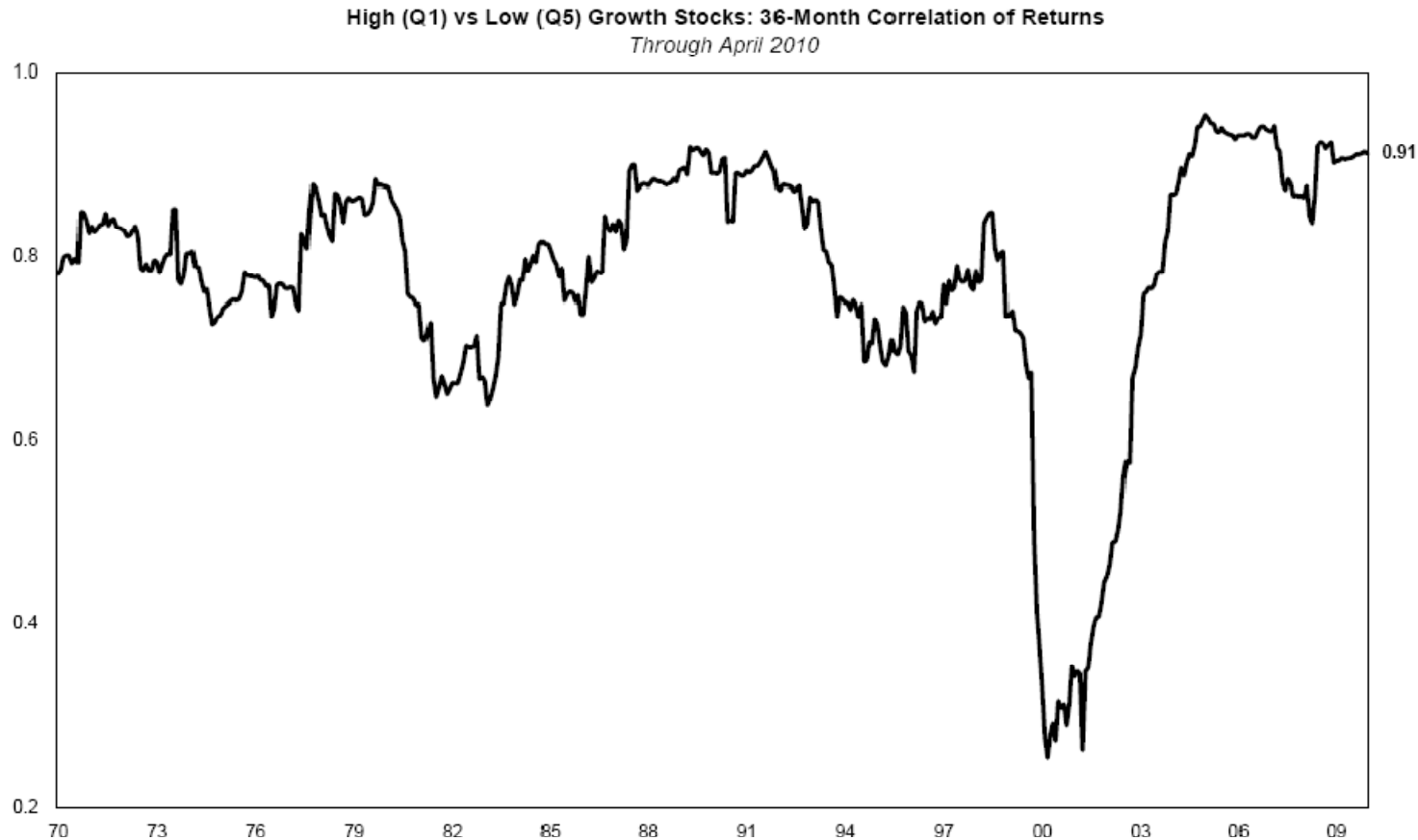
# Equity risk premium

**Exhibit 3: Inflation surprises in either direction have been associated with high ERPs**  
Using US implied ERP from 1972-1988 and European implied ERP from 1989 onwards



Source: Goldman Sachs

# Stocks have become highly correlated

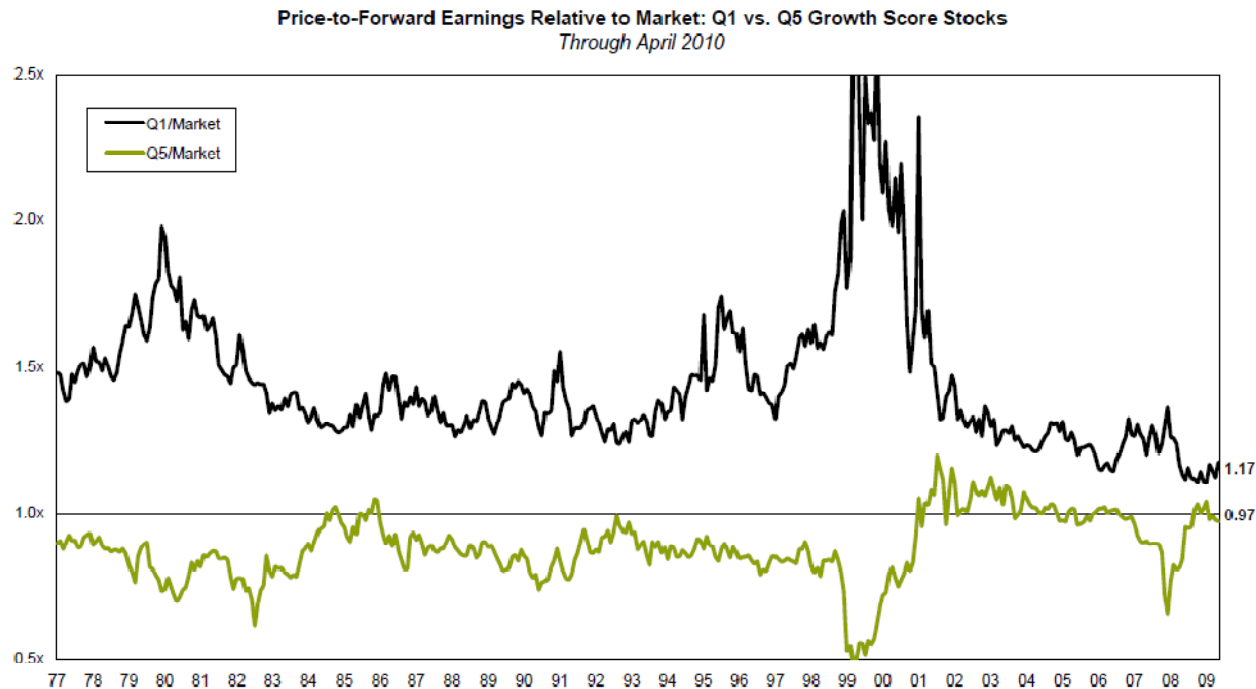


Source: Bernstein Research (Sourcing: Factset, Bernstein analysis)



# Growth versus value... massive convergence

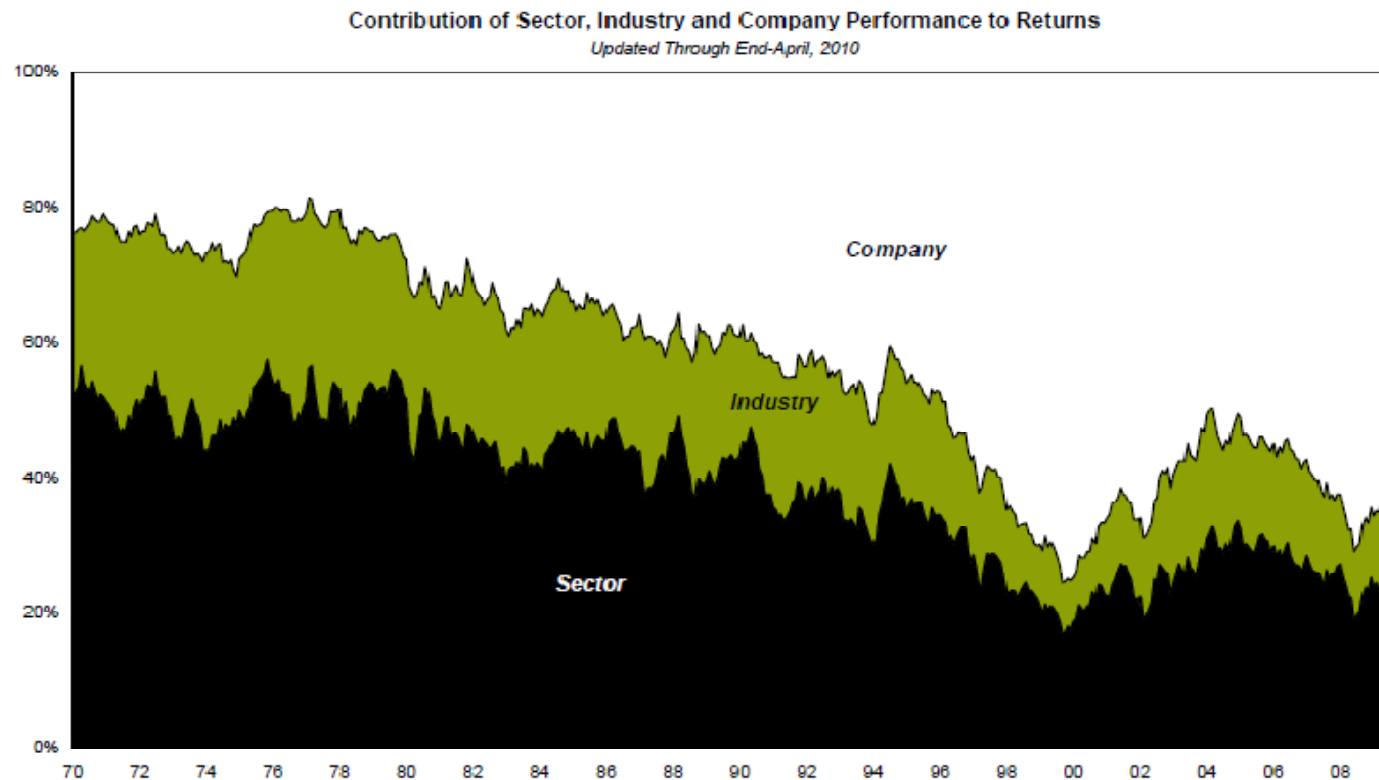
Q1 growth stocks are now only at a 15% premium to the market while Q5 stocks are trading just below parity



Source: Bernstein Research (Sourcing: Factset, Bernstein analysis)

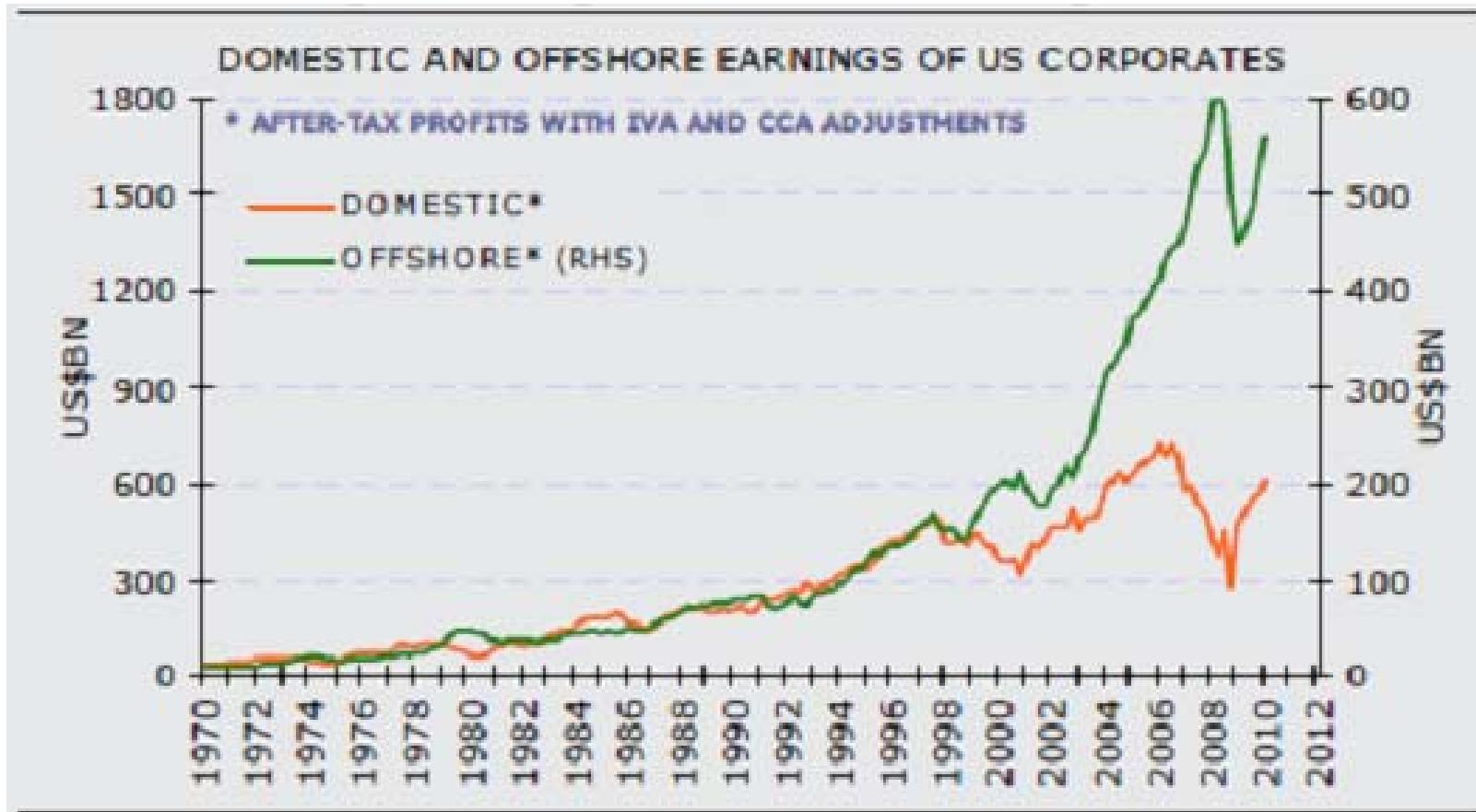
# Stock selection within sectors significant

Sector betting remains far less important than getting the companies right - you have to do more than get energy or financials right



Source: Bernstein Research (Sourcing: Factset, Bernstein analysis)

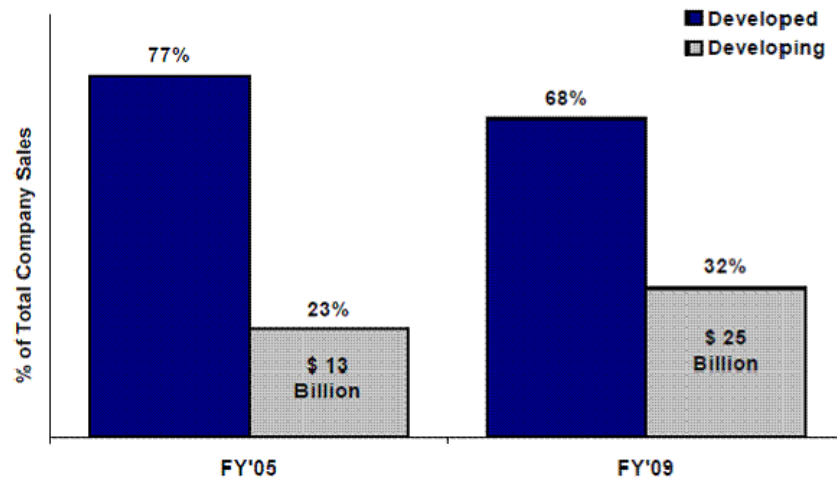
# The rise of the two speed economy; something changed a decade ago



Source: BEA, Morgan Stanley Research

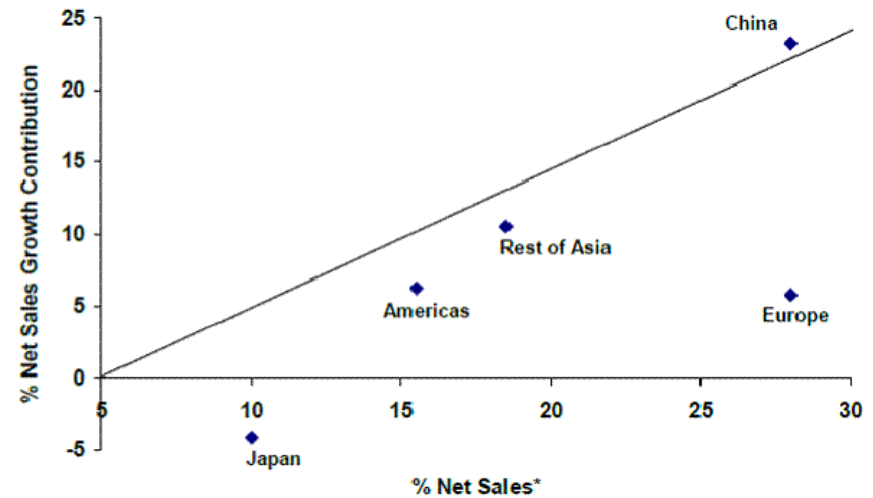
# The globalisation of equities

Procter & Gamble Revenue breakdown



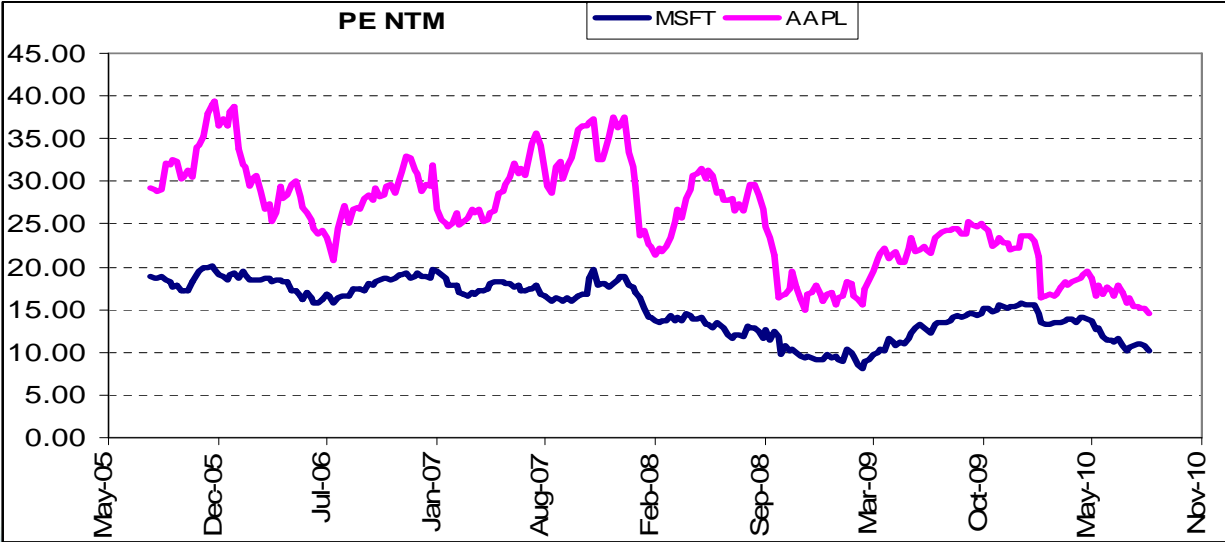
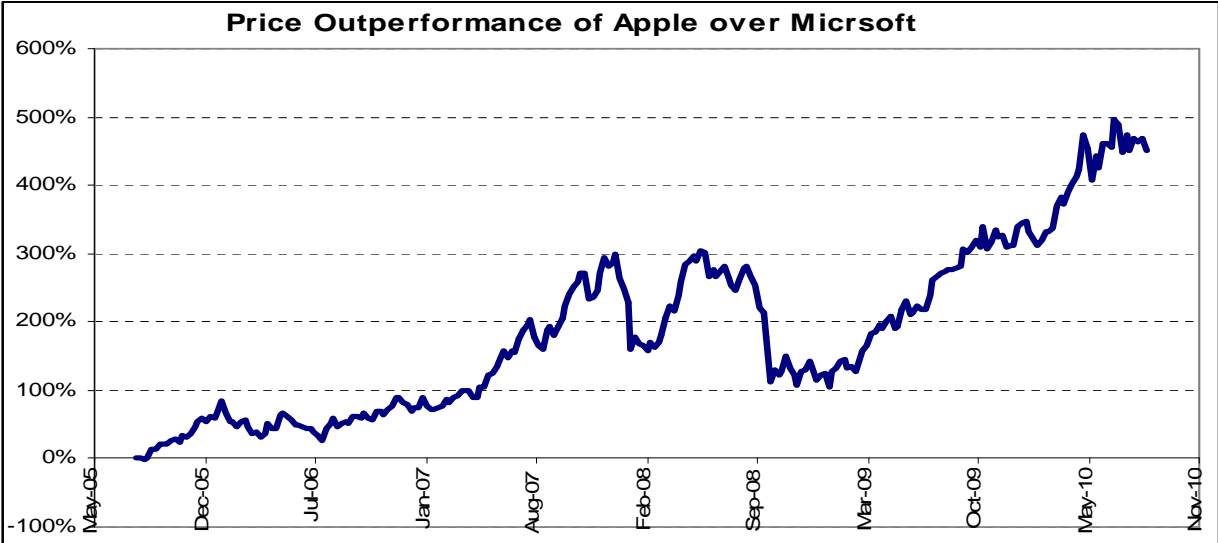
Source: P&G Morgan Stanley Conference Presentation, Nov 20, 2009.

European Luxury Brands Sales share and CAGRs



Source: Company data, Morgan Stanley Research Estimates (FY10-12e).  
\*Note: Net Sales adjusted to reflect spending by consumer nationality (at home and abroad)

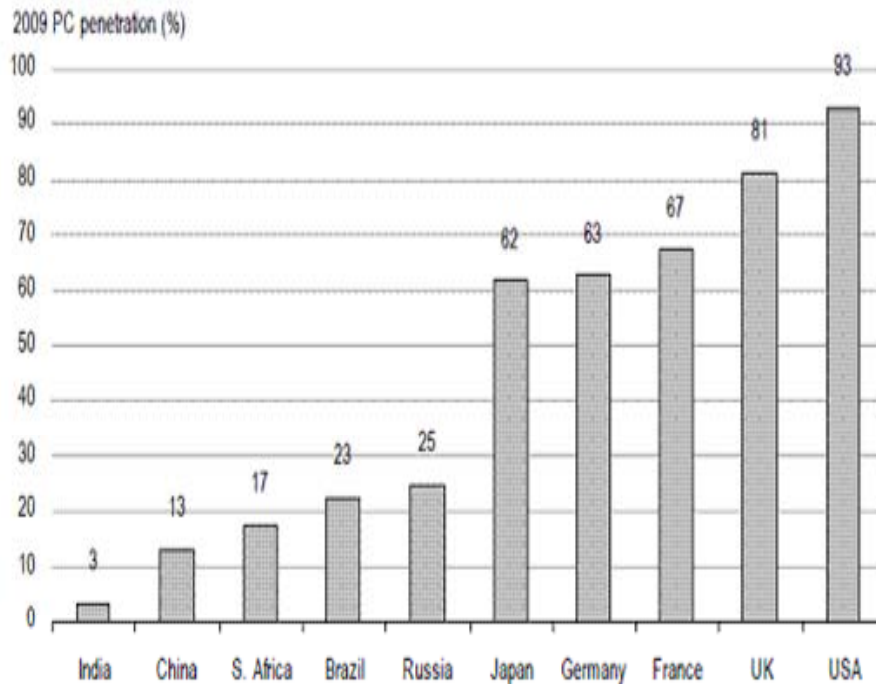
# Winners versus losers



Source: Factset, Five Oceans Asset Management

# Technology growth drivers in both the developed and developing world

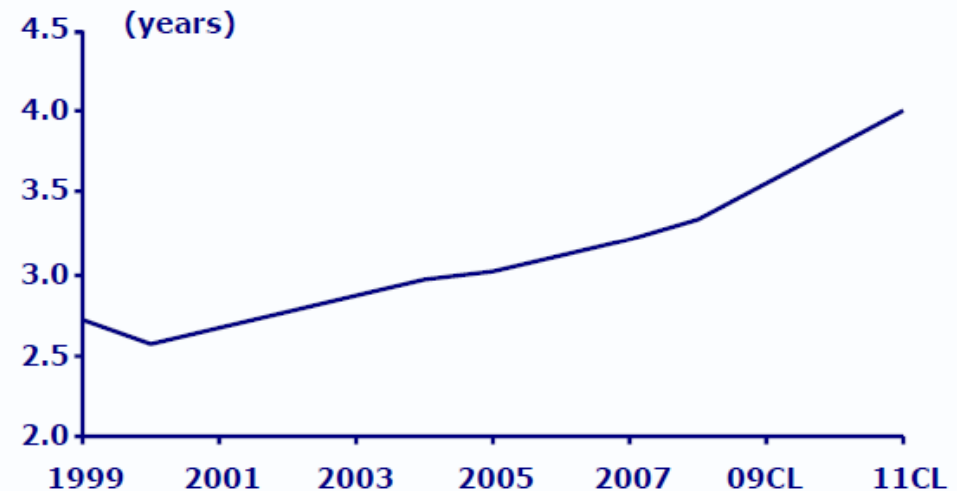
Global PC Penetration



Source: Gartner, Credit Suisse

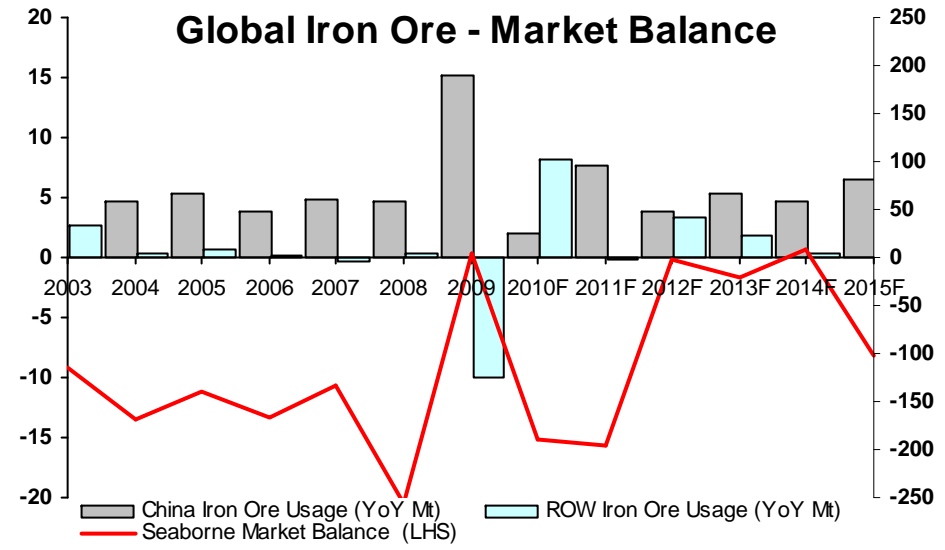
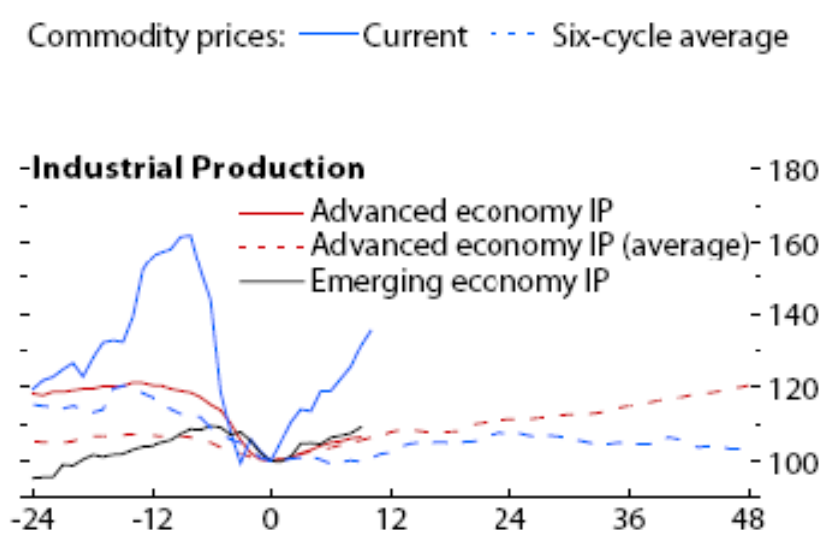
Age of Corporate Desk Tops - Global

Average age of enterprise desktops



Source: CLSA

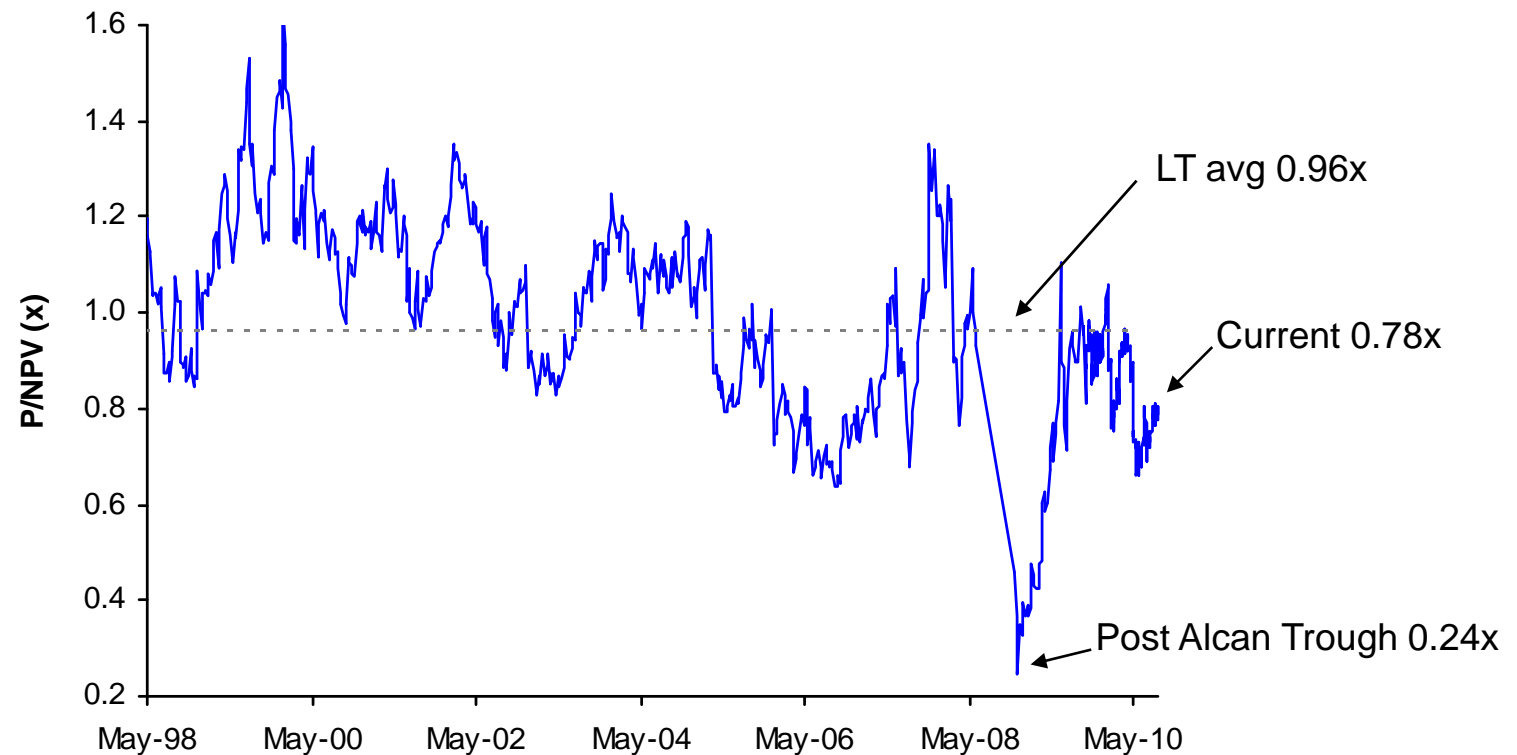
# Commodities vs industrial production



Source: IMF

# Mining sector discounted on LT cashflows

### Rio Tinto – P/NPV – LT History



Source: Deutsche Bank



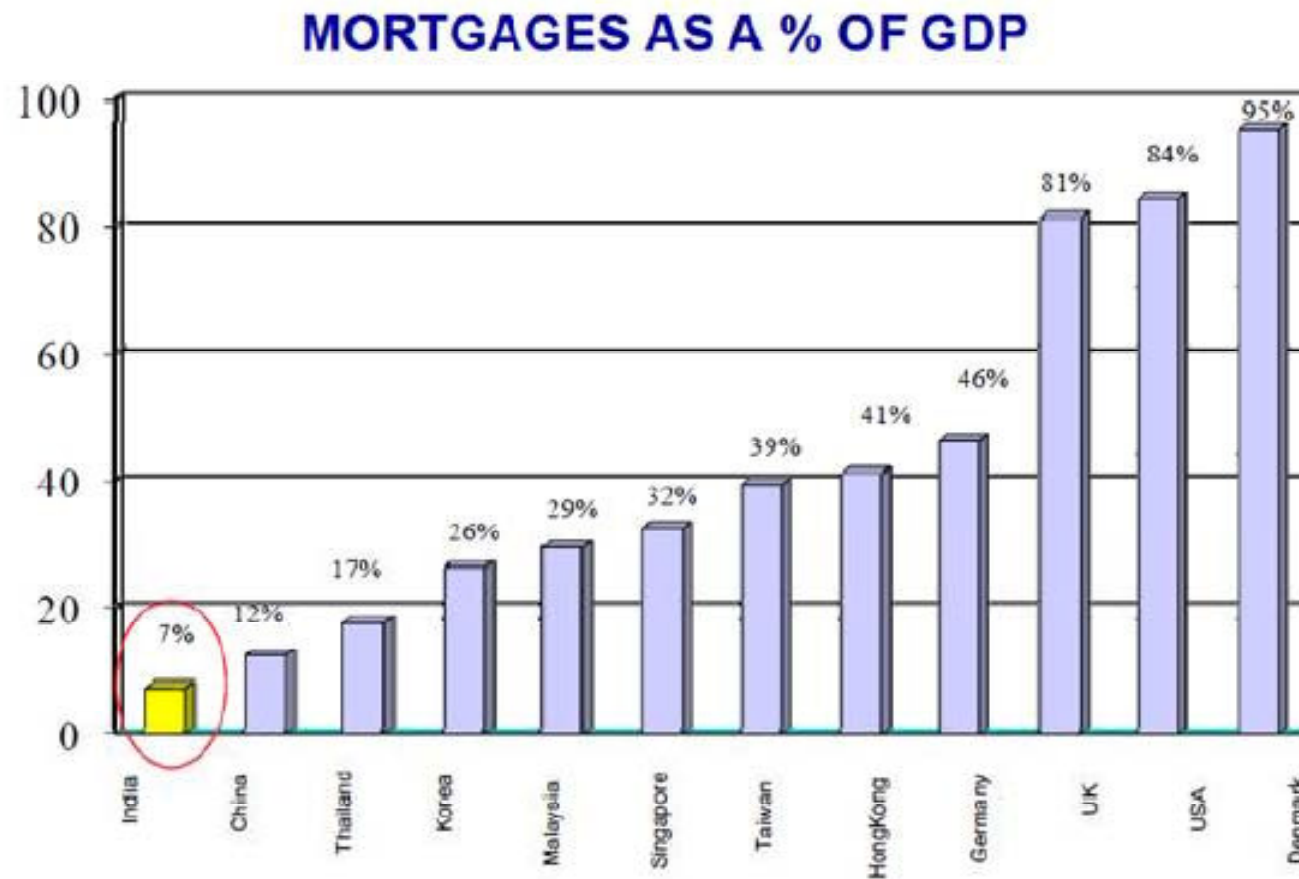
# Penetration of financial products

## Loans as a Percentage of GDP (December 2009)

	China	India#	Indonesia	Thailand	Korea	Malaysia	Taiwan	HK	Singapore
Total Loans	127%	50%	26%	86%	86%	116%	140%	201%	127%
Business Loans	103%	39%	18%	67%	48%	56%	75%	145%	60%
Retail Loans	24%	11%	8%	19%	38%	60%	65%	56%	68%
-- Mortgage Loans	14%	5%	2%	11%	25%	31%	48%	43%	54%
--Non-mortgage Loans	10%	6%	6%	8%	14%	29%	18%	13%	14%

*Source: Morgan Stanley Research; # Data corresponds to Scheduled Commercial Banks only. For the whole banking system in India, loan to GDP ratio stood at 52% as of December 2009.*

# Financial product penetration of India



Source: European Mortgage Federation, 2008 & Asian Development Bank, 2007

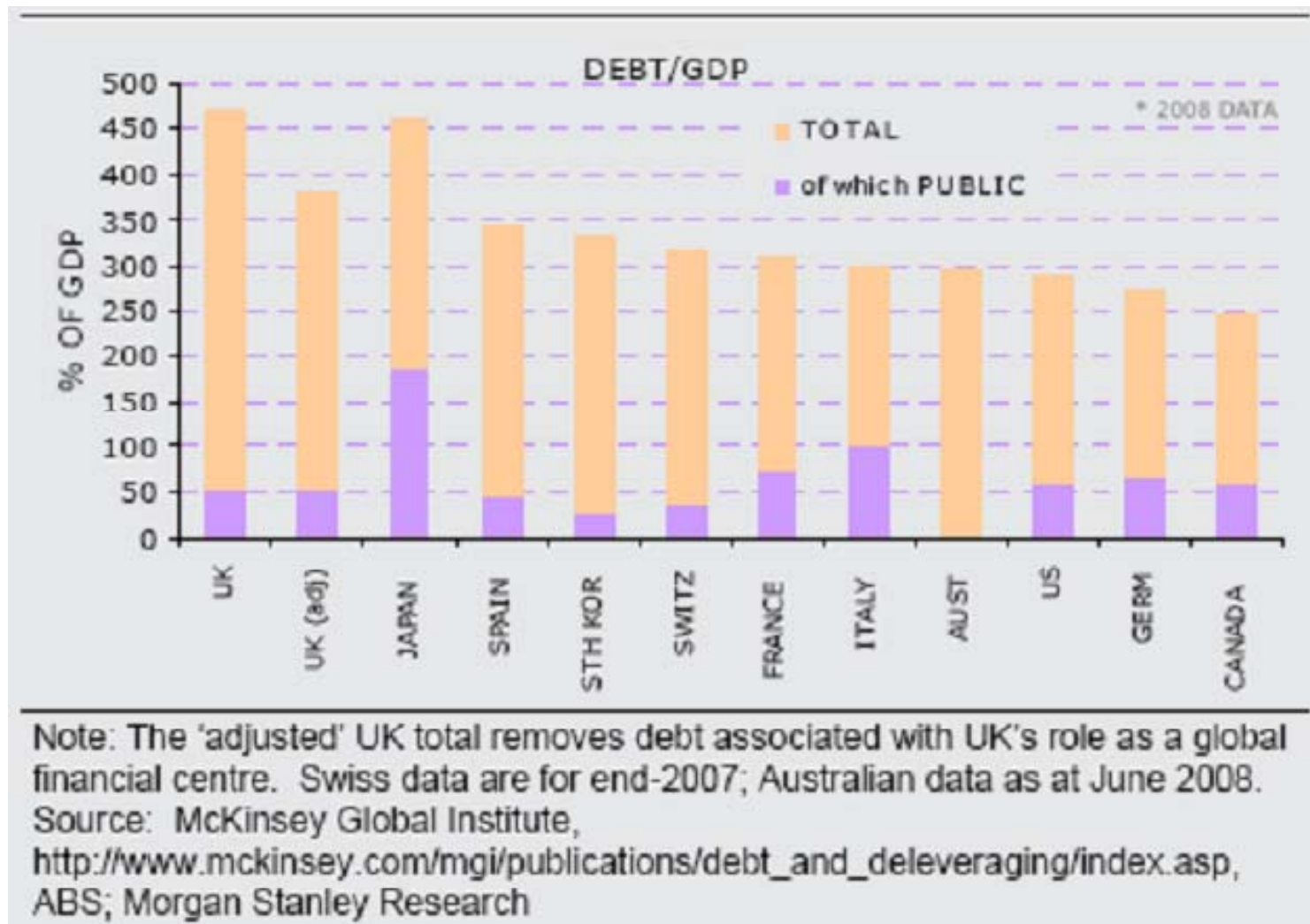
# Comparing bank valuations

Based on 2012 estimates

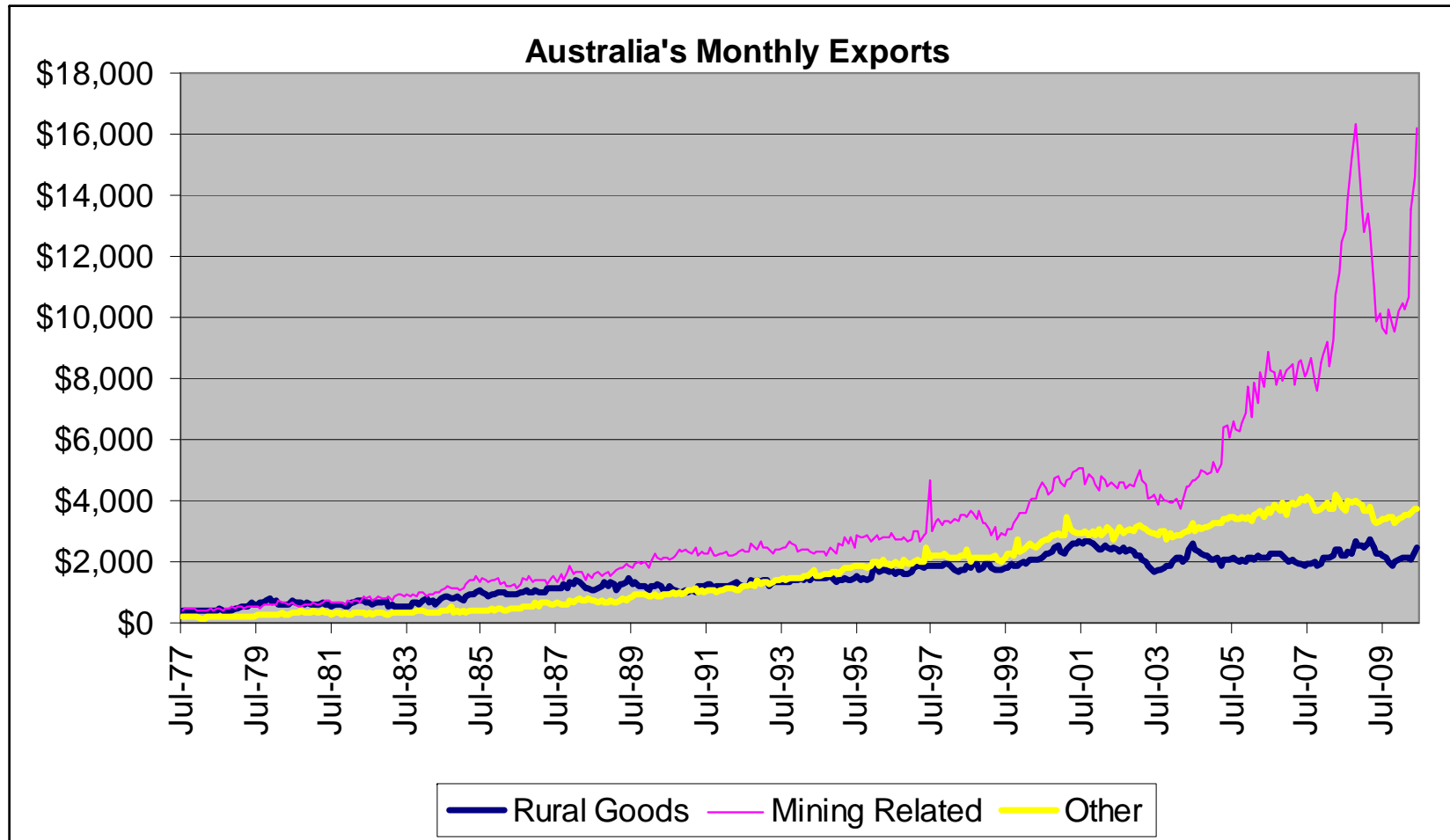
	CBA (\$AUD)	Wells Fargo (\$USD)	ICICI Bank (Rp)
Current Share Price	50.3	25.38	1000
P/TE	2.60x	1.45x	1.80x
Return on Assets	1.03%	1.50%	1.50%
Leverage	18.2x	10.7x	7.3x
Loan to Deposits	127%	104%	99%
2012 Earnings	4.62	3.82	68.43
2012 PE	10.89x	6.64x	14.61x

Source: Company Reports, Factset

# Comparing amounts of debt

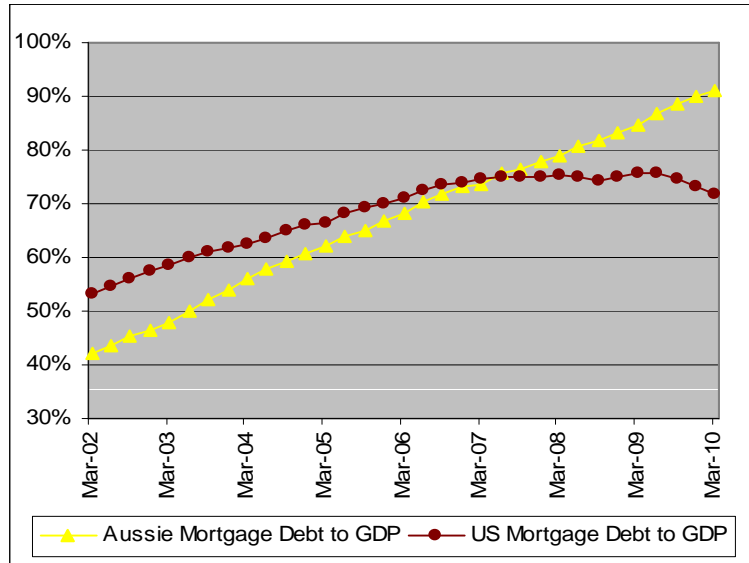


# Australia's two speed economy

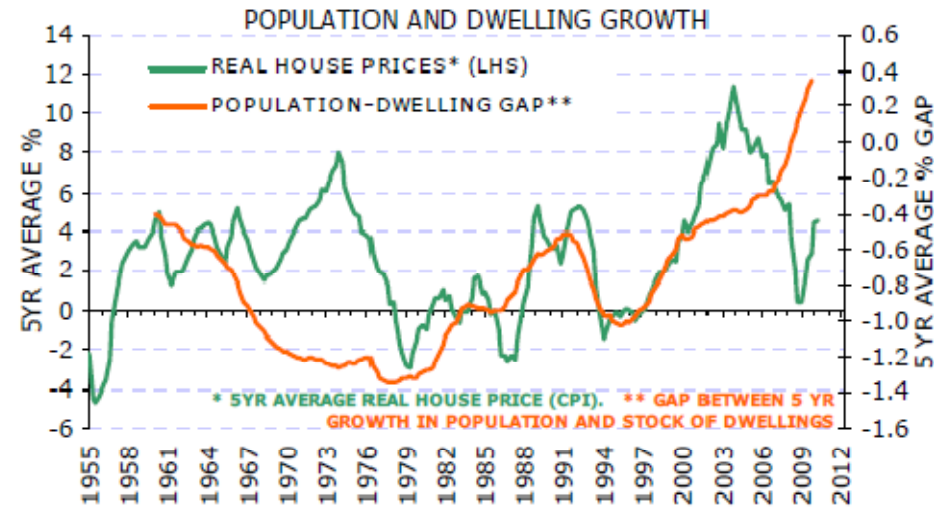


Source: ABS

### Australia buried in mortgage debt

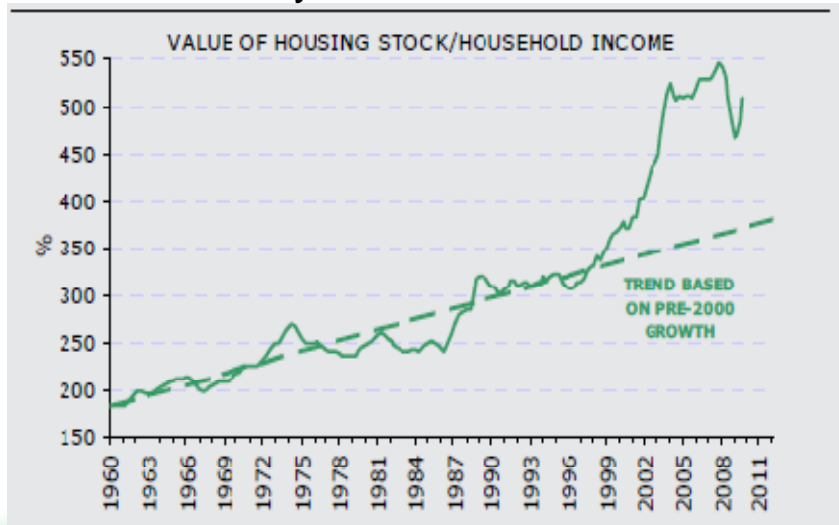


### Supply side squeeze



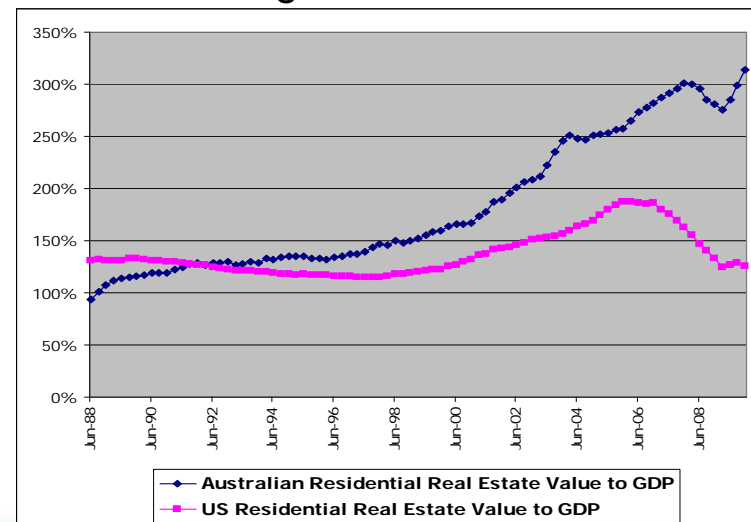
Source: Morgan Stanley

### Over-valued by ~35%



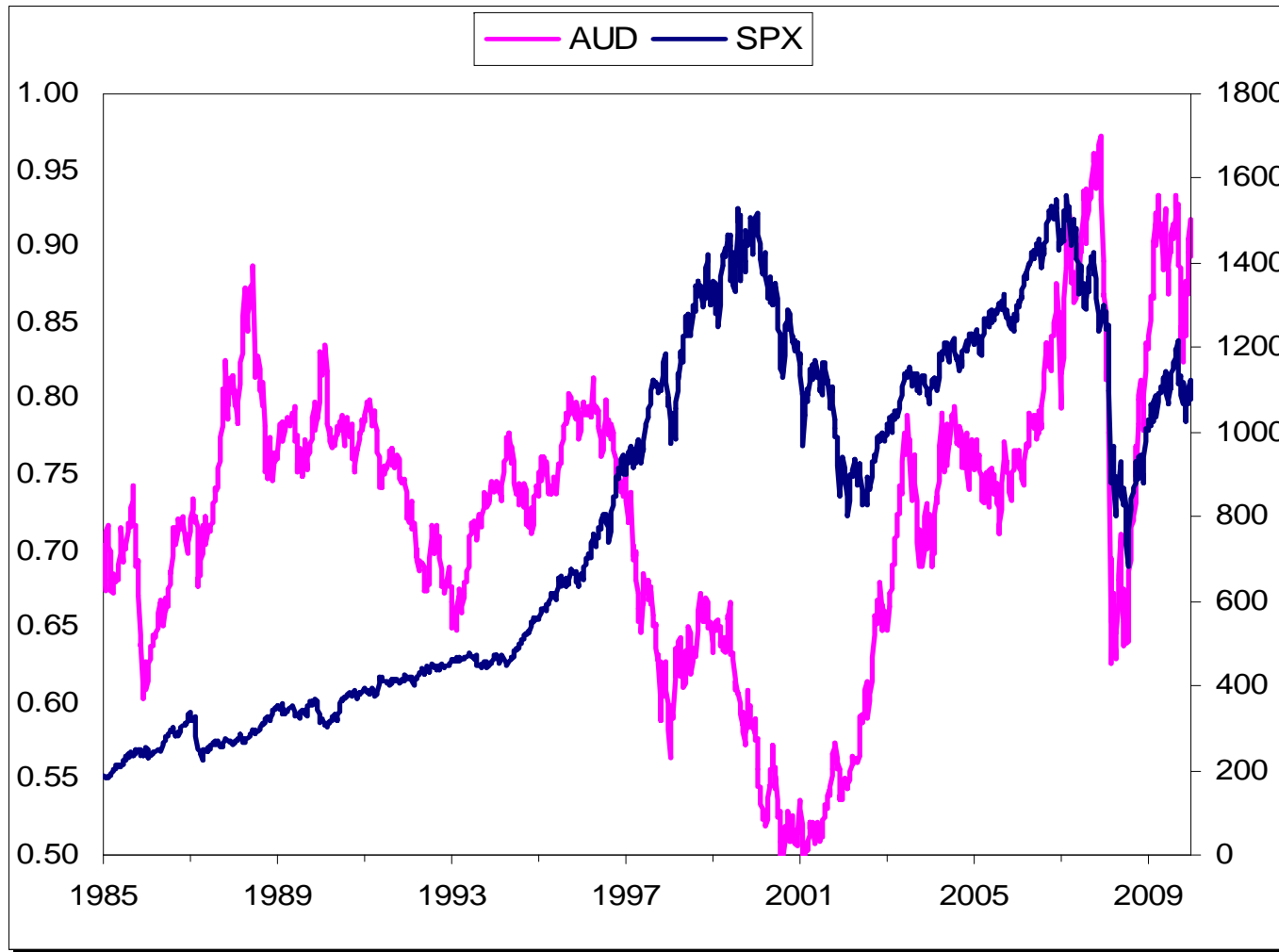
Source: Morgan Stanley

### Value of housing stock to GDP



# AUD versus equities

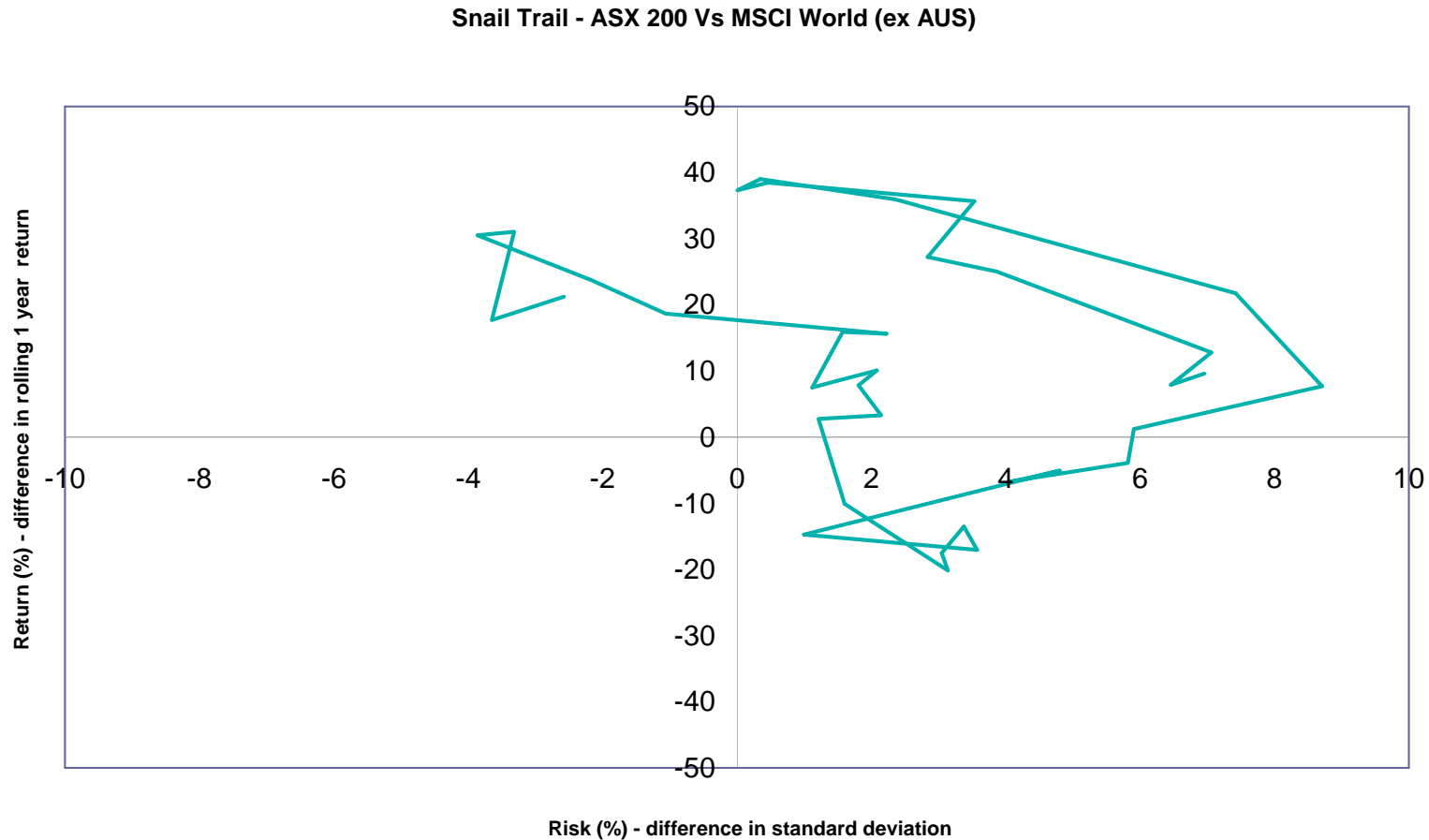
## A changed relationship



Source: Bloomberg

# Why International?

## Snail Trail - ASX 200 vs MSCI World (ex Aust)



As at 31 July 2010

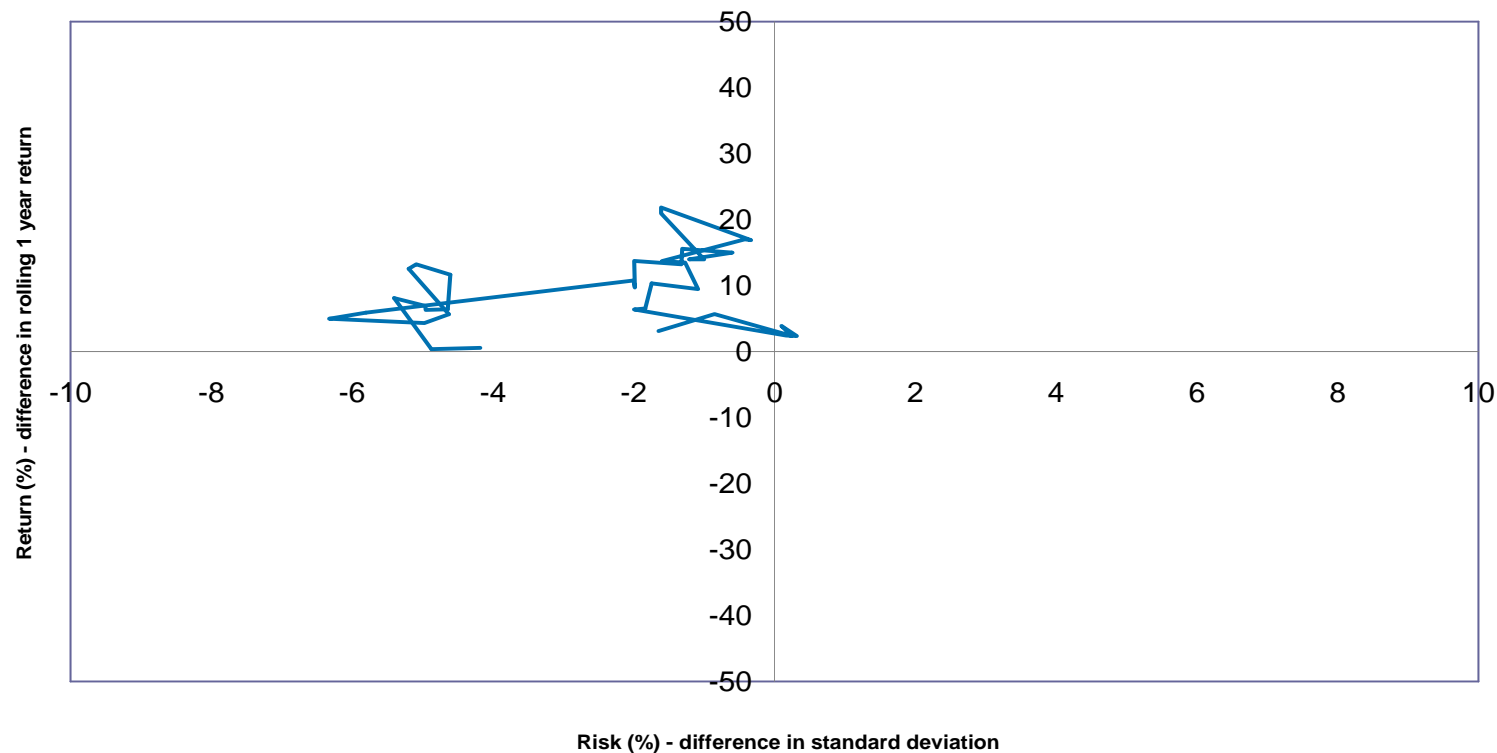
Source: Bloomberg



# Why International?

## Snail Trail – ASX 200 vs International beta hedged strategies

Snail Trail - ASX 200 versus International beta hedged strategies

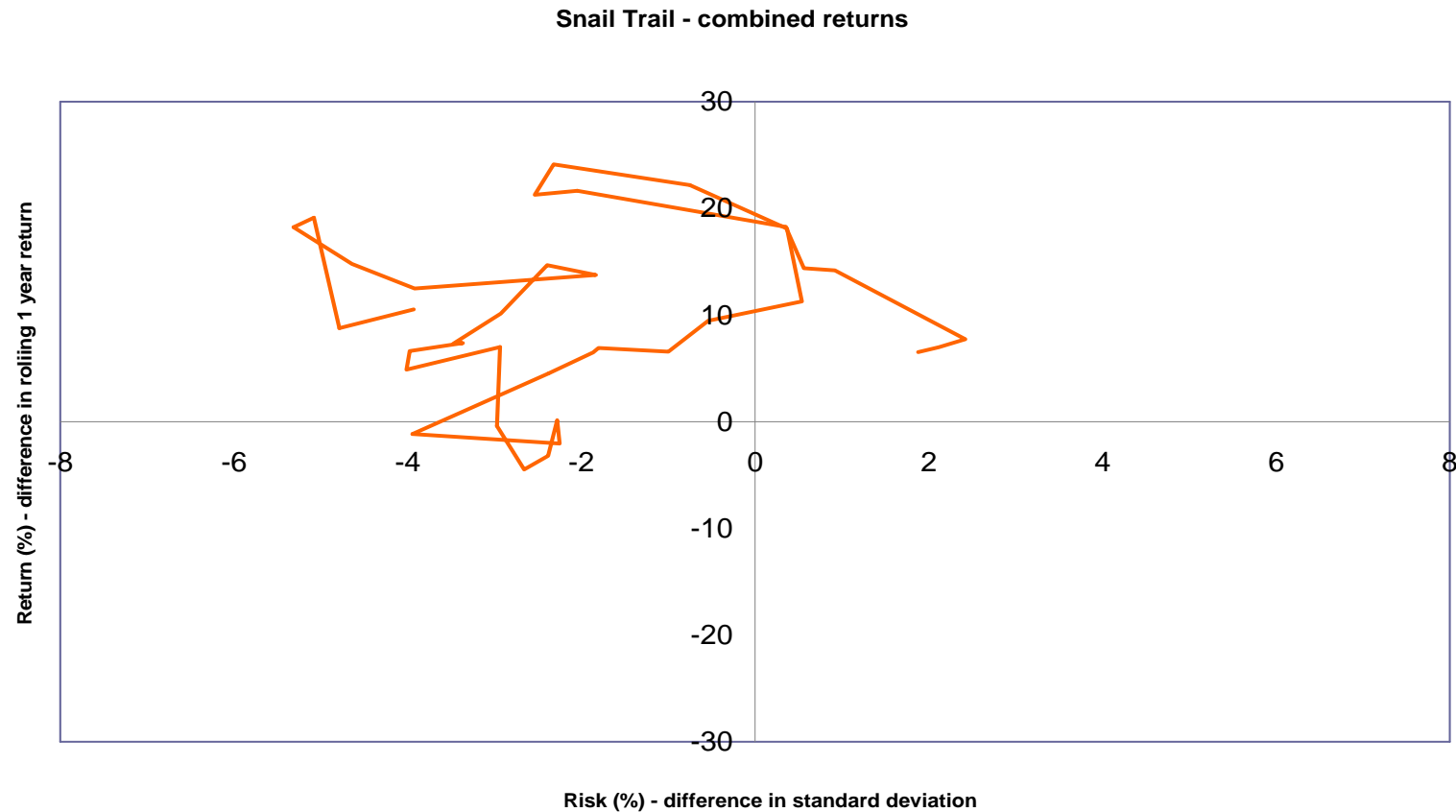


As at 31 July 2010  
Rolling 1 year returns, since inception of Five Oceans W/S World Fund

Source: Bloomberg

# Risk adjusted performance

## Snail Trail – Combined returns



As at 31 July 2010  
 Rolling 1 year returns, since inception of Five Oceans W/S World Fund  
 Portfolio represents equal weighting of Five Oceans World Fund and S&P/ASX 200 AI

Source: Bloomberg

# Disclaimer

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