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# Asian Equities Market Outlook and Investment Strategy

## Asia Regional Conference 2015

October 2015

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# Baring Asia Growth Fund
## Investment managers

### Baring Eastern Trust and Asia Growth Fund

| Peer Group Ranking[1] | |
|---|---|
| 1 Year | 3 Year |
| 1st Q | 2nd Q |



### Baring Korea Trust

| Peer group ranking[2] | |
|---|---|
| 1 Year | 3 Year |
| 1st Q | 1st Q |

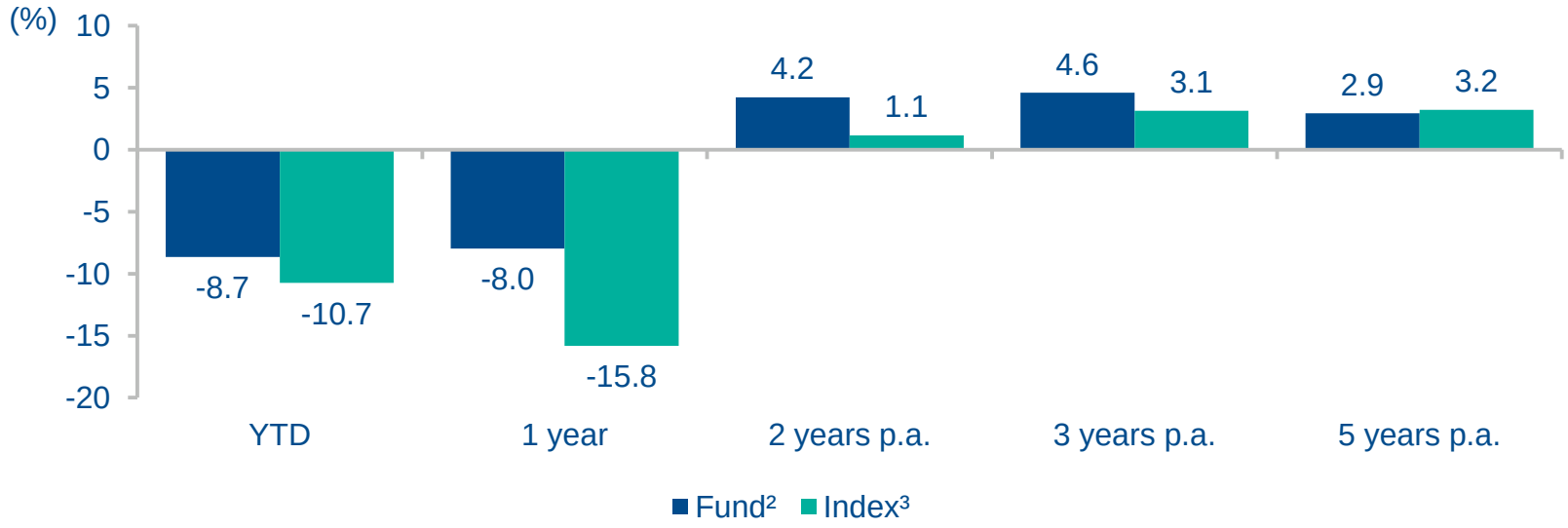


### Baring ASEAN Frontiers Fund

| Peer group ranking[3] | |
|---|---|
| 1 Year | 3 Year |
| 1st Q | 1st Q |

[1] Quartile ranking is based on Morningstar Asia ex Japan Equity Universe. Source: © 2015 Morningstar, Inc. (See Important Information)
[2] Quartile ranking is based on Morningstar Korea Equity Universe. Source: © 2015 Morningstar, Inc. (See Important Information)
[3] Quartile ranking is customised and based on Morningstar's Offshore and International Funds Universe of ASEAN Equity. Source: © 2015 Morningstar, Inc. (See Important Information)
Date: 31 August 2015

# Baring Asia Growth Fund
## Performance as at 31 August 2015




| Quartile | 2nd | 1st | 2nd | 2nd | 2nd |
|---|---|---|---|---|---|

**Past performance is not a guide to future performance**

[1] Quartile ranking is based on Morningstar Asia ex Japan Equity Universe. Source: © 2015 Morningstar, Inc. (See Important Information)
[2] Fund performance are NAV to NAV, net of fees, gross income, US$. Source: © 2015 Morningstar, Inc. (See Important Information)
[3] MSCI Asia ex Japan Total, Gross Return until 01/08/10 then MSCI AC Asia ex Japan Total, Gross Return. Reference to the index is for comparative purposes only.

# Baring Asia Growth Fund
## Portfolio characteristics

### Portfolio characteristics

| | Fund (%) | MSCI Asia ex Japan Index (%) |
|---|---|---|
| Forward P/E | 20.6x | 12.2x |
| Price/ Book | 3.7x | 1.4x |
| Dividend yield | 1.1% | 2.9% |
| ROE | 23.2% | 17.2% |
| EPS growth (12 month forward) | 26.0% | 11.7% |

### Risk summary

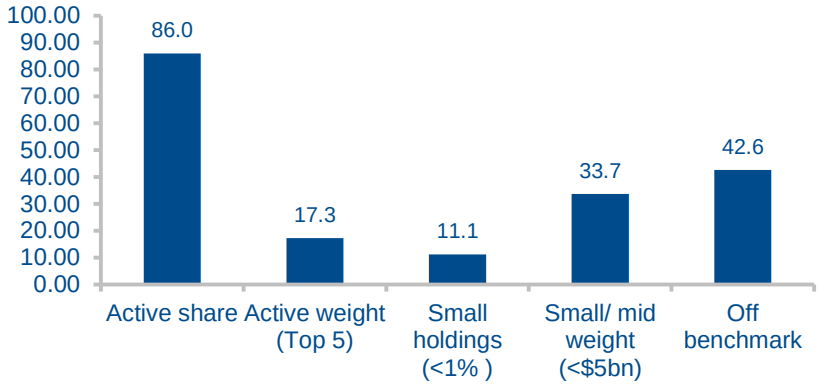
| | |
|---|---|
| Tracking error versus benchmark index | 6.8% |
| Beta versus benchmark index | 0.96 |
| Number of stocks | 46 |
| Number of Asia BIL stocks | 24 |

As at 31 August 2015
Source : MSCI, Style Research, Barings.

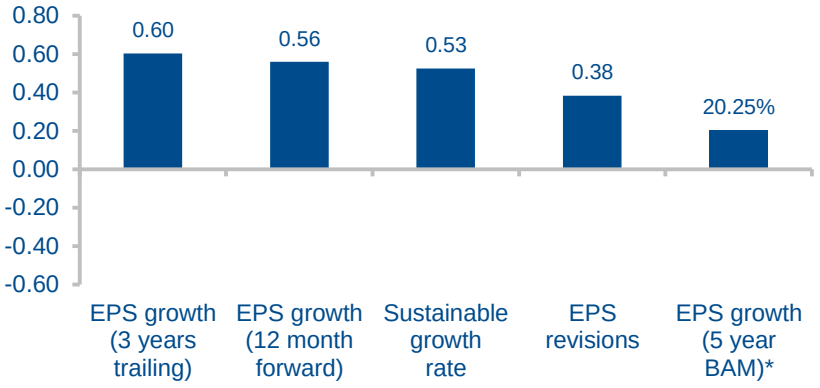
# Systematic analysis of the portfolio

## Baring Asia Growth Fund portfolio scorecard

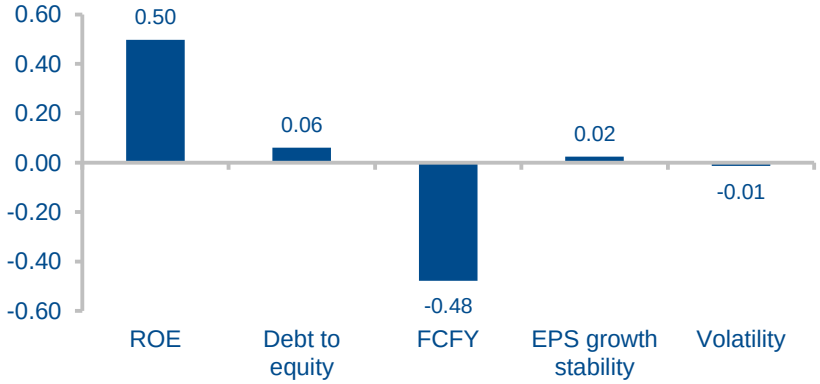
### Conviction



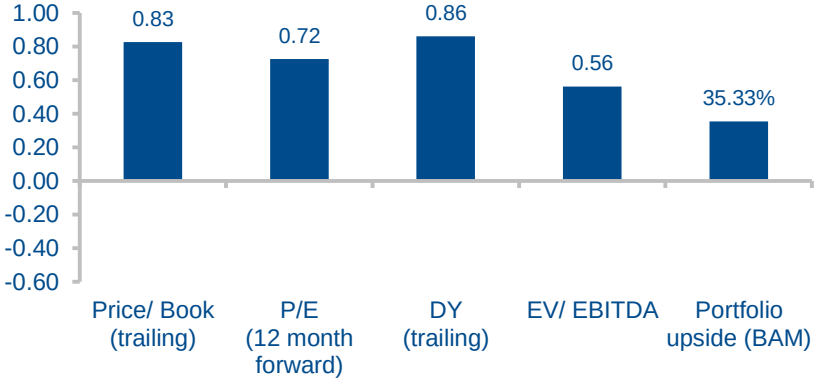

### Growth




### Quality




### Upside/ valuation




**Systematic quantitative tools in building portfolios in line with objectives**

Source: Barings, as at 31 August 2015.
*EPS Growth (5 year BAM) and Upside are computed for the portfolio only.

# Baring Asia Growth Fund
## Performance contributors and holdings

| Top contributors to performance (12M) | Sector |
|---|---|
| Baring China A-Share Fund plc | [Funds] |
| Haitong Securities | Financials |
| Medy-Tox | Healthcare |
| LARGAN Precision | IT |
| Maruti Suzuki India | Consumer discretionary |
| CSPC Pharmaceutical | Health Care |
| Baring India Fund | [Funds] |
| Eclat Textile | Consumer discretionary |
| CP ALL | Consumer staples |
| SM Prime | Financials |

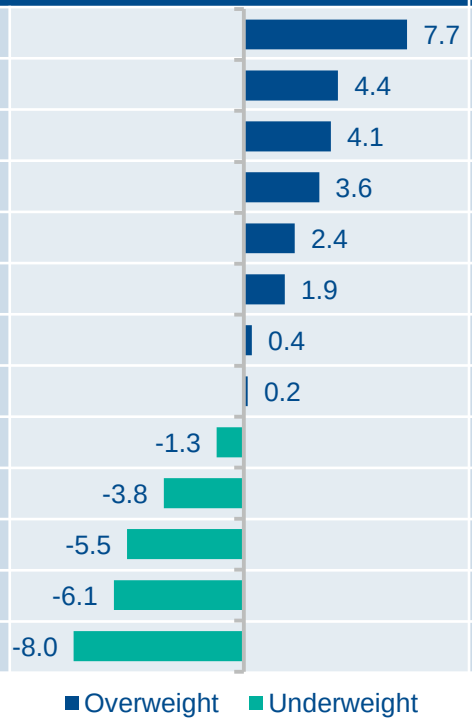
| Top 10 holdings | Sector | % |
|---|---|---|
| AIA Group | Financials | 6.2 |
| Tencent Holdings | IT | 5.9 |
| Baring India Fund | [Funds] | 4.5 |
| Baring China A-Share Fund plc | [Funds] | 4.2 |
| CSPC Pharmaceutical | Healthcare | 3.6 |
| China State Construction | Industrials | 3.5 |
| Largan Precision | IT | 3.4 |
| Eclat Textile | Consumer discretionary | 3.4 |
| Airports of Thailand | Industrials | 3.3 |
| Huaneng Renewables | Utilities | 3.3 |
| **Top 10 holdings weighting** | | **41.4** |

Source: Barings, as at 31 August 2015. Holdings are subject to change.

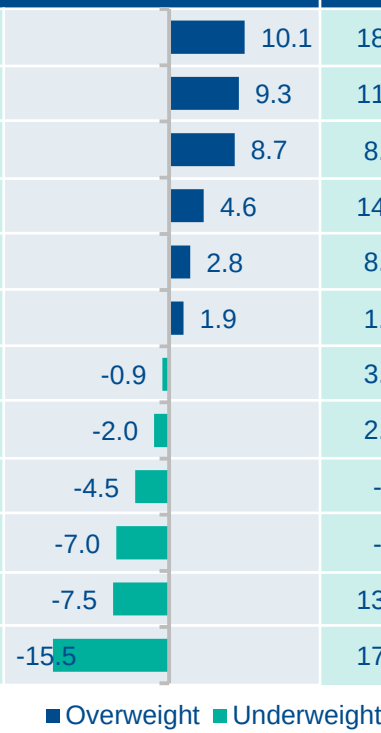
# Baring Asia Growth Fund
## Asset and sector allocations

### Country and sector allocations are a result of bottom up stock selection

| Country positions | Weight (%) Fund | MSCI Asia ex Japan Index |
|---|---|---|
| India | 17.7 | 10.0 |
| Philippines | 6.2 | 1.8 |
| Indonesia | 7.0 | 2.9 |
| Thailand | 6.3 | 2.8 |
| US | 2.4 | -- |
| Cash | 1.9 | -- |
| Vietnam | 0.4 | -- |
| China | 28.0 | 27.8 |
| Taiwan | 13.7 | 15.0 |
| Malaysia | -- | 3.8 |
| Singapore | -- | 5.5 |
| Hong Kong | 6.7 | 12.8 |
| Korea | 9.6 | 17.6 |




| Sector positions | Weight (%) Fund | MSCI Asia ex Japan Index |
|---|---|---|
| Consumer discretionary | 18.1 | 8.1 |
| Healthcare | 11.8 | 2.5 |
| Unit trusts/ funds | 8.7 | -- |
| Industrials | 14.0 | 9.3 |
| Consumer staples | 8.5 | 5.7 |
| Cash | 1.9 | -- |
| Utilities | 3.3 | 4.2 |
| Materials | 2.5 | 4.5 |
| Energy | -- | 4.5 |
| Telecom. services | -- | 7.0 |
| IT | 13.2 | 20.7 |
| Financials | 17.9 | 33.4 |




As at 31 August 2015
Source: Baring Asset Management

# Baring Asia Growth Fund
## Key holdings and themes

### What We Like

Technology
- Key technology subsectors on the next wave of growth
- Productivity gains/ industrial automation

Asian consumption
- Travel and leisure
- Cosmetics
- Global brand footprint/ the rise of the Asian brand
- Healthcare

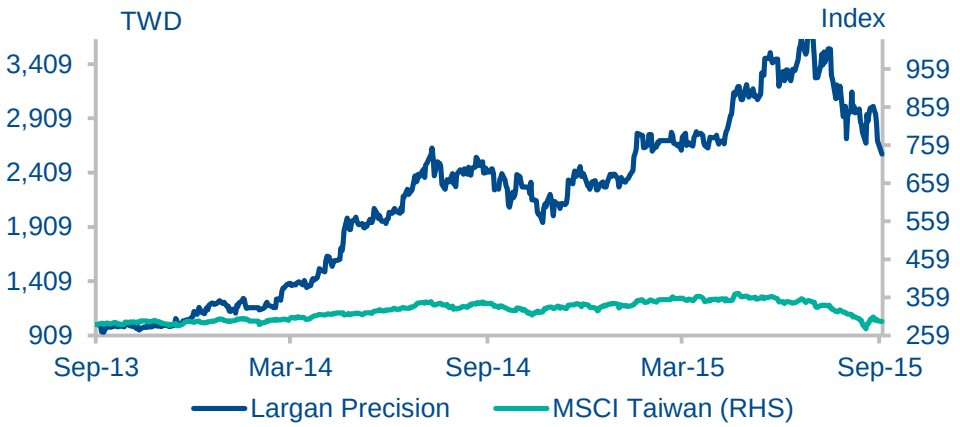
Reform and structural growth
- Rise of functional sportswear
- Infrastructure – investments set to rise
- Financial and SOE reforms
- Environment and clean energy

# Stock example
## Largan Precision

### Company scorecard

| Company name | Largan Precision | |
|---|---|---|
| **Quality** | Franchise | 2.0 |
| | Management | 1.0 |
| | Balance sheet | 1.0 |
| | **Overall** | **1.3** |
| **Growth** | Last three years | 1.0 |
| | Next 12 months | 2.0 |
| | CAGR next five years | 2.0 |
| | **Overall** | **1.7** |
| **Upside** | Market measure | 5.0 |
| | Static measure | 1.0 |
| | Discounted earnings | 1.0 |
| | **Overall** | **2.3** |
| **Stock score** | | **1.8** |

### Price performance



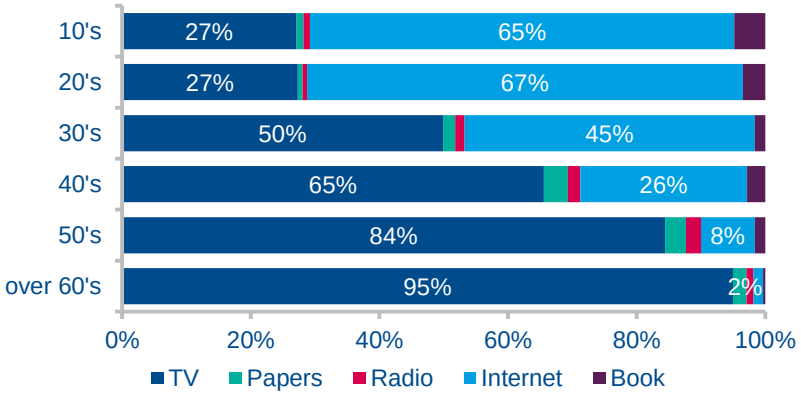

- Global leader (technology and scale) in camera lens/ module. Direct beneficiary of smartphone ubiquity and higher spec migration
- Excellent growth execution with “moat” franchise
- Sustainable long-term growth not fully reflected in current valuation

Source: Factset, Barings, September 2015

# Next wave of growth

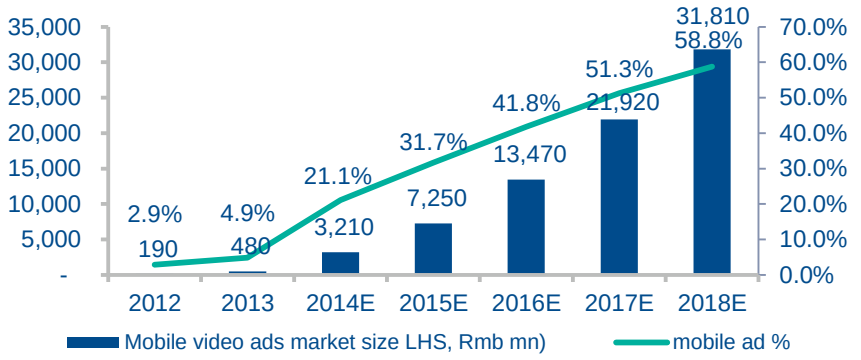
## Mobile internet changing consumer behaviour

### Korea: most important media - by age

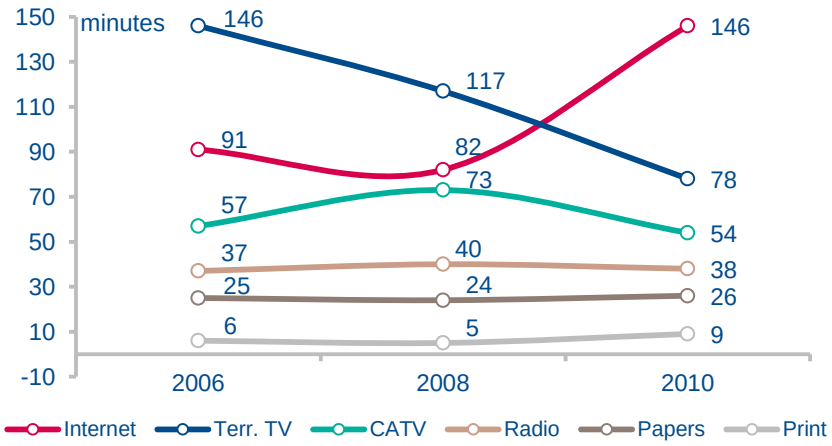



Source: Korea Information Society Development Institute, Macquarie, May 2012

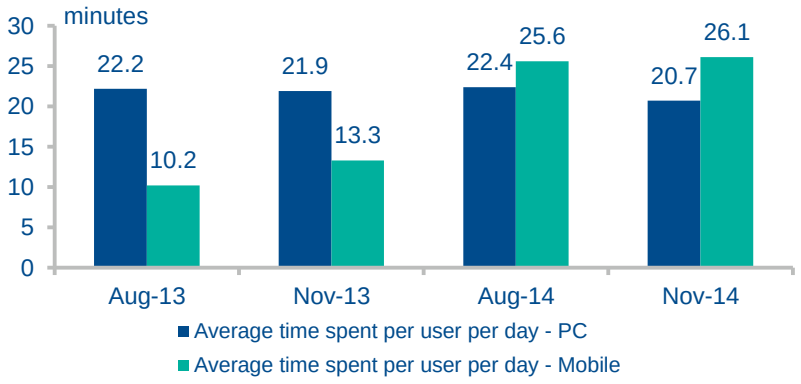
### China mobile video ads market




### Korea daily average access time – by platform




### China: mobile drives incremental time spent on online video

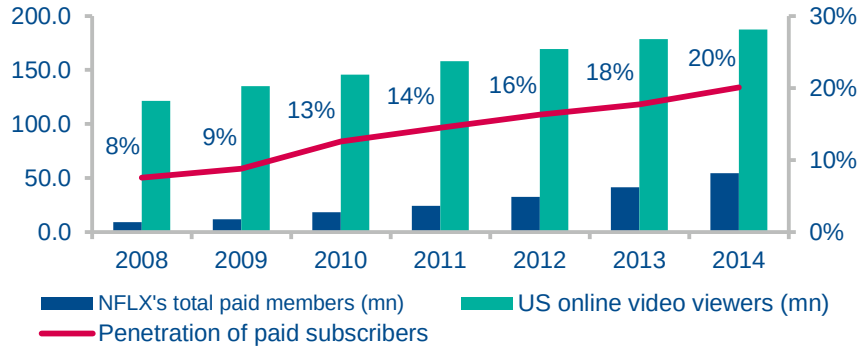



**The young are different from you and me**

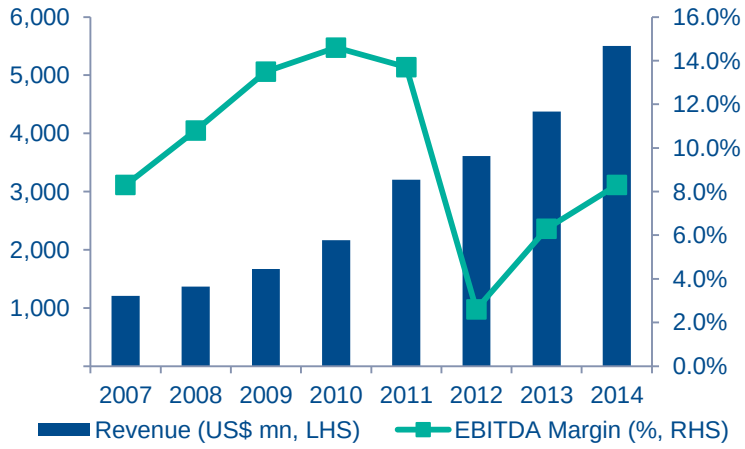
Source: Nielson Korea, Korea Press Foundation, Macquarie as at December 2011

# Next wave of growth
## Content kings now monetising

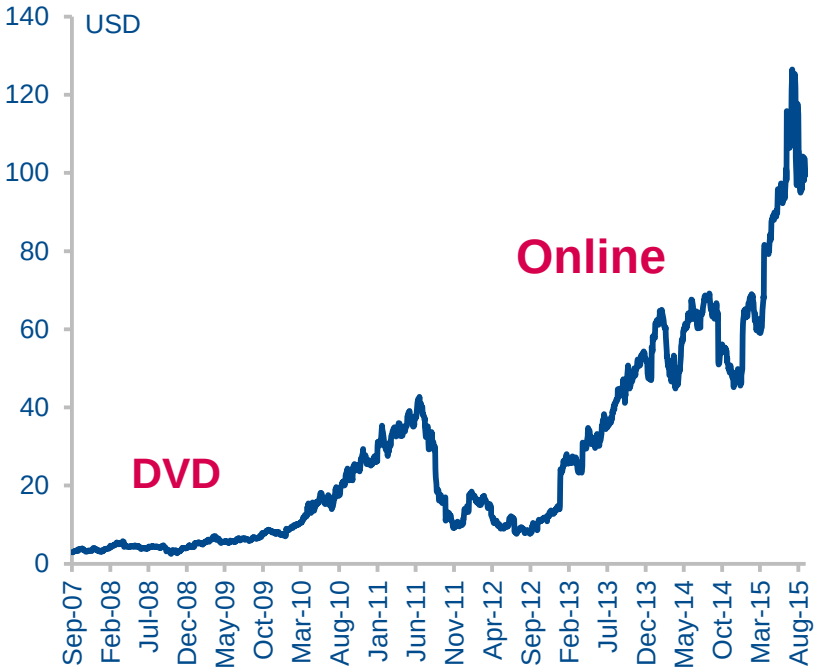
### Netflix – increasing paid viewers




### Netflix – revenue and profit margin




### Netflix – DVD rental versus online video streaming




**Increasing bargaining power of quality content makers amid intensified competition among platform providers to attract more customers (global trend)**

Source: iResearch, KOCCA, Macquarie Research, Daiwa, Factset, September 2015.

# Next wave of growth
## Tencent - capturing mobile monetisation

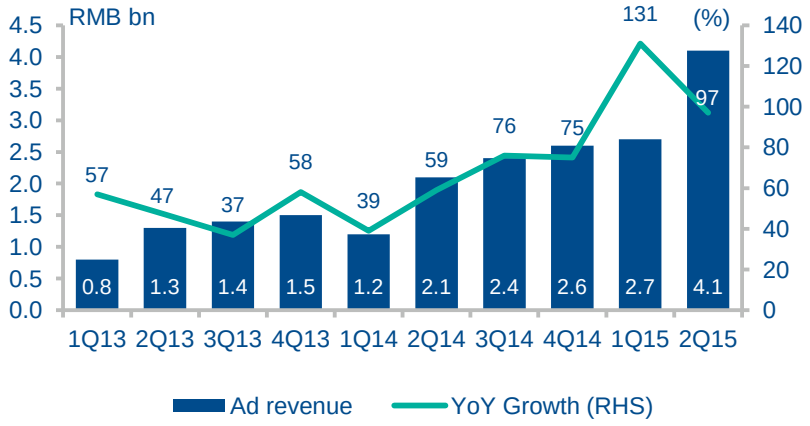
### Price performance



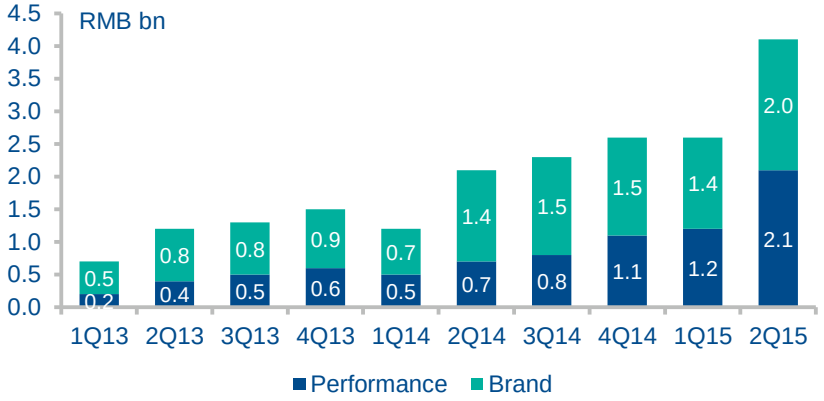

### Investment case

- Well positioned to capture opportunities emerging in mobile internet growth as it leverages a sticky, integrated mobile user platform on WeChat
- Successfully built scale while enhancing monetisation per user at the same time
- Extending mobile leadership via dominant market position in China and potential for new revenue streams, particularly in O2O and advertising
- Accelerating video advertising through strong content pipeline of variety shows, TV dramas, NBA broadcast rights, investing in movie production, etc.

### Quarterly ad revenue




### Quarterly ad revenue breakdown

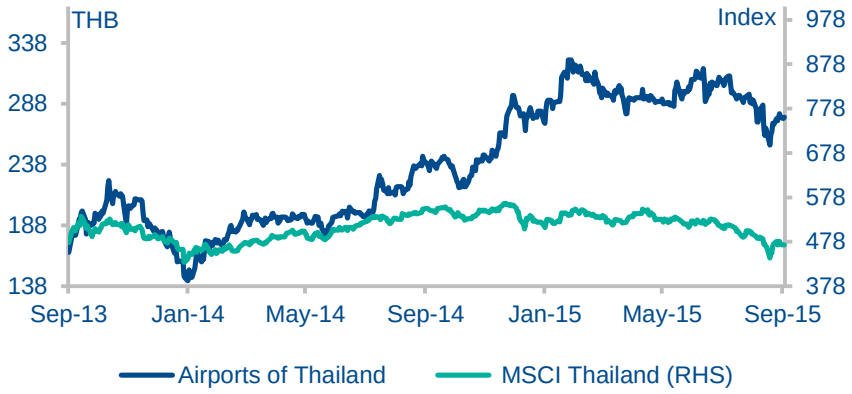



**Growing profitable ad revenue from Weixin**

Source: (Upper) Factset, Barings, September 2015; (Lower) CLSA, August 2015. Please refer to Important Information.

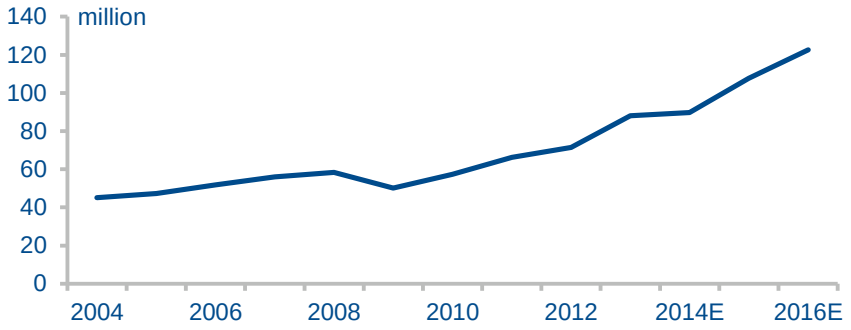
# Asian consumption: rising middle class
## Airports of Thailand

### Stock price performance



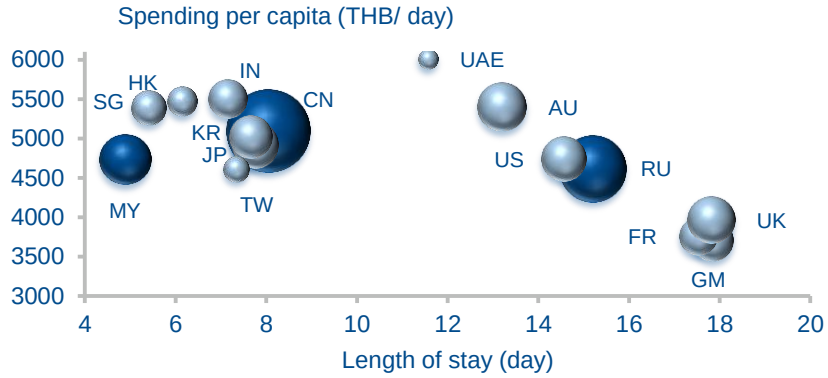

Source: Factset, Barings, September 2015

### Total passenger traffic




Source: Airport of Thailand, Standard Chartered, September 2014

### Tourist expenditure in Thailand




Note: the size represents the total tourism income from each country
Source: Citi Research, April 2015

### Chinese traveler arrivals by destination

| | | 2010 | | 2011 | | 2012 | | 2013 | | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Rank | Country | Arrivals | Country | Arrivals | Country | Arrivals | Country | Arrivals | Country | Arrivals |
| 1 | Macau | 13,229 | Macau | 16,163 | Macau | 16,902 | Macau | 18,632 | Macau | 21,252 |
| 2 | Hong Kong | 11,678 | Hong Kong | 13,600 | Hong Kong | 15,110 | Hong Kong | 17,090 | Hong Kong | 19,077 |
| 3 | South Korea | 1,875 | South Korea | 2,220 | South Korea | 2,837 | **Thailand** | **4,637** | South Korea | 6,127 |
| 4 | Taiwan | 1,608 | Taiwan | 1,756 | **Thailand** | **2,789** | South Korea | 4,327 | **Thailand** | **4,538** |
| 5 | Japan | 1,413 | **Thailand** | **1,721** | Taiwan | 2,552 | Taiwan | 2,837 | Taiwan | 3,983 |
| 6 | Singapore | 1,171 | Singapore | 1,578 | Singapore | 2,034 | Singapore | 2,270 | Japan | 2,411 |
| 7 | Malaysia | 1,130 | Vietnam | 1,417 | Italy | 1,583 | Vietnam | 1,908 | Germany | 1,682 |
| **8** | **Thailand** | **1,122** | Italy | 1,343 | Malaysia | 1,559 | United States | 1,807 | France | 1,209 |

# Asian consumption: rising middle class
## Airports of Thailand

### Company scorecard

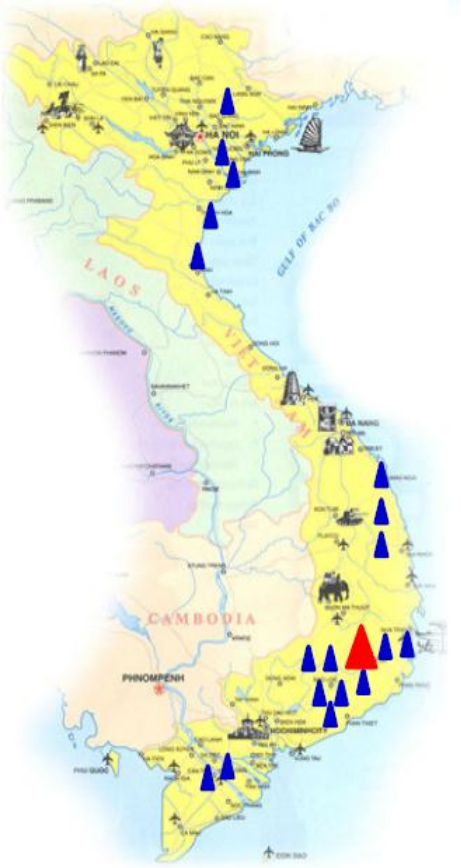
| Company name | Airports of Thailand | |
|---|---|---|
| **Quality** | Franchise | 1.5 |
| | Management | 2.0 |
| | Balance sheet | 1.0 |
| | **Overall** | **1.5** |
| **Growth** | Last three years | 1.0 |
| | Next 12 months | 3.0 |
| | CAGR next five years | 3.0 |
| | **Overall** | **2.3** |
| **Upside** | Market measure | 1.0 |
| | Static measure | 1.0 |
| | Discounted earnings | 2.0 |
| | **Overall** | **1.3** |
| **Stock score** | | **1.7** |

- Operator for six of Thailand's commercial airports (including the two international airports in Bangkok and Phuket) and has near monopolistic status. Its airports are the gateway to over 80% of Thailand’s tourist arrivals
- Best proxy to Thailand’s strength in tourism. Thailand is the second most popular destination for Chinese outbound tourism after Hong Kong
- Solid franchise is evidenced by above sector RoE of 15% and EBITDA margin of over 50%

Source: Barings, 26 January 2015

# Asian brand

## Vinamilk - dairy consumption in early stages




| Drinking Milk | Vietnam | Malaysia | Thailand | Philippines | Indonesia | China |
|---|---|---|---|---|---|---|
| Market | | | | | | |
| Population (m) | 92 | 30 | 67 | 100 | 250 | 1,350 |
| Consumption per capita (liters) | 15 | 51 | 34 | 22 | 13 | 26 |
| 5-year consumption CAGR | 6% | 5.8% | 2.9% | 2.0% | 6% | 6% |
| Leading player | Vinamilk | Nestlé | Friesland | Nestlé | Ultrajaya | Yili |








Source: Corporate information, Barings, August 2015

# Asian brand
## Vinamilk - dairy consumption in early stages

### Company Scorecard

| Company name | Vinamilk | |
|---|---|---|
| **Quality** | Franchise | 1.0 |
| | Management | 1.5 |
| | Balance sheet | 1.0 |
| | **Overall** | **1.2** |
| **Growth** | Last three years | 3.0 |
| | Next 12 months | 1.0 |
| | CAGR next five years | 2.0 |
| | **Overall** | **2.0** |
| **Upside** | Market measure | 5.0 |
| | Static measure | 5.0 |
| | Discounted earnings | 1.0 |
| | **Overall** | **3.7** |
| **Stock score** | | **2.3** |

VINAMILK
VƯƠN CAO VIỆT NAM

- Leader in the **under-penetrated** dairy market in Vietnam
- **Diversified** product portfolio
- Extensive sales and distribution network
- Market-oriented **research and development** capabilities, plus modern production facilities
- Experienced management with **proven track record**
- Net cash balance sheet

Source: Barings, 29 June 2015

# Structural growth and functional sports wear

## Eclat Textile

### Out of fashion

**Apparel makers are increasingly eschewing cotton in favour of fabrics woven from man-made fibers**




**Cotton's crown threatened by man-made fibers**

**Apparel makers are embracing synthetic fabrics - and shoppers are too**

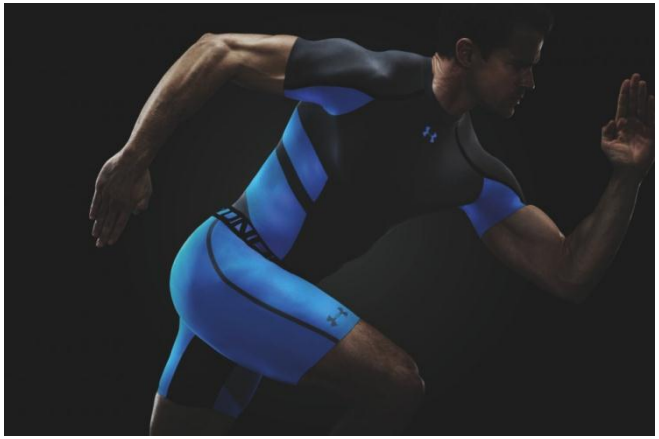
Source: Commerce Department (U.S. imports); Euromonitor International, The Wall Street Journal, August 2015

# Structural growth and functional sports wear: Eclat Textile

**Lululemon yoga wear**

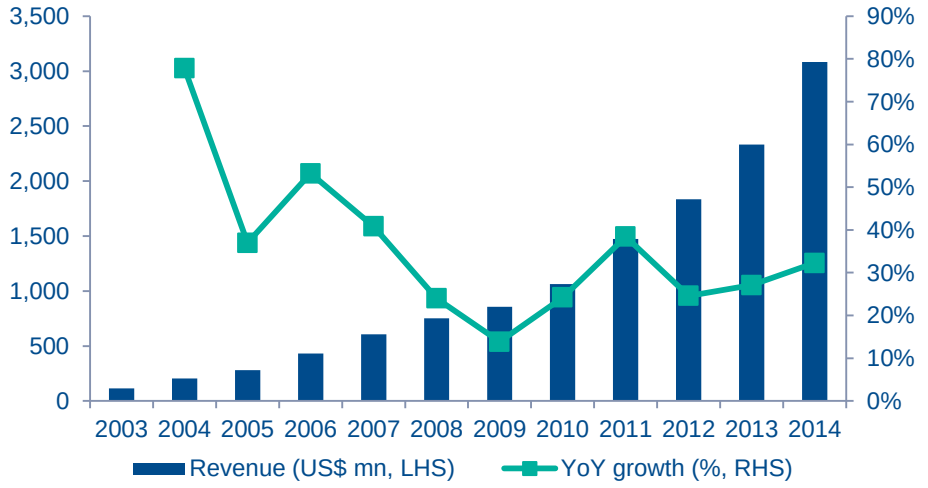


**Under Armour high performance gear**



- Sporting apparel industry innovation remains in the early stages and will gain market share from traditional apparel industry
- Eclat, as a leading and vertically integrated fabric and garment supplier in functional sportswear and supplier to leading brands such as Lululemon and Under Armour, will enjoy strong revenue growth for the next five years from timely capacity and steady ASP expansion
- Valuation is undemanding on a growth-adjusted basis compared to global/ regional peers

**Under Armour revenue trend (historical)**




Source: us.fashionmag.com (left top image), www.521jeans.com (left bottom image), Factset (price performance), Barings, June 2015.

# Structural growth and functional sports wear
## Eclat Textile

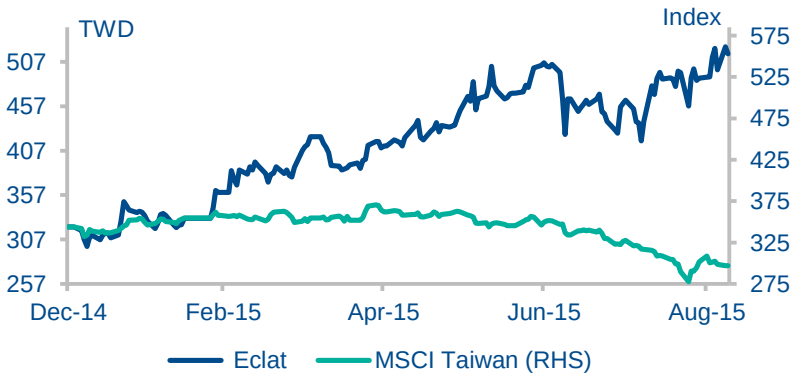
### Company scorecard

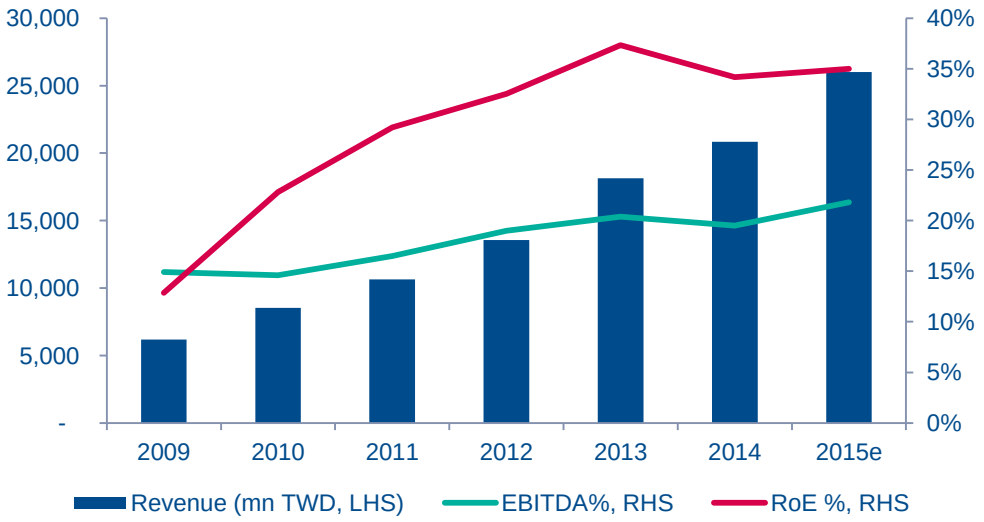
| Company name | Eclat Textile | |
|---|---|---|
| Quality | Franchise | 3.0 |
| | Management | 2.0 |
| | Balance sheet | 1.0 |
| | **Overall** | **2.0** |
| Growth | Last three years | 1.0 |
| | Next 12 months | 1.0 |
| | CAGR next five years | 1.0 |
| | **Overall** | **1.0** |
| Upside | Market measure | 5.0 |
| | Static measure | 1.0 |
| | Discounted earnings | 1.0 |
| | **Overall** | **2.3** |
| **Stock score** | | **1.8** |

ECLAT
elastic textile

- Market and technology leader in performance/ functional fabric/ textile market. Close working relationship with MNCs such as Nike, Adidas and new dominators Lululemon, Under Armor
- Strong growth to continue
- Valuation not yet reflective of long-term growth. Dividend grower (yield of 2.8%) with sustainable and growing dividend base

### Price performance



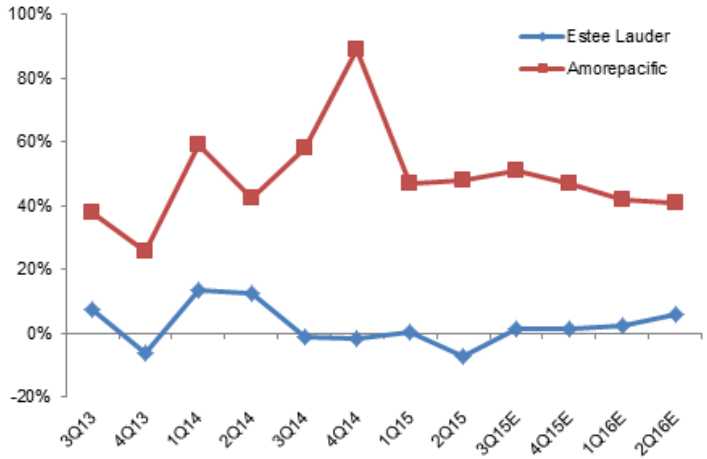

Source: Barings, June 2015.

# Rise of Asian global brands

## Who is next after Samsung? After Hyundai?

| | YTD Share price Return (%, in local currency terms) | Sales growth in 1H15 | Earnings growth in 1H15 |
|---|---|---|---|
| KOSE | 133% | 18% | 87% |
| Lion Corp | 65% | 2% | 44% |
| Amorepacific | 50% | 26% | 49% |
| Pola Orbis Holdings | 44% | 4% | 11% |
| Shiseido | 40% | 7% | 24% |
| Coty | 40% | -5% | In red |
| LG Household & Healthcare | 23% | 15% | 39% |
| Dabur India | 22% | 11% | 19% |
| Reckitt Benckiser Group | 11% | 1% | 10% |
| L'Oreal | 4% | -3% | -13% |
| Fancl | -9% | 6% | 60% |
| Colgate-Palmolive | -9% | -6% | 11% |
| Lóccitane | -12% | 18% | NA |
| Edgewell Personal Care | -10% | -6% | In red |
| Johnson & Johnson | -11% | -7% | -11% |
| Unicharm | -22% | 25% | 8% |
| Procter & Gamble | -23% | -8% | -37% |
| Elizabeth Arden | -45% | -9% | In red |
| Avon Products | -50% | -17% | 28% |

### Asia Pacific sales growth

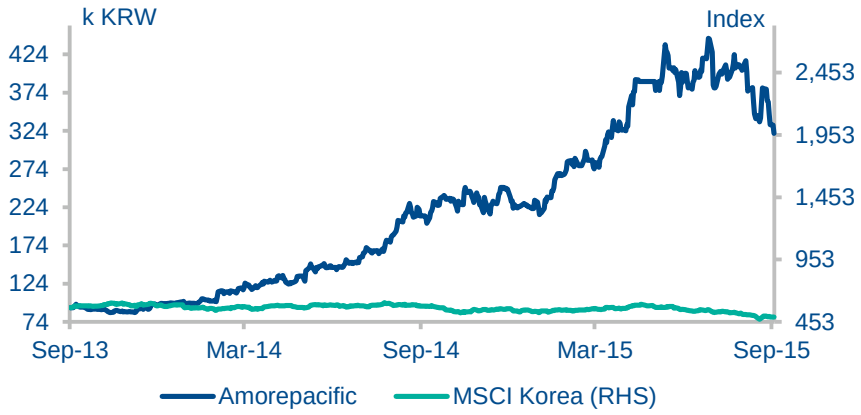



Source: Credit Suisse, Bloomberg, September 2015

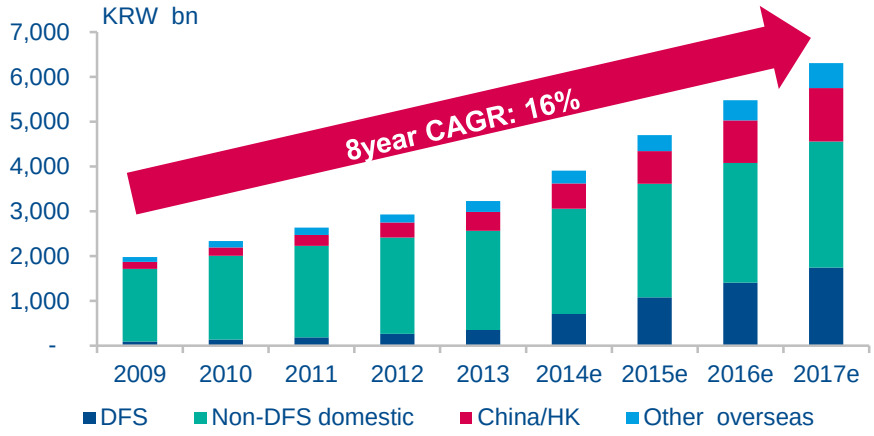
# Rise of Asian global brands
## AmorePacific

AMOREPACIFIC

### Price performance




### Sales growth




### Company background and industry view

- AmorePacific Corporation develops, manufactures and exports skin care and make-up under multi-brands

### Drivers and catalysts

- Increasing market share on the back of strong brand positioning and product innovation
- Rising contribution from overseas leading to a sales increase in China and other Asia region with margin hikes
- Rapidly increasing presence in Asian markets thanks to their
  - Asian consumer-specialised product development skills
  - improved brand image supported by the popularity of Korean culture with Asian consumers
  - improved execution quality for overseas operations
  - margin expansion on the back of economies of scale



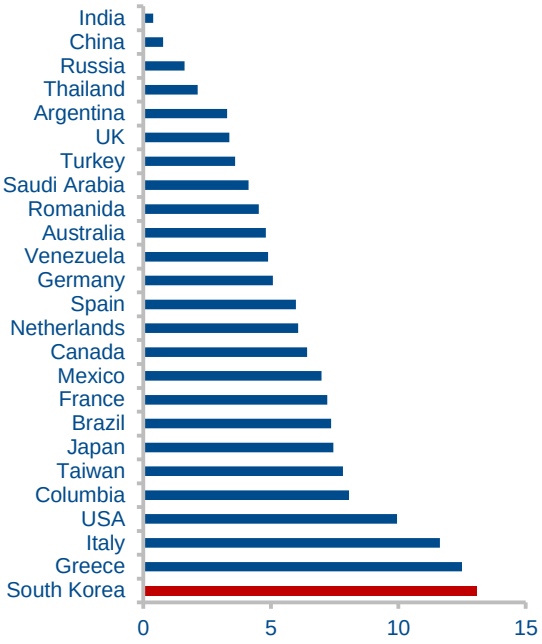



Source: (Upper) Factset, September 2015; (Lower) Company data, Morgan Stanley, November 2014. (Right) Company webiste, Newsis, February 2015.

# Asian consumption: healthcare and cosmetics

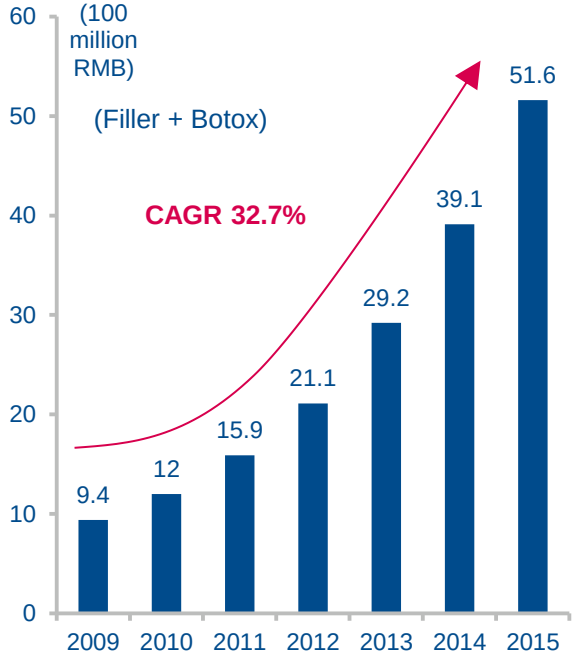
## Rising income/ ageing population

### Aesthetic procedures per 1000 people



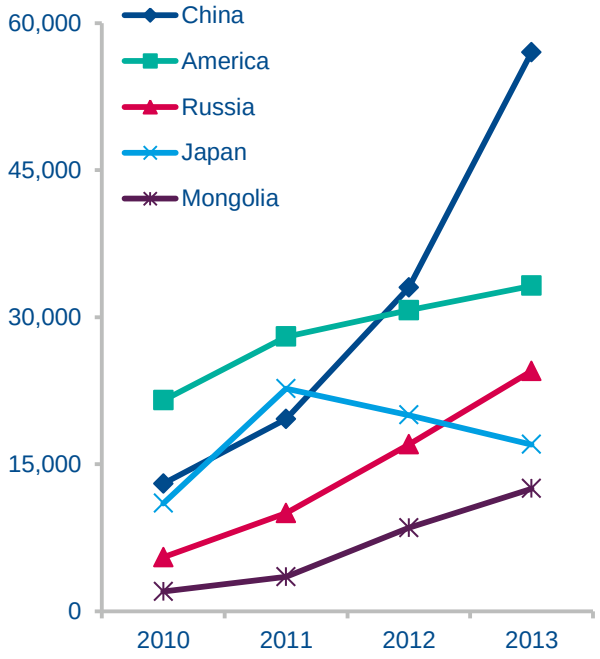

Source: Shinhan Securities, ISAPS, International Society of Aesthetic Plastic Surgery, 2013 data

### Aesthetic injections market in China




Source: Humedix, CLSA, September 2015

### Korean medical tourism – surging number of medical tourists



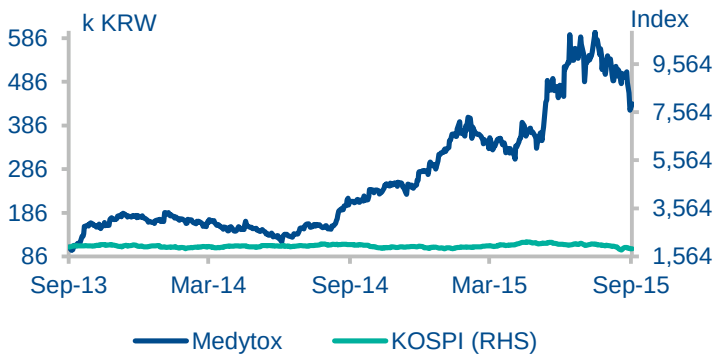

Source: KHIDI (www.khidi.or.kr), May 2015

# Asian consumption: healthcare and cosmetics
## Medytox

### Company scorecard

| Company name | Medytox | |
|---|---|---|
| Quality | Franchise | 2.0 |
| | Management | 1.0 |
| | Balance sheet | 1.0 |
| | **Overall** | **1.3** |
| Growth | Last three years | 1.0 |
| | Next 12 months | 1.0 |
| | CAGR next five years | 1.0 |
| | **Overall** | **1.0** |
| Upside | Market measure | 5.0 |
| | Static measure | 2.0 |
| | Discounted earnings | 1.0 |
| | **Overall** | **2.7** |
| **Stock score** | | **1.7** |

### Price performance




- No.1 in the local botulinum toxin pharmaceuticals market and exporting to 50+ countries globally, including Japan, Thailand, India and Brazil
- Strong market growth (both aesthetic and therapeutic) will support growth despite increasing competition
- Ageing population with higher spending power to benefit cosmeceutical industry
- Competitive price and quality: grounds for strong export growth (50+ countries)
- Strong franchise - next generation botulinum toxin product licensed to **Allergan**, the world's largest botulinum toxin manufacturer (75% market share), as exclusive right to distribute globally with running royalty payments

Source: Barings, 22 May 2015; Price performance – Factset, Barings, September 2015

# Asian consumption: healthcare and cosmetics

## Medytox

**Value of Innotox**

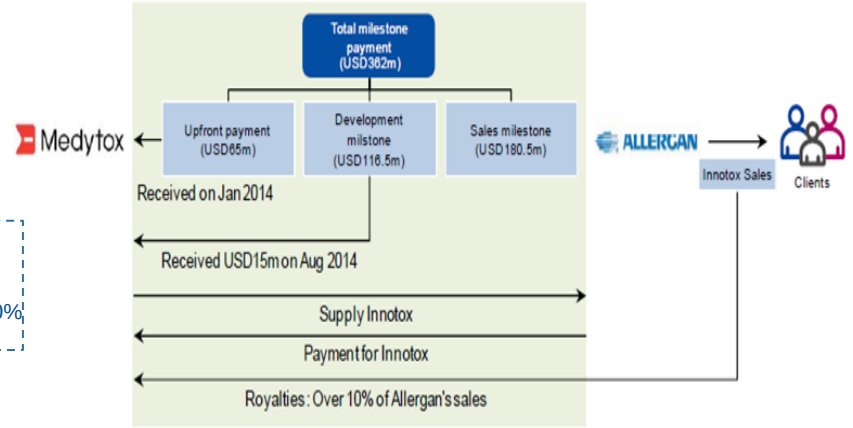
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2028 |
| Global Botx Market (bn USD) | 2.30 | 2.58 | 2.80 | 3.15 | 3.54 | 3.99 | 4.49 | 5.05 | 5.68 | 6.39 | 7.18 | 8.08 | 9.09 | 10.23 | 11.51 | 12.95 | 14.56 |
| Allergan's botox sales(bn USD) | 1.72 | 1.94 | 2.10 | 2.33 | 2.59 | 2.87 | 3.18 | 3.53 | 3.92 | 4.34 | 4.81 | 5.33 | 5.91 | 6.55 | 7.25 | 8.03 | 8.88 |
| Allregan's market share | 75% | 75% | 75% | 74% | 73% | 72% | 71% | 70% | 69% | 68% | 67% | 66% | 65% | 64% | 63% | 62% | 61% |
| Innotox Market Share within Allergan | | | | | | 5% | 10% | 15% | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| Innotox Sales (bn USD) | | | | | | 0.144 | 0.318 | 0.530 | 0.783 | 0.868 | 0.963 | 1.067 | 1.182 | 1.309 | 1.450 | 1.605 | 1.78 |
| Innotox Sales (bn KRW) | | | | | | 158 | 350 | 583 | 862 | 955 | 1,059 | 1,174 | 1,300 | 1,440 | 1,595 | 1,766 | 1,955 |
| **Royaly sales ( A ) (bn KRW)** | | | | | | 16 | 35 | 58 | 86 | 96 | 106 | 117 | 130 | 144 | 159 | 177 | 195 |
| **BLA Achievement Milestone + Sales Milestone ( B )** | | 80 | 34 | 34 | 34 | | | 181 | | | | | | | | | |
| **ODM production profit at Medytox ( C )** | | | | | | 24 | 53 | 87 | 129 | 143 | 159 | 176 | 195 | 216 | 239 | 265 | 293 |
| Discount factor | | | 0.91 | 0.83 | 0.75 | 0.68 | 0.62 | 0.56 | 0.51 | 0.47 | 0.42 | 0.39 | 0.35 | 0.32 | 0.29 | 0.26 | 0.24 |
| Present Value = (A)+ (B) + ( C ) x (1- tax) x (D) | | | 23 | 28 | 25 | 27 | 54 | 184 | 111 | 111 | 112 | 113 | 114 | 115 | 116 | 116 | 117 |

| | |
|---|---|
| NPV (bn KRW) (FY1-FY15) = ( E) (bn KRW) | 1,367 |
| PV value of terminal value = (F) (bn KRW) | 1,721 |
| **Total NPV = ( E ) + ( F) (bn KRW)** | **3,088** |
| Per share value (KRW) | **545,929** |

Assuming Allergan to lose global market share by 1ppt p.a. (conservative)

| Major Assumptions | |
|---|---|
| Running Royalty | 10% |
| ODM Production Profit at Medytox | 15% |
| @ Discount Rate | 10% |
| @ Corporate Tax Rate | 25% |
| KRW/USD | 1,100 |
| Terminal growth rate | 3% |
| *Global Botox Market CAGR* | *12.5%* Historical |

Production cost paid to Medytox from Allergan
Comp 15%-20% COGS at Medytox
Comp 50% sell-in price x OPM 40% = 20% ODM profit




Total Milestone Payment $362mn
Upfront fee $65mil (received Jan 2014)
BLA Achievement Milestone $116.5 mil - $15mil received Aug 2014 ($116.5-$15)mil/3 years = $33.8mil per year
Sales Milestone fee $181mil

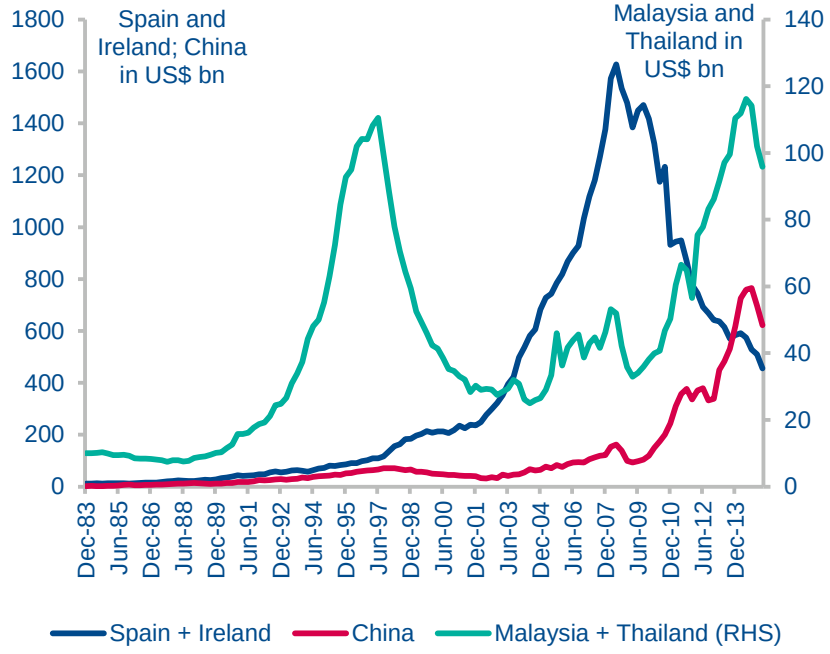
Source: Barings, 22 May 2015, Samsung Securities




# Appendix

# Asia and emerging markets
## Currencies and offshore credits

### Bank channel borrowings




### External debt in Asia

| Asia-specific mix of creditors to recipient nation | | Source nation on consolidated basis: credit from | | | | | |
|---|---|---|---|---|---|---|---|
| | | Europe | Intra-Asia | EU ex UK | UK | Japan | USA |
| | US$bn | | | | | | |
| China | $1,176 | 28% | 49% | 13% | 16% | 6% | 8% |
| Chinese Taipei | 203 | 44% | 19% | 19% | 25% | 12% | 20% |
| India | 310 | 41% | 21% | 19% | 21% | 10% | 25% |
| Indonesia | 148 | 29% | 30% | 15% | 14% | 23% | 11% |
| Korea | 311 | 39% | 15% | 17% | 22% | 16% | 28% |
| Malaysia | 168 | 33% | 44% | 6% | 28% | 13% | 10% |
| Philippines | 40 | 40% | 17% | 18% | 22% | 19% | 20% |
| Thailand | 140 | 15% | 20% | 6% | 9% | 58% | 8% |
| **EM Asia** | **$2,496** | **32%** | **35%** | **14%** | **19%** | **13%** | **14%** |
| | | | | | | | |
| Australia | $493 | 37% | 15% | 28% | 10% | 22% | 20% |
| Japan | 1,259 | 29% | 42% | 21% | 8% | 0% | 24% |
| Hong Kong SAR | 855 | 57% | 17% | 13% | 44% | 9% | 8% |
| Singapore | 444 | 48% | 14% | 24% | 24% | 14% | 16% |
| DM Asia | $3,052 | 41% | 26% | 20% | 21% | 8% | 18% |
| | | | | | | | |
| **Total Asia** | **$5,548** | **37%** | **30%** | **17%** | **20%** | **10%** | **16%** |

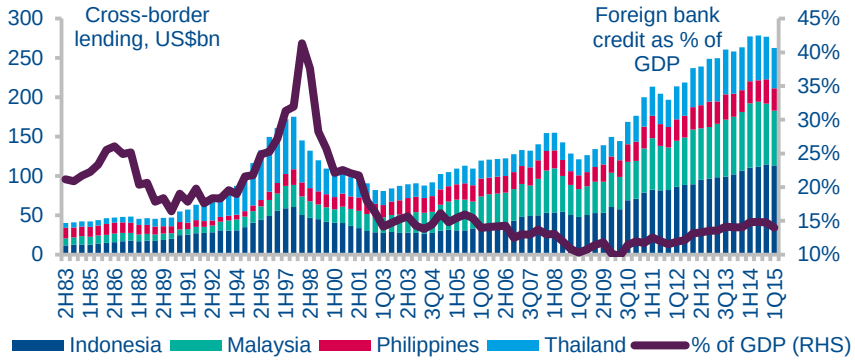
Source: JP Morgan, September 2015

# Asia and emerging markets
## Currencies and offshore credits

### Current accounts
### Better now versus pre-crisis

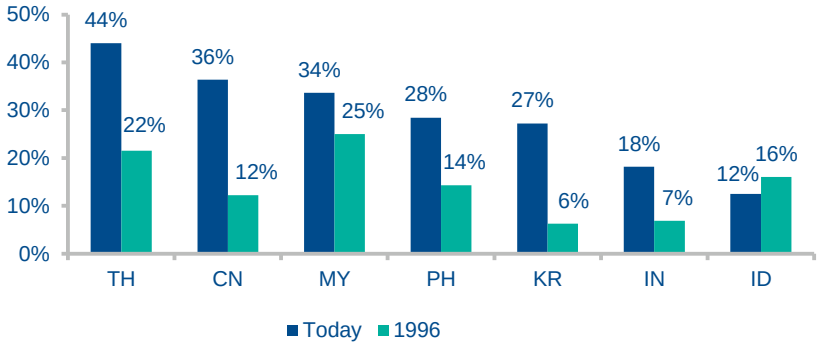
| CA / GDP % | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| Indonesia | -1.3% | -1.6% | -3.2% | -3.4% | -2.3% |
| Malaysia | -4.5% | -6.1% | -9.7% | -4.4% | -5.9% |
| Philippines | -5.6% | -4.6% | -2.7% | -4.8% | -5.3% |
| Thailand | -5.1% | -5.6% | -8.1% | -8.1% | -2.0% |
| | | | | | |
| **CA / GDP %** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Indonesia | 0.9% | 0.6% | -2.6% | -3.2% | -2.8% |
| Malaysia | 10.9% | 11.6% | 6.1% | 3.9% | 4.5% |
| Philippines | 4.2% | 3.2% | 3.8% | 3.8% | 4.5% |
| Thailand | 4.6% | 1.7% | 0.8% | -0.7% | 3.5% |

### Cross border lending in ASEAN
### 14% of GDP today versus 41%

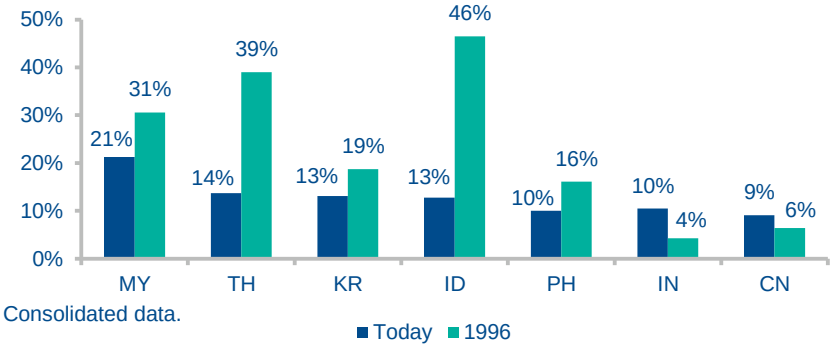



Based on international claims, intermediate basis

### Foreign reserves/ GDP
### Better now versus 1996



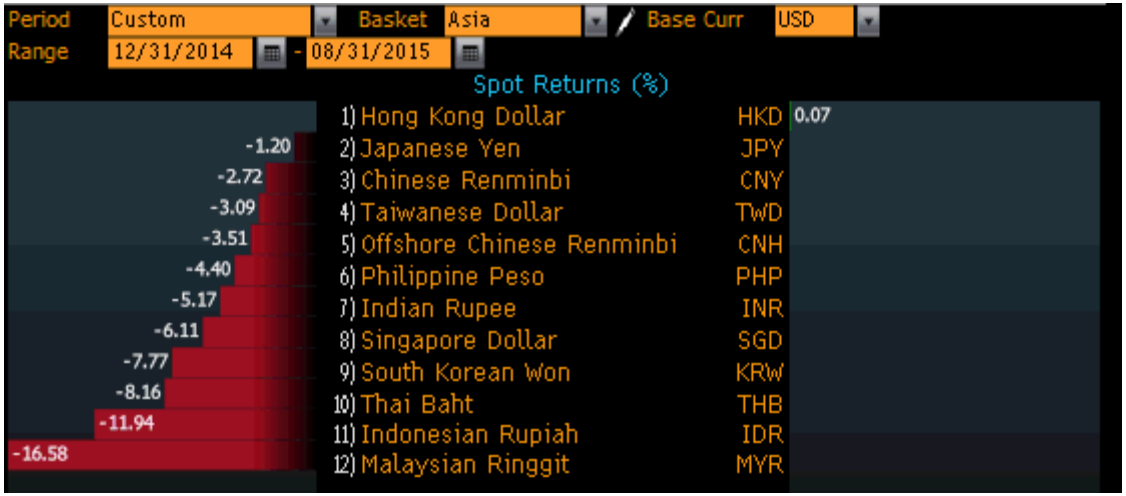

### External corporate borrowing/ GDP
### Better now versus 1996




Consolidated data.

Source: CEIC, Bloomberg, BIS, World Bank, JP Morgan, September 2015

# Asia and emerging markets
## Currencies and offshore credits







**Currency and credit markets already reflecting much of the risk**

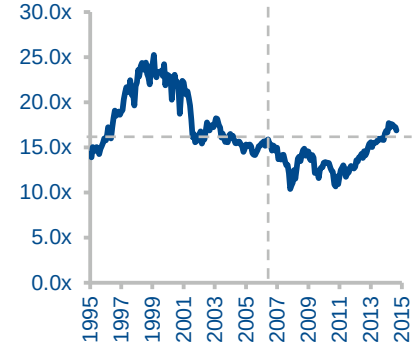
Source: Bloomberg, Barings, September 2015

# Asia and emerging markets

## Valuations in comfortable range versus other regions

### 12 month forward PE

**MSCI US**



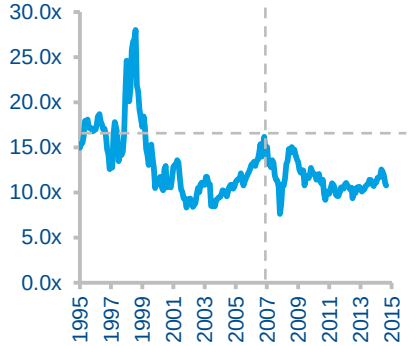

**MSCI Europe**




**MSCI Japan**




**MSCI EM Asia**

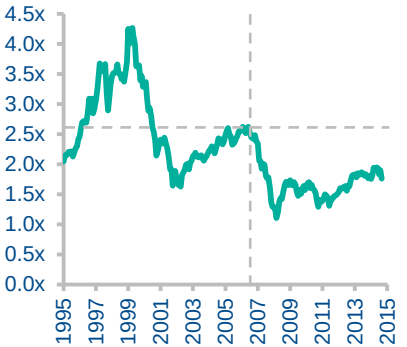



### Trailing PB

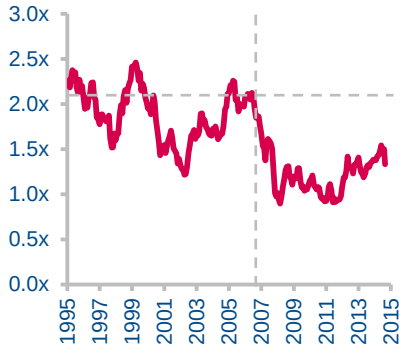
**MSCI US**



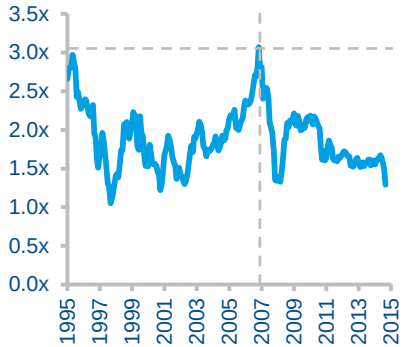

**MSCI Europe**




**MSCI Japan**



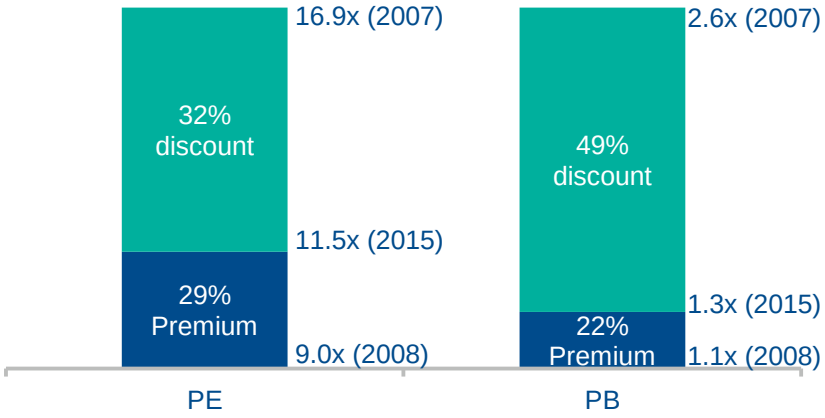

**MSCI EM Asia**



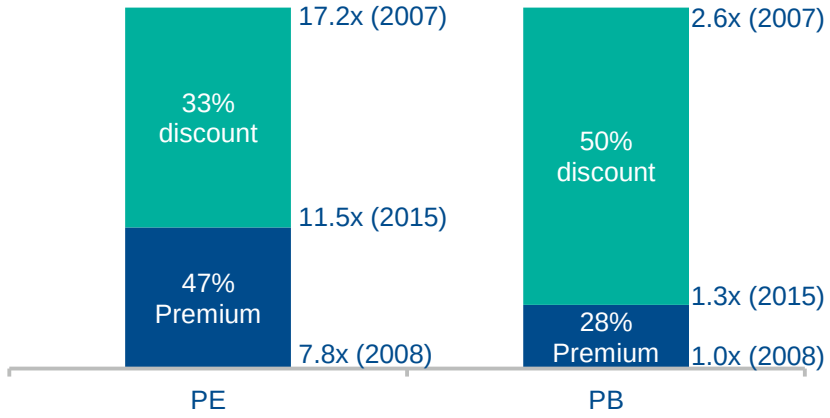

Source: MSCI, IBES, Thomson Reuters Datastream, HSBC, August 2015

# Asian valuations
## Low versus history with dispersion

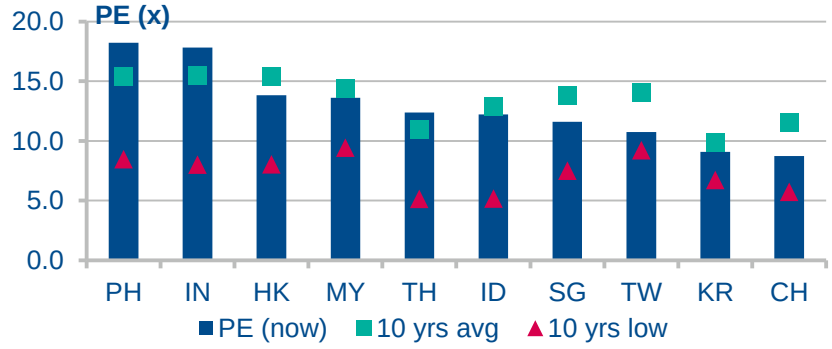
### Current PE and PB compared to 2007 peak and 2008 trough levels (monthly)



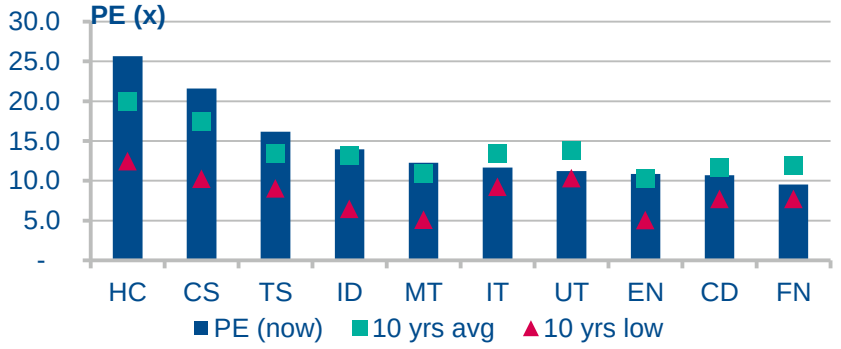

### Current PE and PB compared to 2007 peak and 2008 trough levels (daily)




### Asian markets forward PE




### Asian sectors forward PE



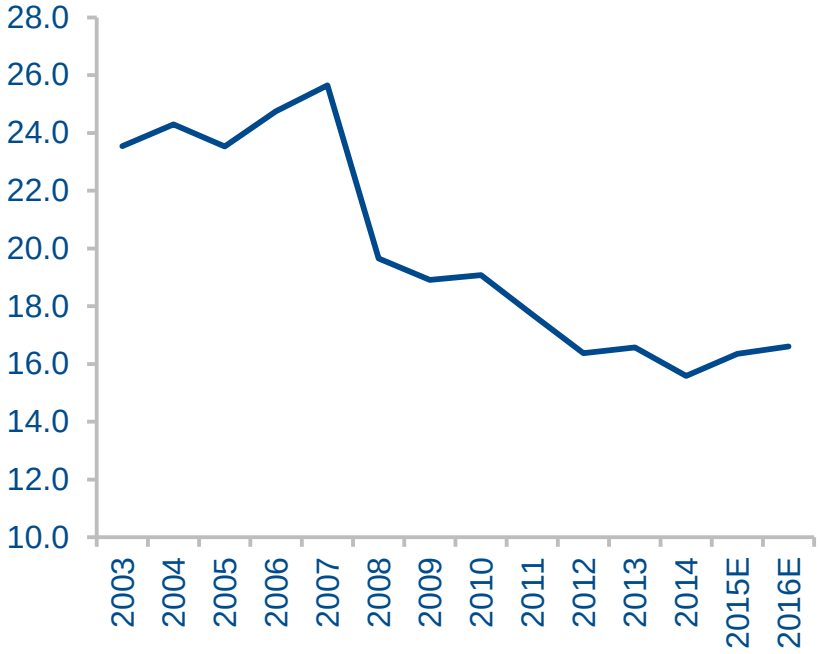

**Pricing in negatives....**

Source: MSCI, IBES, Thomson Datastream, HSBC, August 2015

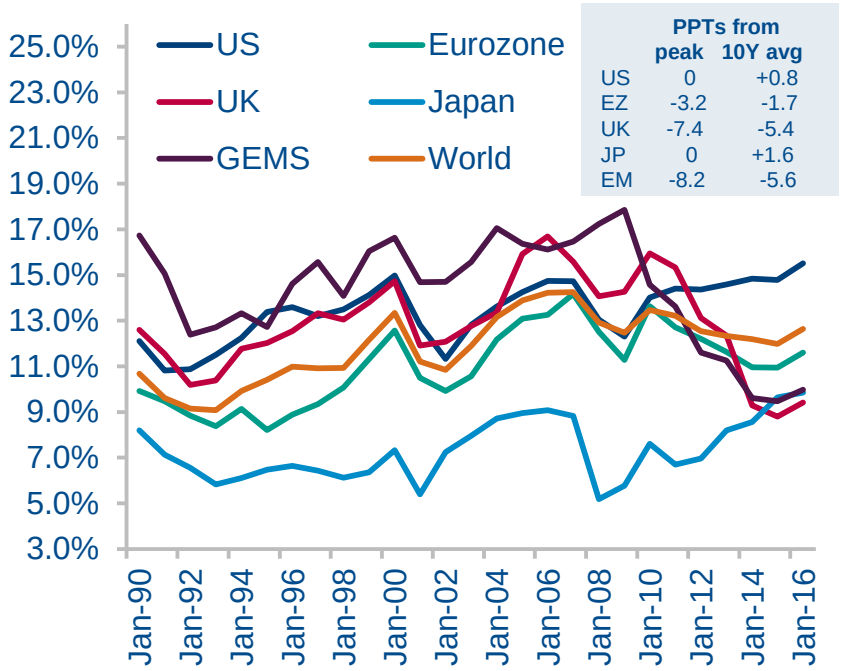
# Valuations and earnings

## Emerging Asian profit margins: room for improvement

### Asia ex Japan EBITDA margin (%)




### EBIT margins



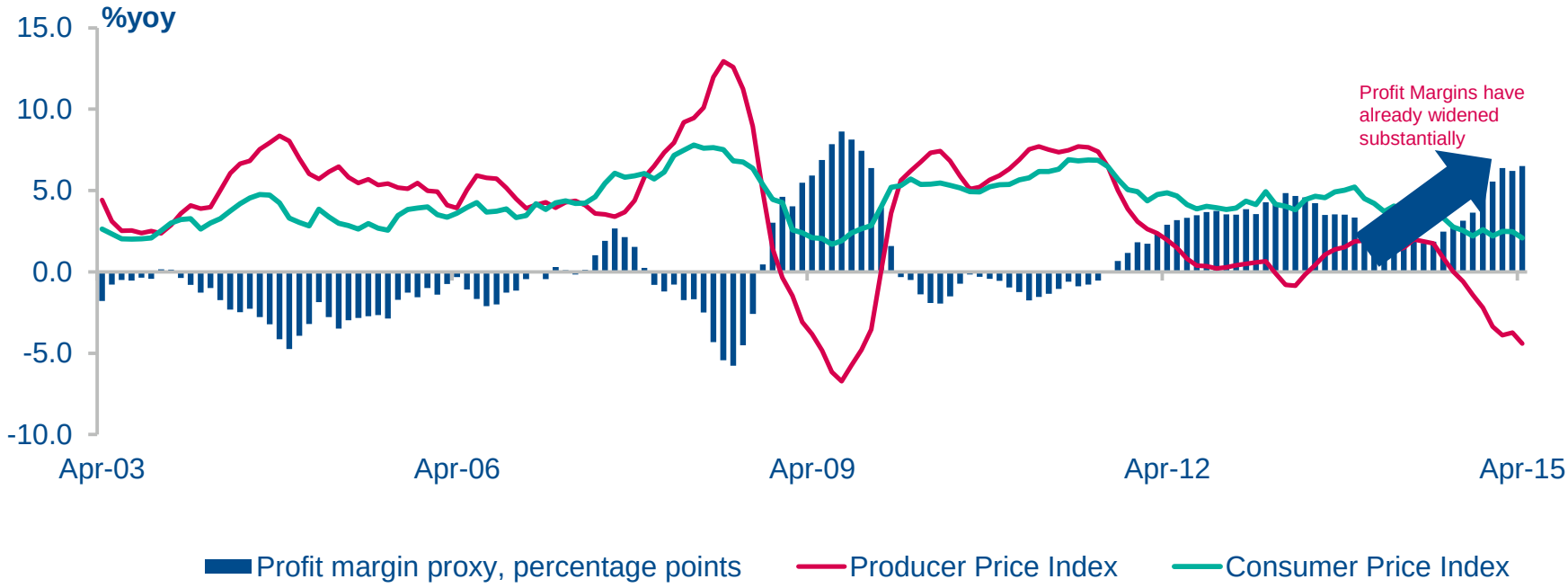

| | PPTs from peak | PPTs from 10Y avg |
|---|---|---|
| US | 0 | +0.8 |
| EZ | -3.2 | -1.7 |
| UK | -7.4 | -5.4 |
| JP | 0 | +1.6 |
| EM | -8.2 | -5.6 |

**Asian margins bottoming?**

Source: MSCI, IBES, Thomson Datastream, HSBC, August 2015

# Lower commodity prices
## Positive for Asia

### Profit margin proxy: gap between CPI and PPI inflation for Asia ex Japan

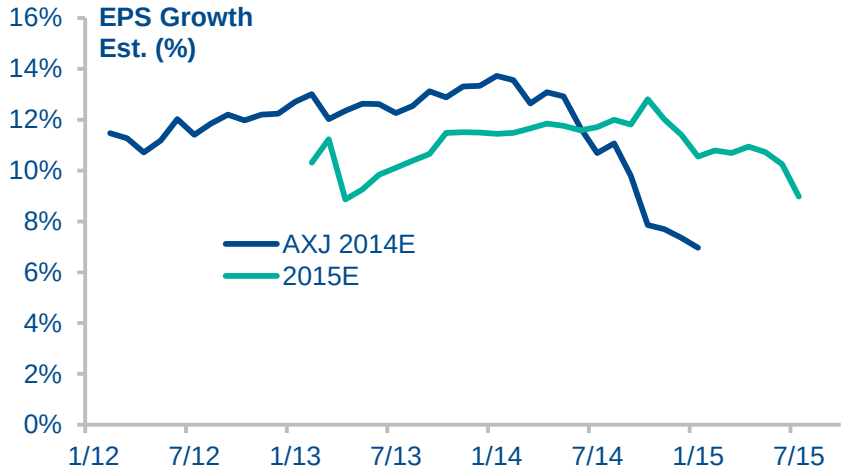



**A fall in commodity prices reduces Asia's input cost**

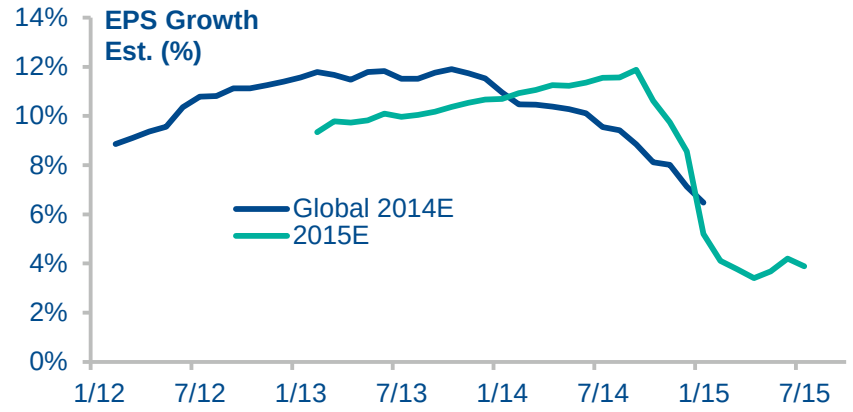
Source: Nomura, June 2015

# Asia and emerging markets
## Earnings revisions charts

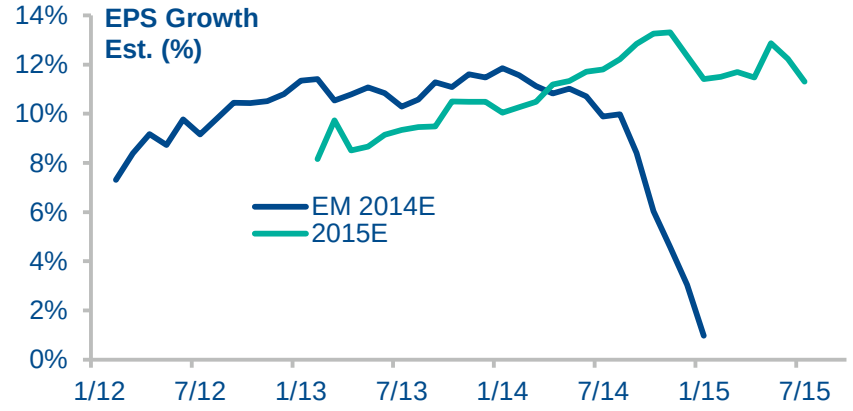
### MSCI Asia ex Japan




### MSCI AC World




### MSCI EM (emerging markets)

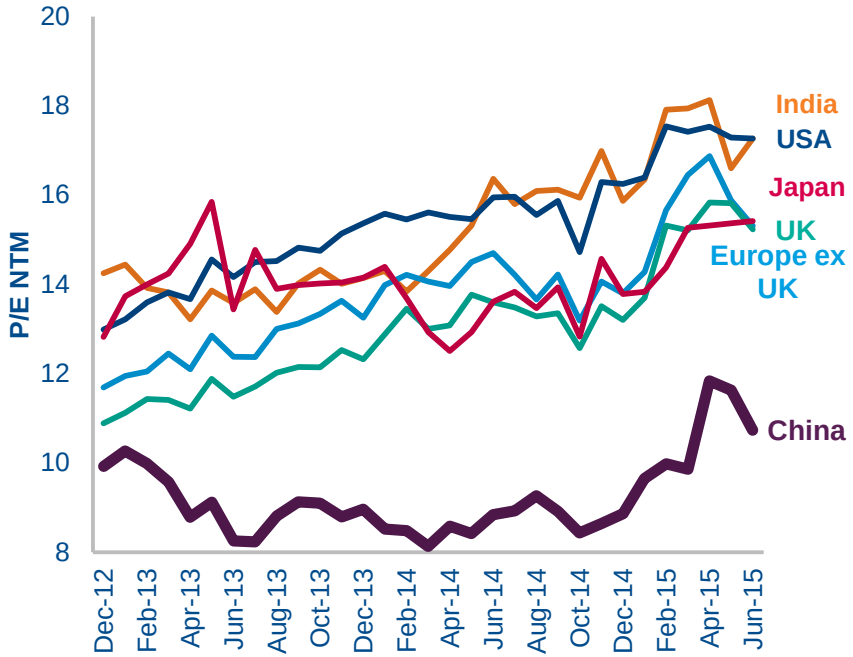



**EPS revisions in Asia versus developed markets and/ or emerging markets do not appear to be underperforming**

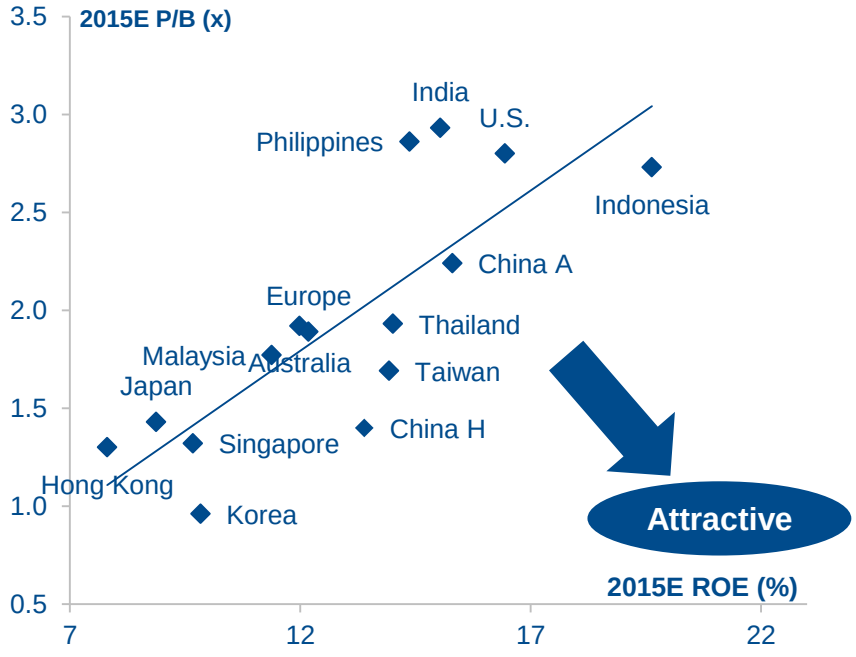
Source: IBES Aggregate, Citi, July 2015

# Equity market outlook stays constructive

## Price to earnings ratio (NTM)




## Relative valuation




Source: Factset, Barings, July 2015

Source: FactSet, MSCI, I/B/E/S, Goldman Sachs, June 2015

# Market liberalisation led to significant expansion in market capitalisation/ GDP

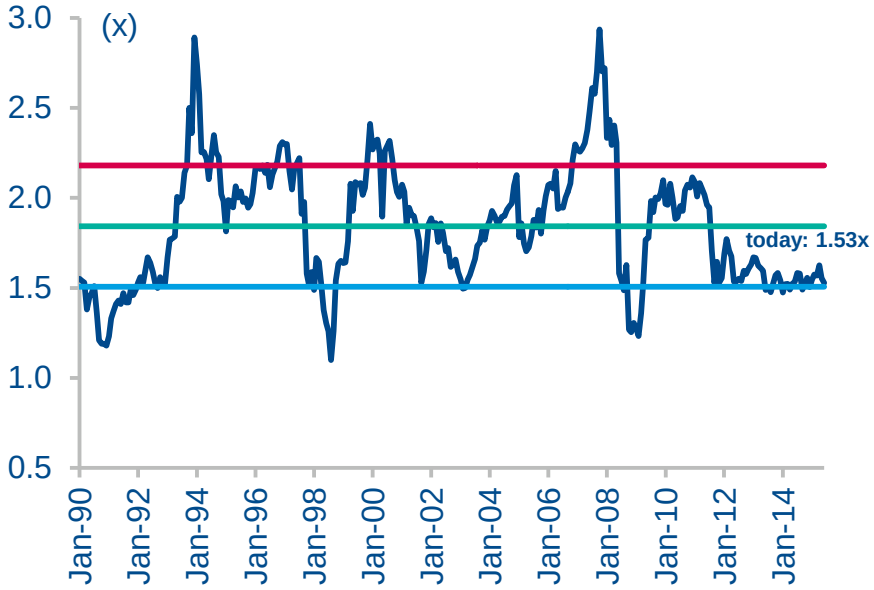
## Market liberalisation in Asia

| Country | Market liberalisation year | Market cap % GDP liberalisation | Current market cap % GDP |
|---|---|---|---|
| Taiwan | 1991 | 61% | 636% |
| Korea | 1992 | 32% | 319% |
| Thailand | 1987 | 6% | 448% |
| Malaysia | 1988 | 66% | 755% |
| Indonesia | 1989 | 0.3% | 201% |
| Philippines | 1991 | 14% | 398% |
| India | 1992 | 17% | 105% |
| China | | | 67% |

Source: CEIC, World Bank, UBS Securities, April 2015

# Asia and emerging markets
## Valuations

### MSCI Asia ex Japan – P/B ratio




### Valuations under different 'regimes' in Asia ex Japan

| | PB at start | PB at trough/peak | Average PB through period |
|---|---|---|---|
| Bubbles | 2.30 | (P) 2.91 | 2.49 |
| Normal | 1.75 | NA | 1.83 |
| Slowdown/ fears of recession | 1.79 | (T) 1.50 | 1.70 |
| Recession | 1.91 | (T) 1.30 | 1.63 |
| Financial crisis | 1.58 | (T) 1.09 | 1.32 |

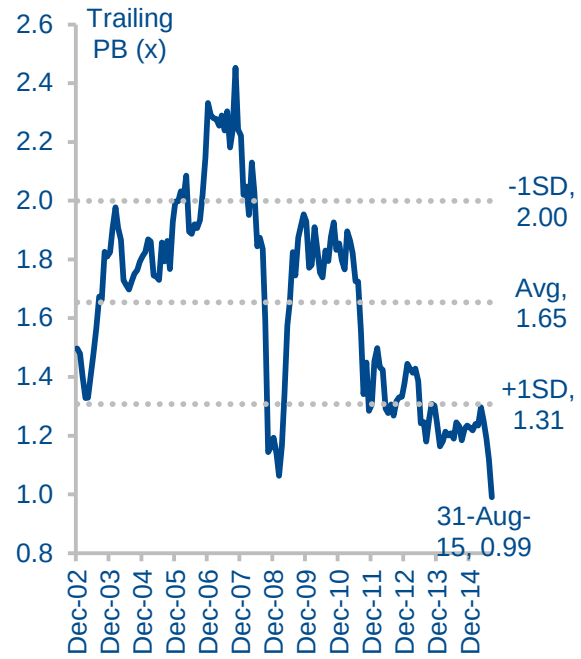
**Asia region is now trading closer to levels more associated with recession**

Source: DataStream, UBS, July 2015

# Valuations

## Below crisis level dragged down by three large sectors

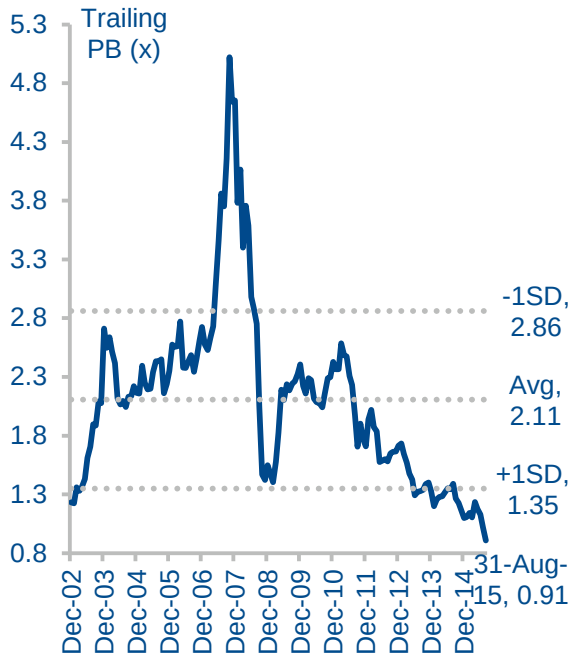
### Asia ex Japan banks




### Asia ex Japan materials




### Asia ex Japan energy




Source: Factset, CLSA, September 2015

# Valuations
## Attractive with growth

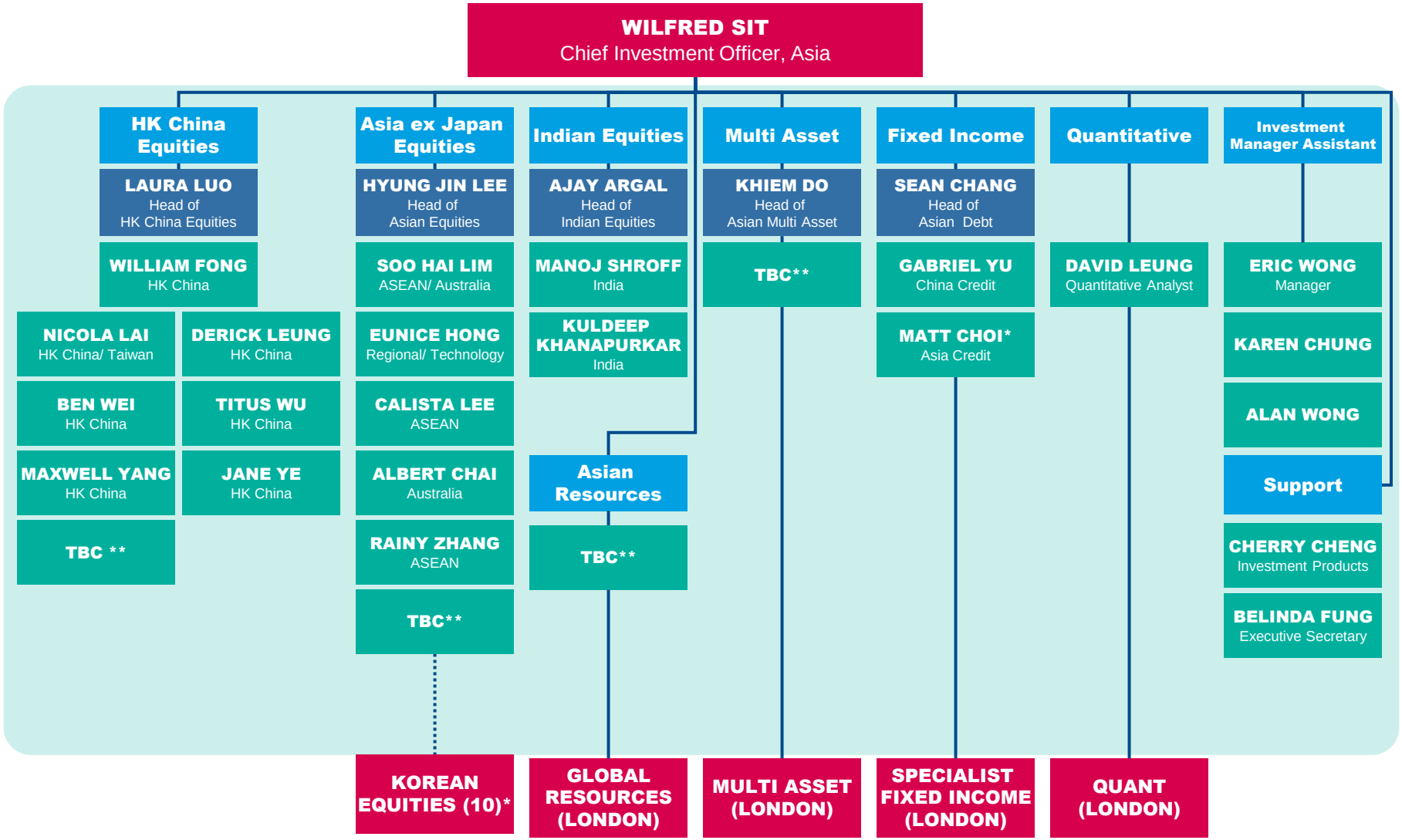
### Valuations, growth and yield

| 04/09/2014 | PE | | Earnings growth(%) | | PB | | ROE (%) | | Net div yield (%) | | Payout ratio (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Region / country | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| World (Developed) | 15.8 | 16.7 | 4.8 | 3.0 | 1.9 | 2.0 | 12.2 | 11.7 | 2.6 | 2.5 | 41 | 42 |
| Global EM | 11.9 | 11.8 | -7.9 | 7.0 | 1.5 | 1.4 | 11.6 | 11.8 | 3.0 | 3.0 | 36 | 36 |
| United States | 17.3 | 17.0 | 5.7 | 1.5 | 2.5 | 2.4 | 14.2 | 14.1 | 2.0 | 2.0 | 34 | 34 |
| Europe | 14.7 | 16.6 | 2.1 | 5.8 | 1.6 | 1.8 | 11.2 | 10.7 | 3.6 | 3.4 | 53 | 55 |
| Japan | 12.8 | 12.6 | 2.0 | 6.7 | 1.5 | 1.4 | 11.3 | 11.4 | 3.3 | 3.0 | 42 | 38 |
| Asia Pacific ex Japan | 12.7 | 12.2 | 2.7 | 8.3 | 1.5 | 1.4 | 11.0 | 11.3 | 2.8 | 2.8 | 36 | 34 |
| Asia ex JP | 15.8 | 16.7 | 4.8 | 3.0 | 1.9 | 2.0 | 12.2 | 11.7 | 2.6 | 2.5 | 41 | 42 |
| | | | | | | | | | | | | |
| Australia | 13.6 | 15.6 | -2.6 | -4.4 | 1.8 | 1.9 | 13.6 | 12.0 | 5.3 | 4.6 | 72 | 71 |
| China | 9.2 | 9.6 | 2.7 | 2.9 | 1.3 | 1.2 | 12.6 | 12.6 | 3.3 | 3.3 | 31 | 31 |
| Hong Kong | 13.4 | 15.5 | 26.1 | -17.1 | 1.2 | 1.2 | 9.3 | 7.5 | 2.9 | 3.3 | 39 | 51 |
| Indonesia | 15.2 | 13.3 | -4.5 | 7.9 | 3.1 | 2.4 | 20.2 | 18.5 | 1.7 | 2.5 | 25 | 33 |
| India | 17.2 | 17.4 | -4.7 | 11.9 | 2.3 | 2.4 | 13.4 | 14.4 | 1.9 | 1.8 | 32 | 31 |
| South Korea | 13.5 | 10.0 | -4.5 | 44.1 | 1.0 | 1.0 | 7.3 | 9.8 | 1.7 | 1.5 | 17 | 15 |
| Malaysia | 15.6 | 15.9 | -11.0 | 3.7 | 1.7 | 1.6 | 10.8 | 9.9 | 2.7 | 3.1 | 43 | 49 |
| Philippines | 20.5 | 20.3 | -0.4 | 10.2 | 2.7 | 2.8 | 13.5 | 13.8 | 2.2 | 2.0 | 46 | 41 |
| Singapore | 13.9 | 13.9 | 5.8 | 2.3 | 1.4 | 1.3 | 9.9 | 9.3 | 3.7 | 3.6 | 51 | 50 |
| Taiwan | 13.8 | 12.6 | 18.6 | 11.0 | 1.8 | 1.7 | 13.4 | 13.2 | 3.5 | 3.4 | 48 | 43 |
| Thailand | 15.0 | 13.2 | -15.2 | 14.3 | 1.8 | 1.6 | 12.2 | 12.2 | 2.9 | 2.9 | 44 | 38 |

Note: Data based on MSCI Universe, IBES, Consensus Estimates, Numbers are aggregated based on company full market cap.
Source: MSCI, IBES, UBS Quantitative Research, July 2015

# Barings Asian investment team

## Team structure




* Based in Seoul, reports to Barings Korea. ** Ongoing recruitment
Source: Barings, August 2015

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