

The Case for Emerging Markets: Issues and Opportunities

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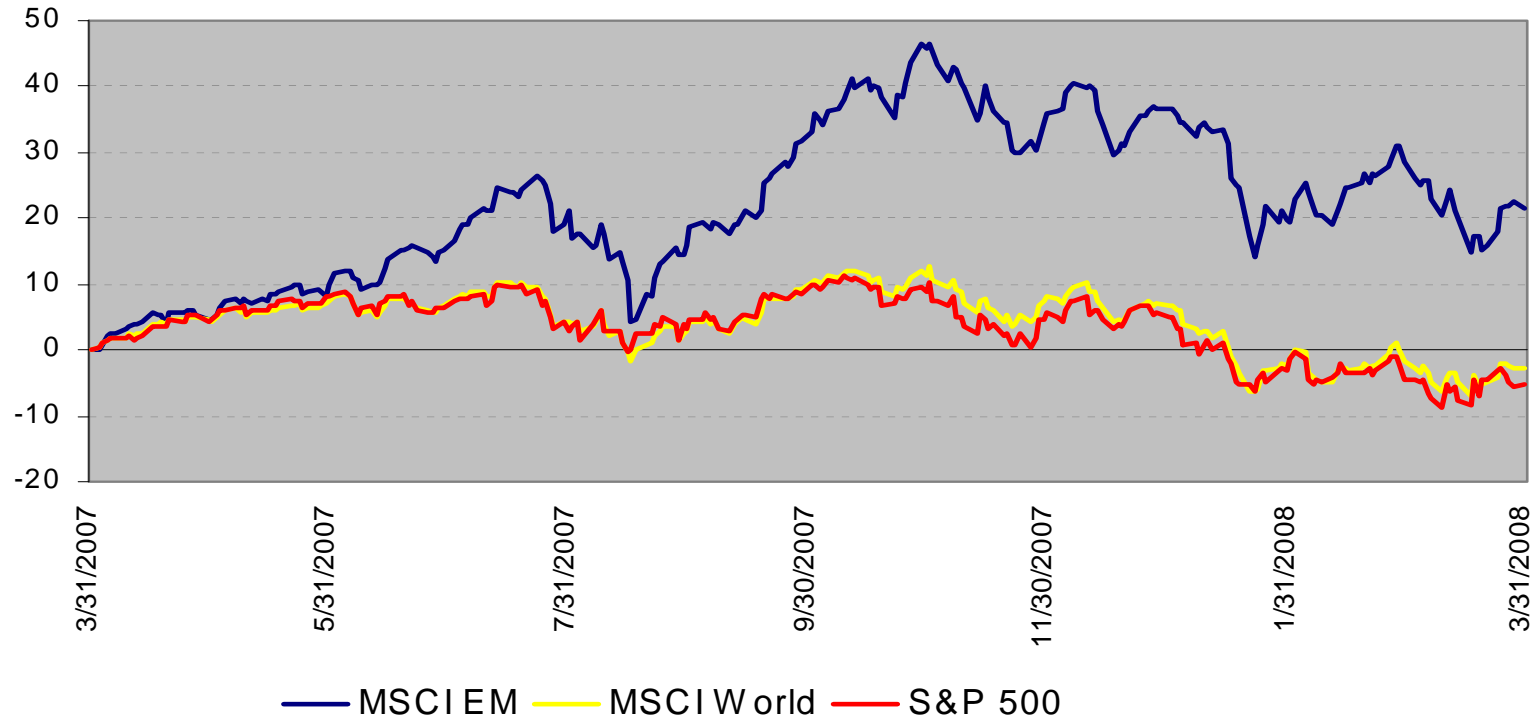
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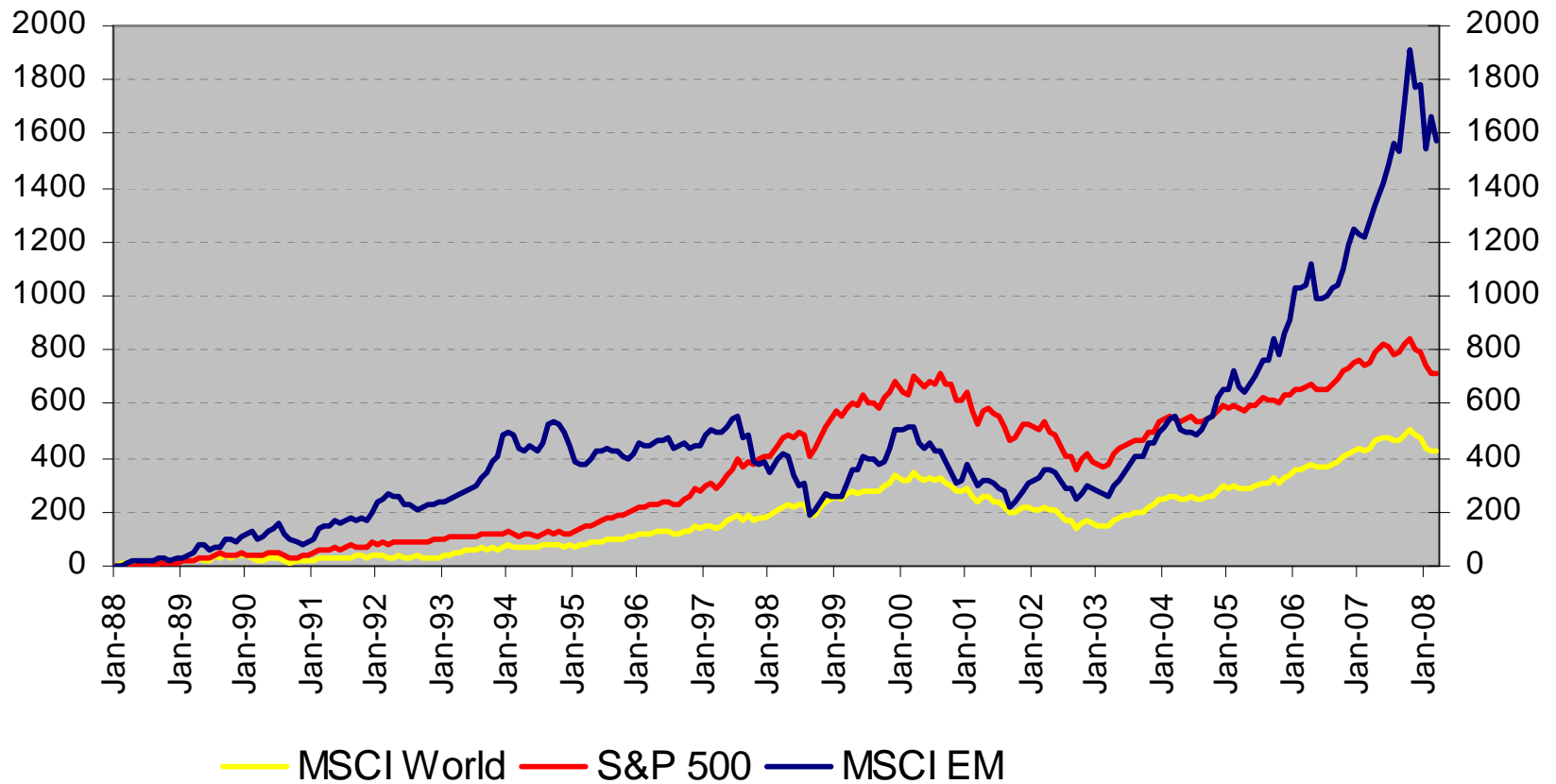
Agenda

- 🌐 **What is the strategic case for investment in emerging markets?**
- 🌐 **Where do they fit within pension funds?**
- 🌐 **What is the best way to gain exposure?**

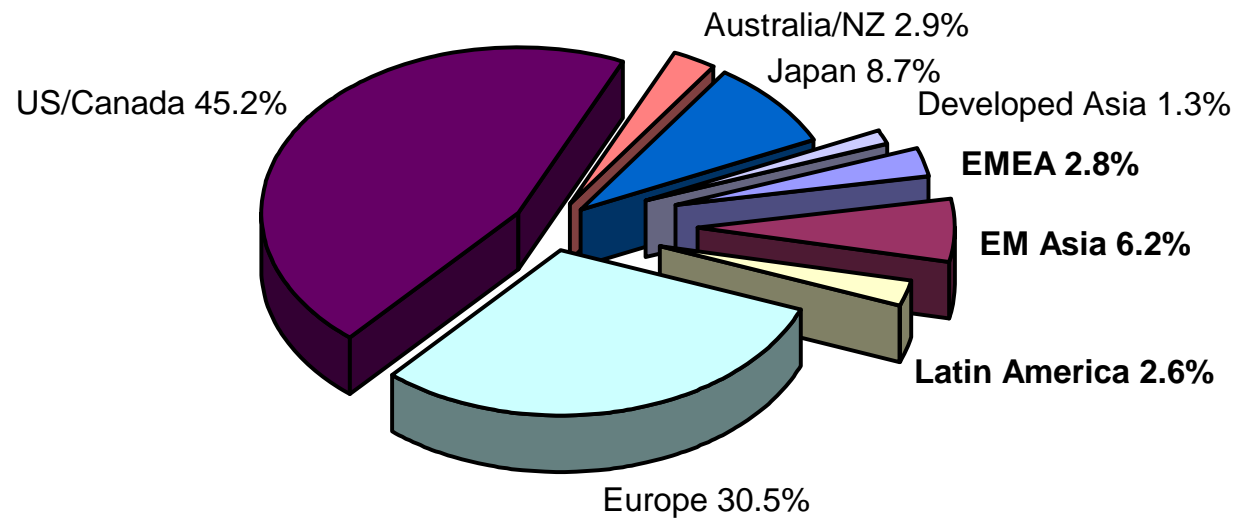
Emerging Market Performance Over 1 Year (US\$)



Emerging Market Performance Over 20 Years (US\$)

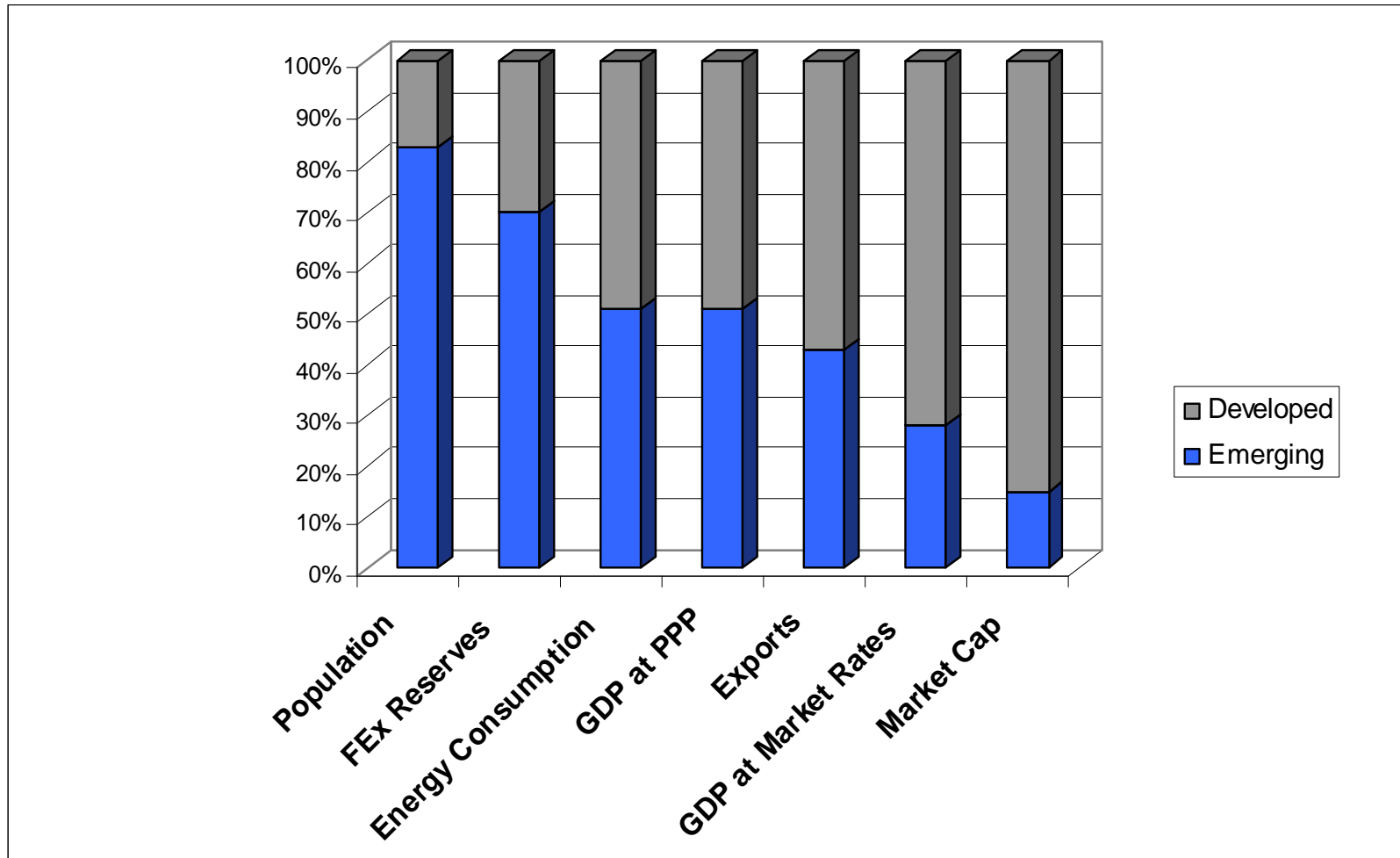


Do Emerging Markets Matter?



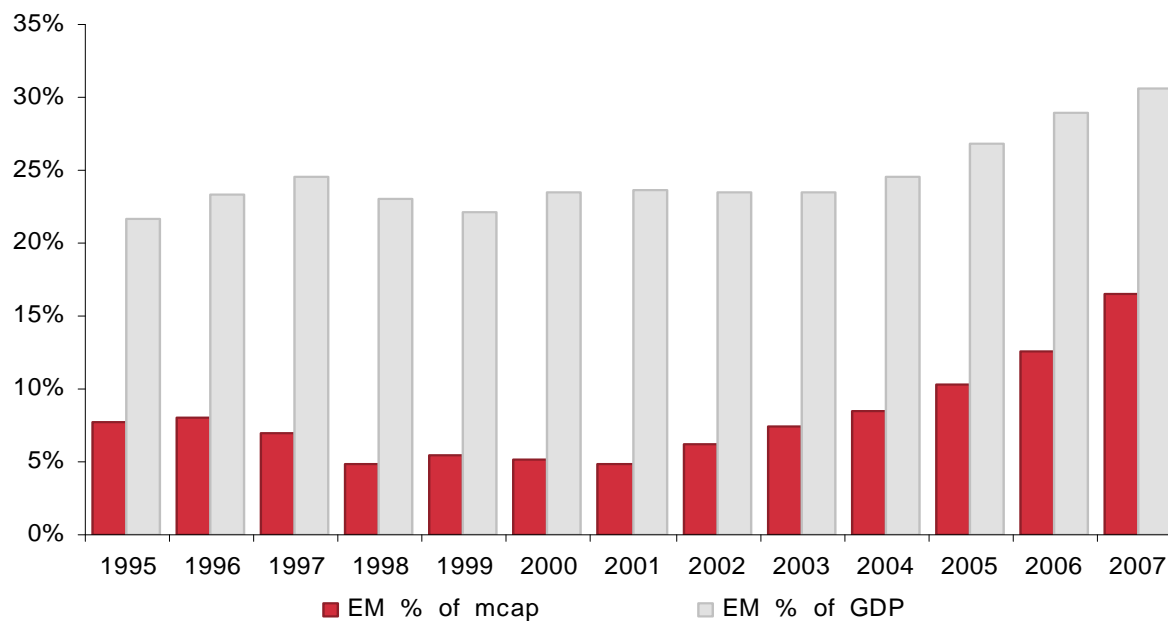
Source: MSCI Red Book as of March 2008

Why Do Emerging Markets Matter?



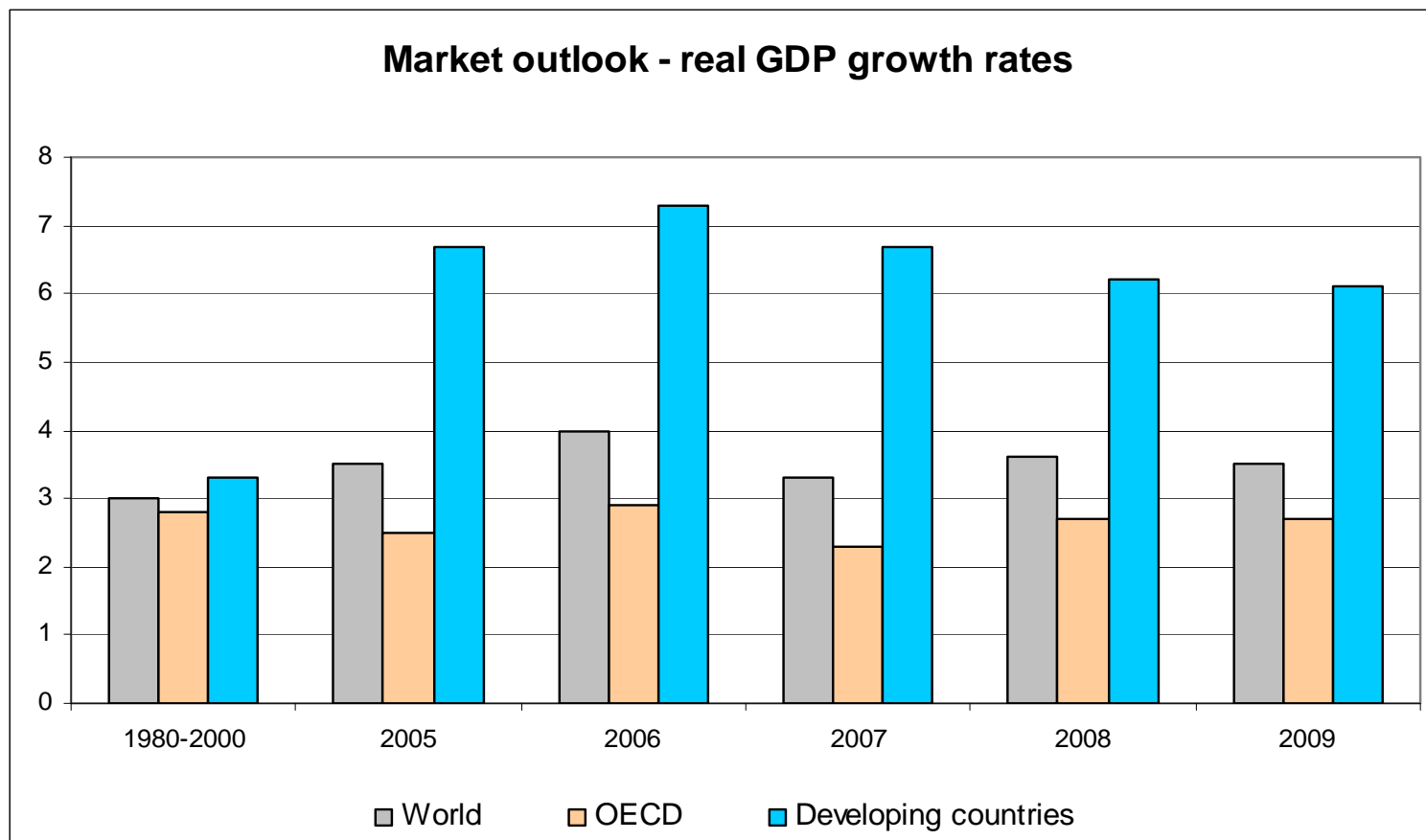
Source: The Economist, IMF, Morgan Stanley Capital International, BP. October 2006.

Emerging Market Equity Capitalisation & GDP (% of Global)



Source: IMF, datastream

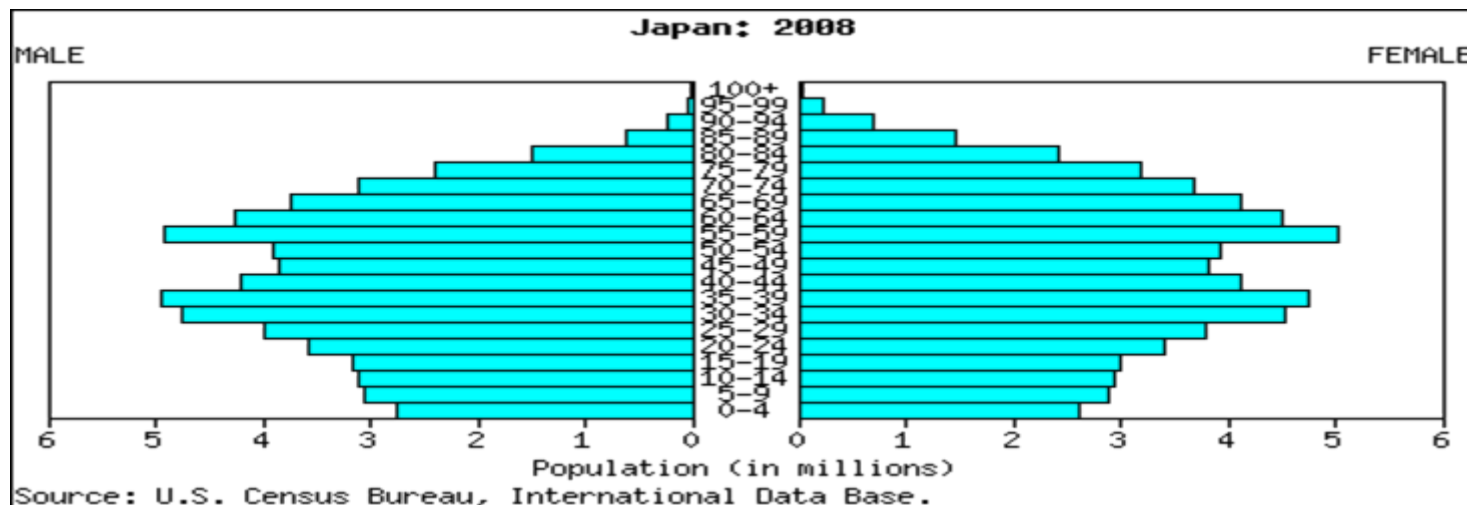
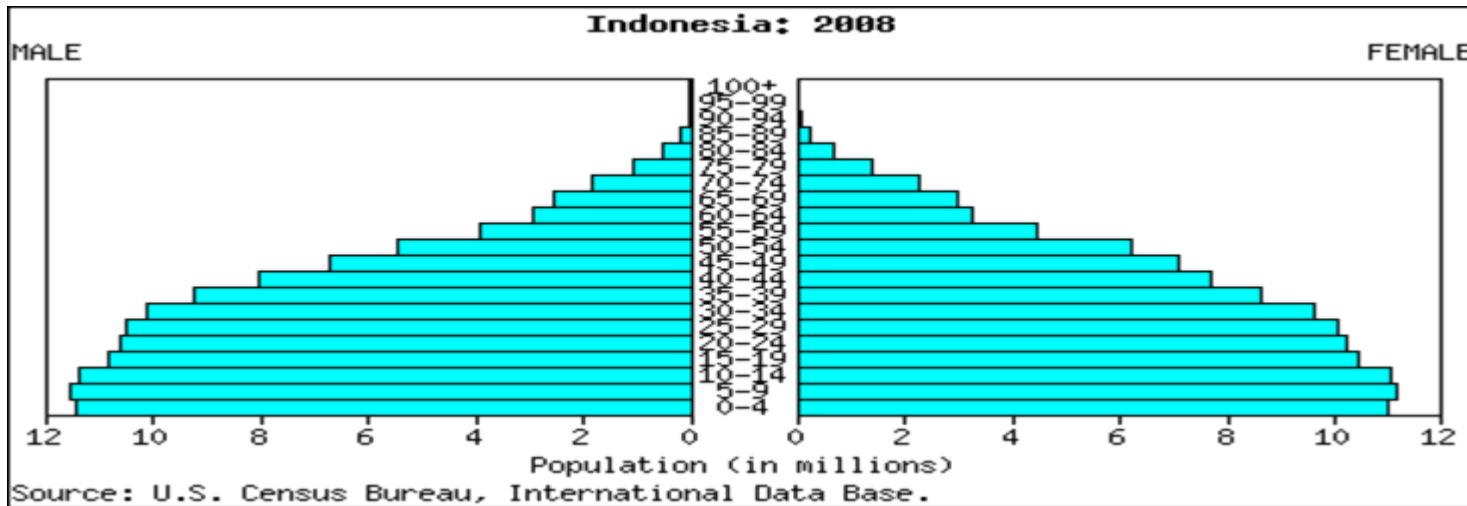
The Case for Investing in Emerging Markets: Growth



Source: *Global Development Finance*, World bank 2007

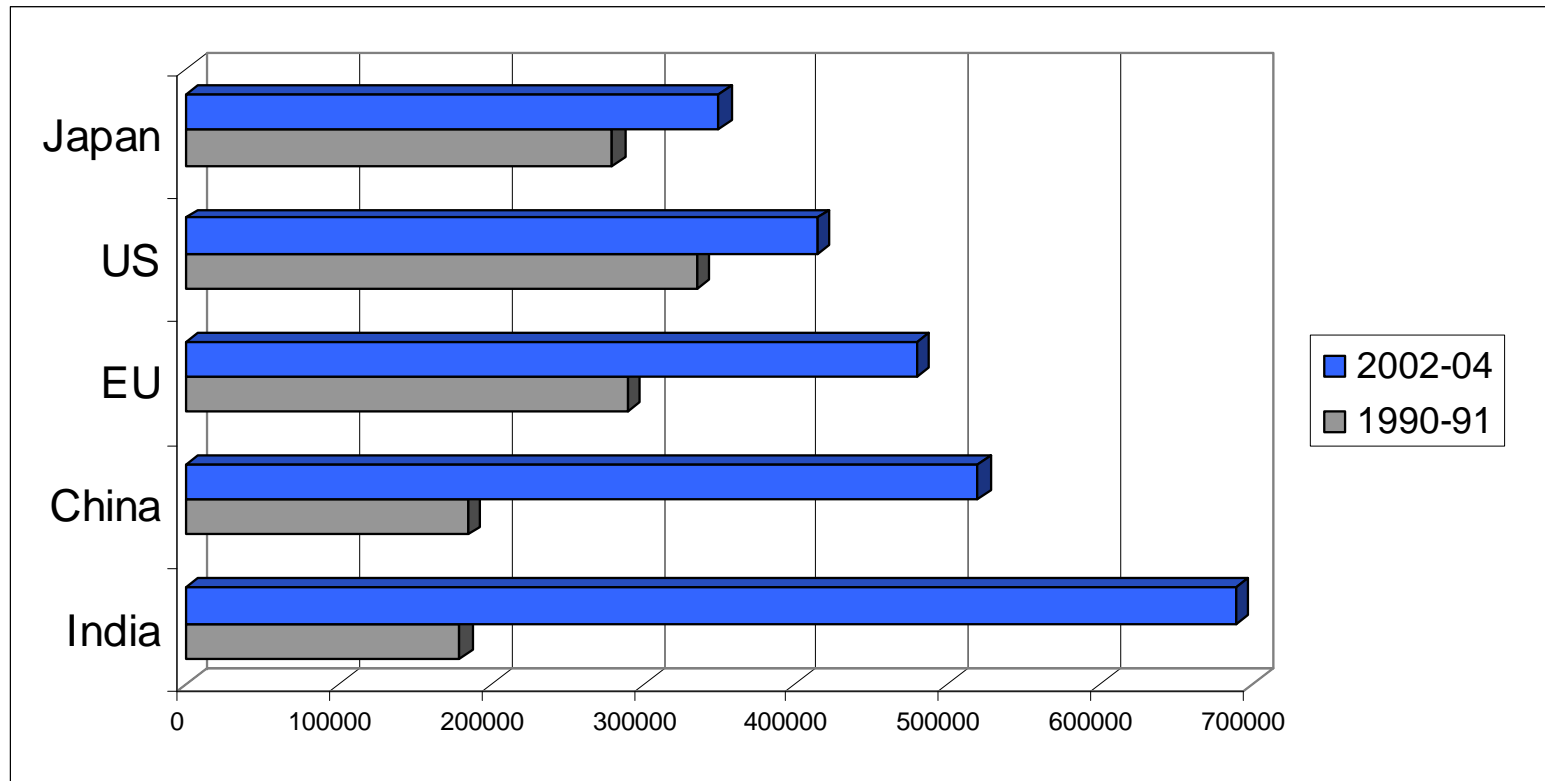
Strong growth set to continue

Growth: Demographics



Growth: Rising Skill Levels

University Graduates in Engineering & Science



Source: Eurostat 2003 and JP Morgan – June 05

No longer just manufacturing

The Strategic Case for Investing in GEM

- **The strategic case for emerging markets**
 - **Share of global GDP is not reflected in current market cap.**
 - **Faster economic growth- two to four times faster than G7**
 - **Demographics are advantageous**
 - **Greater scope for productivity gains**
 - **Increasingly skilled workforces**
 - **Stronger equity returns**

Compelling reasons to invest

Emerging Markets Within The Portfolio

Correlations with Major Equity Markets

5 years correlation	MSCI EM	MSCI World	S&P500	TOPIX	FTSE 100
MSCI EM	1				
MSCI World	0.83	1			
S&P500	0.72	0.95	1		
TOPIX	0.52	0.47	0.31	1	
FTSE 100	0.73	0.88	0.77	0.31	1

15 years correlation	MSCI EM	MSCI World	S&P500	TOPIX	FTSE 100
MSCI EM	1				
MSCI World	0.73	1			
S&P500	0.66	0.92	1		
TOPIX	0.41	0.59	0.36	1	
FTSE 100	0.61	0.84	0.73	0.38	1

Source: Datastream, Nomura. Monthly data as of 31/01/2008

Emerging Markets Within The Portfolio

Higher absolute and risk-adjusted returns

Look-back period	3 years			5 years		
	Returns	Standard deviation	Return per unit of risk	Returns	Standard deviation	Return per unit of risk
MSCI World	8.7	9.5	0.9	13.8	9.9	1.4
S&P 500	5.3	8.6	0.6	10.0	9.1	1.1
MSCI EM	26.2	20.0	1.3	30.2	18.3	1.7

Source: Datastream, Nomura. Monthly data as of 31/01/2008

Note: annualised return and standard deviation data

Where Do Emerging Markets Fit Within Portfolios?

- **Investor appetite for Emerging Markets remains unfulfilled**
- **Analysis of market correlations suggests significant diversification benefits**
- **Return per unit of risk for Emerging Markets is higher than for developed**
- **Valuations are still attractive**

Emerging Markets– The Challenge

- **3 Regions (Asia 52%, EMEA 26%, Latin America 22%)**
- **27 Countries (MSCI)**
- **27 Currencies**
- **79 Languages**
- **839 Stocks in the benchmark (MSCI)**
- **How to outperform?**

Source: Morgan Stanley Capital International (April 2008)

Researching a Belief

A combination of regional specialists in Asia, Latin America and EMEA might offer a number of advantages over a single manager approach:

- 🌐 A better understanding of their regions
- 🌐 Enhanced country allocation decisions
- 🌐 More in depth stock research and a wider universe

In essence:

- 🌐 Better information should produce better decisions
- 🌐 Better decisions should produce more alpha for investors

Did our belief stand independent analysis

OLIVER WYMAN

NOMURA

Financial Services

22 February 2008

Emerging markets product analysis
Year end 2007 update

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LON-NMK00611-003

OLIVER WYMAN- RESEARCH OBJECTIVES

- **Oliver Wyman carried out independent research on behalf of Nomura**
- **Aim was to ascertain if historically regional EM managers have performed on average better or worse than global EM managers**
 - **Regional players may have more specialist knowledge**
 - **Global players have the opportunity to take tactical asset allocation decisions between the regions**
- **Also to discover whether the regional approach is more risky**

“Cleansed” data from Bloomberg has been reviewed and updated to a sample size of 406 funds

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Download all EM funds from Bloomberg		Filter out ineligible funds		Further cleansing of initial dataset	
Geographic focus	No. of funds	Geographic focus	No. of funds	Geographic focus	No. of funds
Global	600	Global	341	Global	188
Asia Pacific	166	Asia Pacific	147	Asia Pacific	111
Latin America	63	Latin America	48	Latin America	35
Emerging Europe	115	Emerging Europe	92	Emerging Europe	63
South Africa	12	South Africa	8	South Africa	6
Argentina	1				
Brazil	7				
Czech Rep	4				
Greece	1				
India	1				
Middle East Region	2				
Philippines	1				
Russia	21				
Sri Lanka	1				
Thailand	2				
Turkey	1				
Ukraine	2				
Geography not available	2				
Total	1,002	Total	636	Total	403

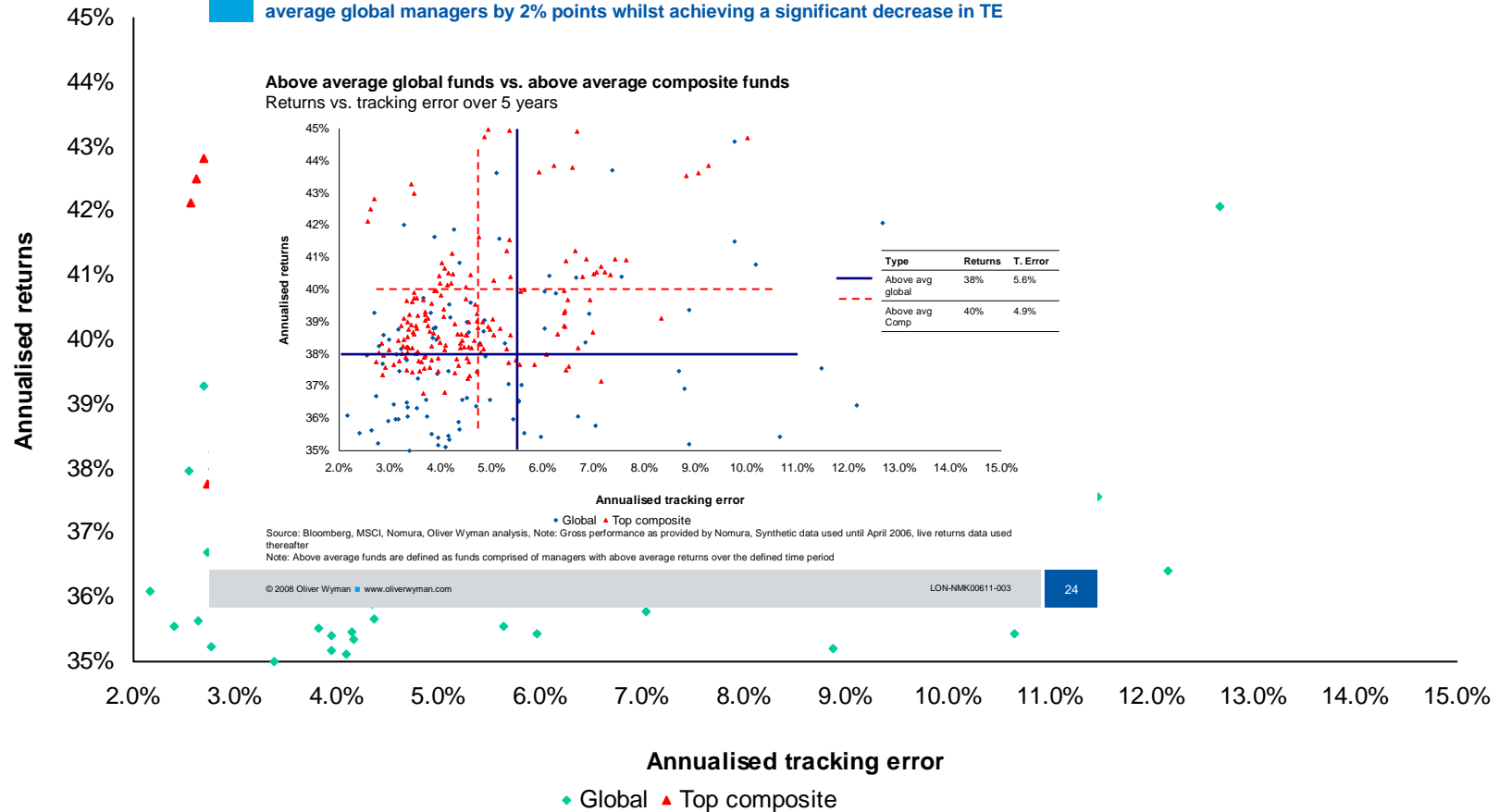
- Filtering process details
 - 314 non-equity focused funds
 - 44 single country focus
 - 6 funds with <3 year track record
 - 2 geographic data unavailable
- Total number of funds excluded: 366

- 151 duplicated funds
 - These funds are duplicated due to the listing of multiple share classes for each fund
 - They were removed to prevent double counting
- 16 China focused funds (categorised by Bloomberg as Asia Pacific)
- 5 Funds with sectoral/specific investment focus
- 12 funds with AuM <\$5 MM
- 2 funds which switched geographic focus during the period of analysis
- 1 fixed income fund incorrectly categorised by Bloomberg
- 3 funds with regional concentration incorrectly categorised as 'Global' funds
- 31 fund of funds, 1 Hedge fund
- 3 Funds with no AuM data
- 8 Funds with missing no returns data for 2007

Source: Bloomberg. Oliver Wyman analysis

Better Average Returns with Lower Risk

A composite fund consisting of above average regional managers outperforms above average global managers by 2% points whilst achieving a significant decrease in TE



Global Emerging Markets – Summary

- **An attractive asset class...**
- **But a challenging mandate**
- **Oliver Wyman research shows that a combination of top regional specialists significantly outperforms the average global emerging markets manager whilst reducing risk**
- **Something we believe in**

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Oliver Wyman Research Disclosure

A copy of the Mercer Oliver Wyman research is available on request.

Nomura Asset Management U.K. Limited has compensated Oliver Wyman Limited to analyse Nomura Asset Management's Global Emerging Market's strategy and to prepare this document. Oliver Wyman has prepared a longer version of the document which contains more detailed information on the analysis, including further information regarding comparative performance.

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