

Global Emerging Markets Update



Economic and market overview

Emerging markets were lifted by encouraging corporate results and economic data in April though sentiment in Latin America and Europe was tempered by Greece's debt crisis and the threat of Eurozone contagion, as well as fraud charges brought against Goldman Sachs. Similarly, gains in Asia, the best-performing region, were pared by China's widening property curbs.

Data on the economic front, however, continued to improve. Notably, Brazil's industrial production expanded strongly in February, Mexico's first-quarter GDP was bolstered partly by recovering demand, while China's manufacturing activity accelerated in April. On the flip side, the devastating earthquake and ensuing tsunami the previous month sent Chile's industrial output tumbling in March.

Inflation quickened in several fast-expanding economies. India's central bank raised interest rates and lenders' reserve ratios, and indicated that it will gradually remove monetary stimulus. China increased banks' reserve requirements yet again, while introducing additional measures to curb property speculation. Brazil's central bank became the first in Latin America to increase borrowing costs in over a year, raising its benchmark Selic rate to 9.5% from a record low of 8.75%. Hungary and Russia, in contrast, continued to cut rates amid still-challenging economic conditions.

In politics, Poland's president and central bank governor both died in a tragic plane crash; the country will hold early presidential elections in June. Hungary's opposition won a landslide victory, while Sri Lanka's governing coalition clinched the parliamentary election. Thailand's political unrest persisted, resulting in hundreds of casualties, leading Fitch to cut the country's long-term local currency credit rating outlook to negative. Elsewhere, Argentina offered to restructure US\$20 billion in defaulted bonds.

In the near term, markets may be tested as investors confront the consequences of the mounting fiscal crisis in Europe and continued policy tightening in rapidly recovering emerging economies. In the first instance, the current debt problems in Greece could spread to other European countries, affecting economic growth and, potentially, the global banking system. In the second, emerging-market policymakers, in seeking to control inflation, could enact policies that slow their economies and put pressure on corporate earnings.

This uncertainty serves to highlight the need to avoid highly geared entities, whether countries or companies, and focus instead on those with strong balance sheets, sound businesses and proven management. In this regard, emerging economies and the companies that operate in them have made great strides. We will continue to stay the course in our bottom-up approach and believe in the long-term attractiveness of emerging markets.

Portfolio activity

There were no major portfolio changes in April.

Corporate news

Brazil: Vale said most of its clients accepted its new pricing formula in which iron ore prices are set on a quarterly basis, ending decades of annual contracts, as it secured price hikes of around 90%. Separately, the miner was granted a preliminary licence to build a potash extraction facility in Sergipe state. **Petrobras** acquired a 50% stake in a natural gas project from MEO Australia. Lender **Bradesco** plans to raise US\$250 million in senior fixed-rate bonds. **Multiplan** will build and rent out an office building in Sao Paulo.

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China/Hong Kong: **China Mobile** reported satisfactory first-quarter results despite rising mobile penetration and competition, while a recovery in crude oil prices boosted **PetroChina's** profits.

Hungary: Hotel chain operator **Danubius** suffered losses of more than 150 million forint after rooms were cancelled when Iceland's volcanic ash plume disrupted air travel for several weeks.

India: The March quarter saw positive results across our holdings: **Infosys'** performance was driven by its US and European markets; **Hero Honda** benefited from healthy demand and lower raw material costs; and **GlaxoSmithKline** delivered strong sales growth.

Korea: First-quarter corporate results were mixed. **Samsung Electronics** impressed as supply constraints and better-than-expected sales drove memory prices; it is investing more to address the supply shortage and widen the gap with its peers. **Daegu Bank's** asset quality fell despite improved net interest income, whereas **Busan Bank's** net interest income rose marginally though loan growth has yet to recover.

Malaysia: **CIMB Group** received approval to list in Thailand; its unit CIMB Niaga's first-quarter net profits were aided by improved operational income and lower provisions. **Public Bank's** pre-tax earnings benefited from a stable NPL ratio.

Mexico: **Femsa's** sale of its beer business to Heineken in exchange for a 20% stake in the Dutch brewer was approved by anti-trust authorities. **Asur's** first-quarter results reflected a tough operating environment; on a more upbeat note, the airport operator reported a marginal increase in passenger traffic in March due largely to domestic travel.

Philippines: **Ayala Land** may issue US\$300 million-worth of REITs in the second half of 2010 to fund capital expenditure.

Taiwan: **Taiwan Mobile** posted resilient first-quarter earnings though management warned that price cuts and increased costs could hurt second-quarter performance. Nevertheless, it proposed a dividend payout of NT\$5.03 per share. **TSMC's** results were boosted by resilient demand and margin expansion.

Thailand: Company results were generally upbeat. **Siam Cement** was underpinned by its chemicals and paper divisions, while **PTT Exploration and Production's** earnings rose on higher selling prices, lower costs and a one-off tax gain.

We hold the companies highlighted above.

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Performance of Global Emerging Stock Markets (%)

REGION/COUNTRY	INDEX/FUND	USD DOLLARS			LOCAL CURRENCY		
		MOM	3M	YTD	MOM	3M	YTD
DEVELOPED MARKETS							
US	Dow Jones	1.53	10.08	6.42	1.53	10.08	6.42
UK	FTSE Allshare	-0.77	3.98	-0.57	-1.36	8.95	5.07
Europe	FT Europe ex UK	-3.15	1.12	-5.38	-1.43	4.86	1.03
World	MSCI AC World Free	0.22	8.12	3.46	0.28	8.66	4.64
World	Citigroup World Government Bond	-0.36	-1.81	-1.68	-0.36	-1.81	-1.68
ASIA PACIFIC							
EM Asia	MSCI Emerging Markets Asia	2.36	10.35	3.79	1.27	7.53	0.97
	MSCI Emerging Markets Asia Small Cap	2.45	12.21	6.49	1.29	9.21	3.41
China	MSCI China	-0.33	7.37	-1.90	-0.34	7.34	-1.78
Hong Kong	MSCI Hong Kong	-2.42	7.00	-0.05	-2.43	6.97	0.08
	MSCI Zhong Hua	-0.95	7.27	-1.36	-0.96	7.24	-1.23
India	MSCI India	1.88	12.80	6.82	0.66	8.37	1.83
Indonesia	MSCI Indonesia	6.10	14.42	16.74	5.10	10.31	12.00
Korea	MSCI Korea	5.65	14.91	9.91	3.49	9.62	4.61
Malaysia	MSCI Malaysia	4.31	14.78	13.77	1.84	7.16	5.81
Pakistan	MSCI Pakistan	1.44	10.13	11.69	1.40	9.00	11.26
Philippines	MSCI Philippines	5.12	17.46	10.59	3.42	12.31	6.35
Sri Lanka	MSCI Sri Lanka	1.48	5.71	6.01	1.39	5.07	5.59
Taiwan	MSCI Taiwan	2.55	5.45	-1.38	1.19	3.45	-3.38
Thailand	MSCI Thailand	-2.52	16.60	10.40	-2.46	13.65	7.14
GLOBAL EMERGING MARKETS							
Global Emerging Markets	MSCI Emerging Markets	1.23	9.82	3.72	0.12	6.21	1.56
	MSCI Emerging Markets Small Cap	2.50	11.85	7.74	1.49	8.76	5.32
EMERGING MARKETS EUROPE MIDDLE EAST AFRICA							
EMEA	MSCI EMEA	-0.01	6.92	6.24	0.13	5.27	5.42
	MSCI EMEA Small Cap	2.44	11.90	14.19	2.63	10.68	14.08
Czech Republic	MSCI Czech Republic	1.28	-0.93	1.08	3.82	1.35	5.72
Egypt	MSCI Egypt	8.99	13.62	21.94	9.97	15.43	23.47
Hungary	MSCI Hungary	0.35	12.21	13.01	2.89	15.87	20.82
Morocco	MSCI Morocco	4.75	7.15	11.76	6.08	11.06	18.81
Poland	MSCI Poland	-0.62	4.76	3.59	2.62	6.45	6.65
Russia	MSCI Russia	-0.69	3.56	6.03	-1.23	0.47	2.92
South Africa	MSCI South Africa	1.19	11.73	5.82	1.39	8.96	5.74
Turkey	MSCI Turkey	7.51	9.33	11.80	4.88	8.98	10.75
MIDDLE EAST							
Bahrain	Bahrain All Share Index #	2.89	7.69	9.16	2.90	7.69	9.17
Kuwait	Kuwait Stock Exchange Index #	-3.22	3.45	3.55	-3.11	3.90	4.20
	MSCI Kuwait	-1.09	24.05	17.09	-1.68	24.31	17.76
Oman	Muscat Securities Market Index #	1.98	4.42	7.23	1.98	4.57	7.25
Qatar	Doha Securities Market Index #	1.14	14.95	8.48	1.14	15.08	8.45
	MSCI Qatar	5.31	20.87	14.98	5.31	20.90	14.99
Saudi	Tadawul All Share Index #	0.99	9.84	12.21	0.98	9.84	12.19
UAE - Abu Dhabi	Abu Dhabi Securities Market #	-4.52	5.46	1.22	-4.52	5.46	1.22
UAE - Dubai	Dubai Financial Market General Index #	-5.62	9.43	-3.53	-5.62	9.43	-3.53
	MSCI UAE	-2.80	15.35	4.07	-2.80	15.35	4.07
Israel	MSCI Israel	-7.16	1.85	2.16	-6.63	1.74	0.35
Jordan	MSCI Jordan	3.62	-1.05	-2.17	3.62	-1.01	-2.07
LATIN AMERICA							
Latin America	MSCI Latin America	-0.33	11.19	1.33	-2.59	4.04	-0.32

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		MOM	3M	YTD	MOM	3M	YTD
	MSCI Latin America Small Cap	2.91	9.33	4.98	0.72	2.65	3.26
	Danske Invest Latin Amerika Fund*	-3.13	9.00	0.07	-0.42	14.97	8.99
Argentina	MSCI Argentina	0.53	9.36	5.88	0.53	9.36	5.88
Brazil	MSCI Brazil	-0.89	11.18	-0.98	-3.89	2.82	-1.68
Chile	MSCI Chile	3.66	0.74	3.98	2.03	-0.85	5.87
Colombia	MSCI Colombia	0.60	8.58	11.02	2.16	6.80	6.04
Mexico	MSCI Mexico	0.15	15.17	8.00	-0.48	8.72	1.32
Peru	MSCI Peru	1.12	13.14	1.72	1.12	13.14	1.72
FRONTIER MARKETS							
Frontier Markets	MSCI Frontier Markets	0.06	13.93	11.51	0.06	14.55	12.63
Botswana	MSCI Botswana	-0.24	2.00	4.47	0.04	1.86	6.60
Bulgaria	MSCI Bulgaria	-0.97	-7.36	-7.08	0.77	-3.15	0.28
Croatia	MSCI Croatia	-3.64	-1.02	4.42	-2.04	2.66	12.08
Estonia	MSCI Estonia	7.43	-0.01	49.23	9.33	4.52	61.02
Ghana	MSCI Ghana	12.86	35.70	37.26	12.50	34.28	35.78
Jamaica	MSCI Jamaica	8.08	47.16	21.80	7.47	45.92	21.18
Kazakhstan	MSCI Kazakhstan	-4.04	-3.40	-2.29	-4.04	-3.40	-2.29
Kenya	MSCI Kenya	7.05	10.97	20.83	6.81	12.80	22.91
Lebanon	MSCI Lebanon	-0.42	5.72	1.40	-0.42	5.72	1.40
Lithuania	MSCI Lithuania	-4.92	-6.82	10.84	-3.24	-2.59	19.60
Mauritius	MSCI Mauritius	1.50	-6.94	-4.52	2.42	-4.54	-3.19
Nigeria	MSCI Nigeria	0.29	18.84	28.92	0.96	18.85	30.17
Romania	MSCI Romania	-7.18	3.98	12.70	-4.76	9.43	18.61
Serbia	MSCI Serbia	9.58	17.12	17.68	11.11	23.52	31.34
Slovenia	MSCI Slovenia	-4.89	-4.68	-5.23	-3.22	-0.36	2.26
Tunisia	MSCI Tunisia	0.41	-2.70	1.76	2.40	2.37	9.95
Ukraine	MSCI Ukraine	9.30	49.85	62.41	9.32	48.22	60.65

As at 30 April 2010.

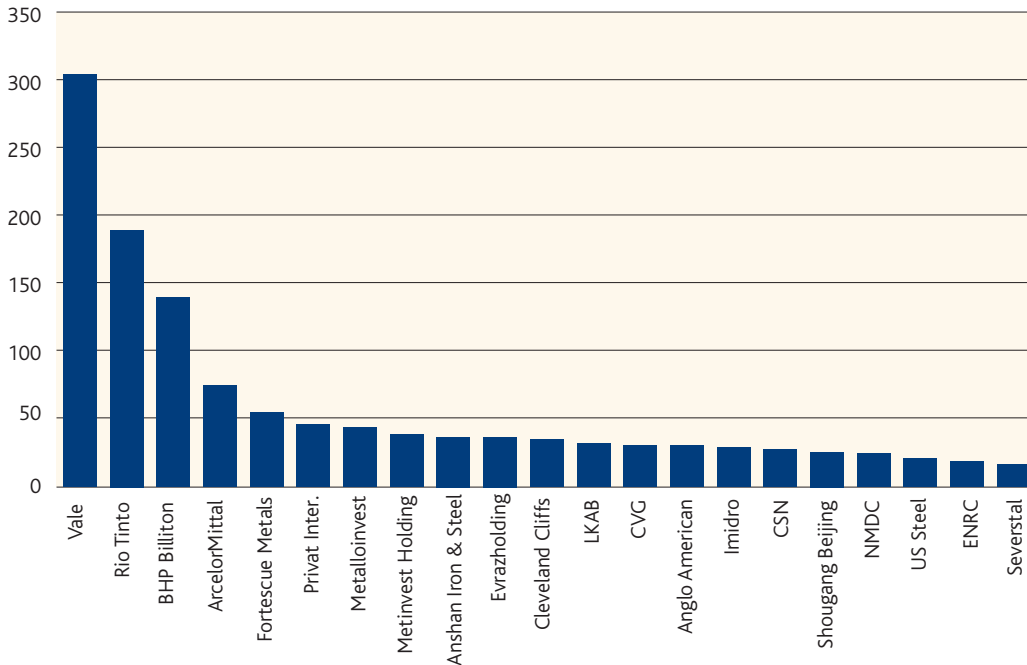
All performance are measured using total return except for those marked #.

Source: Bloomberg

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Focus – Vale remains the largest producer of iron ore assets

Iron ore production capacity in 2009 (million tons/year)



Source: James F. King, end April 2010
Some of the figures have been adjusted

Our holding Vale continues to maintain its lead in the intensifying global race to control new sources of iron ore. The Brazilian miner, already the world's largest producer of the commodity, just acquired a 51% stake in Beny Steinmetz Group Resources Guinea, which owns half of the license to Simandou, considered the richest underdeveloped deposit of iron ore. The company is expected to pursue further acquisitions across a range of commodities in the future. This is desirable given the expanding infrastructural needs of most emerging economies. Reflecting the strong demand for iron ore and Vale's position as a leading supplier in the sector, steelmakers recently agreed to price hikes of as much as 90% for the company's supply.

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During the month, we met with the following companies:

Brazil: Brasil Insurance, EVEN Construtora e Incorporadora, JBS, Saraiva, Souza Cruz, Usiminas, Redecard, Gol.

China: Beijing Enterprises Water Group, CapitaRetail China Trust, China Merchants Bank, China Resource Land, China Resources Cement, China Resources Gas Group, CNOOC, Longfor Properties, Xinao Gas Holdings, Yanlord, Zhaojin Mining Industry.

Czech Republic: Cez.

Hong Kong: Giordano, Sino Land, Swire Properties.

India: Anant Raj Industries, Cairn India, Gujarat Gas, Infosys Technologies.

Indonesia: Bank Mandiri, Bukit Asam, Perusahaan Gas Negara, Petra Foods, Tower Bersama.

Israel: Bank Hapoalim, Bank Leumi, Elbit Systems.

Kenya: BAT Kenya.

Mexico: Chedraui, Kimberly-Clark de Mexico.

Poland: Bank Zachodni.

Slovenia: Krka, Mercator, Petrol, Telekom Slovenije.

South Africa: Afrox.

Sri Lanka: Commercial Bank of Ceylon, DFCC Bank, Hemas Holdings, National Development Bank.

UAE: Dubai Financial Markets.

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