



INVESTING IN ASIA

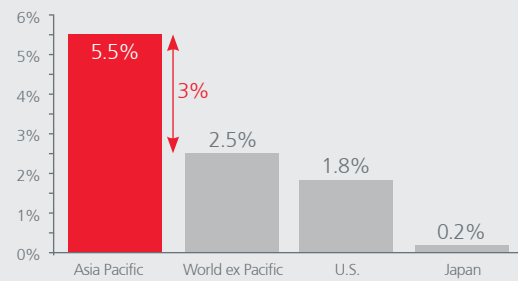
CAPITALISE ON THE POTENTIAL

INTRODUCTION

Over the next ten years, some of the best investment opportunities will be found in Asian equity markets. Asia's long-term structural growth story remains firmly in place driven by a growing middle income population, ongoing investment to support rapid urbanisation and continued productivity gains by globally competitive companies.

Asia not only has superior growth in absolute terms, but strong domestic savings which will provide the bulk of the funding, making it sustainable.

Fig.1. GDP growth estimates (%) 2012 - 2022



¹ Model-generated trend data (with globalisation).

Source: UBS Investment Research, February 2014.

ASIA WILL GROW 3%¹ FASTER THAN THE REST OF THE WORLD EACH YEAR FOR THE NEXT 10 YEARS.

THE OPPORTUNITY

Asian corporate sector is globally competitive and profitable

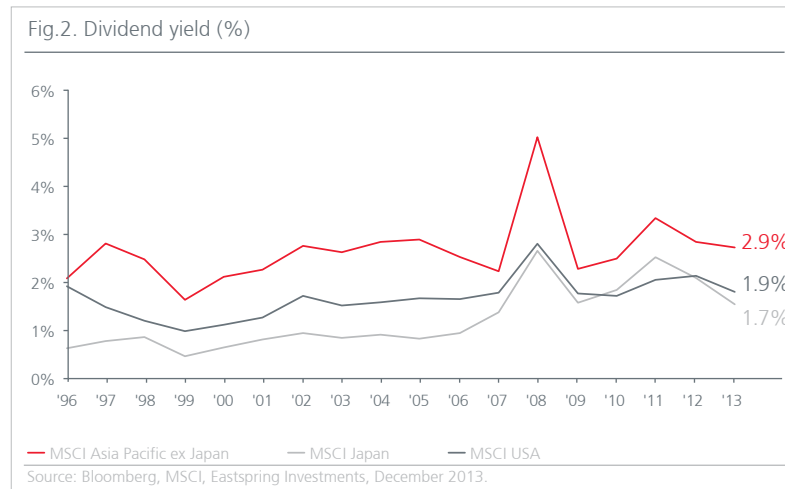
Asia has not forgotten 1998. The Asian financial crisis remains fresh in the minds of Asian corporates and it continues to shape the thinking of governments, the corporate sector and individuals.

Post 1998, the corporate sector has lowered gearing levels, raised competitiveness, increased scale, professionalised management and generally improved corporate governance. Companies that had previously hidden behind walls of import tariffs and made excess returns in protected markets learned to compete on the global stage. To their surprise they have found that with a change in strategic orientation, they can take on established giants in world markets. Many of them have gone on to build scale and brands that have become global names. Korea's Samsung and Hyundai, China's Lenovo, India's Infosys and Tata and, Singapore Airlines have all become very successful and competitive businesses from being relatively small players on the global stage a couple of decades ago. ➤

Capital expenditure has become highly disciplined. Pre-1998 it was quite common for companies to buy trophy assets such as golf courses or to invest in unrelated businesses – mainly real estate – often on borrowed money. Capital markets have no patience for this kind of behaviour. With the rising presence of institutional and professional investors on most company shareholder registers, the pressure on management to be disciplined is significant. As a corollary, debt levels

have reduced and dividend payouts have increased. Asian dividend yield is now higher than many markets around the globe. See Figure 2.

The improved capital discipline and disclosure have underpinned higher returns on capital than in the '90s. As they are likely to be more sustainable, it has kicked off a virtuous cycle of growth and reinvestment.



ASIAN DIVIDEND YIELD IS NOW HIGHER THAN MANY MARKETS IN THE WORLD.

Asia equities are under-represented in portfolios

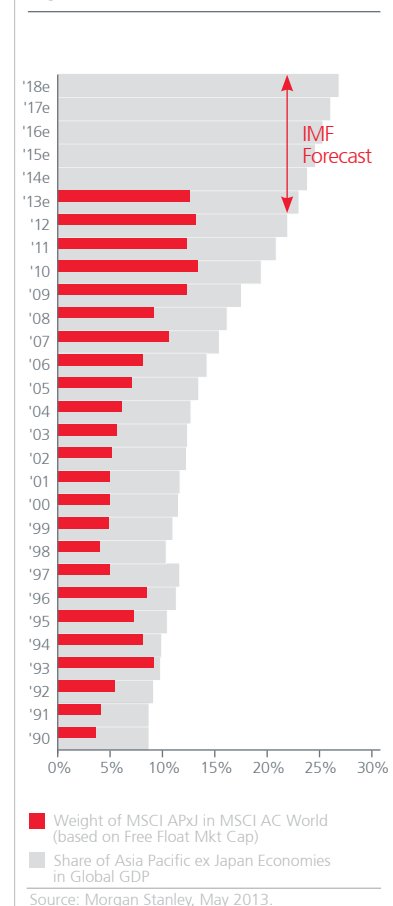
Asia has regained its share of the global economy over the last few decades. Although Asia's weight in the global investment basket has commensurately risen, it remains significantly below where it should be fundamentally, reflecting that most global investors have underinvested in Asia. Why?

- The vast majority of global savings are from developed markets and there is a marked tendency for a home country bias when it comes to investing.
- Many Asian markets have opened up to global investors only in the last 15 years.

Nevertheless the markets are deepening and widening every year. Already some of the largest initial global listings emanate from Asia. The share of companies in the global Fortune 500 continues to rise.

GLOBAL INVESTORS ARE UNDERINVESTED IN ASIA.

Fig.3. Global investment in Asia (%)



THE UNDERINVESTMENT IN ASIA WILL CORRECT VIA INCREASED ALLOCATIONS WHICH WILL BE SUPPORTIVE OF ASSET PRICES.

Starting valuation is very important

History indicates that a value approach to investing in Asia outperforms the market. While investment decisions should keep the macroeconomic picture in context, we believe that valuation must be the starting point for all investments.

The data in Figure 4 shows subsequent 1-, 3- and 5-year average returns on Asian equities, given different starting valuation points using the price to book multiple over the past 18 years. It confirms that buying cheap renders attractive returns.

Fig.4. Asia Pacific price to book – number of times (x)

STARTING VALUATIONS PRICE TO BOOK	% OF OBSERVATIONS	SUBSEQUENT AVERAGE RETURNS (%)		
		1 YEAR	3 YEARS	5 YEARS
Less than 1.5x	8	54	63	106
1.5x to 1.75x	28	14	38	98
1.75x to 2x	25	5	47	48
2x to 2.25x	25	(4)	(15)	0
2.25x to 2.5x	9	(4)	(15)	3
More than 2.5x	4	(25)	(14)	(13)

Source: MSCI AC Asia Pacific ex Japan, Bloomberg, Eastspring Investments, 1 January 1996 to 31 January 2014. Past performance is not necessarily indicative of the future or likely performance.

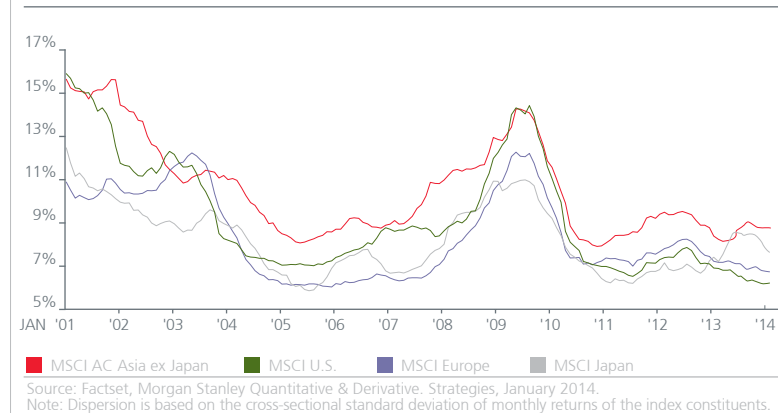
HISTORY INDICATES THAT A VALUE APPROACH TO INVESTING IN ASIA OUTPERFORMS THE MARKET.

The greatest potential to benefit from stock picking

One aspect of Asia that has not changed much over the last 20 years is its behaviour as an emerging market. Inefficiencies in the equity

markets make it a haven for active fund managers. Figure 5 shows Asia ex Japan offers much higher dispersion of stock returns.

Fig.5. Dispersion of stock returns (%)



ASIA EQUITY MARKETS OFFER THE GREATEST OPPORTUNITY FOR STOCK PICKERS SUCH AS EASTSPRING.

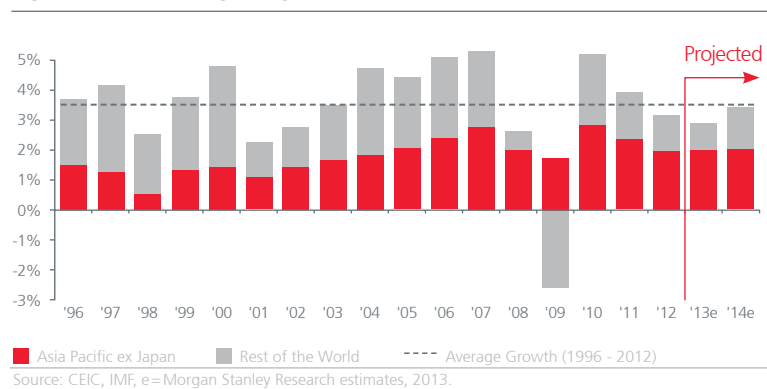
ASIA'S FUNDAMENTALS

Superior growth set to continue

Asia's rapid economic growth over the last 20 years can be credited to a combination of booming consumption, fixed asset investment and net exports. Increased industrialisation has spurred faster urbanisation which in turn has

created higher demand for goods and services. Asia's contribution to global growth has been steadily increasing over the past two decades and we expect this to continue.

Fig.6. Contribution to global growth (%)

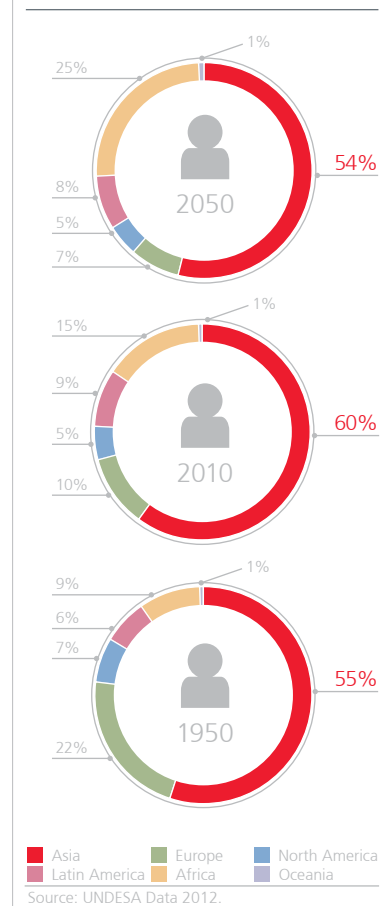


ASIA'S CONTRIBUTION TO GLOBAL GROWTH HAS BEEN STEADILY INCREASING OVER THE PAST TWO DECADES.

Healthy demographics

Asia's domestic consumption revolution has been driven by favourable demographics and rapid income growth. Asia makes up over half the world's population. Over the past decade, China and India alone have recorded more births than the entire United States. The young, fast growing populations in Asian countries are fuelling demand for goods and services ranging from basic food, clothing and housing to education, healthcare and tourism. China is already in the sweet spot in terms of its demographic dividend. It is likely to enjoy this for another 5-10 years. The much younger populations in India and Indonesia suggest their demographic dividend is just around the corner.

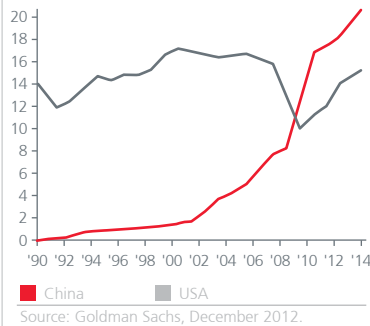
Fig.7. Global population (%)



ASIA IS POISED TO BENEFIT FROM ITS DEMOGRAPHIC DIVIDEND.

Rising income growth

Fig.8. Cars sold per year (millions)



CHINA IS NOW THE LARGEST AUTO MARKET IN THE WORLD.

Asia is now the biggest consumer market for many products. China has already overtaken the United States as the largest automobile market in the world. However, if one studies the penetration of automobiles against income levels, it is clear that there is a long way to go before the Asian automobile markets mature.

A DOMESTIC CONSUMPTION REVOLUTION

Fig.9. Mobile phone contracts (2013)

	millions
China	1100
India	865
U.S.	310
Indonesia	282
Russia	262
Brazil	248
Japan	138
Vietnam	134
Pakistan	120
Nigeria	113
Germany	108
Philippines	103

□ = 100m mobile phone contracts
Source: World Bank, 2013.

6 OF THE 12 LARGEST MOBILE PHONE MARKETS ARE NOW IN ASIA.

It is a similar story when you look at globally sold products such as home computers and mobile phones. Six of the twelve largest mobile phone markets are now in Asia. More than a third of home computers sold globally are sold in Asia. That share continues to grow rapidly.

Asia's consumer dominance has meant that global companies are increasingly focusing on their sales in Asia. They are setting up factories locally, hiring locally and even moving research and development centres close to these growth markets.

FOREIGN DIRECT INVESTMENTS WILL PROVIDE CONTINUED SUPPORT FOR INCOME GROWTH.

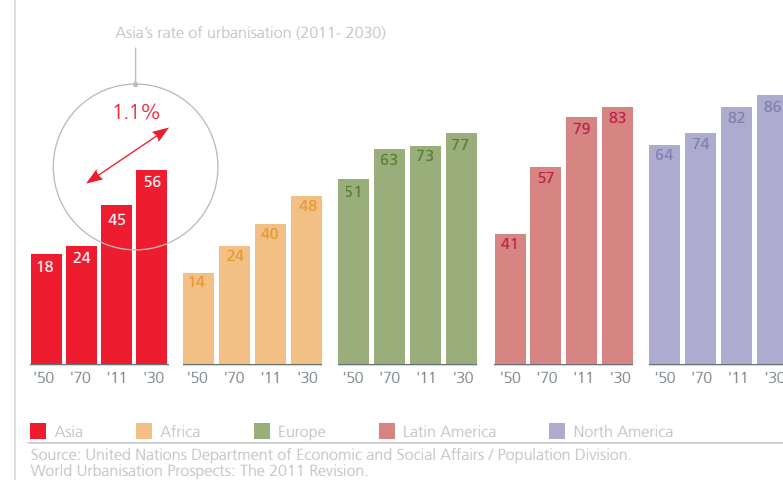
Ongoing investment in urbanisation

Asia has been urbanising at the fastest rate globally for the past 40 years and will continue to do so for the next 20 years. China for instance has moved tens of millions of rural citizens to the cities over the past 20 years. It has proactively built the infrastructure needed to make this transition successful.

ASIA IS STILL RELATIVELY RURAL.

One could argue that there has been a degree of overbuilding in the short term, but if we look further out, the amount of investment per capita in China still lags developed markets significantly. China has now become the factory of the world with efficient infrastructure that allows products manufactured in China to move quickly from factory to port for export.

Fig.10. Urban population 1950 - 2030 (%)



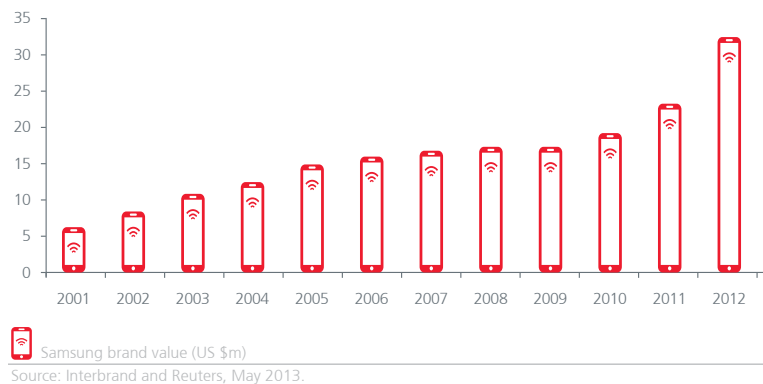
THIS TREND IS PAN ASIAN AND IMPLIES SUSTAINED INVESTMENT ACROSS THE REGION FOR YEARS TO COME.

Corporate productivity on the rise

Increasing productivity will play a bigger role in sustaining economic growth in the future. Thanks to a significant emphasis on education in Asian societies, there has been a continuous qualitative improvement in the workforce and workplace processes. This has triggered ongoing productivity improvements. Fortunately, we have barely begun to scratch the surface. There are still significant gains to be realised from raising productivity levels.

Asia's corporate sector is also increasing its spend on research and development (R&D) as well as on building global brands. India's pharmaceutical companies routinely spend 4-6% of their annual sales on R&D, a level significantly higher than a decade ago. Samsung Electronics, which outsells Apple in smartphones, routinely shows up as one of the most valuable global consumer brands.

Fig.11. Samsung brand value US \$million per calendar year



THERE ARE STILL SIGNIFICANT GAINS TO BE HAD FROM RAISING PRODUCTIVITY LEVELS.

CONCLUSION

While Asia's opportunity is vast, her corporate cultures are extremely complex and diverse.

Successfully navigating Asian markets requires expertise and local knowledge.

Eastspring Investments' value-oriented, fundamental research approach to investing in Asia strives to capture these investment opportunities. We identify valuation outliers and then conduct deep and forensic research on the companies. We feel it is critical to understand the eco-system within which a company, its competitors, suppliers and customers operate. The potential opportunity for our clients is very attractive and therefore justifies our approach.

WE ARE CONFIDENT OUR APPROACH WILL CAPITALISE ON THE POTENTIAL OF INVESTING IN ASIA.

Index Description

The indices provided in this presentation represent the investment environment existing during the time periods shown. The information provided is for comparison purposes only to reflect general market conditions.

The **MSCI AC Asia Pacific ex Japan Index** is a free float weighted equity index that is designed to measure the equity market performance of Asia Pacific, excluding Japan. The **MSCI AC Asia Pacific ex Japan Index** captures large and mid cap representation across 4 of 5 Developed Markets countries* (excluding Japan) and 8 Emerging Markets countries* in the Asia Pacific.

The **MSCI AC Asia ex Japan Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The **MSCI AC Asia ex Japan Index** consists of the following 10 developed and emerging market country indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand

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*Developed Markets countries in the index include: Australia, Hong Kong, New Zealand and Singapore. Emerging Markets countries include: China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand.

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