STRATEGY UPDATE

PRIVATE AND CONFIDENTIAL: FOR CLIENTS AND ADVISERS

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ASIA PACIFIC EX JAPAN

SUMMARY

- **Fundamentals being rewarded** – The market is once again rewarding positive earnings momentum.
- **Quality is cheap** – We are seeing many opportunities to own high quality growth companies at low multiples.
- **Higher conviction** – As a result we have higher conviction in our leading positions and are running more focused portfolios.
- **Key themes** – the strategy is positioned to benefit from domestic consumption growth, beneficiaries of government and corporate capital expenditure, and selective exporters that are winning business from competitors and growing market shares.

RISING CONVICTION

We have started 2010 with meaningfully higher levels of conviction expressed in our portfolios than at any time in the previous two quarters. For most of 2009, Asian markets were driven overwhelmingly by an appetite for speculative earnings recovery, fuelled by the resurgence in global liquidity. Companies with the strongest earnings momentum and highest returns on equity were among the very weakest performers. This is complete anathema to our fundamental investment process and any longer-term concept of 'normal' market behaviour.

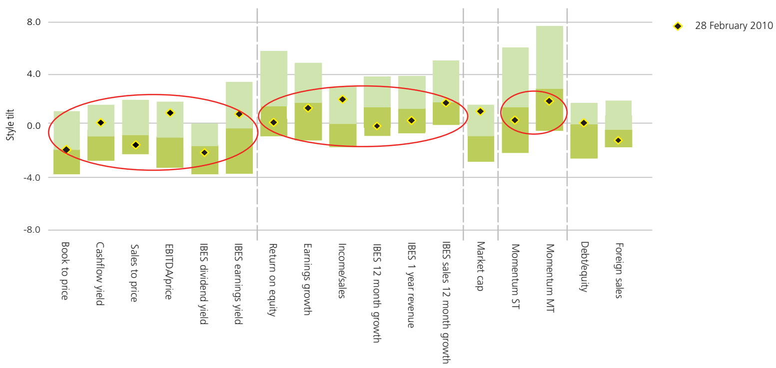
Recognising that we lacked performance traction while that environment persisted, by mid-2009 we had reduced our risk profile against the benchmark by moving to a more neutral asset-allocation stance and diversifying our stock positions towards the top end of our stated 40 to 60 holding range.

In the second half of last year, we were watching for convincing signs that markets were returning to more fundamentally driven behaviour, and that the crucial relationship between earnings delivery and stock performance was being re-established.

Since late 2009 we have begun to see strong evidence that this is happening, as investor attention shifts from speculation back towards tangible achievement. To capitalise on this, we are consolidating our positions, adding active risk back into portfolios as we feel the environment normalising.

Valuation lends extra support to our conviction. Many of the strongest franchises and balance sheets in the region are trading on discounts to the market and their own historical averages.

Quality, growth and positive change usually command a premium but current discounts offer a highly unusual opportunity
Martin Currie Asia Pacific Fund average style bets from June 2002 to February 2010

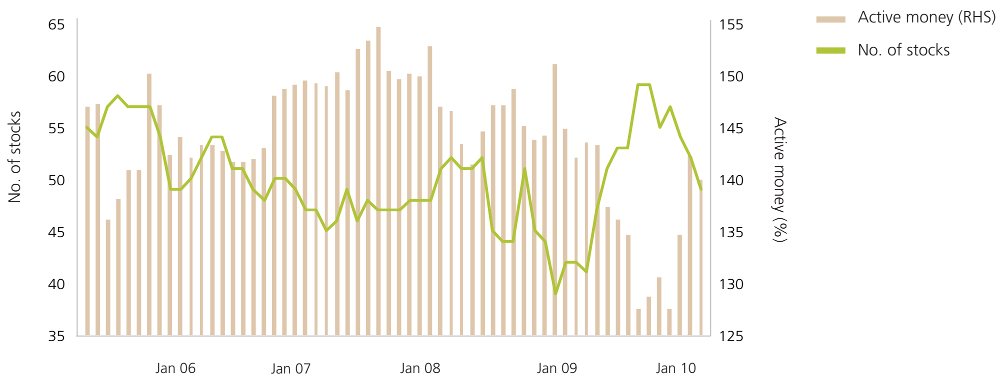


Source: Martin Currie

More focused portfolio reflects higher conviction

As our confidence in earnings visibility has recovered, we have reduced the number of holdings to below 50 once more. The active money measure (the aggregate of all stock positions relative to their weights in the benchmark) has risen from a low of around 120% to a much more normal level of 140%. This is the clearest evidence we can give of our rising confidence levels, as the market environment begins to become more supportive of our investment approach.

Historical active money and number of stocks

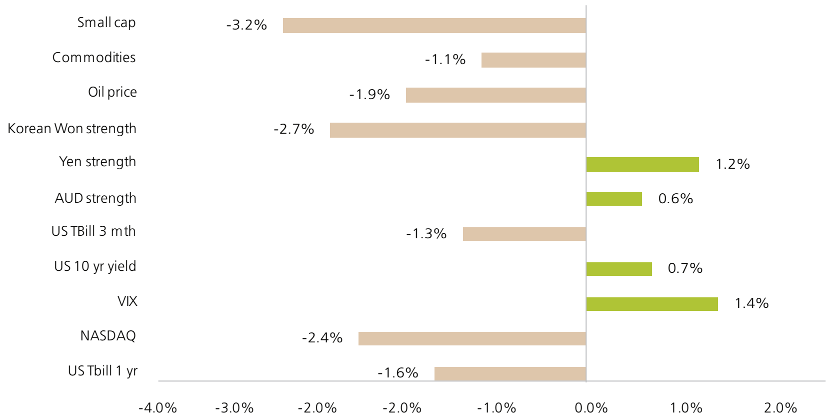


Source: Martin Currie

Neutral sensitivity to macro factors

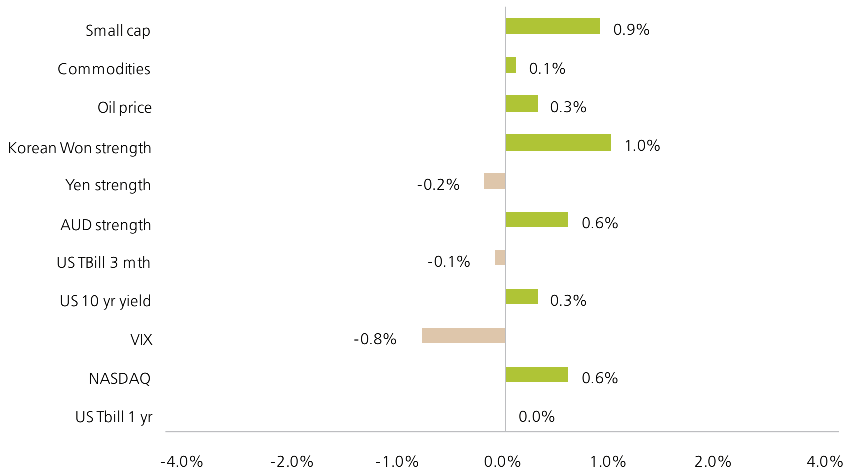
A corollary of this action has been the tight constraints on macro sensibilities within the strategy. The beta of the strategy is now close to 1, and is relatively neutral in its sensitivity to any particular macro scenario.

February 2009: strategy has notable negative correlation to a range of macro factors



Source: Martin Currie

February 2010: strategy has no significant sensitivities to macro factors



Source: Martin Currie

STRATEGY AND POSITIONING

We continue to favour a combination of strong domestic franchises and exporters that are consolidating market share. These are the businesses with the most robust return profiles in the market, many of which are trading at a discount to average market valuations as a legacy of 2009. We are seeing strong and consistent delivery of earnings across the strategy's holdings. Several investment themes are particularly important.

1. Selective exposure to the domestic consumer

Domestic consumption has been a key theme in Asia for many years, and it has always played a strong part in our portfolios. However, at present there are wide discrepancies in valuations across markets and sectors, with areas such as Chinese retail looking extremely expensive at PE ratios well into the 20s versus, for example, Indonesian auto stocks like Astra International trading in the low teens.

This situation makes careful stock selection a must, and one of the simplest and cheapest plays on the domestic consumer is the banking sector. We particularly like Chinese, Indian and Indonesian banks, where the best-run franchises provide terrific leverage to secular income growth.

As we have discussed previously, consumer credit is at its early growth stages in most Asian markets, and the stock of credit can grow significantly from here before it becomes onerous. Nonetheless, the credit cycle is alive and well, and, as always, we remain focused on the leading indicators of a worsening in credit quality. For now we see plenty of further upside for the well-capitalised players in this industry.

2. Beneficiaries of capital expenditure

In recent months we have been building exposure to companies which benefit from resurgent corporate and government capital expenditure. This recovery in corporate expenditure ranges from the technology sector right through to miners. For example, United Tractor (Indonesia) is a well-positioned mining service and heavy equipment company. The Indonesian coal industry needs significant investment to upgrade its facilities and United Tractor is benefiting from this.

GS Engineering & Construction (South Korea) is a key beneficiary of the massive increase in order flows from the Middle East. Large infrastructure and petrochemicals projects, which had been put on hold in 2009 in response to the financial crisis, are now being revived. With orderflow accelerating, investors are able to buy this company, which has a strong record of growth and execution, on 10 times current year earnings.

3. Selective exposure to winners in the export space

We maintain our export exposure to well-run businesses in the technology sector, which have been winning market share and squeezing costs through the difficulties of 2009, and are now in an excellent position to benefit from a more predictable market in 2010 and 2011. Hon Hai Precision (Taiwan) is one example of a company making real progress through the downturn in terms of attracting fresh outsourcing business from Sony, while cleverly relocating much of its production base from relatively expensive coastal regions to inland China. Although in aggregate the technology sector is expensive on a historical basis, the majority of the better quality franchises remain on low multiples following the explosive re-rating of higher beta, more marginal players. The technology sector has generated some of the best earnings momentum recently, having adjusted most quickly to recent cost pressures.

Outside technology, we maintain our exposure to auto component-maker Hyundai Mobis (Korea), which trades below 10 times earnings and is benefitting from the steady improvement of Korean brands overseas.

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IMPORTANT INFORMATION

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