



THE CHINA GROWTH STORY
LAPF Strategic Investment
Forum, 9 February 2012

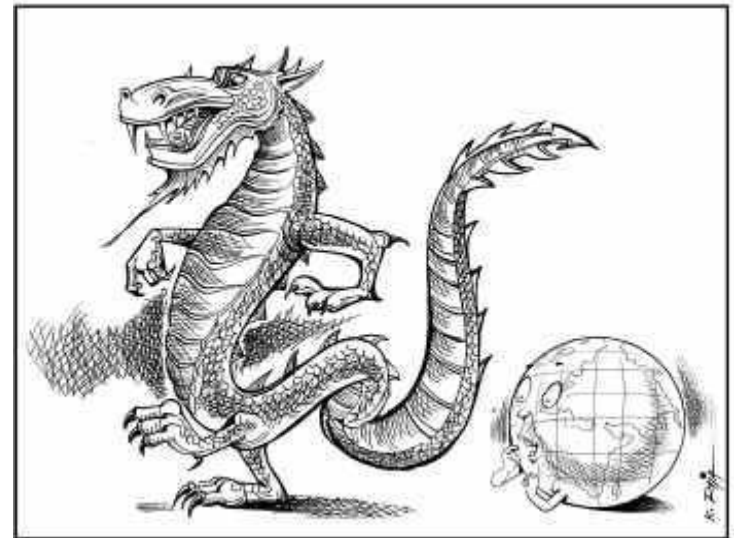
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CHINA IS HERE TO STAY

- Economic transition and development in China
- Investing in the Chinese market
- Wider implications for asset allocation



We believe this is a “generation-defining opportunity”

LONG-TERM: AN ECONOMY IN TRANSITION

- China too big to be an “Asian Tiger”
- Economy moving up value-chain
 - Push: ‘old economy’ companies under policy pressure
 - Pull: ‘new economy’ companies given incentives
- Economy moving towards endogenous growth
 - Domestic consumption and rural development



We believe China is moving to a new & sustainable growth model

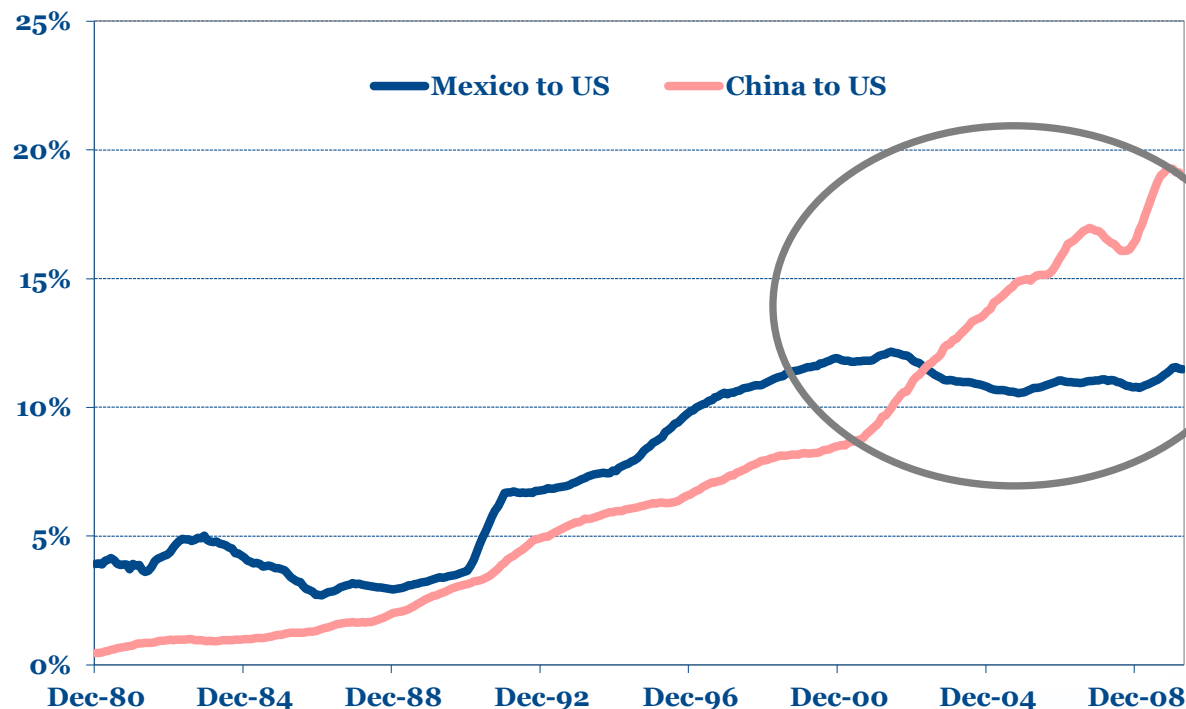
WHO COMPETES WITH CHINA?

- Mexico is losing share of the US import market to China

- Mexico spent 1990s focusing on exports but no longer cost competitive

- Mexican GDP
 - 1990s = 3.5%p.a.
 - 2000s = 1.7%p.a.

Market share of US import market



Avoid companies which China has a competitive advantage over

MEDIUM-TERM: A GRADUAL TRANSITION

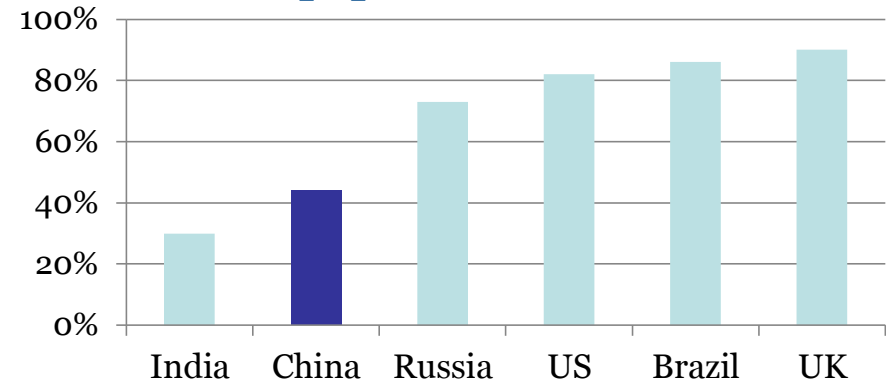
Looks the same? Growth still investment led

- Urbanisation
- Industrialisation

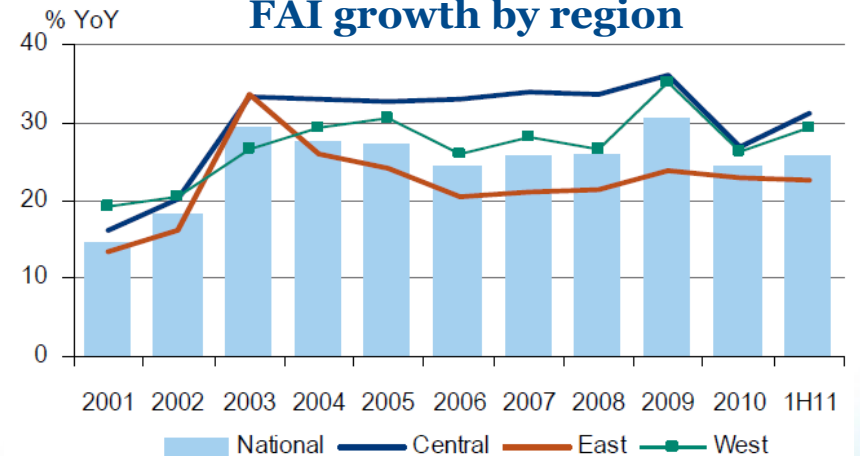
Qualitatively different, if quantitatively slower

- Geographically focused inland
- Softer infrastructure to the fore: 'Harmonious Society' is back

Urban population as % of total



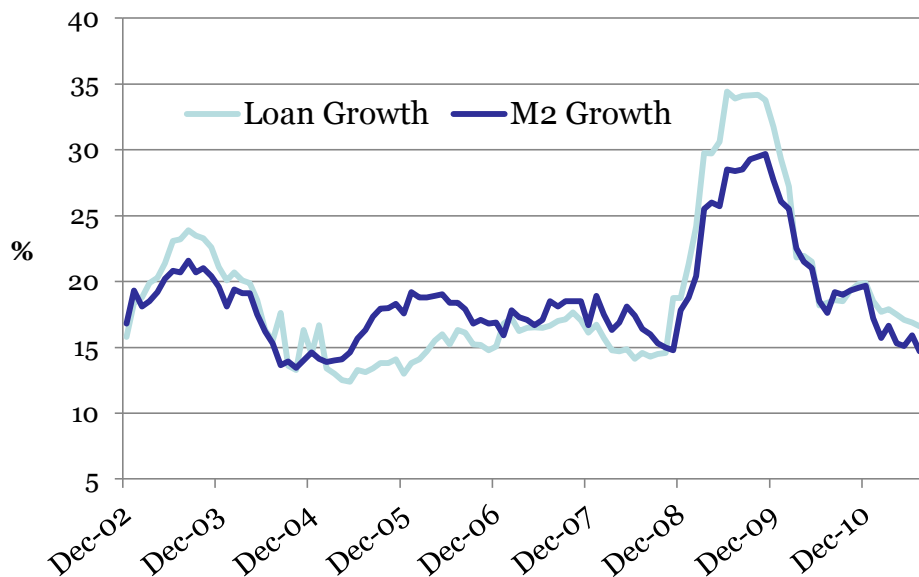
FAI growth by region



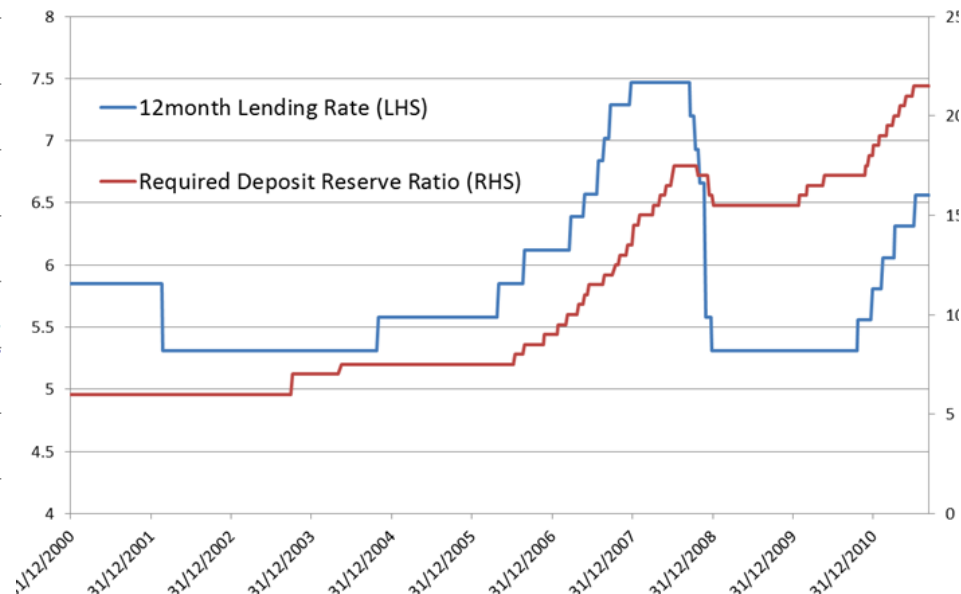
Political priorities unlocking long-term potential

SHORT-TERM: POLICY KEEPING GROWTH ON TRACK

China quantity of money Y-o-Y



China cost of money



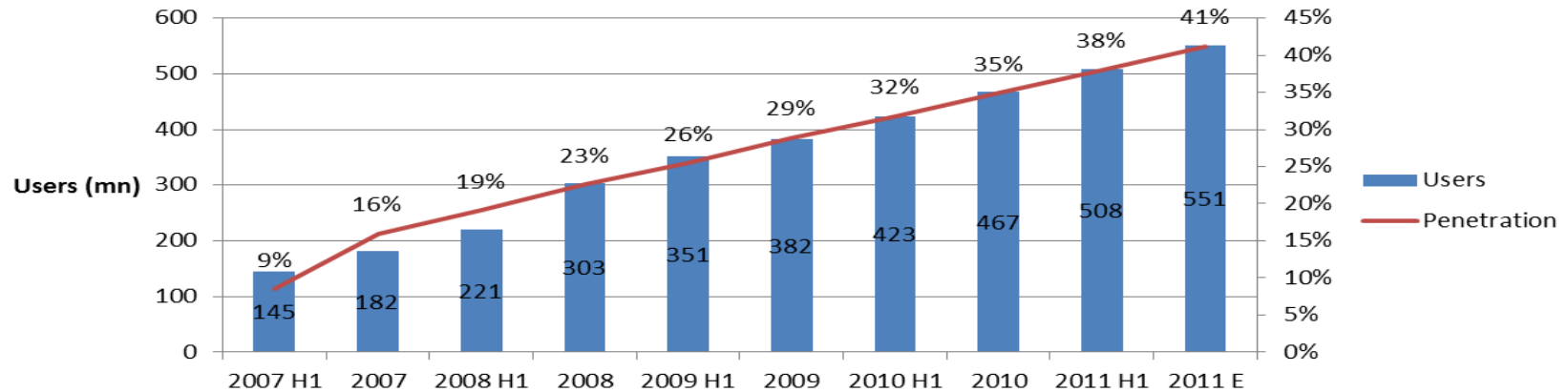
Tightening cycle fairly advanced and room to loosen

- Positive for economy after success of government's firepower & willpower to stimulate
- Positive for market after uncertainty/policy risk overhangs

Policy sustaining economic strength which bodes well for market

GLOBAL SECTOR FOCUS: GROWTH OF THE INTERNET IN CHINA

Total China Internet Users 2007-2011E



Already huge market

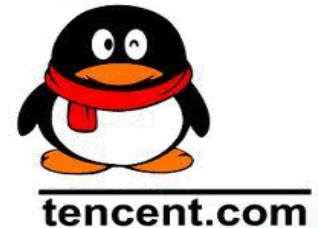
- China accounts for approx. 20% world internet users

Growth potential still huge as penetration still low

- China will have an estimated 551 million internet users by the end of 2011

Tencent's QQ is the dominant online messenger

- Money follows the eyeballs

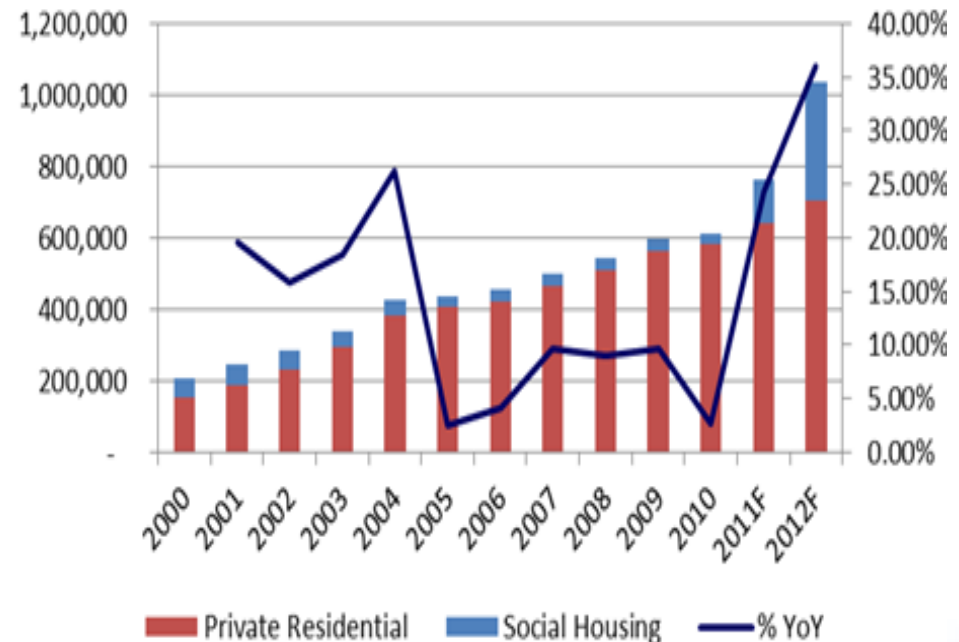


Fast growth on a huge scale; domestic champions winning

CHINA'S SOCIAL HOUSING PROGRAMME

- Economic AND political imperative
 - Social housing offsetting loan quotas in private sector
- This has begun, and on a large scale
- Impact of build out is substantial
 - Residential construction -12.5% GDP

Residential floor space completed ('000sqm)

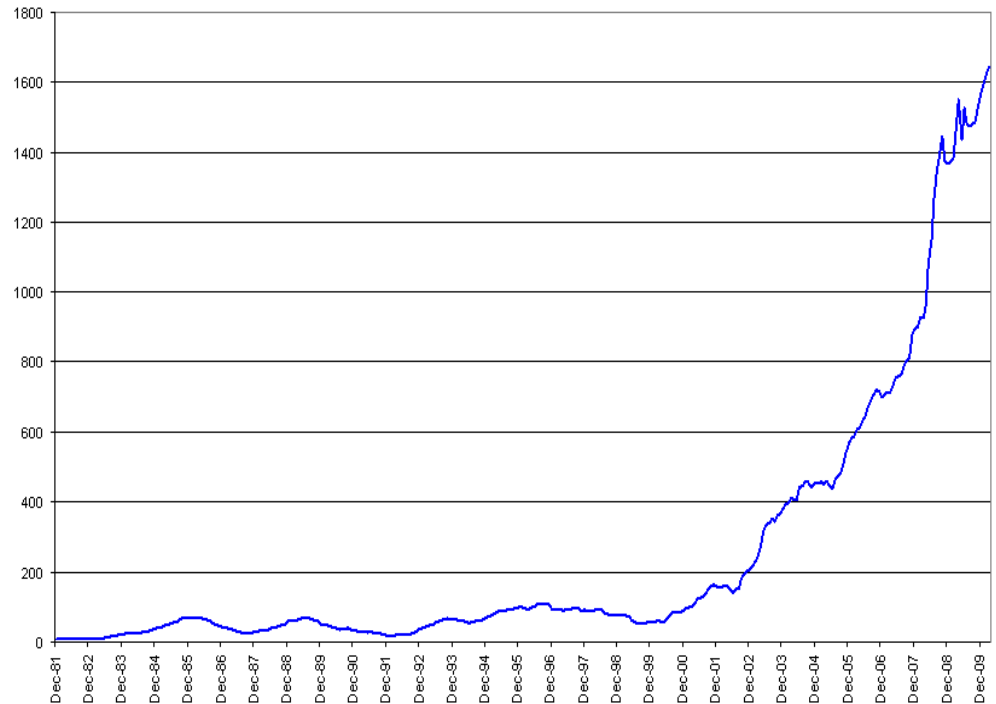


Prospects for order books of exposed companies excellent

WHAT CHINA NEEDS: RESOURCES – LATIN AMERICA

- Construction activity needs raw materials
- One third of China's food comes from Latin America
- China is now Brazil's no.1 trading partner

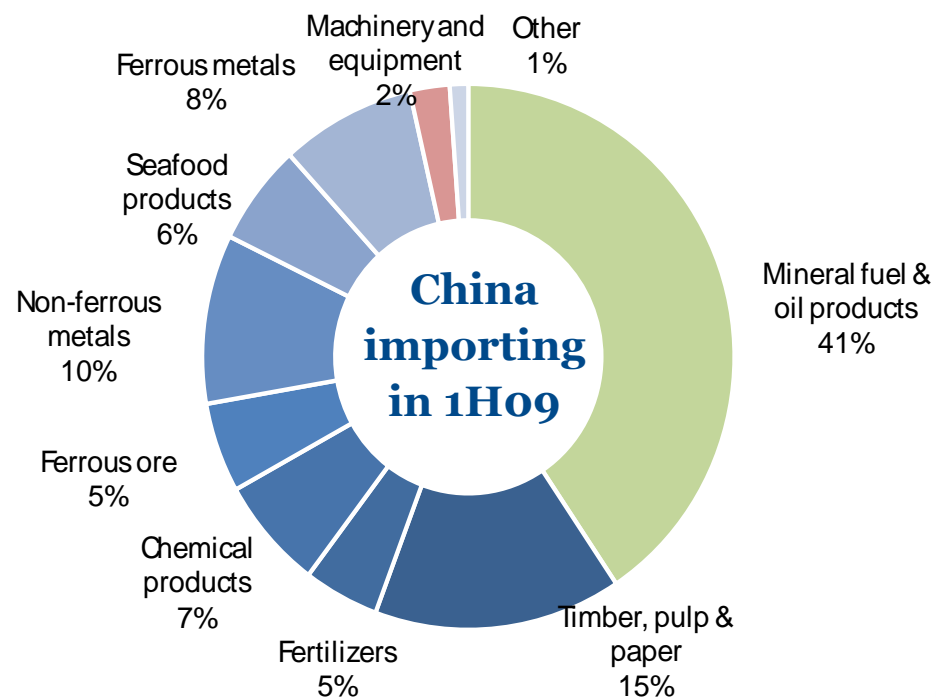
**Brazilian exports to China
(million USD, 12m ma)**



Commodity demand underpinned

WHAT CHINA NEEDS: ENERGY – RUSSIA

Russian exports reflect the Chinese economic expansion



Emerging market self-reliance gives a different look to global growth

Source: VTB Capital Research, March 2010; Russian Trade Mission in China

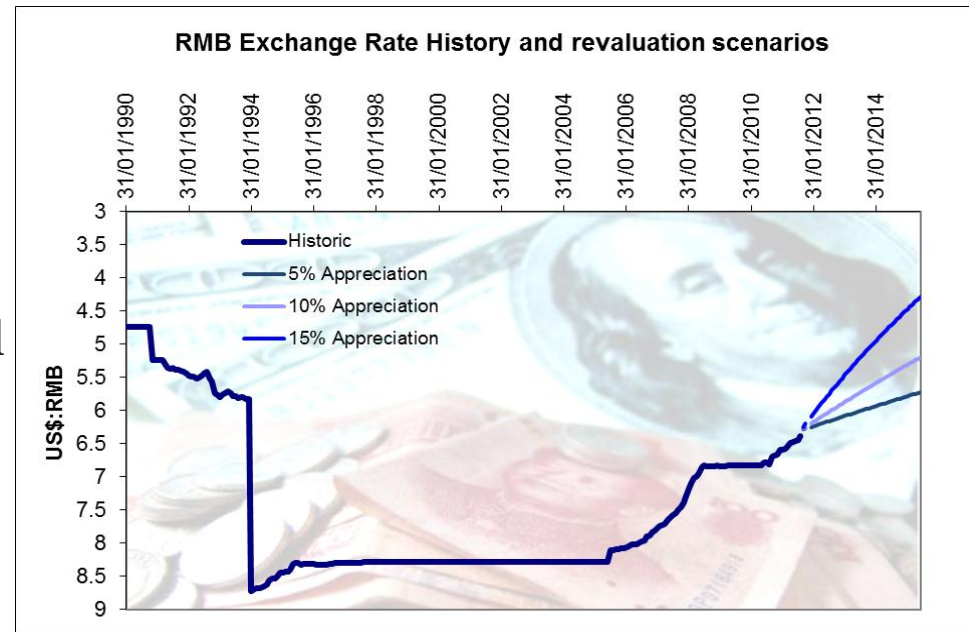
MEDIUM/LONG-TERM CURRENCY BENEFIT

Long-term currency management suppressed RMB's value; expect normalisation

- International pressure
- In China's interest

Sterling value of RMB earnings will similarly increase over time thus increasing the relative value of Chinese assets

RMB exchange rate history and revaluation scenarios



Benefits ownership of assets or income streams based in RMB

Source: Bloomberg as at 01.01.12. Neptune projections. Please remember that projections and past performance are not a reliable indicator of future exchange rates. The projections are Neptune's personal views and as such this document is deemed to be impartial research. We do not undertake to inform you as to any change of our views.

CHINA: “A GENERATION-DEFINING OPPORTUNITY”

- The growth story
 - Changing model of growth
 - Supported by government
- Direct investment opportunities
 - Foreign and ‘domestic’
- Vital in a global allocation context
 - Exposure, and understanding.



Developed market SIZE; emerging market potential for GROWTH

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