Quarterly Investor Conference Call - September2013
Louis-Vincent Gave and Alfred Ho

A brief review of the year in Asian markets

It has been a tough year for Asian investors – first, almost every equity market in the region is down

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Standard | Movers | Volatility | Ratios | Futures | AVAT vs 10d | % Ytd | EUR

Asia/Pacific	2day	Value	Net Chg	% Chg	Δ AVAT	Time	% Ytd	% YtdCur
4) TOPIX		1193.77 d	+3.55	+0.30%	+67.50%	09:14	+38.84%	+19.33%
5) NIKKEI 225		14490.23 d	+66.87	+0.46%	+33.25%	09:14	+39.39%	+19.80%
6) JASDAQ		90.50 d	+.51	+0.57%	N.A.	09:14	+64.37%	+41.26%
7) HANG SENG		22976.65 d	+226.00	+0.99%	+12.60%	09/10 c	+1.41%	+0.75%
8) CSI 300		2474.89 d	+34.29	+1.40%	N.A.	09/10 c	-1.90%	-0.70%
9) Shanghai Comp		2237.98 d	+25.47	+1.15%	+119.52%	09/10 c	-1.37%	-0.16%
10) Shenzhen Comp		1044.58 d	+4.67	+0.45%	N.A.	09/10 c	+18.54%	+20.00%
11) SZSE Component		8636.63 d	+131.89	+1.55%	N.A.	09/10 c	-5.26%	-4.10%
12) Taiwan TAIEX		8193.82	-14.95	-0.18%	-0.25%	09:34	+6.42%	+3.39%
13) KOSPI		1993.39	-.67	-0.03%	-0.37%	09:34	-0.18%	-2.83%
14) S&P/ASX 200		5224.40	+23.23	+0.45%	+9.23%	09:34	+12.38%	+0.00%
15) CNX Nifty		5896.75 d	+216.35	+3.81%	-0.87%	09/10 c	-0.14%	-14.96%
16) S&P BSE SENSEX 30		19997.10	+727.04	+3.77%	+9.10%	09/10 c	+2.94%	-12.34%
17) FTSE Straits Tim		3120.80 d	-3.09	-0.10%	-14.76%	09:19	-1.46%	-5.67%
18) FTSE Malay KLCI		1775.41 d	+10.46	+0.59%	-0.79%	09:19	+5.12%	-2.36%
19) SE THAI		1393.17 d	+8.86	+0.64%	N.A.	09/10 c	+0.09%	-5.33%
20) Jakarta Comp		4358.14	+166.89	+3.98%	+62.16%	09/10 c	+0.96%	-14.32%
21) NZX 50		4622.89 d	-4.87	-0.11%	+0.95%	09:13	+13.68%	+9.86%
22) PSEi - Philippine		6168.52	+78.80	+1.29%	N.A.	09:34	+6.12%	-0.91%

Source: GaveKal Capital Limited

Aside from the RMB, every Asian currency is down for the year

Source: GaveKal Capital Limited

And Asian government bonds (aside from JGBs!!!) have offered no shelter

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91) Bonds | 92) Spreads | 93) Curves

Maturity: 10 Year | Trading Mode | Data Range: YTD

Country	CMI	Security	Bid↓ / Ask	Yield	Yld Chg	Yield	Low	Range (Avg / Now)	High	YTD Chg
1) Japan		JGB 0.8 09/23	100.530 / 100.624	0.733	-.2		.436		.923	-4.7
2) Taiwan		TGB1 ⅝ 09/23	98.423 / 98.603	1.779	--		1.152		1.779	+62.1
3) Hong Kong		HKGB 1.09 23	88.007 / 88.812	2.398	--		.559		2.531	+183.9
4) Singapore		SIGB 2 ¾ 23	100.456 / 100.653	2.674	+.7		1.280		2.743	+139.3
5) Philippines		RPGB 3 ¼ 23	98.409 / 98.409	3.440	--		2.814		3.978	N.A.
6) South Korea		NDFB 3 03/23	95.074 / 95.269	3.595	-.5		2.718		3.727	+43.7
7) Malaysia		MGS3.48 03/23	96.691 / 97.099	3.847	-1.6		3.041		4.078	+36.2
8) China		CGB4.08 08/23	99.683 / 100.456	4.024	+2.2		3.365		4.024	+46.8
9) Australia		ACGB 5 ½ 23	110.313 / 110.417	4.171	+5.2		3.028		4.171	+90.5
10) Thailand		THAIGB3 ⅝ 23	94.021 / 94.345	4.341	+.1		3.271		4.350	+85.9
11) New Zealand		NZGB 5 ½ 23	105.465 / 105.934	4.723	+3.1		3.129		4.723	+123.2
12) Indonesia (USD)		INDON 3 ⅜ 23	81.174 / 82.484	5.781	-6.9		2.843		6.211	+292.4
13) India		IGB7.16 05/23	91.347 / 91.408	8.475	--		7.139		9.235	+42.6
14) Indonesia		INDOGB5 ⅝ 23	79.516 / 80.397	8.657	--		5.017		8.765	+354.4
15) Pakistan		PAKGB12 07/22	100.291 / 100.845	11.837	--		11.837		12.003	N.A.

Source: GaveKal Capital Limited

The pain has gone into overdrive in the past three months

- In the past three months, Asian investors have found few places to hide. Even Japan, this year's best performing equity market, delivered negative returns in June, July and August. Combine this negative performance with the 40% positive swing in Japanese earnings and Japanese PEs have actually been compressed so far this year! Japan is actually being de-rated.

- While Japanese equities have suffered a three month de-rating, one of the best places to invest has been the JGB market – not an obvious bet given the policy changes embraced by the Japanese MoF and the BoJ!

- Aside from Japan (and too small to invest in New Zealand), Asia's second best performing market ytd has been Taiwan (+4% in USD terms). This relative outperfomance has occurred against massive downgrades in the PC and smartphone businesses, which account for a large portion of the market….

- Another amazing performance has come from Australia (broadly flat for the year). Against falling commodity prices (ex oil) and a slowing economy, the overvalued Australian banks are up 10% for the year!

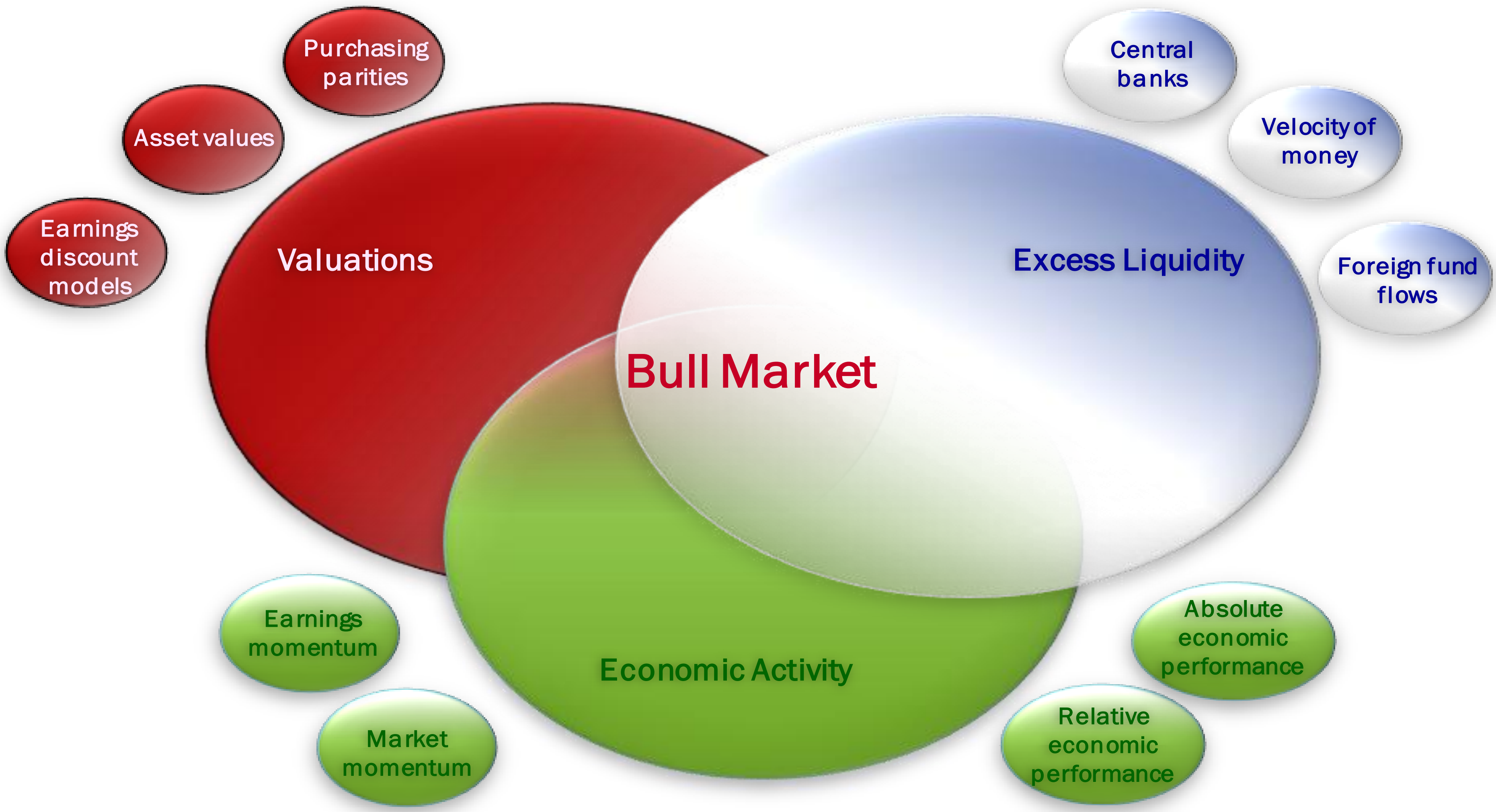
- Korea is also almost flat for the year, against a -13.5% drop in the Yen and downgrades in the earnings of cyclical companies that make up a large percentage of the underlying market.

- And the real bloodbath has been India and ASEAN, where the best performing market is the Philippines (-4.5%). What is interesting in this pegging order is that it almost makes for a mirror image of market behavior up to May. Indeed, in the first few months of the year, ASEAN was riding high while North Asia struggled.

- So what should we make of this vicious rotation? At first glance, our conclusion would be that the moves we have seen have less to do with changes in the perception of growth, then with rapid changes in fund flows. **And if that's the case, then perhaps this is creating some buying opportunities?**

Source: GaveKal Capital Limited

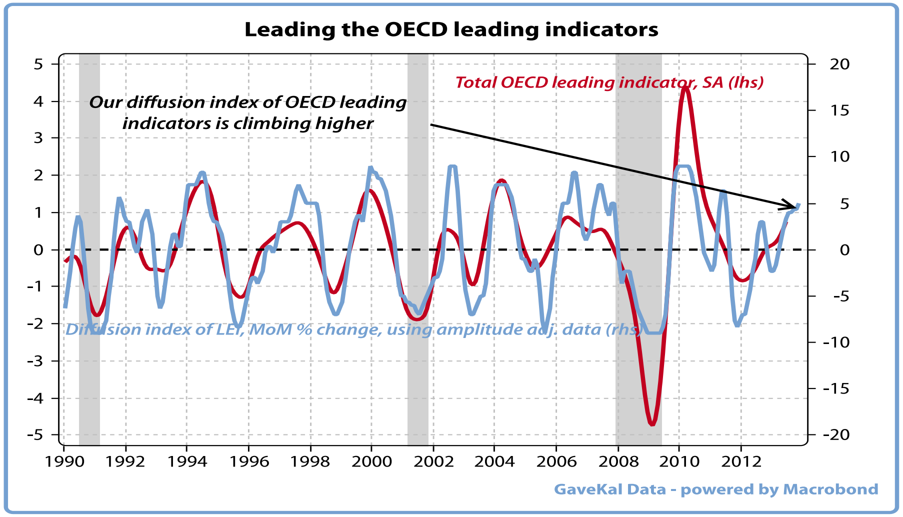
When the message from markets is confusing, we need to go back to basics: the three pillars of a bull market

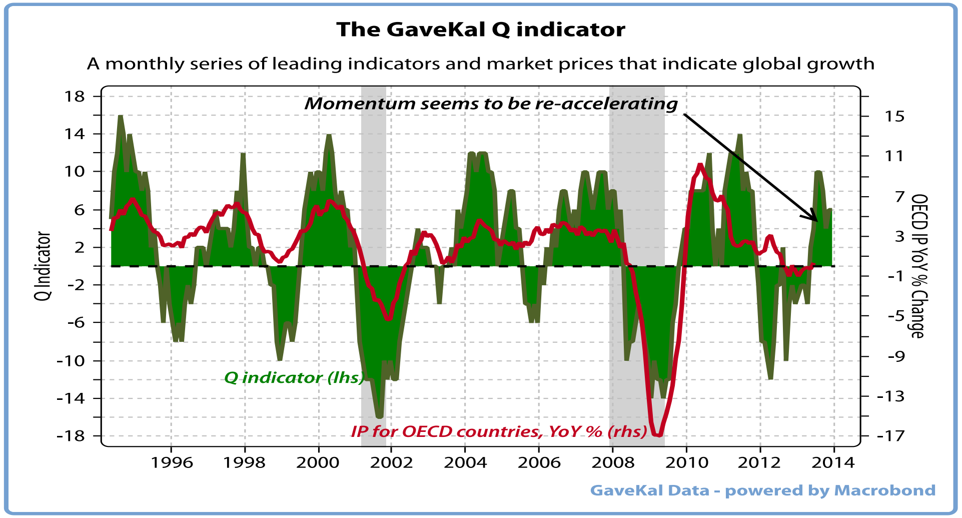


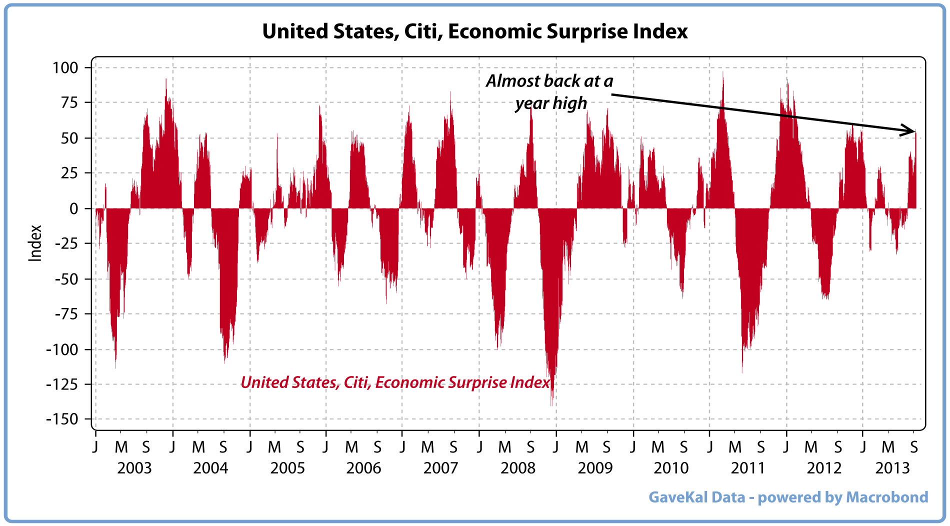
Source: GaveKal Capital Limited

Growth around the world seems to be picking up

With Europe stabilizing and US moving along, global growth appears to be re-accelerating







Source: GaveKal Capital Limited

The recent data out of China has been positive: production is bouncing back, current account is stabilizing, as is inflation

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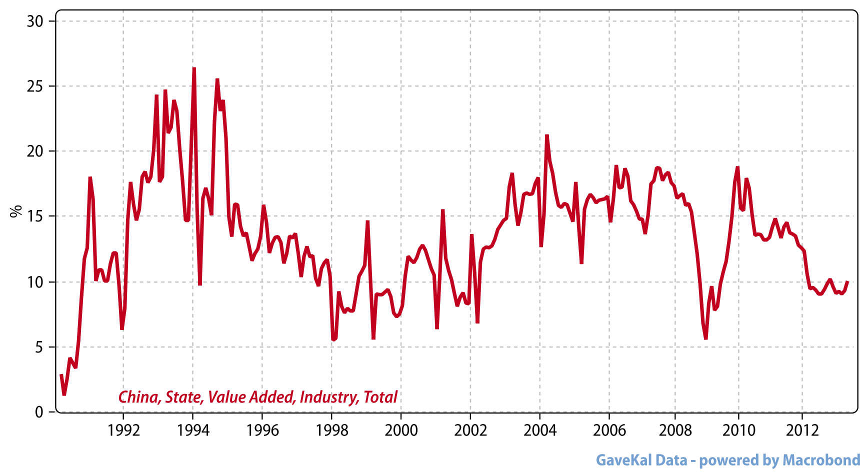
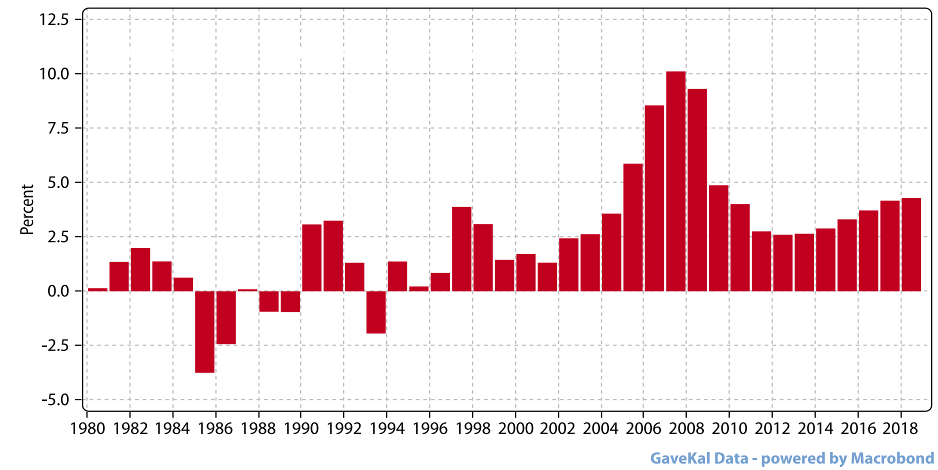
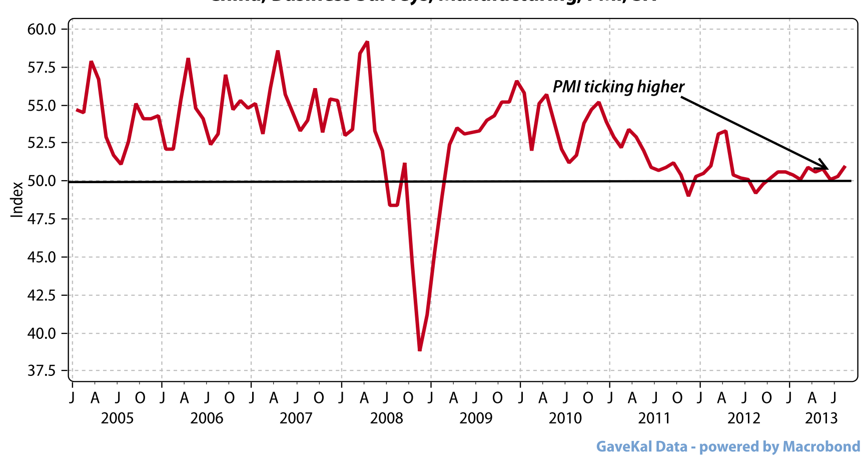
China, State, Value Added, Industry, Total



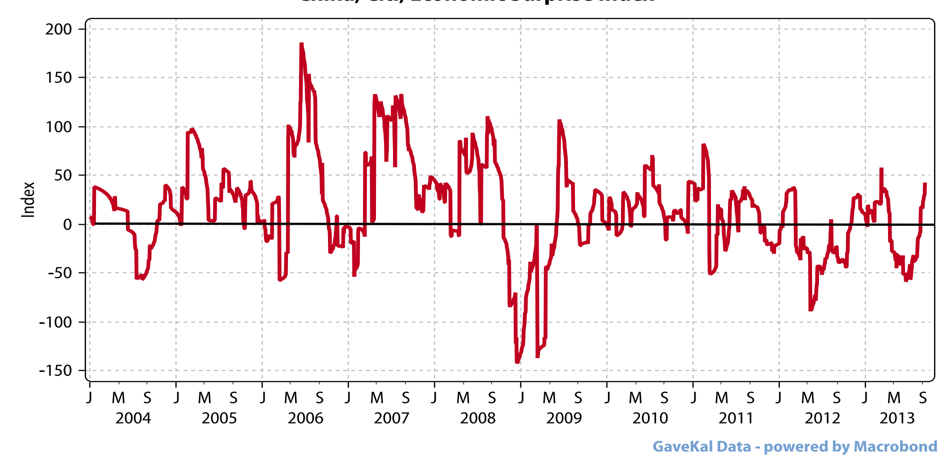
China, Current Account Balance, IMF WEO, Estimate, Percent of GDP



China, Business Surveys, Manufacturing, PMI, SA

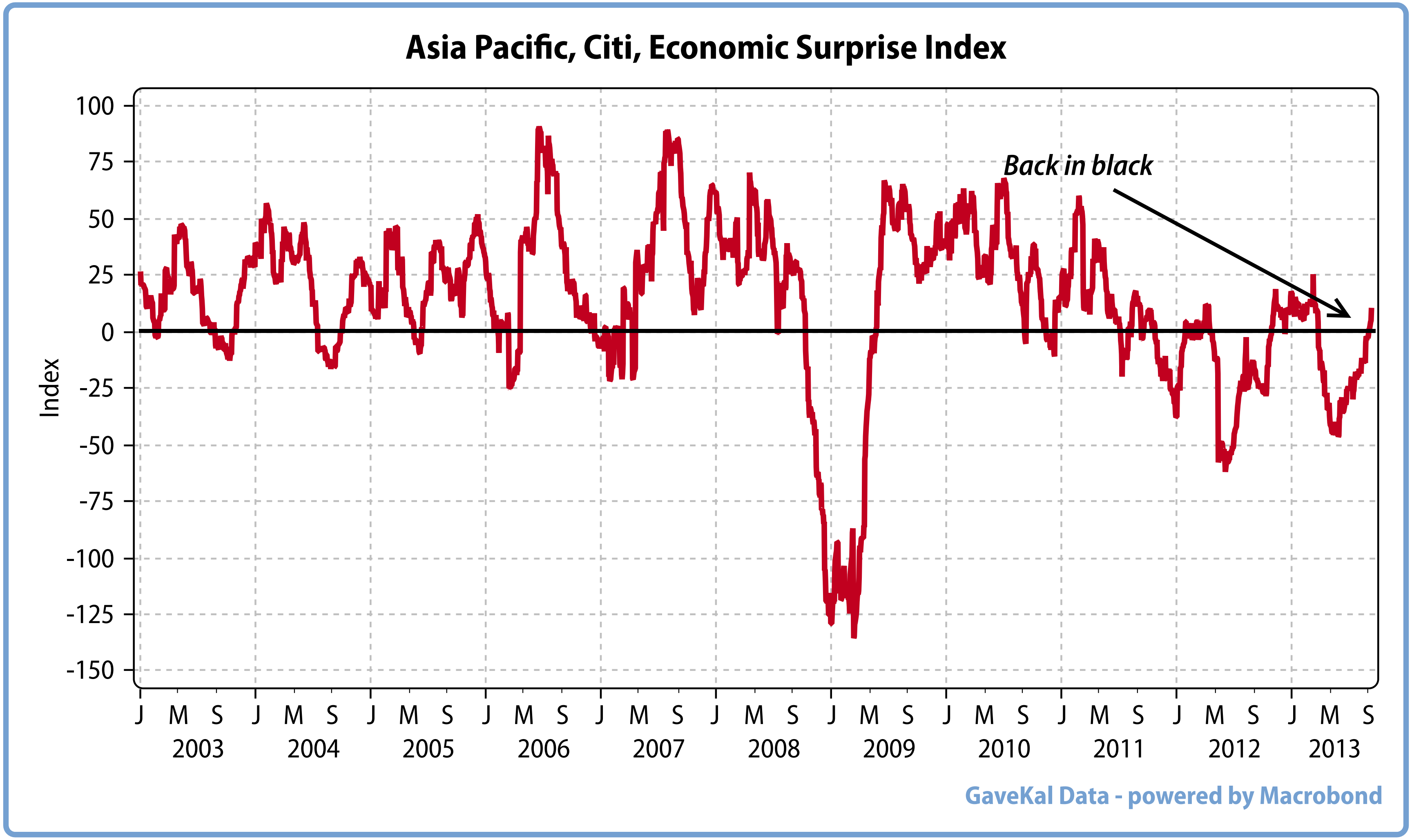


China, Citi, Economic Surprise Index



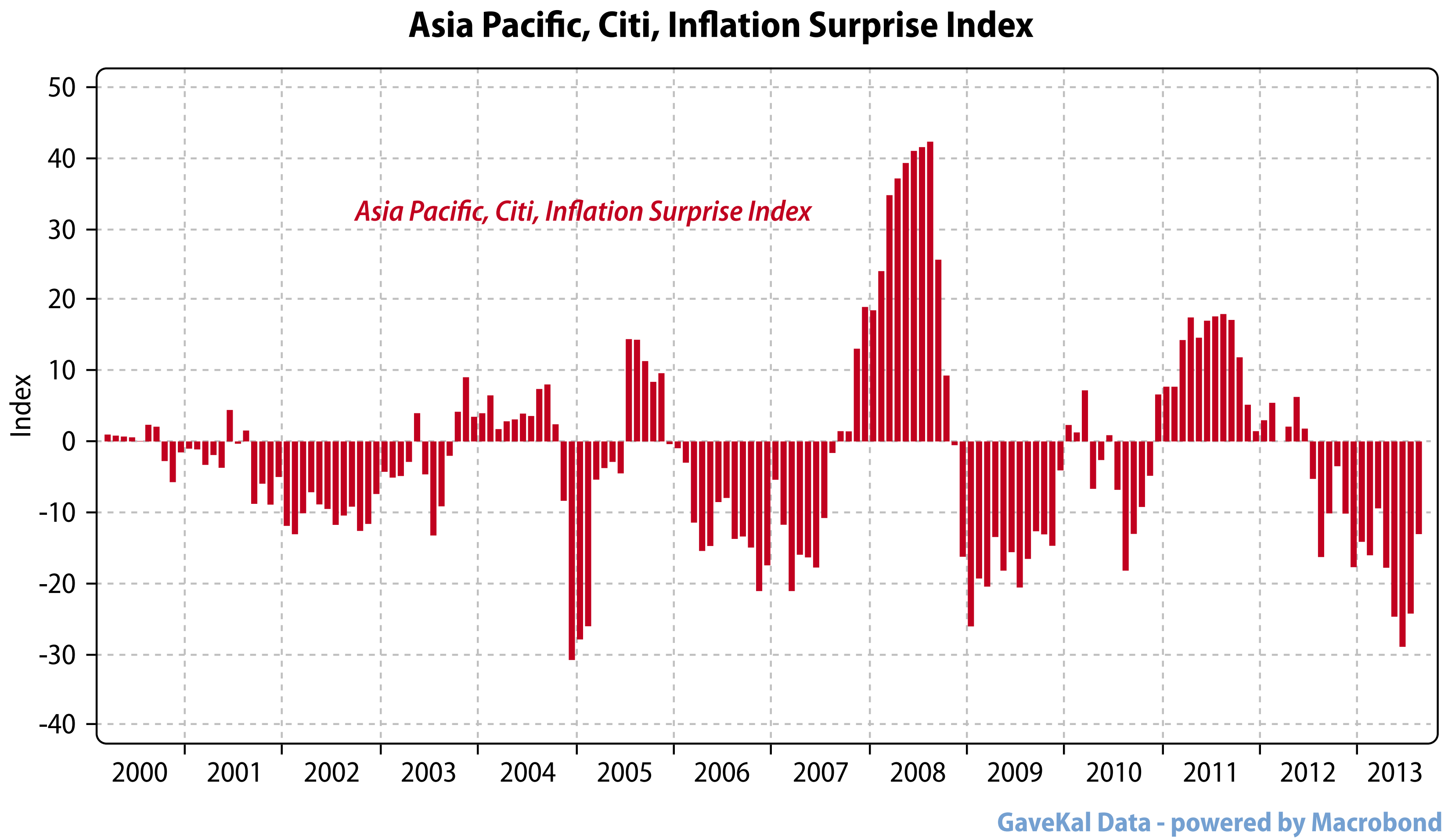
Source: GaveKal Capital Limited

For all the fears of an EM crisis, the data out of Asia-Pac has been broadly positive as well

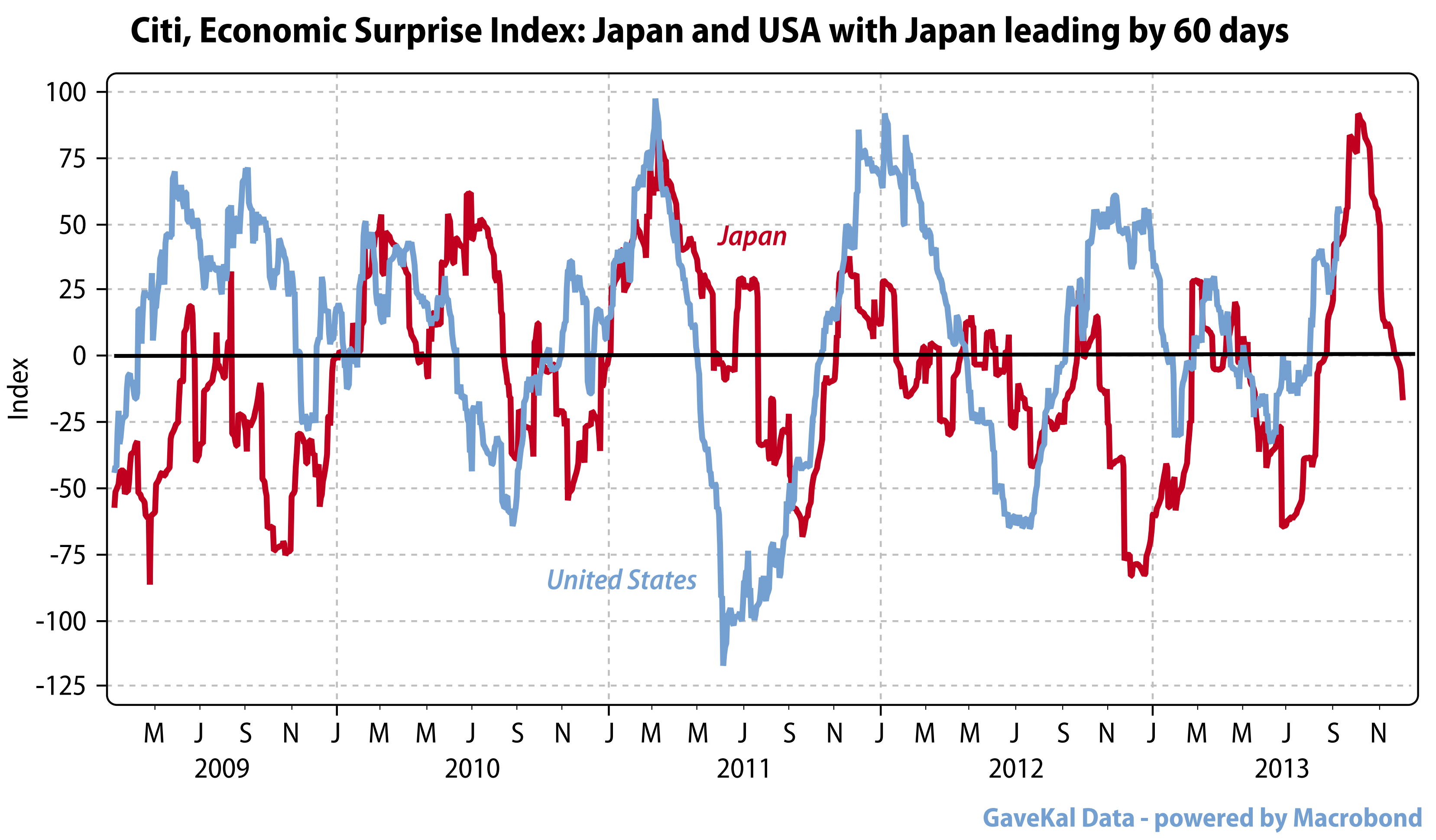


Source: GaveKal Capital Limited

And this is happening with an inflation environment that remains tame

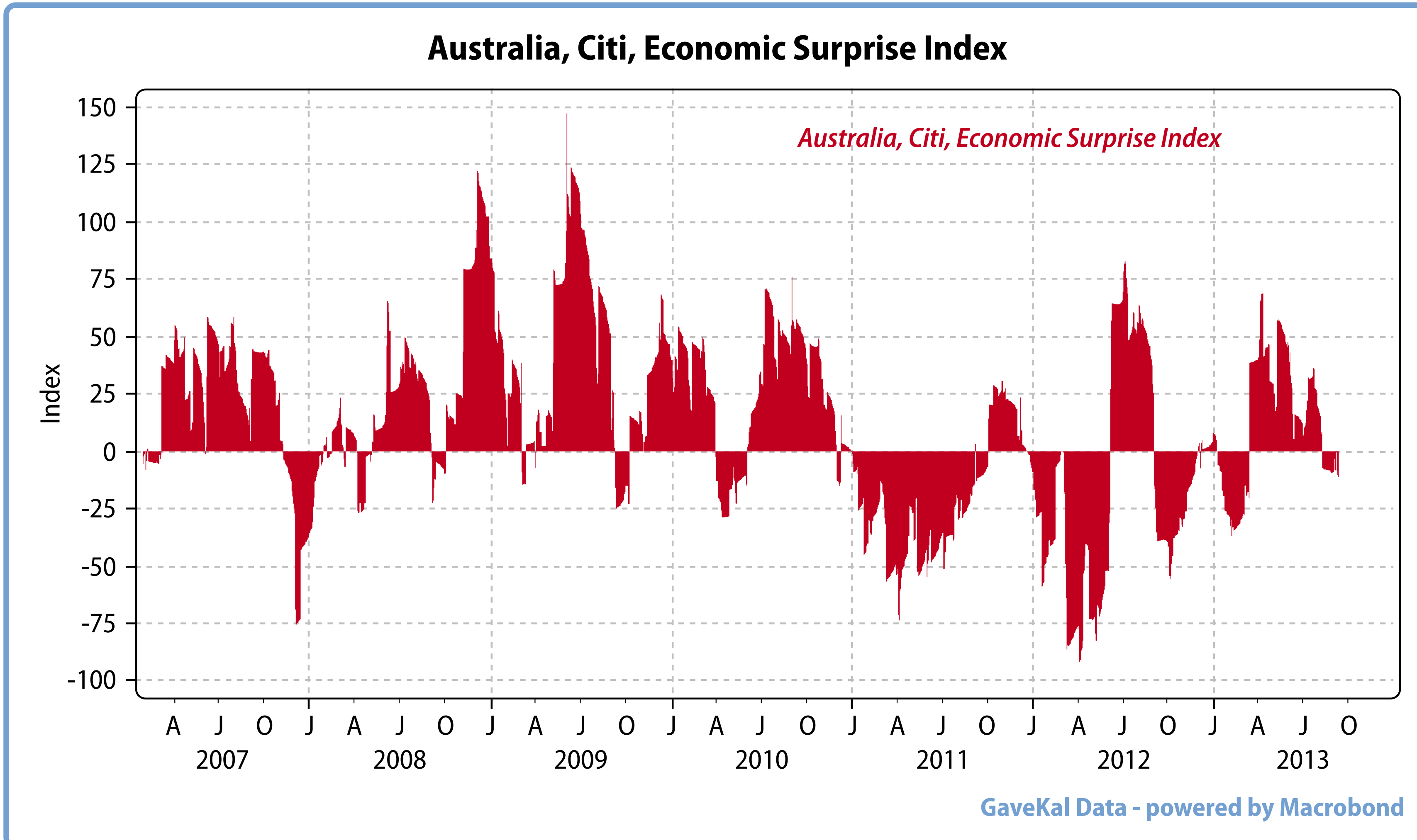


One possible concern is that the recent data out of Japan has not been that great…



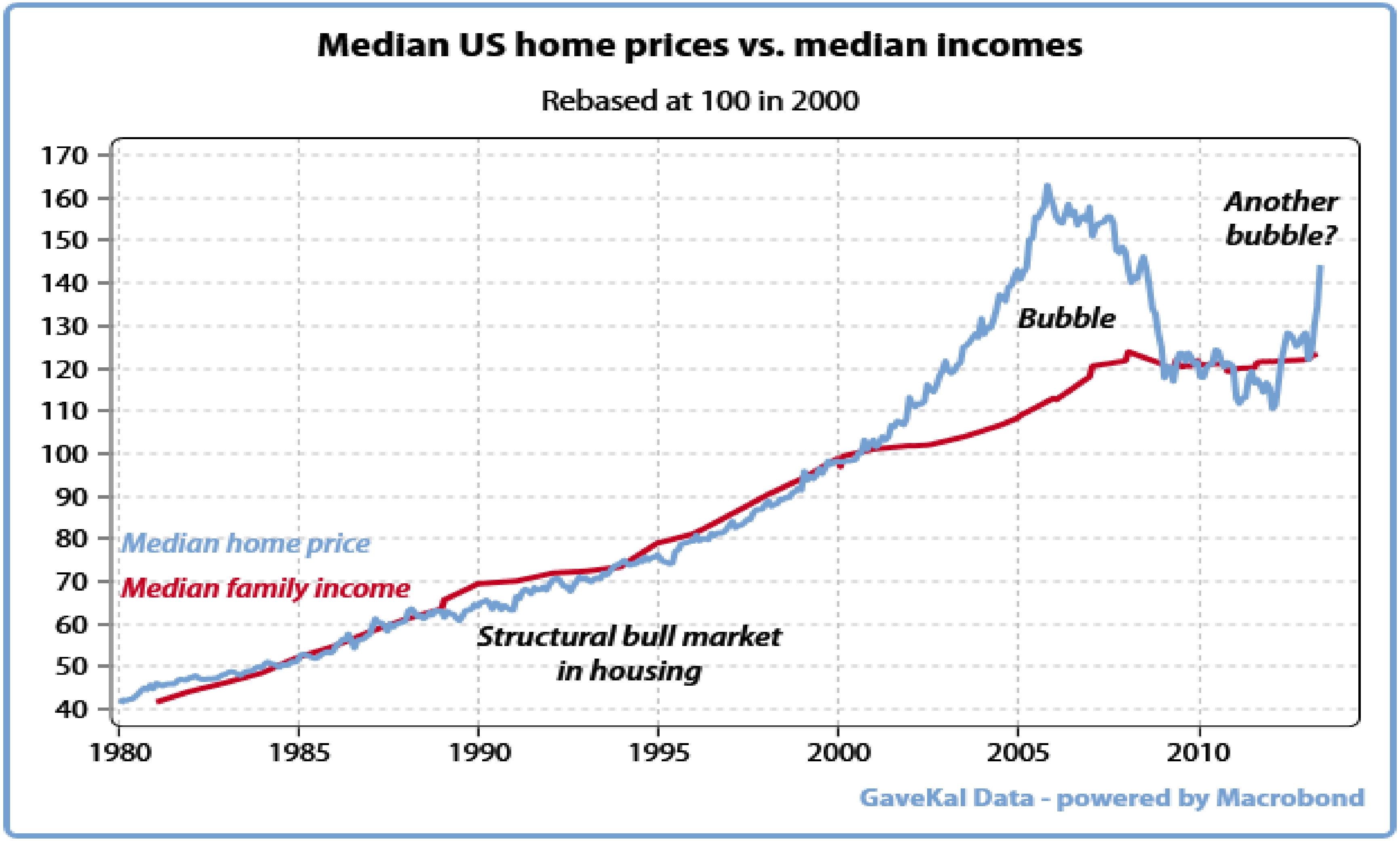
Source: GaveKal Capital Limited

And same story in Australia



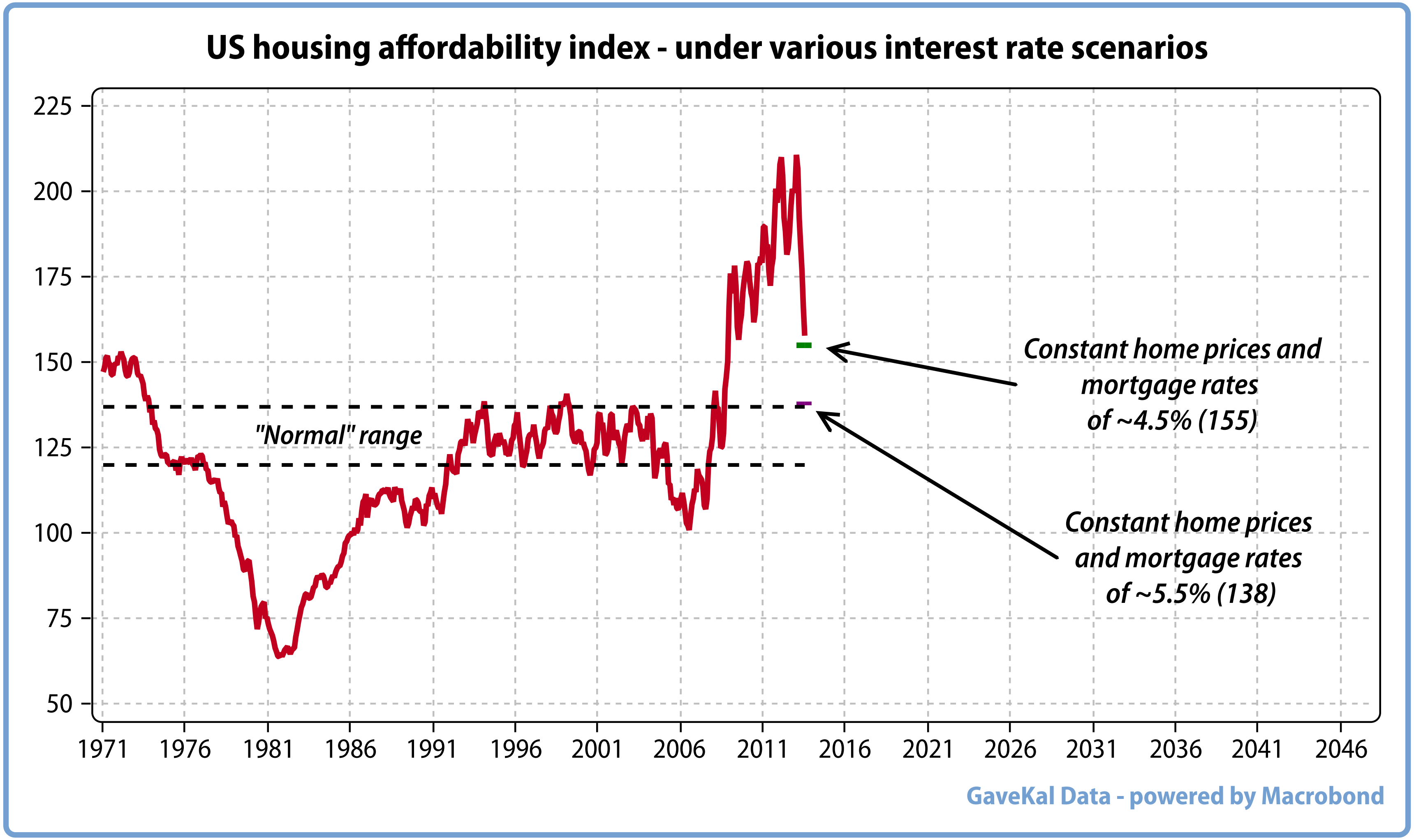
Source: GaveKal Capital Limited

Another question mark is the extent to which the US recovery is dependent on the housing rebound…



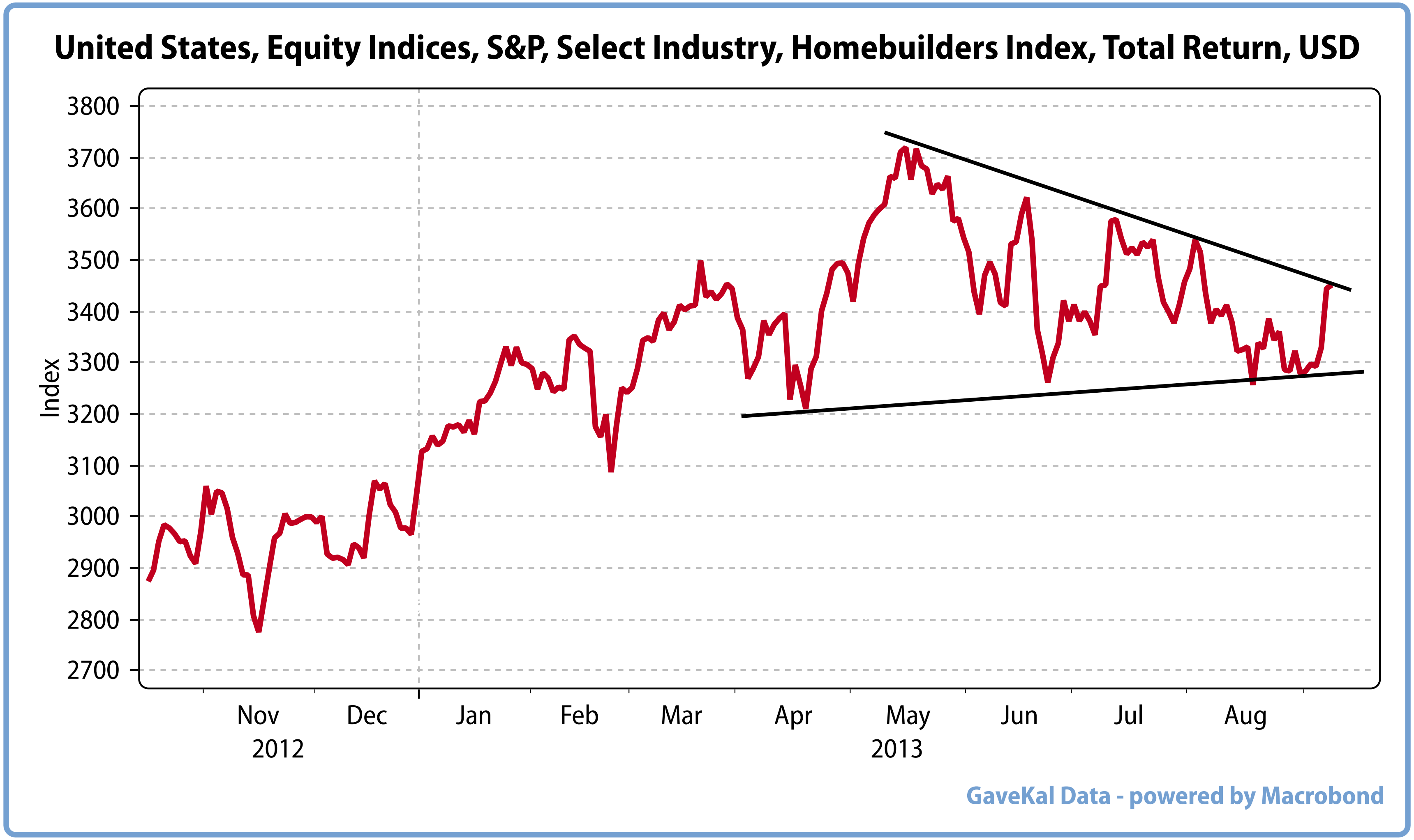
Source: GaveKal Capital Limited

For at this pace of interest rate increases, US houses will soon no longer be the bargains that they were at the beginning of the year

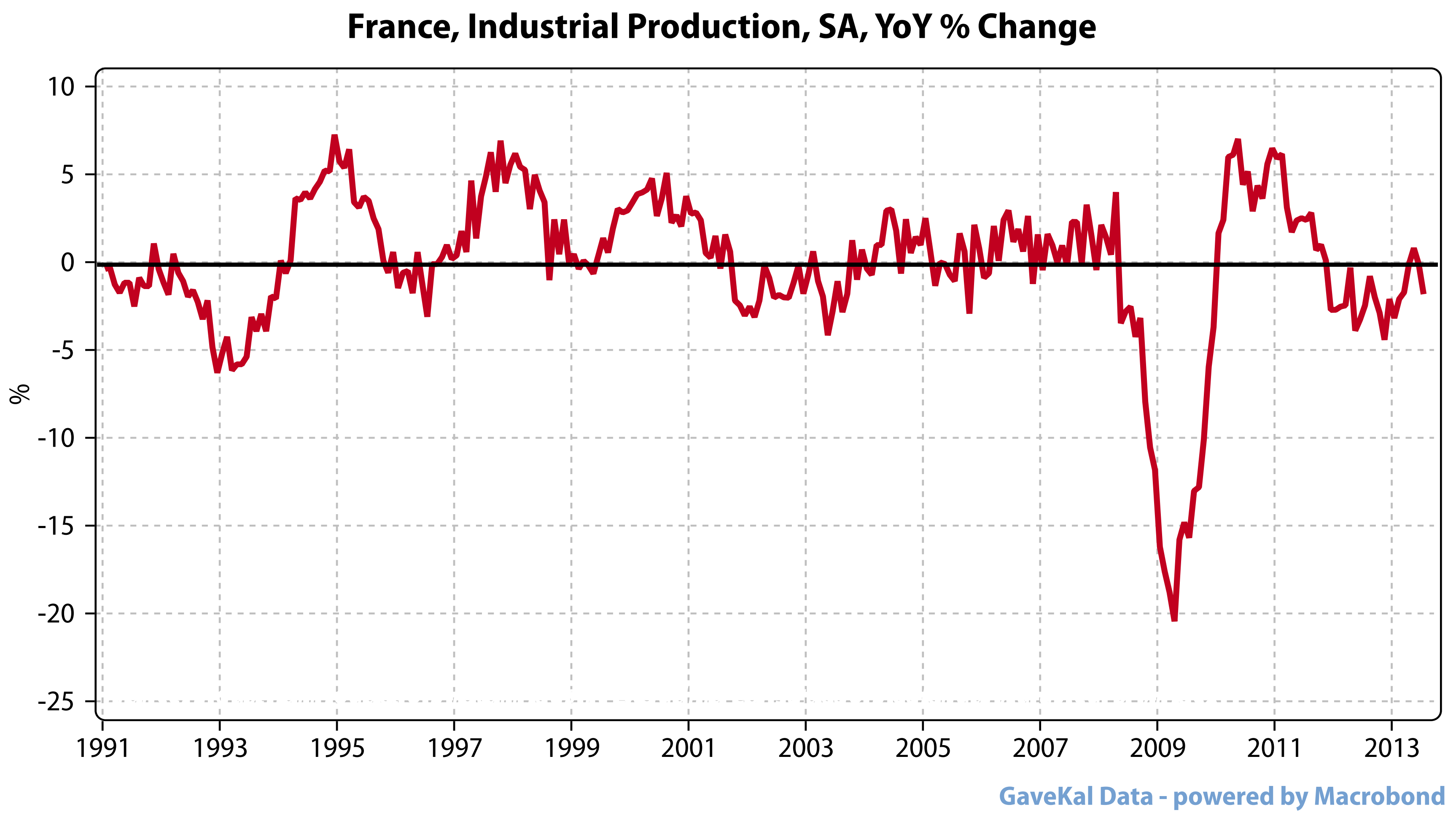


Source: GaveKal Capital Limited

A positive break-out by homebuilders would be a comforting signal

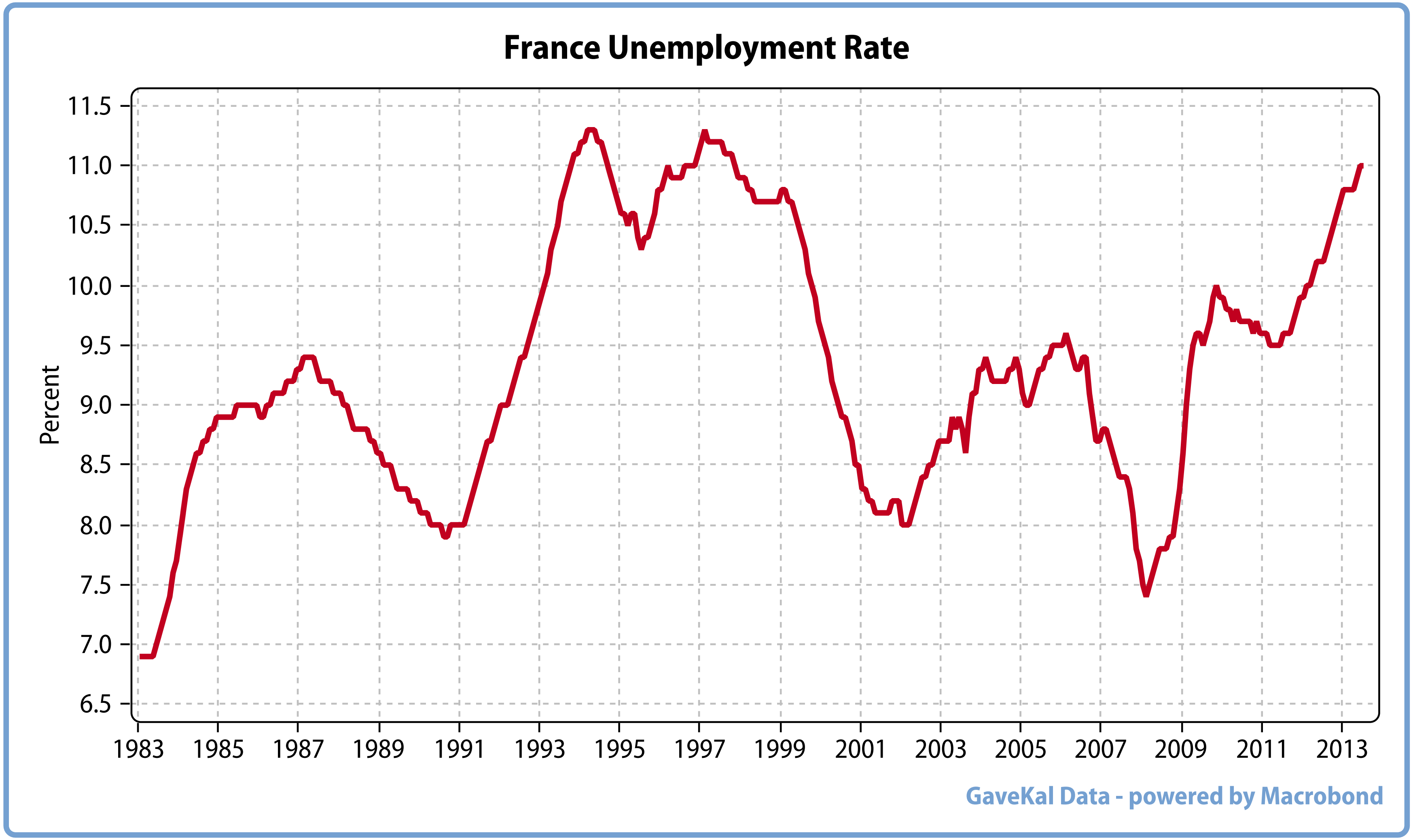


In Europe, France's inability to participate in the global rebound is disconcerting



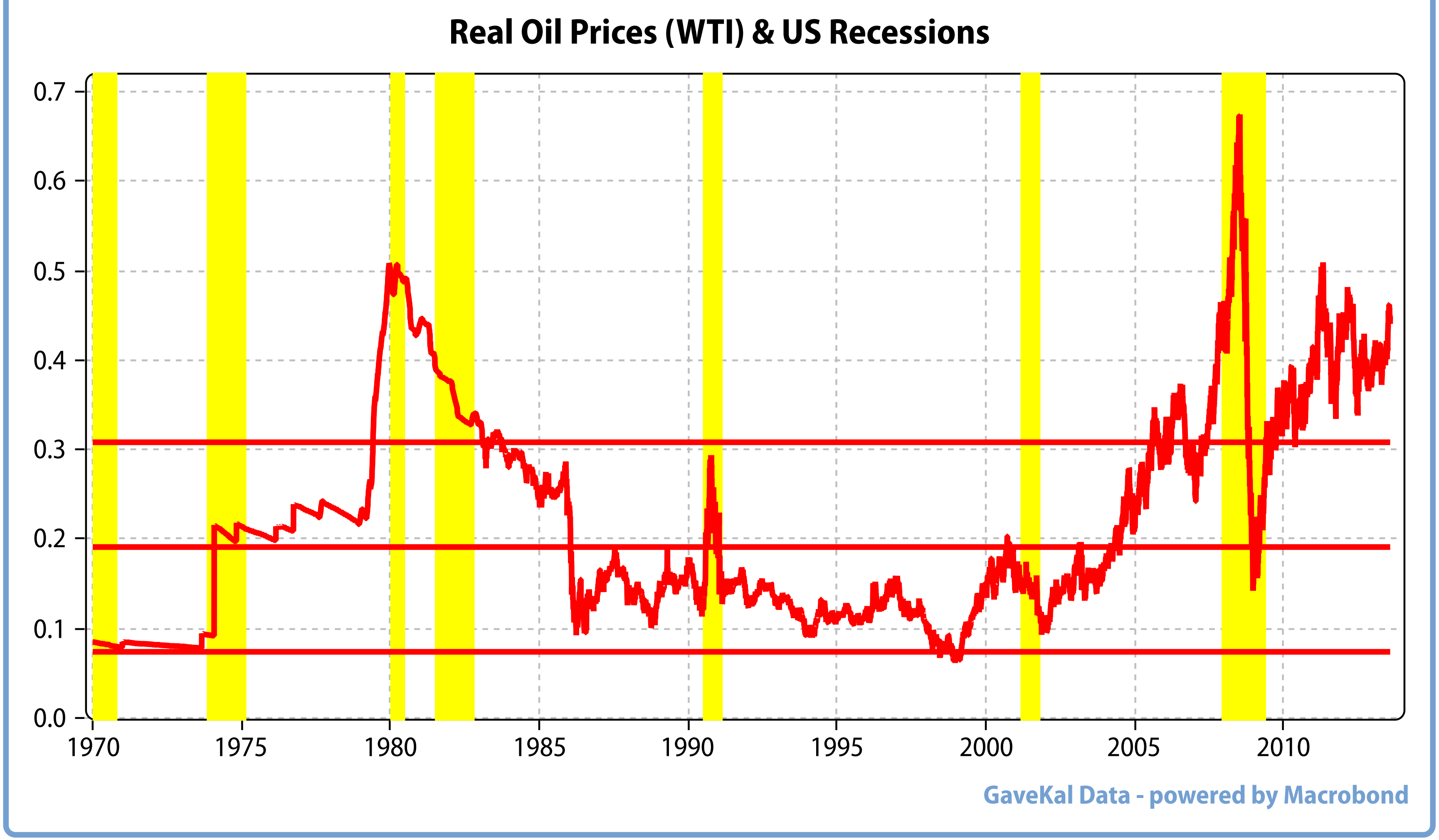
Source: GaveKal Capital Limited

A roll-over in French unemployment would be a great relief



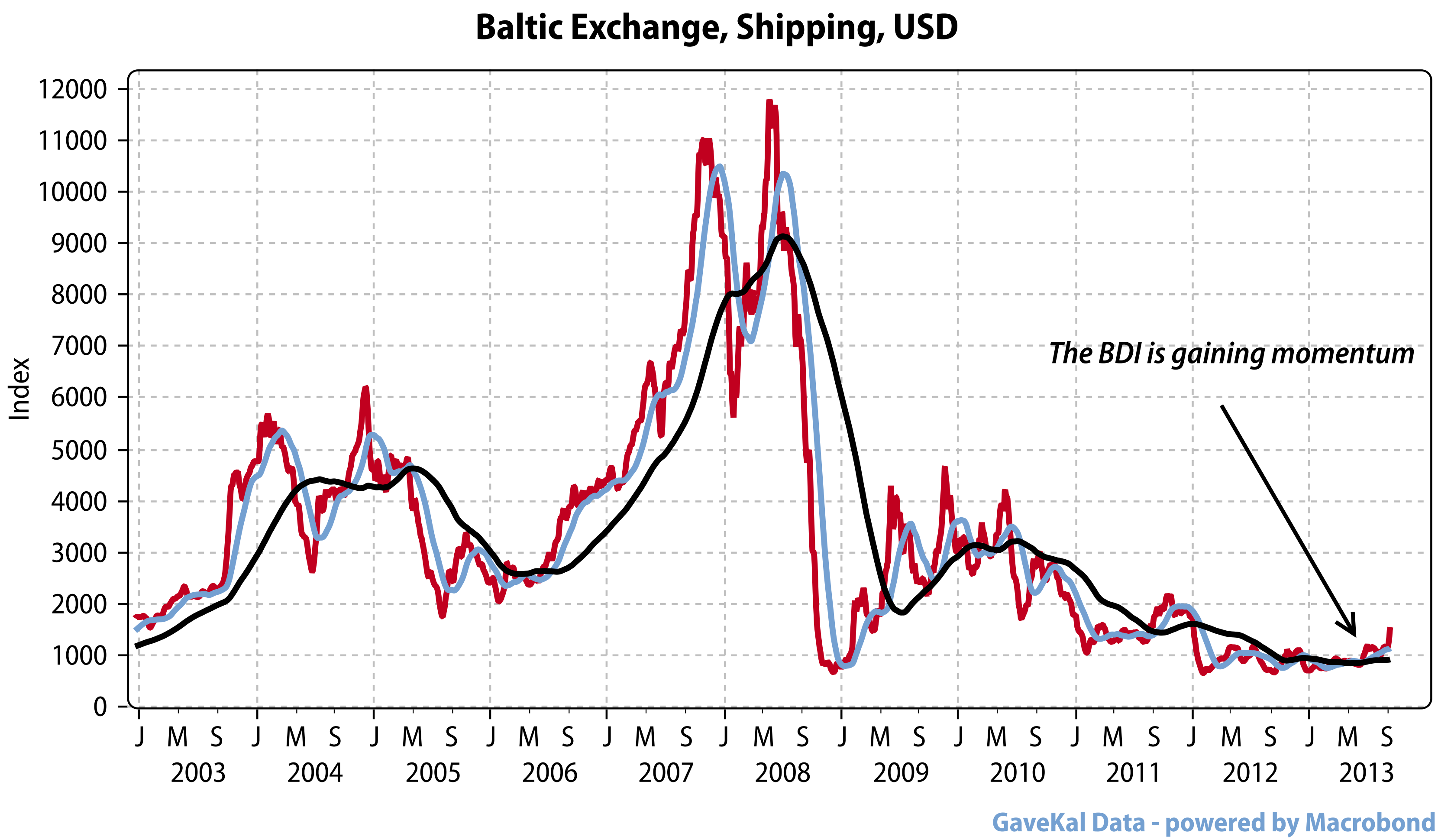
Source: GaveKal Capital Limited

One final concern is the still elevated price of oil…



Source: GaveKal Capital Limited

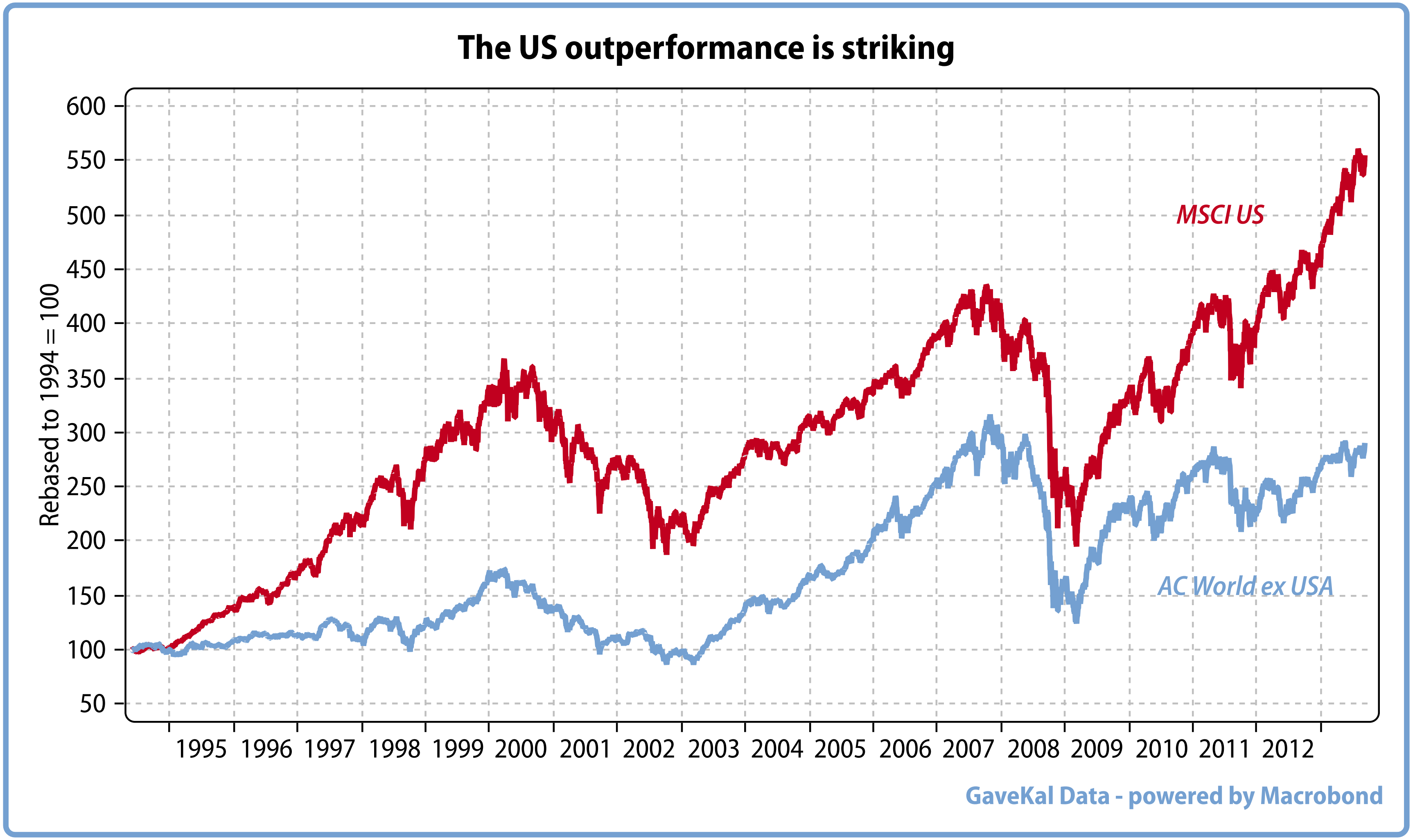
But by and large, the growth outlook seems to be improving



Source: GaveKal Capital Limited

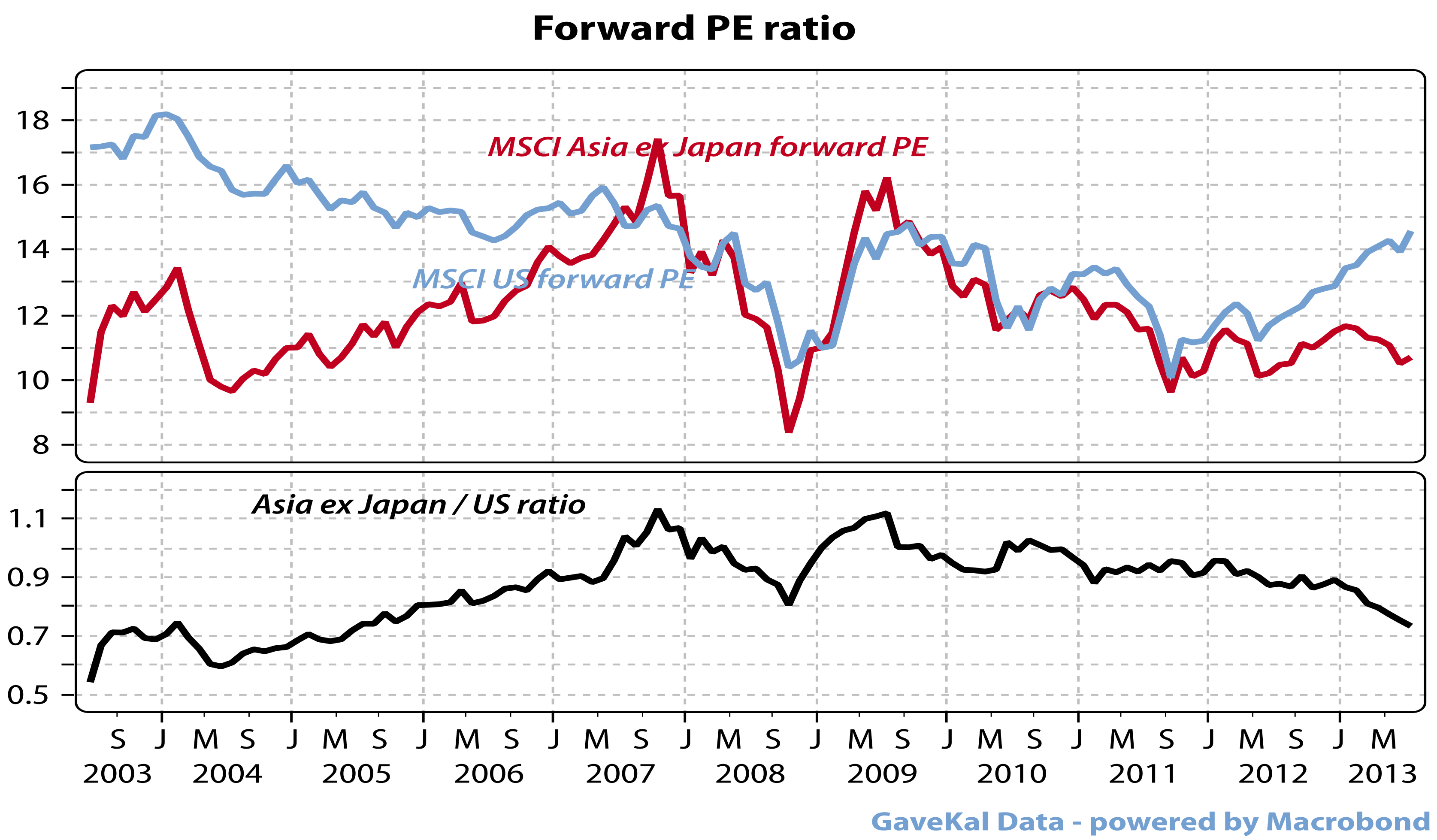
Valuations: the US is getting pricey – Asia is attractively valued

The US outperformance has been as extreme as that of the late 1990s



Source: GaveKal Capital Limited

US equities have re-rated, Asian equities have de-rated



Source: GaveKal Capital Limited

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Will Western equity markets remain the shelter in the storm? Three possible scenarios

Investors obviously feel that developed market equities will remain the best shelter in the storm. However, given the growing valuation gap, we are becoming uncomfortable with that assessment. After all, there are three ways to look at the valuation dichotomy.

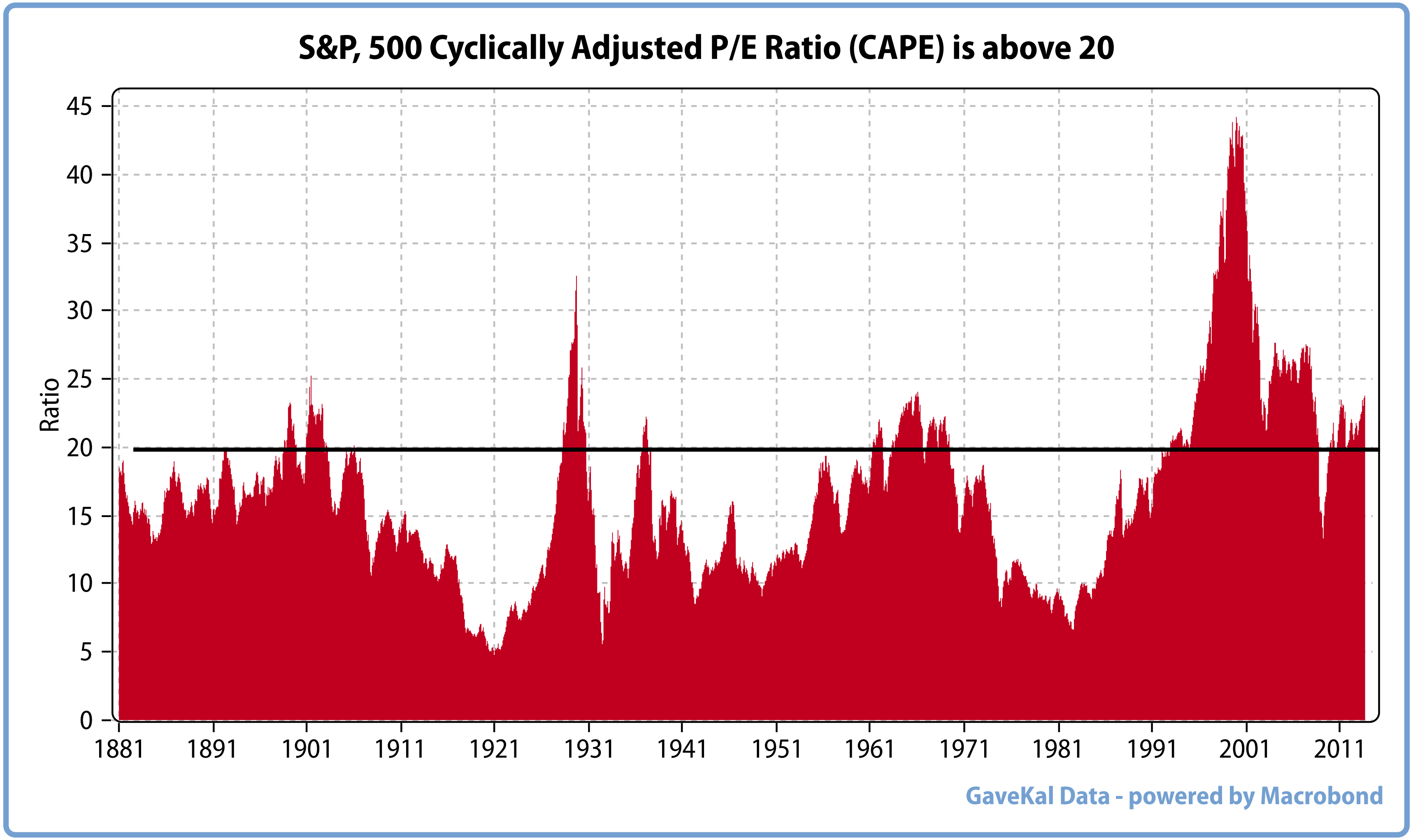
- The first is to say that the tailwinds to the Western economies (shale gas, robotics, ultra-easy monetary policies, fiscal and regulatory policy visibility…) are just so strong that the valuation gap between emerging markets and developed markets can only accelerate from here. In this scenario, one would want to continue buying developed market equities at the expense of almost anything else.

- The second is to say that, if developed economies really start growing as fast as Western equity markets are increasingly starting to discount, then we should not worry too much about an emerging market growth slowdown. Instead, **we should use the recent sell-off in EM growth stocks as a terrific opportunity to increase exposure to Asian and emerging market equities on the cheap**.

- The third, and more worrying conclusion would be that, while emerging markets are rightly discounting a growth slowdown, developed markets are not, probably because of the excess liquidity created by central banks. However, if/when the spigots get tightened and/or growth in developed markets is unable to build on the recent momentum, then the valuation gap might close not through a re-rating of emerging market equities, but a de-rating of developed markets. This latter possibility has to be a concern.

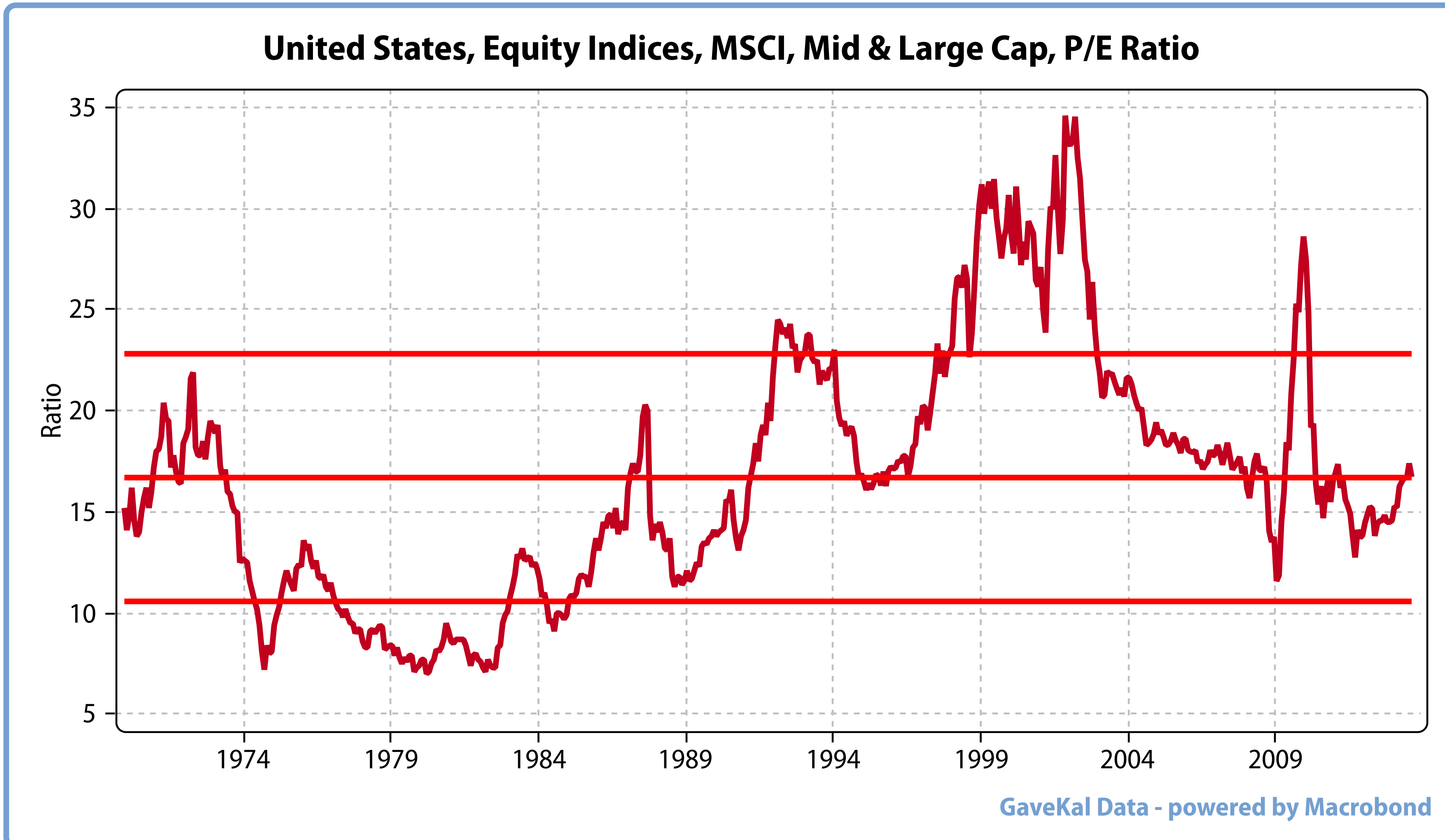
Source: GaveKal Capital Limited

The big debate: are US equities expensive?

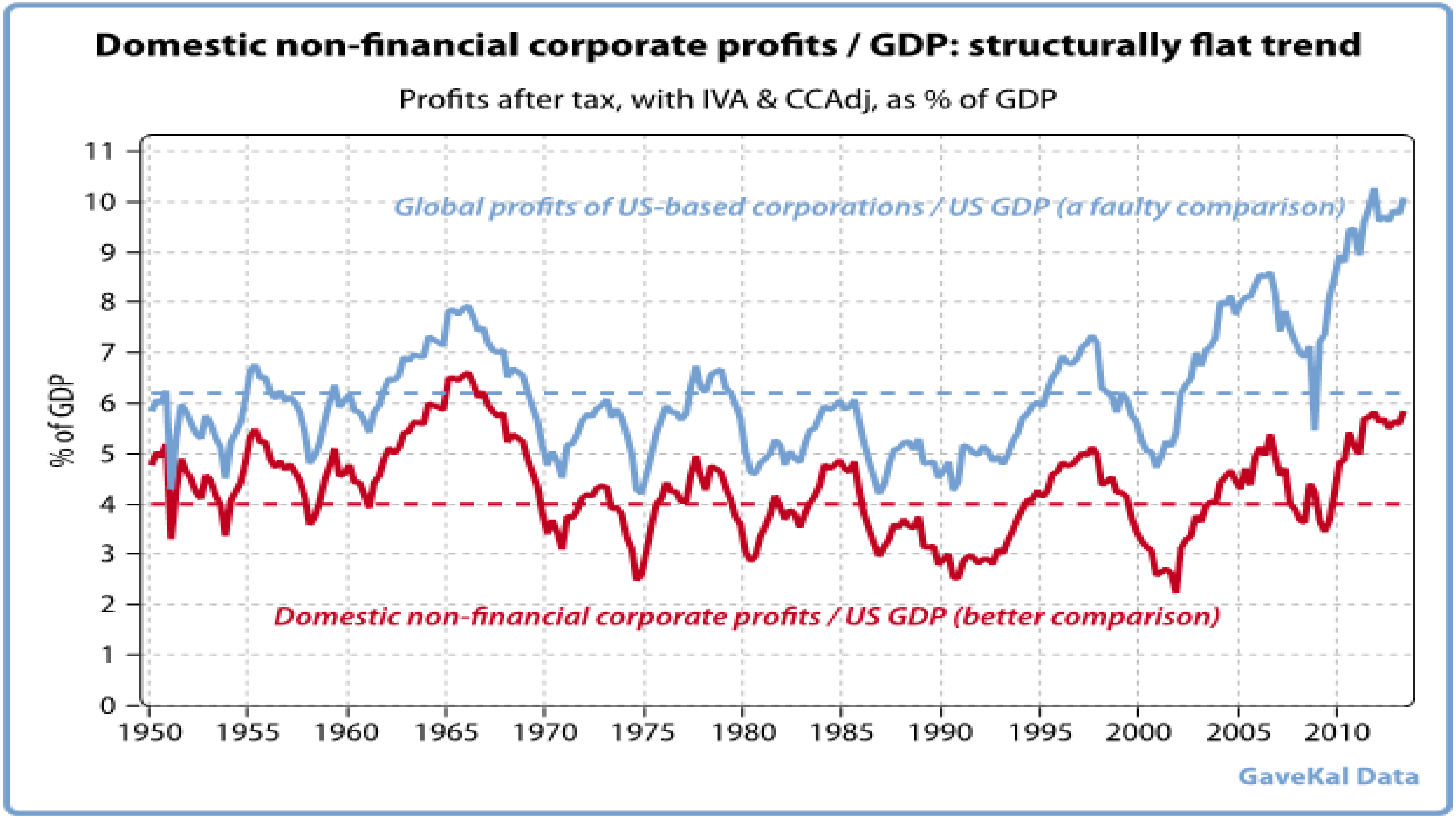


Source: GaveKal Capital Limited

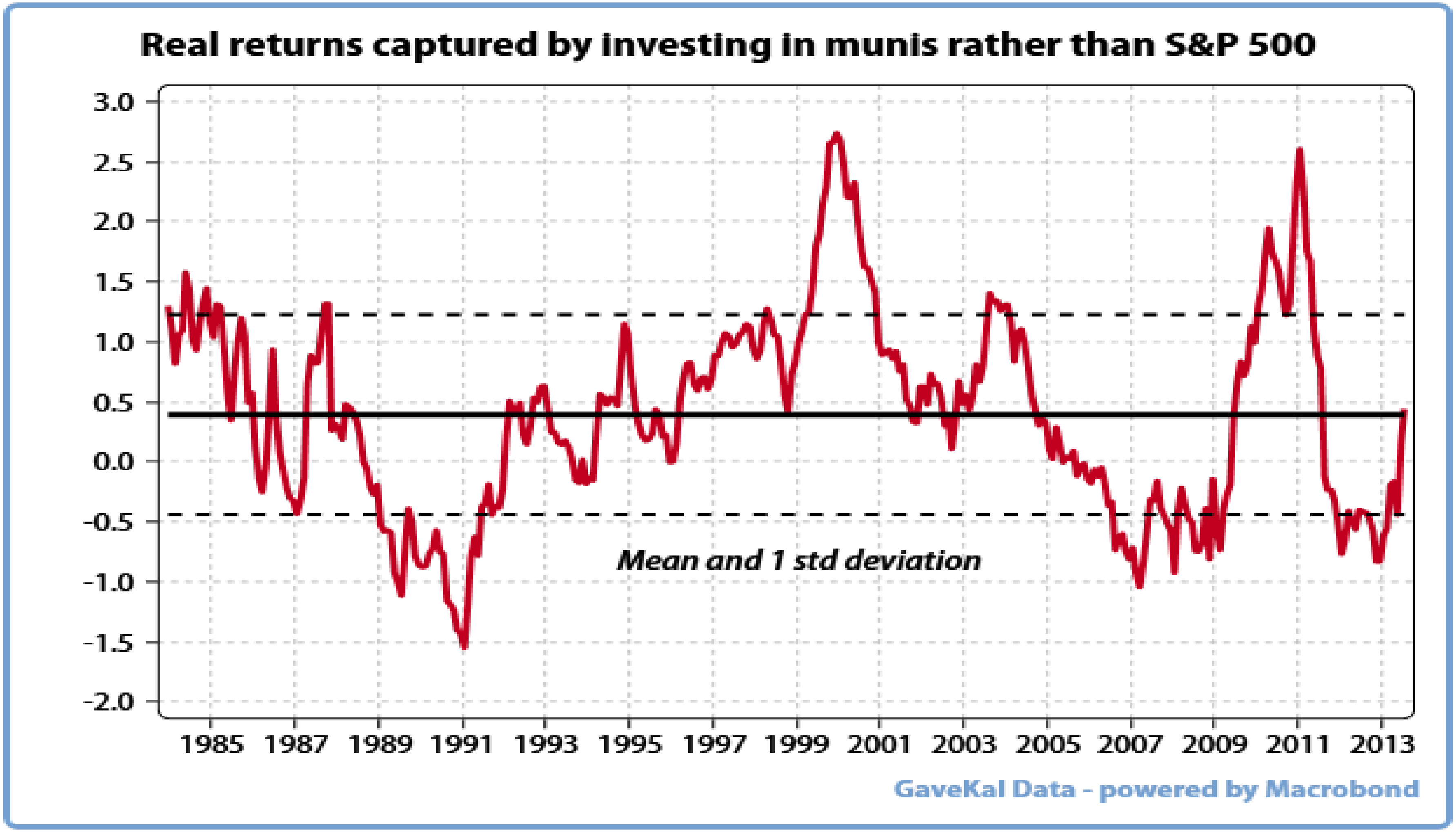
Or fairly valued?



Part of the answer rests on which way one thinks US margins will go

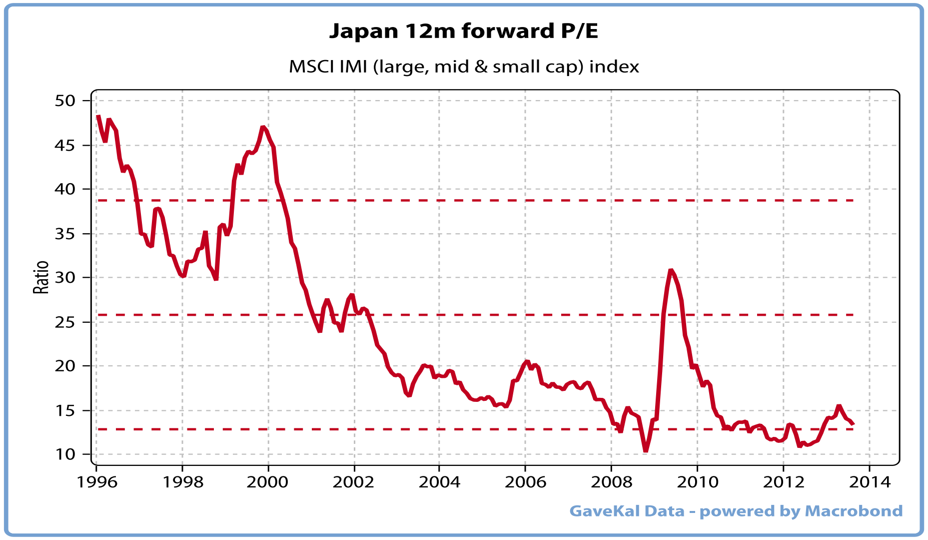


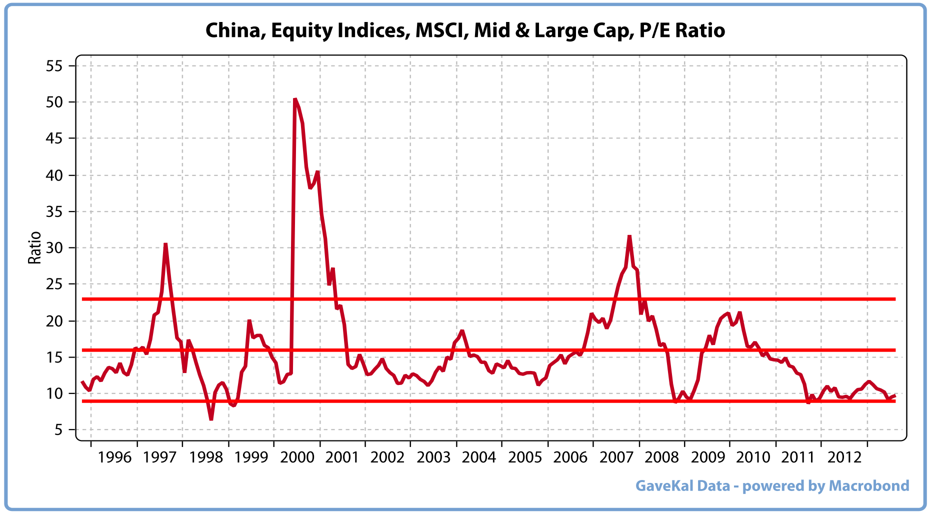
And the question will increasingly be whether US equities can continue to brush off US interest rate increases

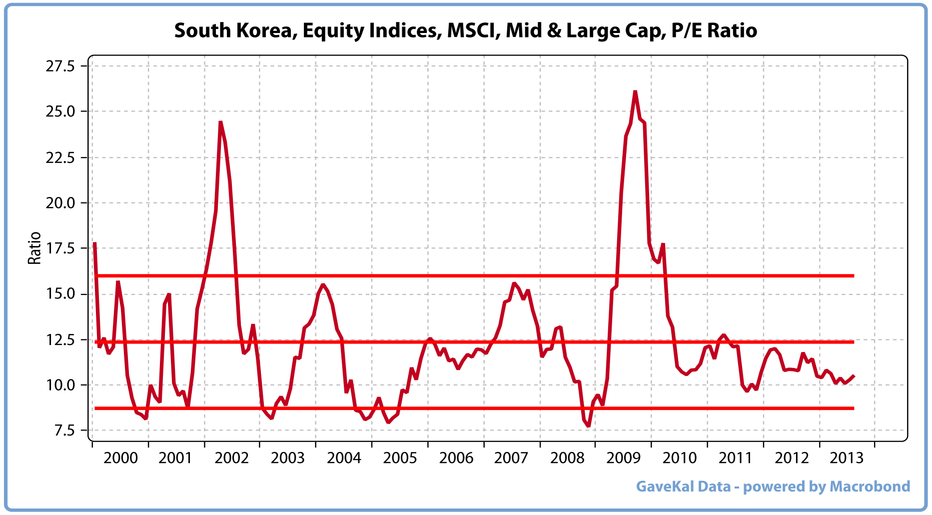


Source: GaveKal Capital Limited

In Asia, some markets are now very attractively valued

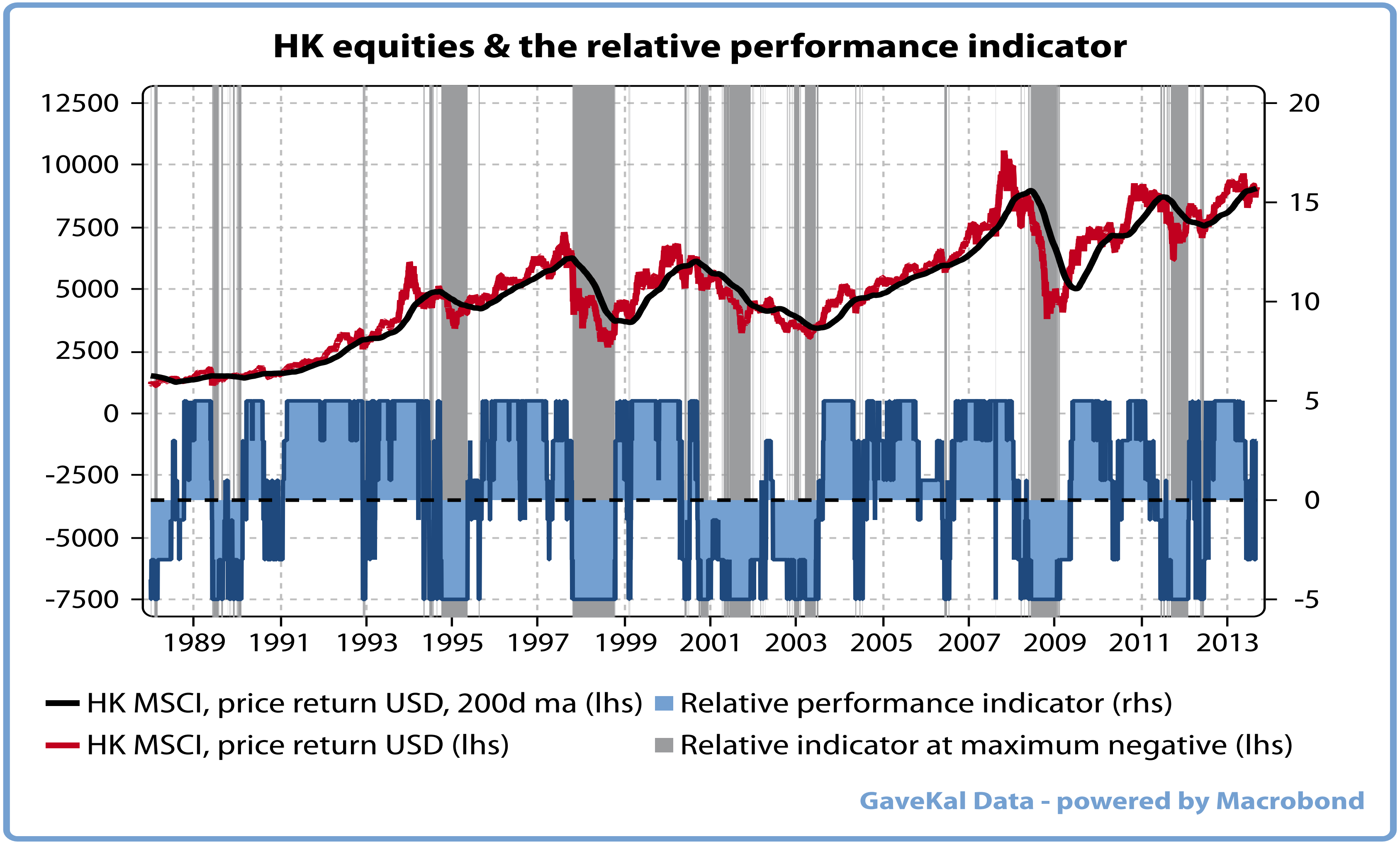






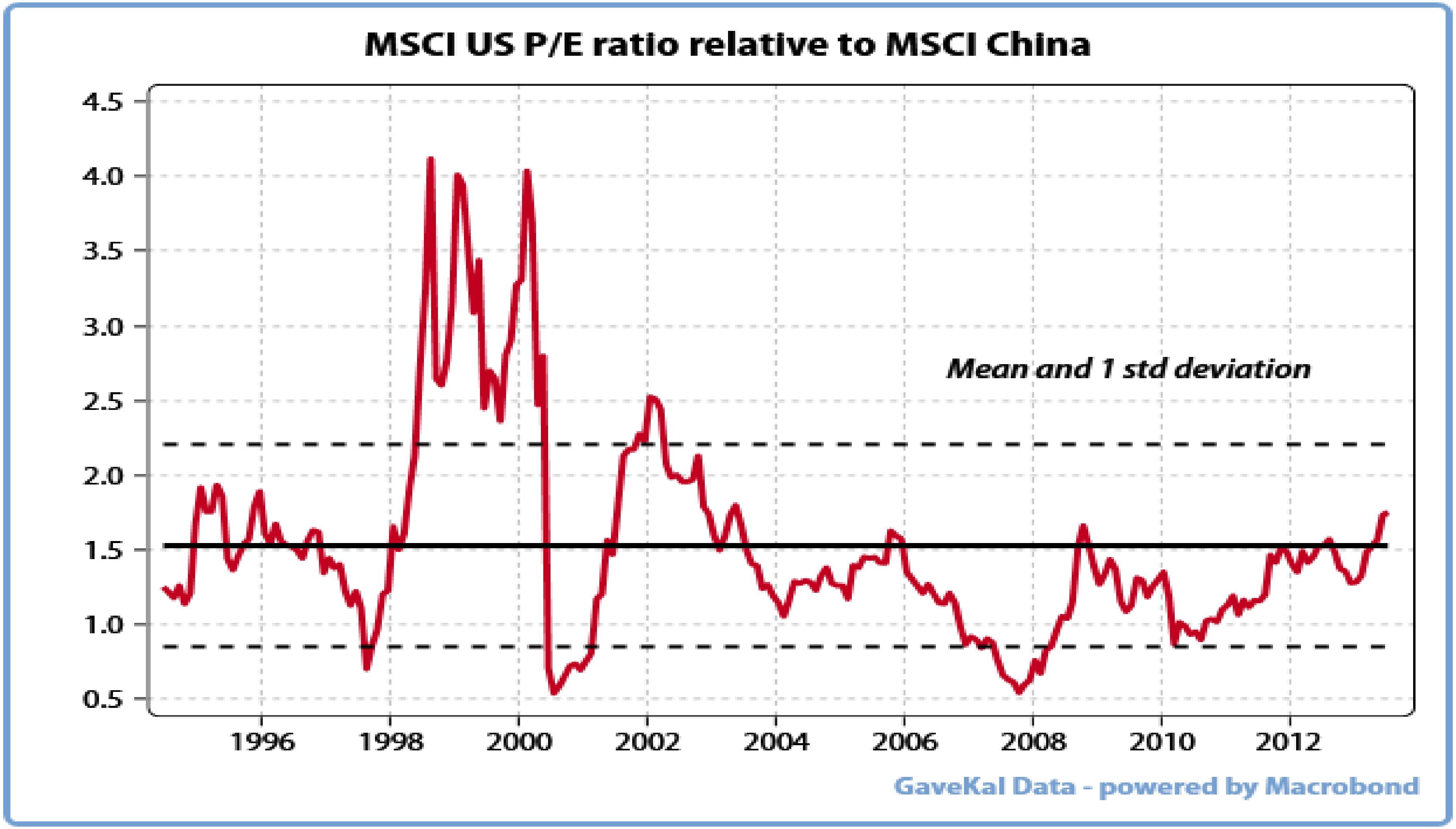
Source: GaveKal Capital Limited

What we need is for the momentum to stabilize – this seems to be happening



Source: GaveKal Capital Limited

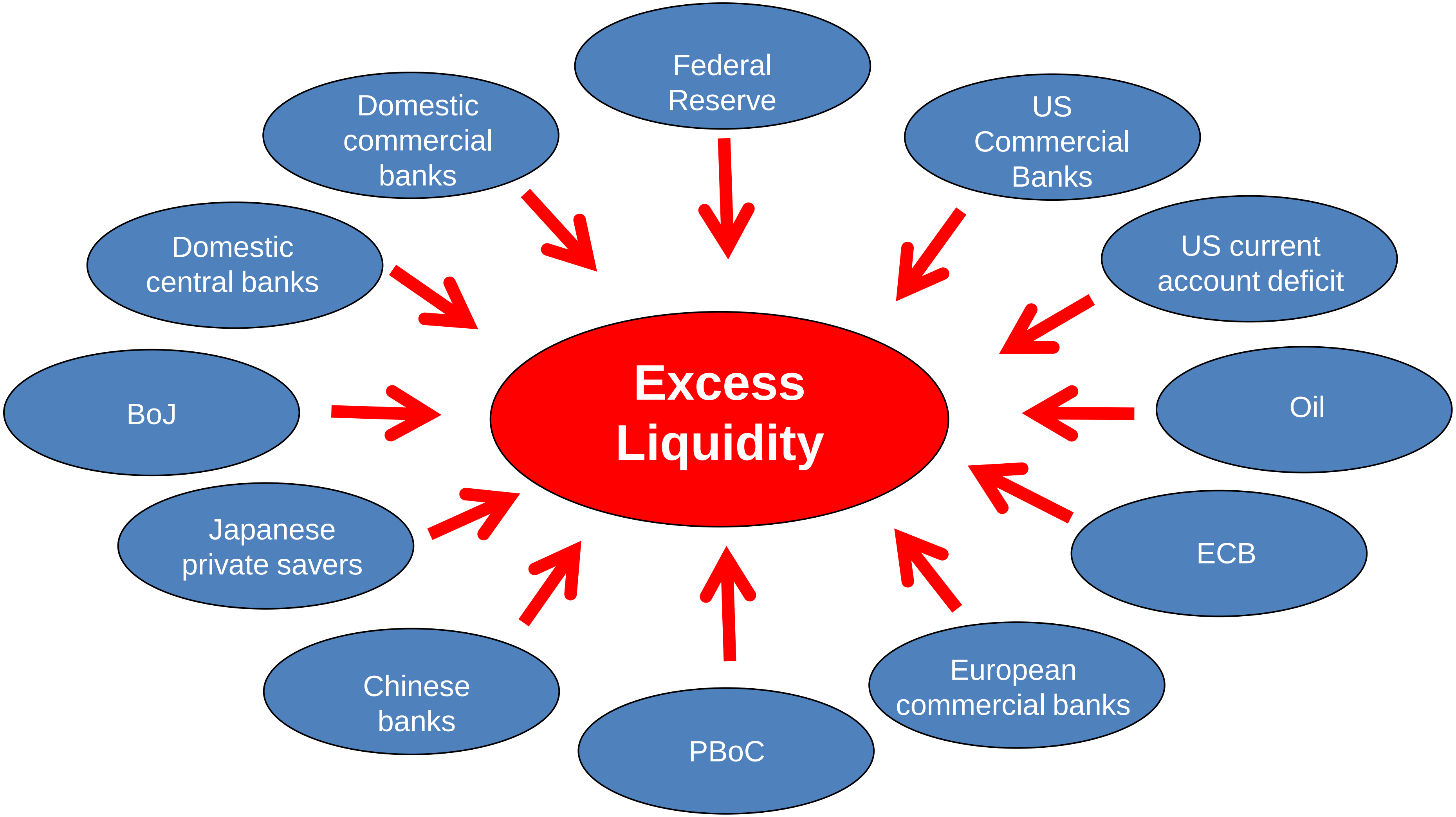
Will the growing valuation gap close through US equities falling? Or Asian equities rising?



Source: GaveKal Capital Limited

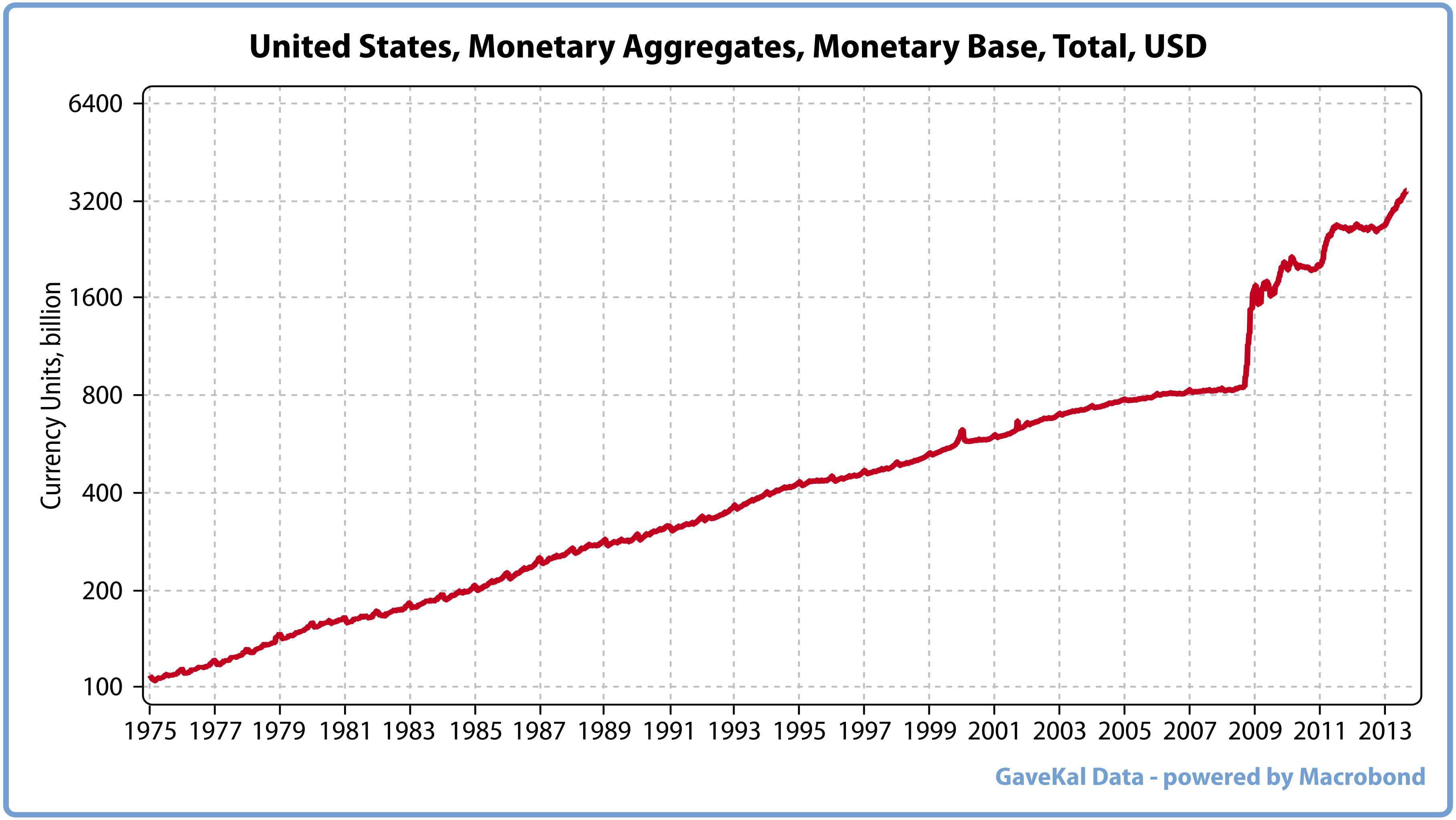
The answer will come from the amount of excess liquidity pushed into the system

Global providers of liquidity



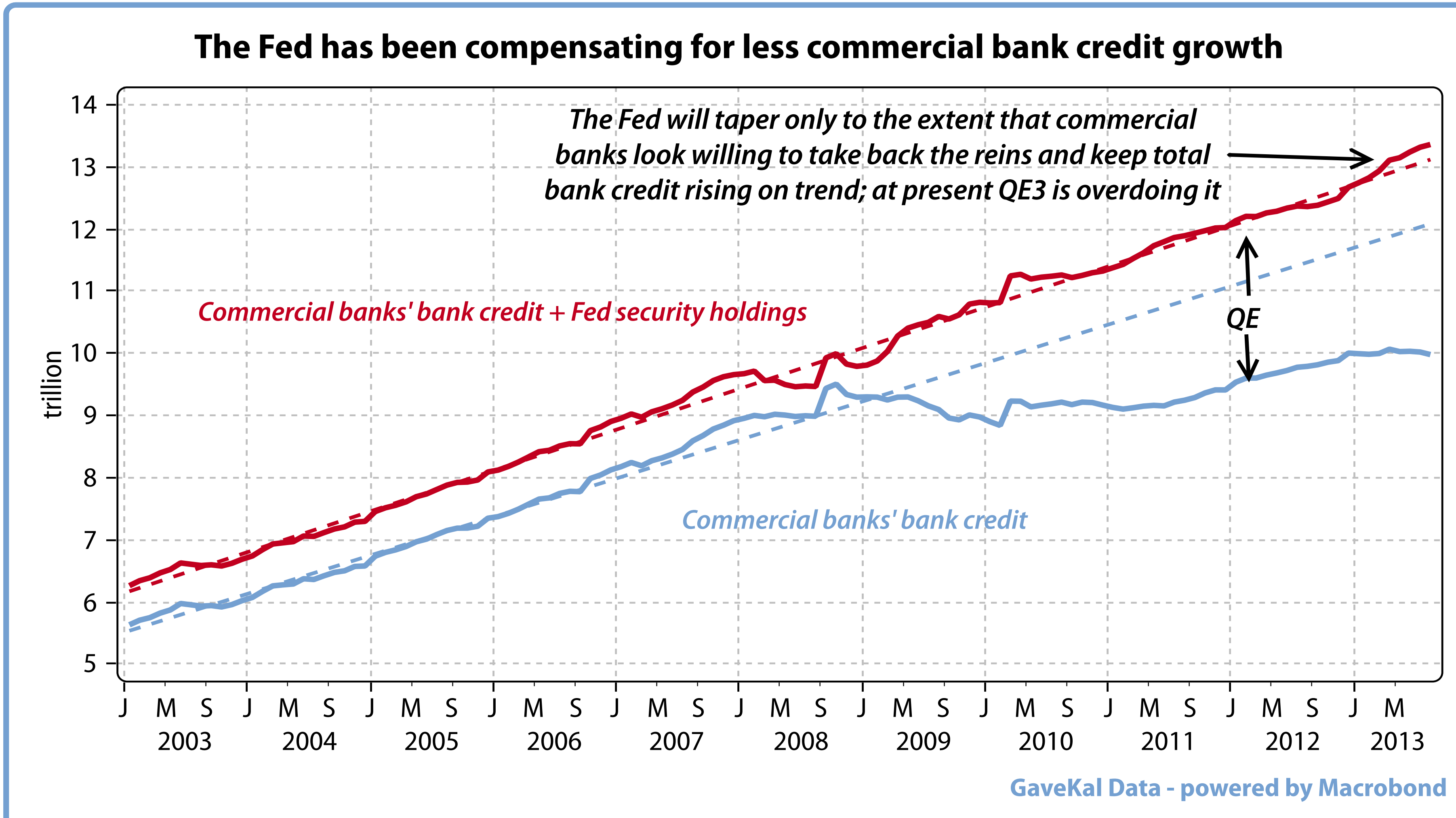
Source: GaveKal Capital Limited

Odds are that, come September, the Fed will slow the pace of excess liquidity injection



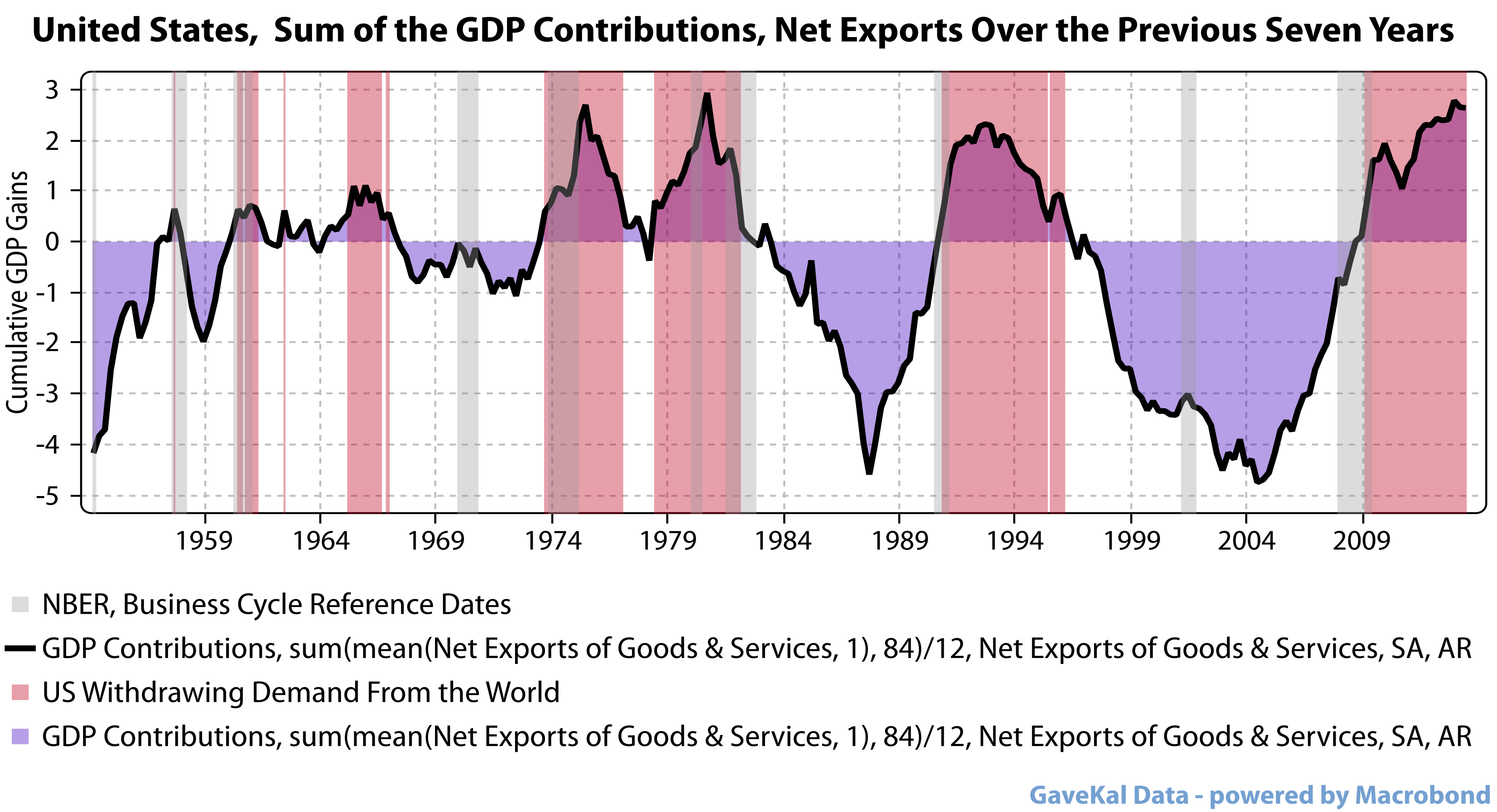
Source: GaveKal Capital Limited

Even if bank loans aren't exactly ripping higher



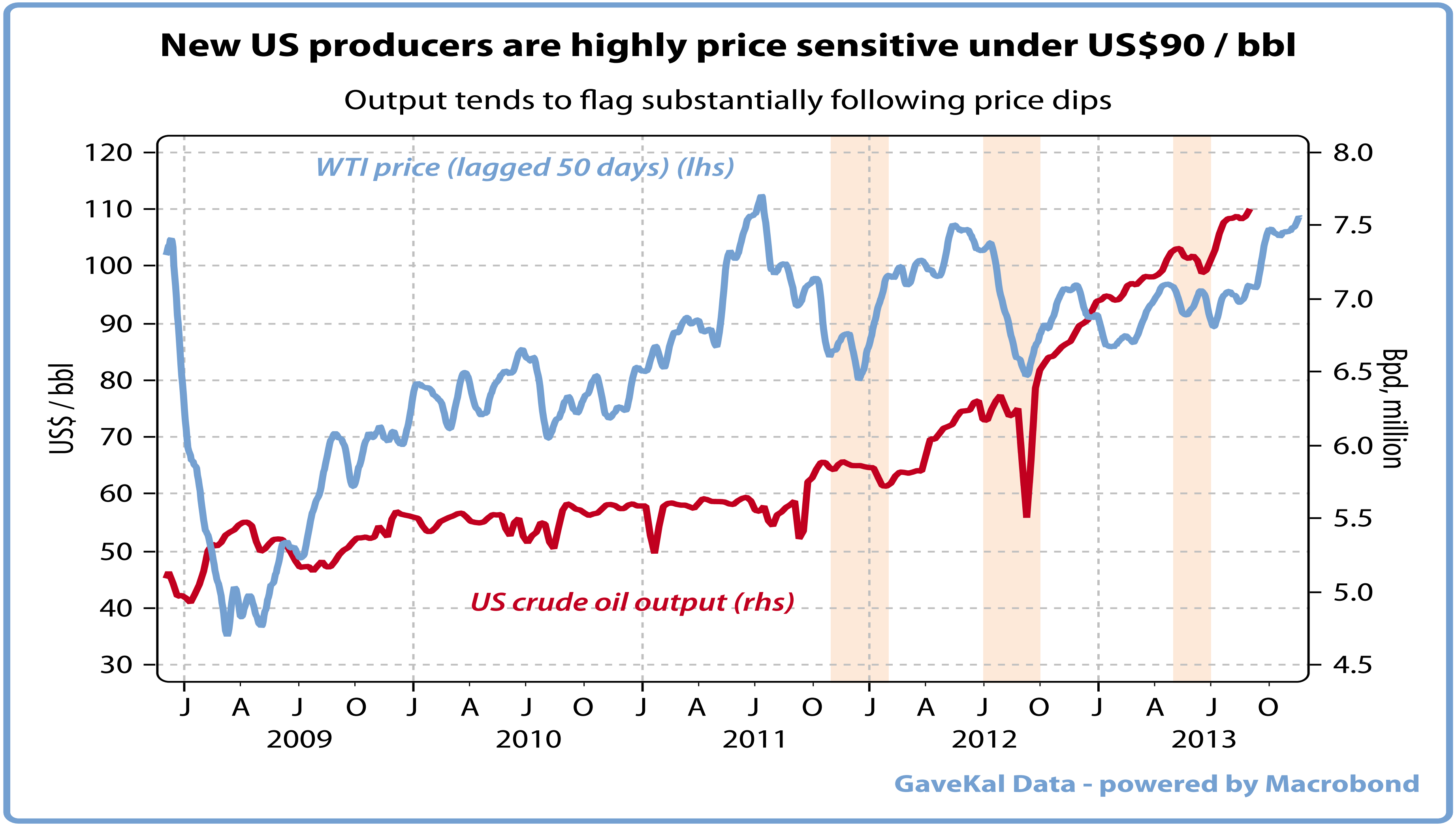
Source: GaveKal Capital Limited

One liquidity concern is that the US is exporting ever fewer dollars while global trade growth continues to expand…



Source: GaveKal Capital Limited

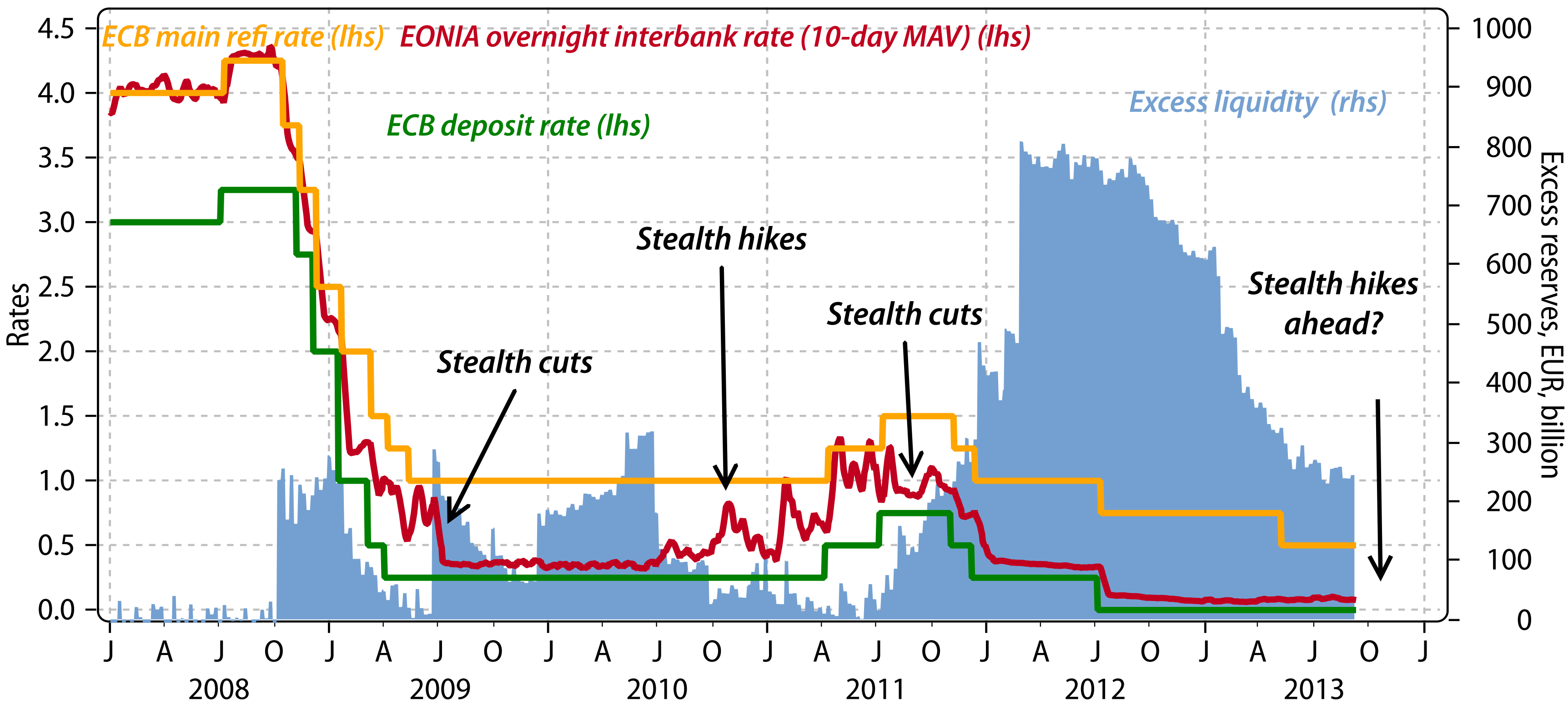
Hopefully, the recent oil price surge will lead to an increase in production and weaker prices



The ECB is shrinking its balance sheet – will it soon have to reverse course?

Excess euro liquidity still enough to hold short rates near zero, just barely

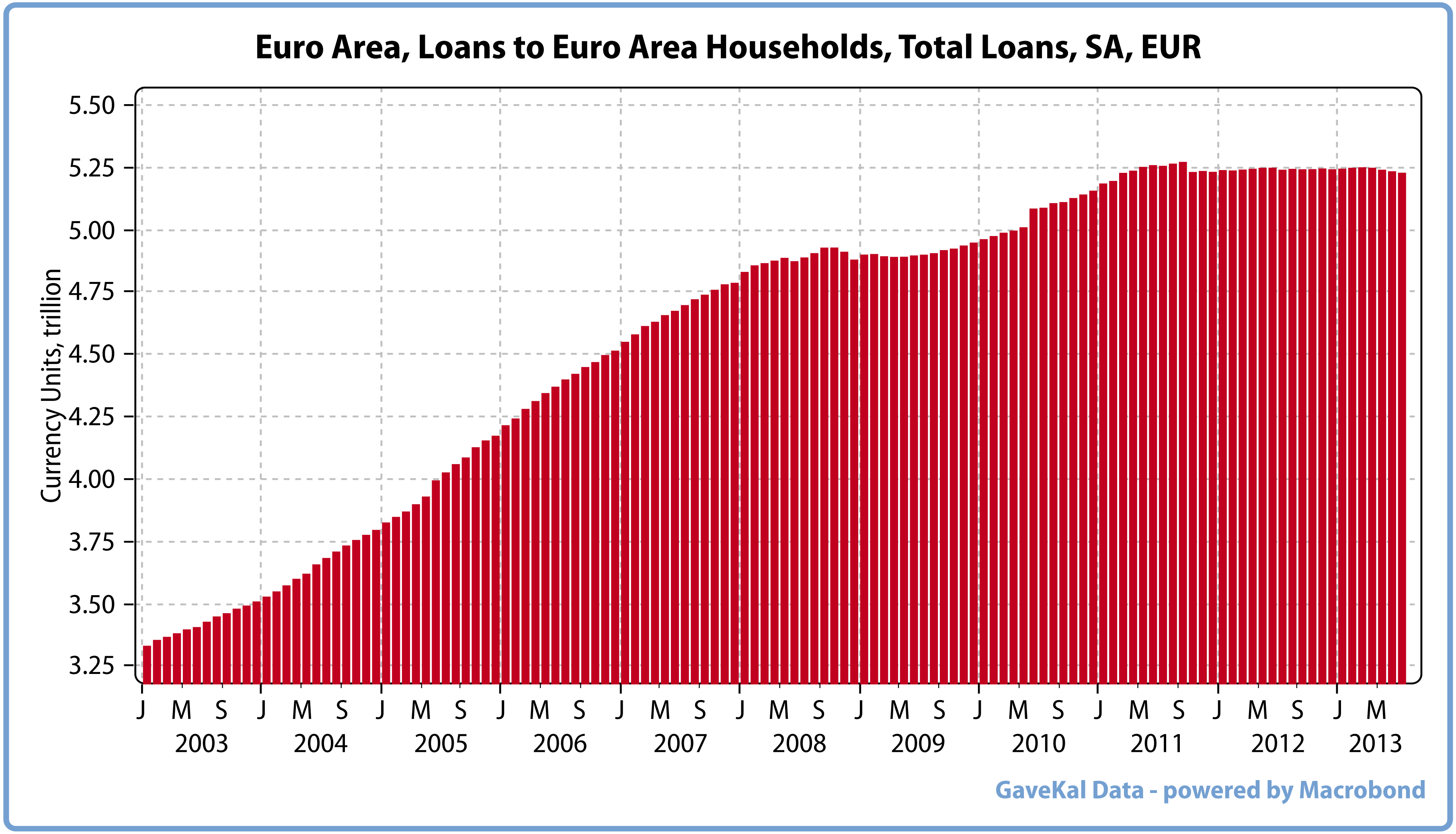
The ECB has marked €200bn as the threshold to watch (which works for us); will it be breached?



GaveKal Data - powered by Macrobond

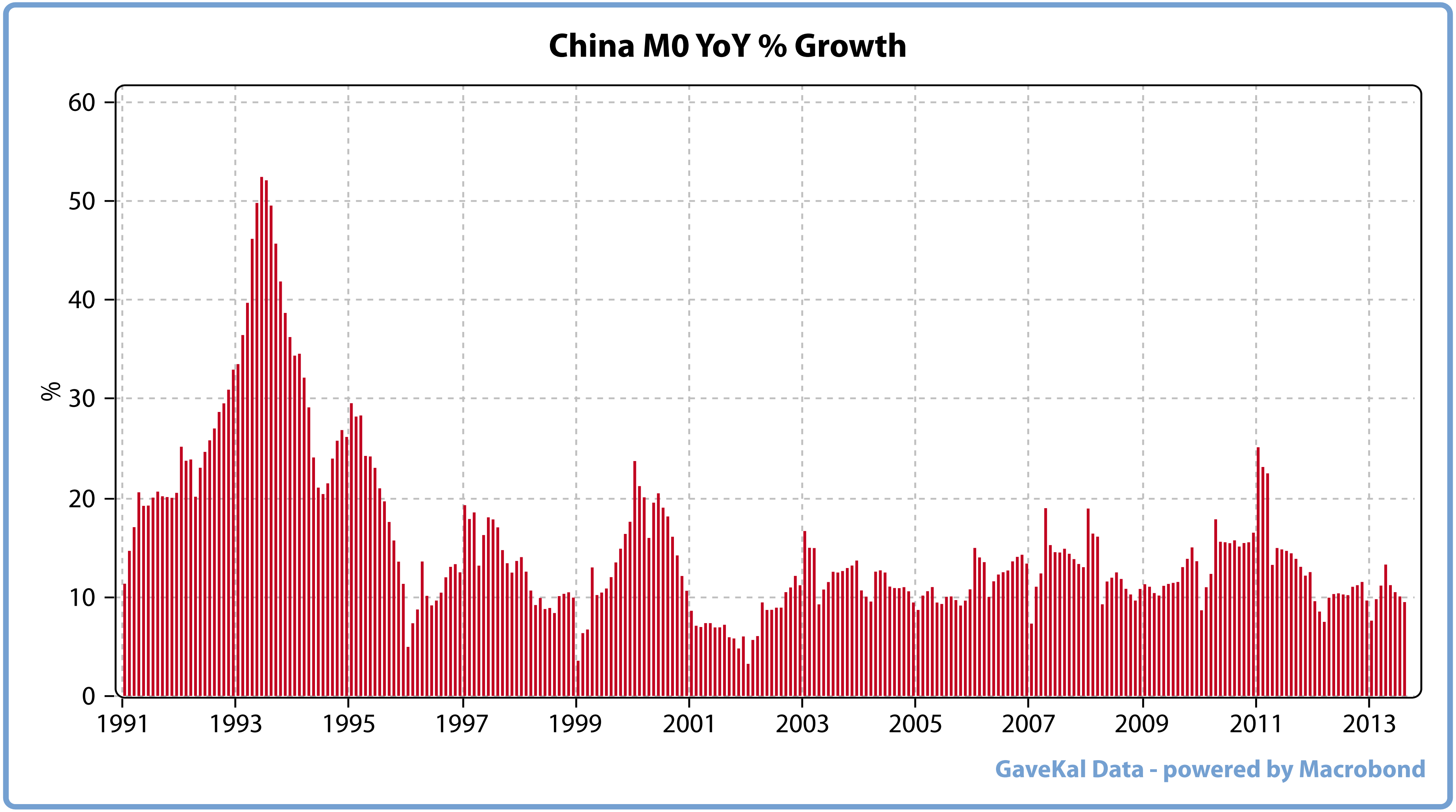
Source: GaveKal Capital Limited

EMU bank loans are falling very marginally



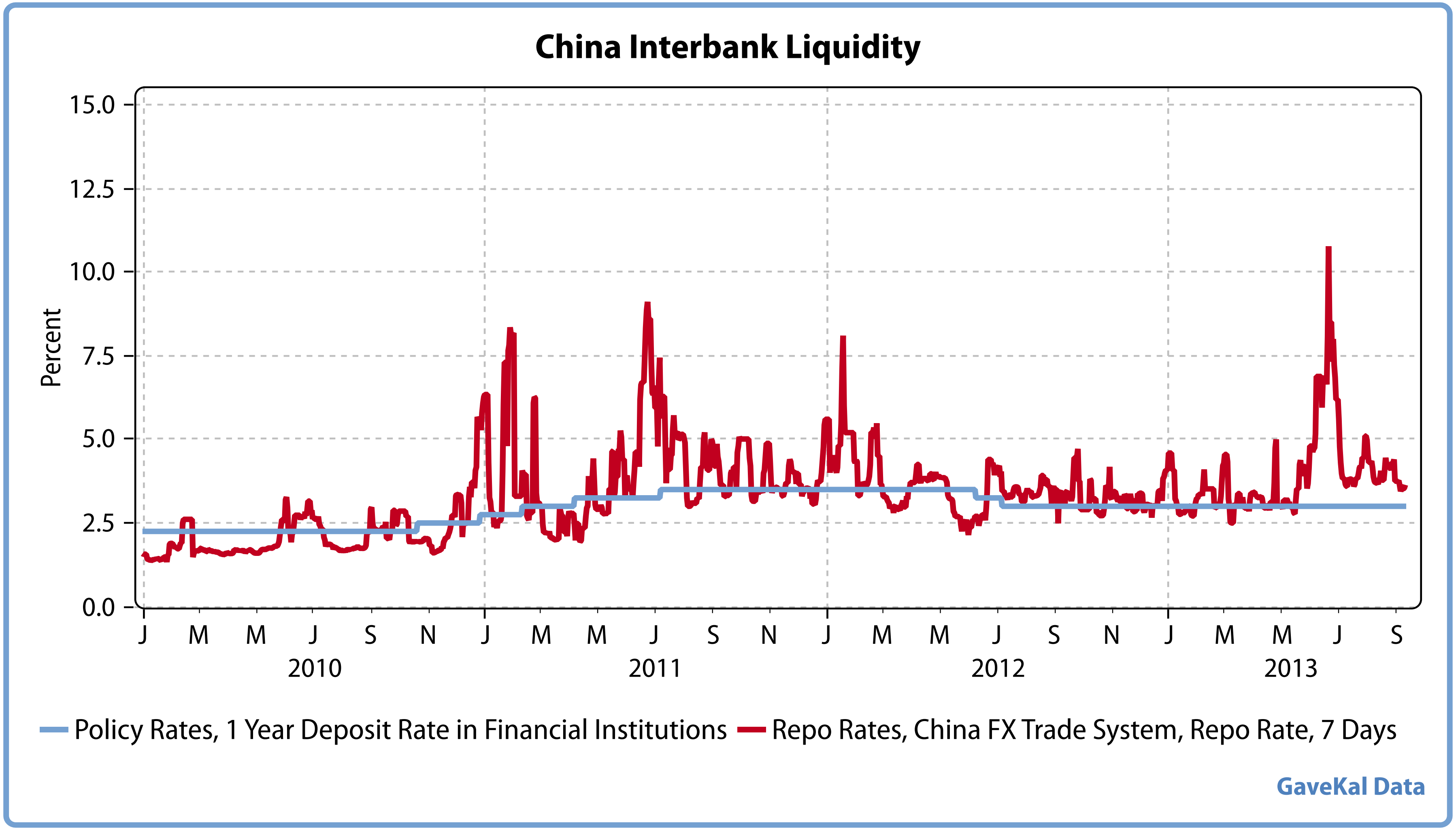
Source: GaveKal Capital Limited

The PBoC continues to sit on its hands



Source: GaveKal Capital Limited

And Chinese banks are still digesting the June Shibor shock



Source: GaveKal Capital Limited

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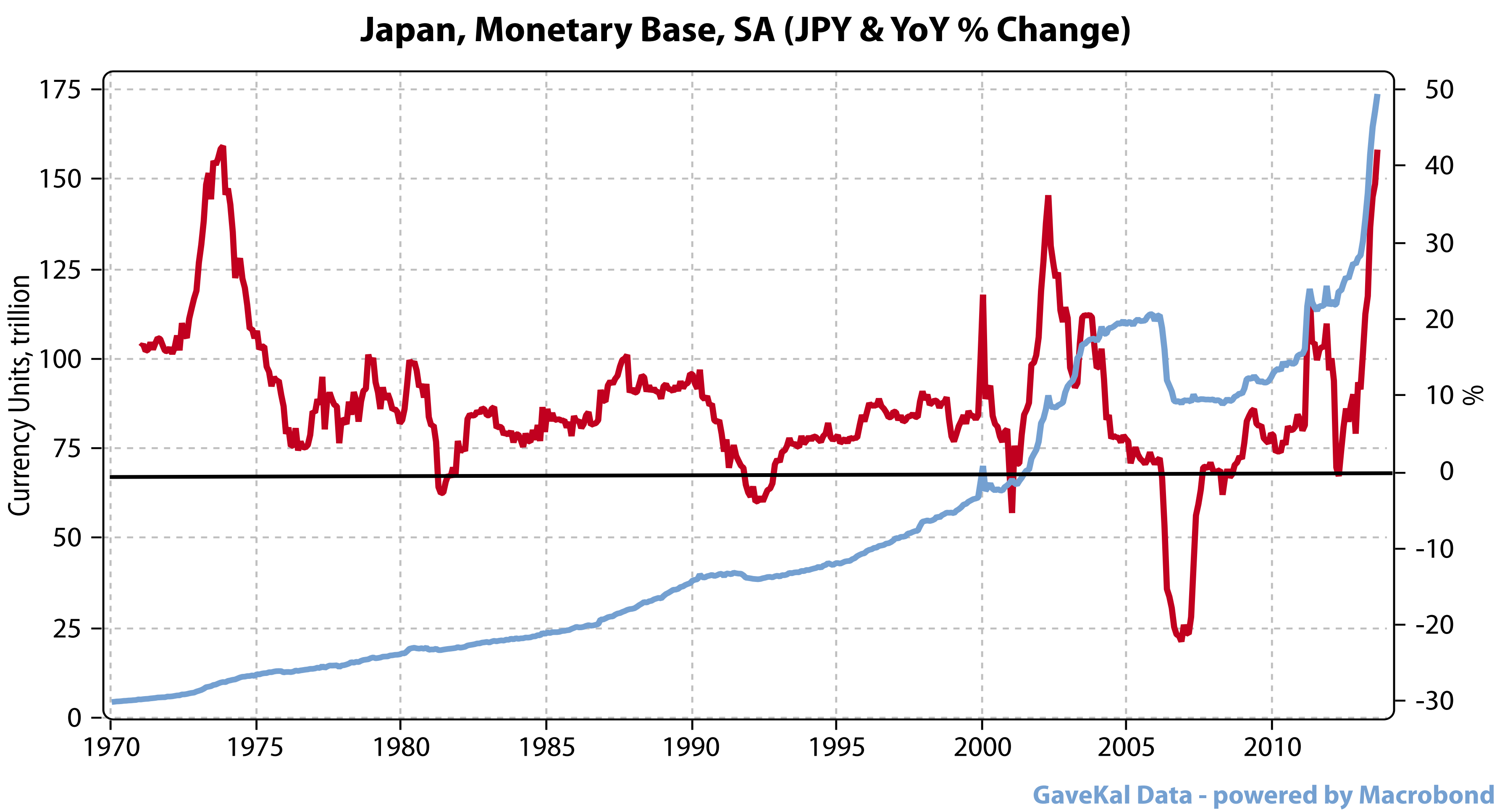
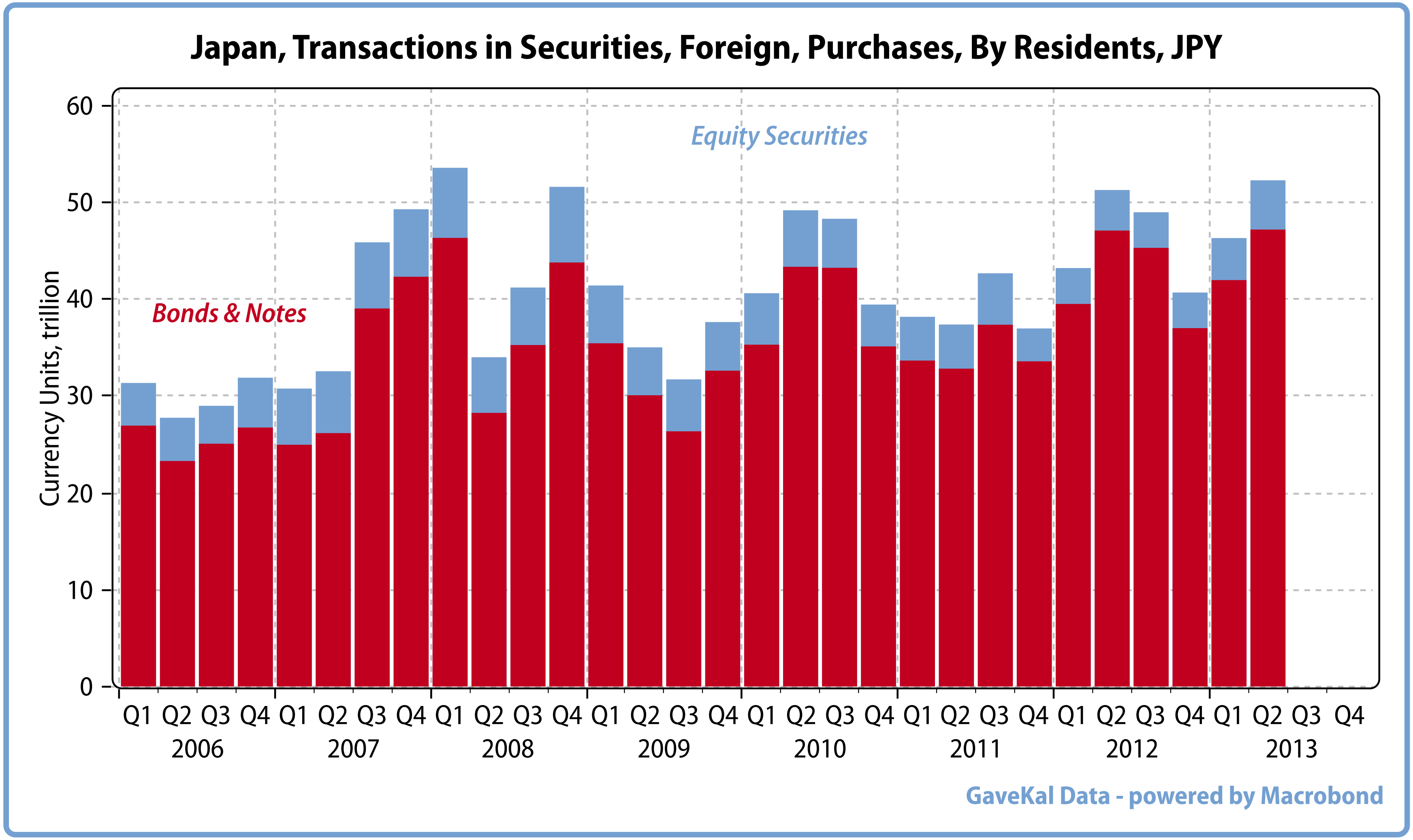
Japan’s monetary base continues to skyrocket



Source: GaveKal Capital Limited

Japanese savings have yet to make it abroad in any meaningful size



Source: GaveKal Capital Limited

Putting it all together: a rapidly changing liquidity environment

	Has been	Is likely to be
US Fed	Very good	Neutral
US commercial banks	Neutral	Neutral
US current account	Poor	Poor
Oil prices	Poor	Better
ECB	Good	Neutral
EMU commercial banks	Poor	Neutral
PBoC	Poor	Neutral
Chinese banks	Neutral	Neutral
Japanese Private savers	Neutral	Good
BOJ	Very good	Very good
Domestic central banks	Mixed	Better
Domestic commercial banks	Good	Deteriorating

Source: GaveKal Capital Limited

Structuring a portfolio in this changing environment

Structuring an Asian portfolio

- With US equities looking mildly overvalued, with Asia having underperformed for four years – and with the Fed set to withdraw domestic liquidity growth, moving away from US equity markets and towards Asian equities seems like an obvious choice.

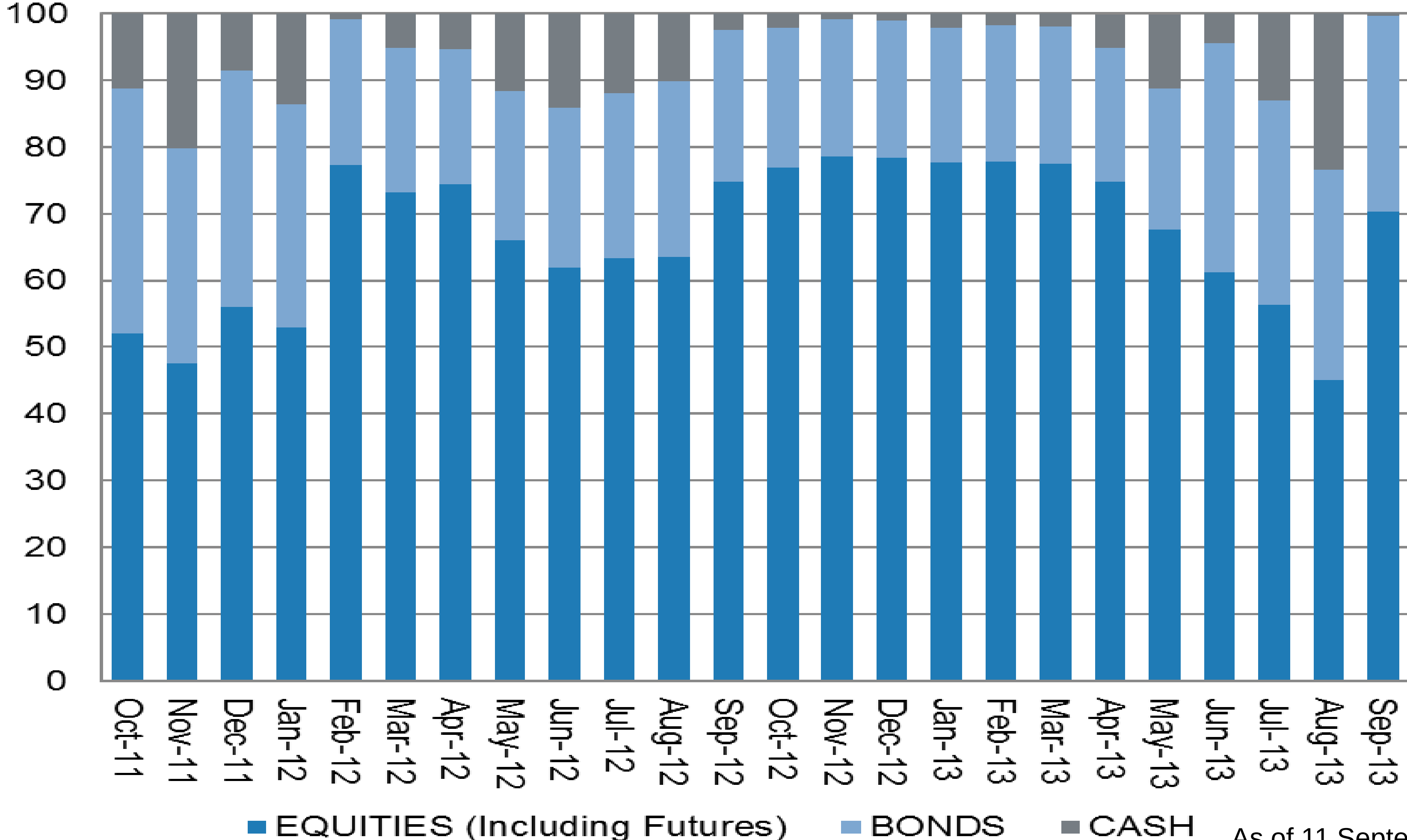
- However, within Asia, one wants to focus on markets that have the least foreign liquidity constraints. Indeed, with the Fed set to taper and the US current account deficit shrinking, any market or economy dependent on the 'foreign dollar' to thrive will continue to struggle. As recent weeks have shown, that includes a good bit of ASEAN and India, but also potentially Australia, New Zealand and perhaps Taiwan or Korea

- Instead, one wants to focus on 'self-funded' markets, namely Japan (where liquidity growth continued to be strong), China (where valuations are back to record lows), Hong-Kong (whose structural tailwinds remain compelling)…

- Having said that, the recent sell-offs means that a number of quality blue-chip companies in some of the above 'stricken' markets are now selling at very compelling valuations. Even when the underlying companies have little to do with the domestic economies; this is the case, for example, of Samsung Electronics in South Korea, or HCL technologies in India.

Source: GaveKal Capital Limited

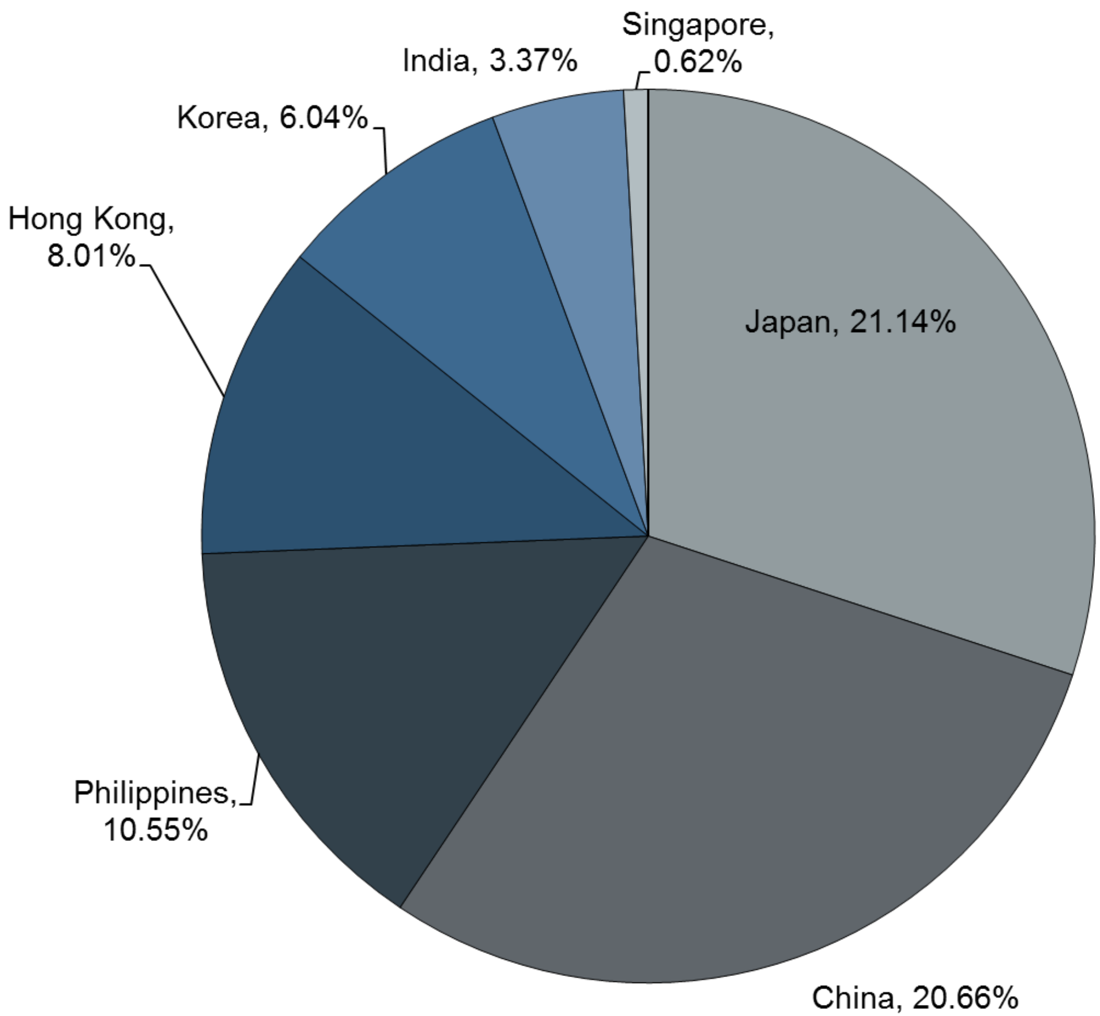
With valuations very attractive, and momentum turning more positive, we are increasing the equity weighting



As of 11 September 2013

Source: GaveKal Capital Limited

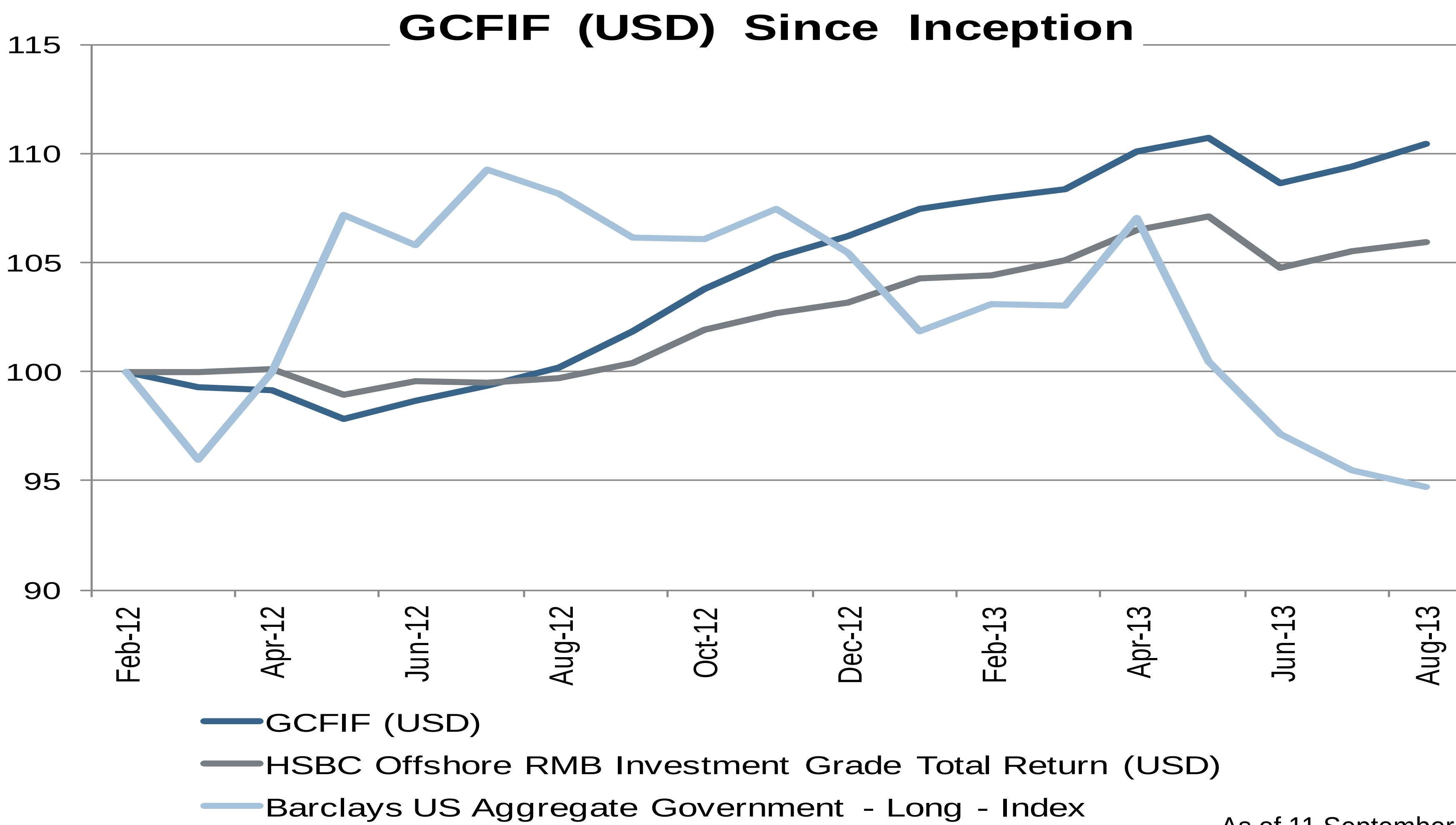
China and Japan offer the most attractive risk-reward



As of 11 September 2013

Source: GaveKal Capital Limited

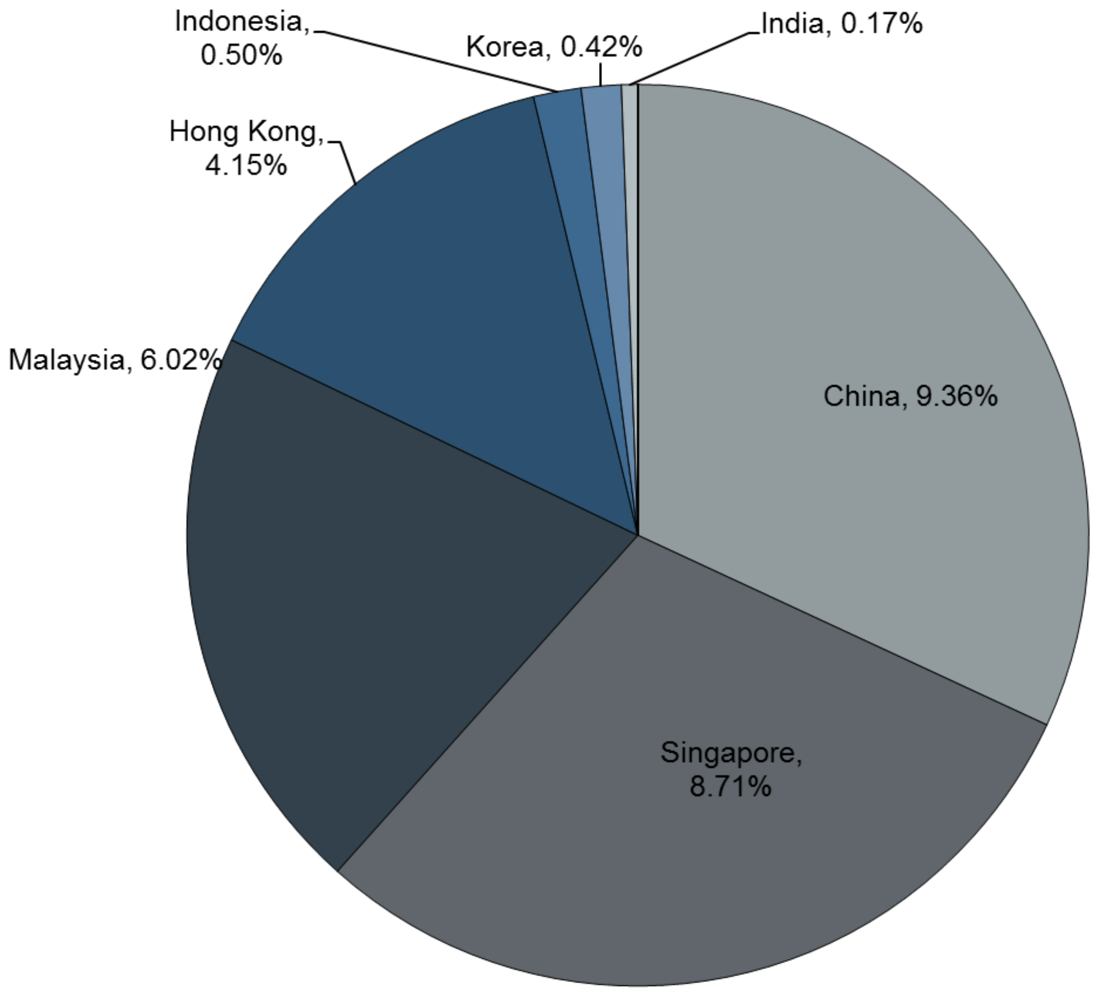
RMB bonds remain the asset of choice to diversify risk



As of 11 September 2013

Source: GaveKal Capital Limited

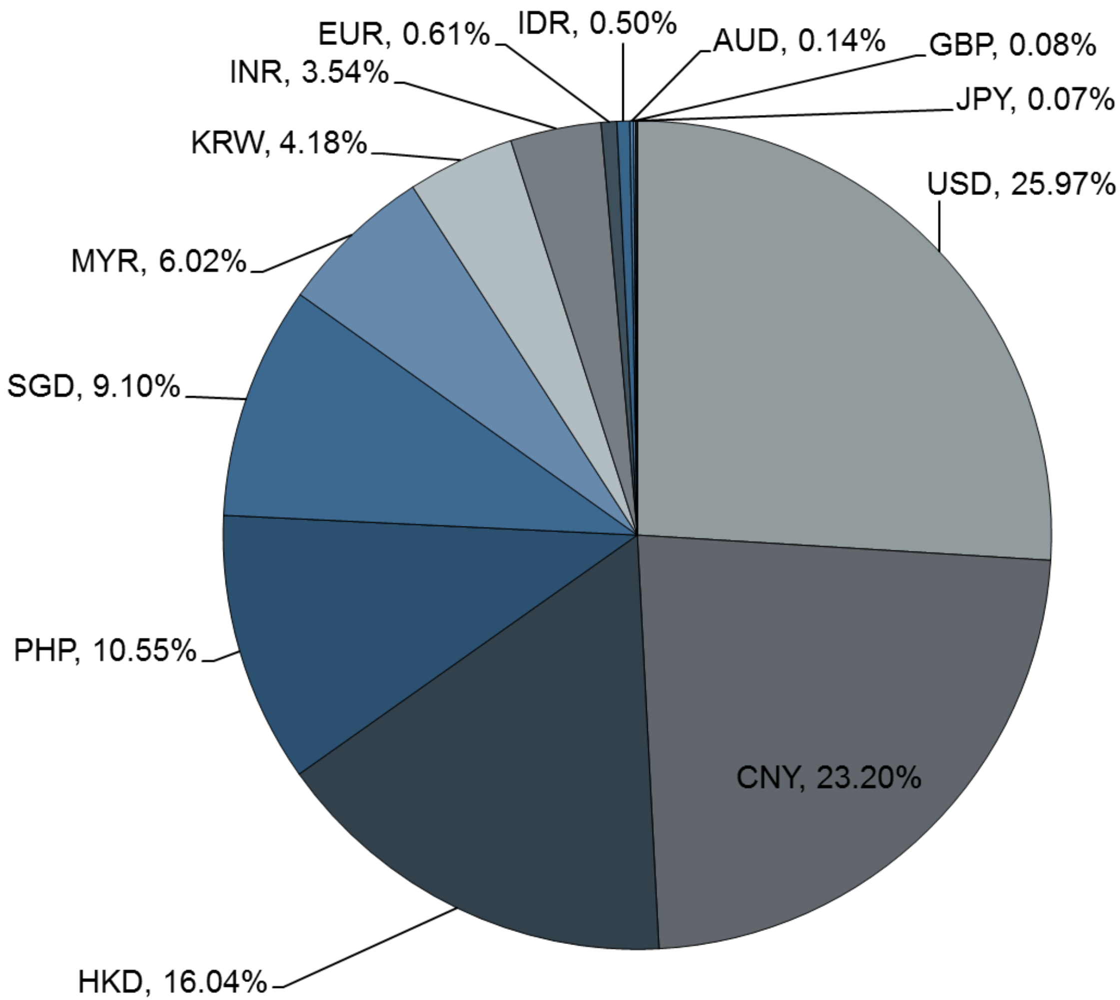
On the fixed income side, we have extended our duration considerably



As of 11 September 2013

Source: GaveKal Capital Limited

The risk remains a US$ short squeeze



As of 11 September 2013

Source: GaveKal Capital Limited

As a result of which, the risk-reward on offer in Asia appears attractive – but are attractive valuations enough?

Investors deploying capital in Asia today are rewarded with

- The highest bond yields in two years
- Cheaper currencies – though not against the AUD which has now clearly started a downwards trend.
- Higher dividend yields.
- Lower P/Es.

Against that, investors have to confront:

- More uncertainty surrounding Chinese growth, and its ramifications across the region
- The possibility that the fed tapering will unleash a US$ bull market – typically a hurdle for Asian equity markets
- Fears of a continued sell-off in the world's bond markets
- The possibility that US equities roll over, unleashing a global equity market pullback

Source: GaveKal Capital Limited

Appendices

GaveKal CAPITAL

Firm History

2001	GaveKal founded in London by Charles Gave, Anatole Kaletsky and Louis-Vincent Gave. The firm specializes in global economic and asset allocation research.
2002	GaveKal opens headquarters in Hong Kong
2003	Launch of the GaveKal Asian Balanced (Caymans) Fund, which seeks to capture the returns of Asia's accelerating growth through a highly diversified portfolio of pan-Asian equities, bonds and currencies.
2006	GaveKal Capital, LLC, a US registered investment advisor, opens office in Denver, Colorado.
	Alfred Ho and Marco Lai join GaveKal to help launch the Launch of GaveKal Asian Opportunities UCITS Fund. In time, the GaveKal Asian Balanced Fund is wound down and investors are invited to subscribe to the Asian Opportunities UCITS Fund.
	Launch of the GaveKal Platform Company UCITS Fund (Bloomberg: GAVPLAT), a global long-only equity fund that seeks to identify innovative companies that are profiting from the successful investment of intangible capital.
2007	Launch of the European Divergence Fund in a joint venture with Corriente Capital. The fund seeks to exploit the mispricing of credit risk among European Economic and Monetary Union sovereigns.
2008	With Marshall-Wace as a partner, GaveKal launches Marshall Wace GaveKal Asia Limited, a joint-venture company that manages the Asian Opportunities UCITS Fund and launches a Japanese equity market neutral hedge fund.
2010	GaveKal purchases Dragonomics, an independent research and advisory firm specializing in China's economy and its influence on Asia and the world. Arthur Kroeber, Dragonomics founder, becomes Head of Research for GaveKal.
2011	Launch in the US of the GaveKal Platform Company Mutual Fund advisor and institutional share classes (NASDAQ: GAVAX, GAVIX).
2012	Launch of the Asian Growth UCITS Fund & China Fixed Income UCITS Fund.
	GaveKal Platform Company Fund becomes GaveKal Knowledge Leaders Fund.
2013	Marshall-Wace and GaveKal jointly agree to unwind the JV with all staff and mandates involved in long-only products moving to GaveKal and the Japanese equity long-short strategies moving to Marshall-Wace.
	GaveKal launches the GaveKal Dynamic Futures UCITS fund

Key Personnel of the GaveKal Asian Opportunities UCITS Fund

- **Louis-Vincent Gave,** Chief Investment Officer and Chief Risk Officer

Louis-Vincent Gave co-founded GaveKal in 1999 with his father Charles and Anatole Kaletsky. GaveKal started as an independent research firm and evolved in 2005 to include fund management and in 2008 to include data analysis services. Since 2005, Louis-Vincent has mostly focused on the money management side of the business. Before co-founding GaveKal, Louis-Vincent worked for Paribas Capital Markets where he was an equity research analyst from 1997 to 1999. In 1996 and 1997, Louis-Vincent served in the French Mountain Infantry Division as a Second Lieutenant. Louis-Vincent studied Economics, History and Chinese at Duke University and Nanjing University. He has written several books, including *Our Brave New World*.

- **Alfred Ho:** Portfolio Manager, Head of Asian Equities

Alfred Ho has over twenty years of experience investing in Asian markets. Before joining GaveKal in 2006 as a partner, Alfred was the Chief Investment Officer for INVESCO Asia and was responsible for managing large retail and institutional portfolios. Alfred was the lead manager for the INVESCO GT Asia Enterprise Fund and initiated the launch of the first absolute-return driven product for the company - INVESCO Asia Alpha Fund in 1999. Prior to joining INVESCO, Alfred worked as an analyst with W.I. Carr in Hong Kong. Alfred graduated from the University of Wisconsin-Madison with a Bachelor of Science degree in Economics and a Master of Science degree in Finance. He is a holder of the Chartered Financial Analyst designation.

- **Gavin Ma**: Equity Portfolio Manager

Gavin Ma joined GaveKal in June 2013. Gavin has spent nearly two decades on the buy-side, investing in Asian markets as an analyst, assistant portfolio manager and portfolio manager at different firms. On the long-only side, Gavin worked at MFS Investment Management in Singapore, and at Wellington Management Company in Boston where he spent more than twelve years. Gavin helped manage long-short portfolios at Seacross Global Advisors, previously known as Oechsle Alternative Investments, and Tudor Capital in Singapore. He graduated from Middlebury College with a Bachelor of Arts in History and is a holder of the Chartered Financial Analyst designation.

- **Christine Cheung:** Portfolio Manager, Head of Asian Fixed Income

Before joining GaveKal in June 2012, Christine Cheung worked for the Hong Kong Monetary Authority as a Portfolio Manager for the credit portfolio of the Direct Investment Team under the Reserves Management Department. Prior to that, Christine worked for RimAsia Private Equity, focusing on acquisitions in the Pan-Asia region. Before joining the buy side, she worked in the Investment Banking Divisions of Credit Suisse and Citigroup. Christine graduated from Wharton School, University of Pennsylvania, majoring in Finance and Accounting.

- **Eric Wong**: Senior Analyst

Eric Wong joined GaveKal in January 2012 as a senior equity analyst. Before joining GaveKal, Eric was at Income Partners Asset Management from 2009 to 2012, where he was responsible for performing fundamental analysis and generating long-short ideas within the Asia Ex-Japan Industrials space. Previously, Eric was at AIG Global Investments as an investment analyst and became an assistant portfolio manager for a HK/China fund. He graduated from Queen's University, Canada, with a Bachelor of Commerce (Honours) in 2004 and spent a year studying Mandarin at Beijing Normal University.

Source: GaveKal Capital Limited

Key Personnel of the GaveKal Asian Opportunities UCITS Fund

- **Daniel Fields**: Senior Analyst

Daniel Fields joined GaveKal in 2009 and is a senior equity analyst. Prior to joining GaveKal, Daniel worked for Fisher Investments in San Francisco as a research analyst where he was responsible for providing both industry and stock specific analysis of Emerging Markets. Daniel graduated from the University of Idaho in 2006 with a Bachelor's degree in Finance. He is a holder of the Chartered Financial Analyst designation.

- **Stephanie Woo**: Fixed Income Analyst

Stephanie Woo joined GaveKal in March 2008 and works on the investment team as a fixed income analyst. Stephanie previously worked for the consulting company, Intercedent Asia, as a Research Associate. There she was responsible for doing field research to provide strategic market analysis, industry and competitive intelligence to corporate clients. She graduated from the University of Toronto in 2004 with a Bachelor's degree in Commerce and Finance.

- **Victor Luk**: Risk Analyst

Victor Luk joined GaveKal in 2005 where he had worked for the previous year as an intern. Between 2005 and 2012, Victor ran GaveKal's quantitative research efforts. In 2013, Victor was promoted to heading risk analysis for all of GaveKal fund management strategies. Victor graduated from the Chinese University of Hong Kong in 2005 with a Bachelor's degree in Information Engineering. He is a holder of the Chartered Financial Analyst designation and the Financial Risk Manager designation.

- **Sebastien Alfonsi**: Equity Trader and Quantitative Analyst

Sebastien Alfonsi joined GaveKal in May 2013. Previously, Sebastien was an Equity Derivatives Trader for Commerzbank in Hong Kong, focusing on index arbitrage and developing the bank's ETF platform in Asia. Sebastien moved to Hong Kong in 2008 from Paris where he worked at Natixis as an Index Arbitrage and Statistical Arbitrage Trader. He graduated from l'Ecole Centrale de Lyon in France, majoring in Financial Mathematics.

Source: GaveKal Capital Limited

GaveKal Asian Opportunities UCITS Fund – Terms and Service Providers

Investment Manager	GaveKal Capital Limited
Investment Strategy	Asian equities, bonds and currencies
Strategy Launch Date	11 January 2006
Domicile	Ireland
Share Class Denomination	EUR/USD/GBP (Income & Accumulation Shares)
Issue Price	€100/$100/£100
Minimum Subscription A & B	€250,000/$250,000/£250,000
Minimum Subscription C	€10,000/$10,000/£10,000
Fees A & B	1.5% management fee p.a., no performance fee
Fees C	2% management fee p.a., no performance fee
Redemption Charge	None
Dealing Day	Daily (every day that is a Business Day in Dublin and Hong Kong)
Valuation Day	The Business Day prior to the relevant Dealing Day
Subscription and Redemption Deadline	5pm (Irish time); 2 Business Days prior to the relevant Valuation Day
Legal Adviser	Dillon Eustace (Ireland)
Auditor	Deloitte & Touche
Administrator	Société Générale Securities Services, SGSS (Ireland) Limited
Reporting Fund Status	Yes

Source: GaveKal Capital Limited

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For more information

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