For Professional Investors

ROBECO

Emerging Markets Monthly Report

October 2009

- Robeco Emerging Markets Equities team

Macro Environment: +

MACRO

	GDP		Inflation	
	2009	2010	2009	2010
EMEA	-3.4	2.7	7.3	6.1
Asia	2.5	6.4	1.6	2.9
Latin America	-1.5	3.9	3.9	4.1
Emerging Markets	0.4	5.1	3.3	3.9

Source: Consensus Economics

EMEA is an abbreviation for Europe, Middle East and Africa.

Although emerging markets are clearly integrated into the global economy and are affected by the global recession, we continue to think that the emerging markets economies are relatively well positioned.

- The financial position for most emerging markets countries and companies is relatively sound, with still high FX reserves and low debt levels, both for companies and governments. As an example, the average (listed) emerging market company has a net-debt-to-equity ratio of 23%, for the average developed markets company it is 58%.[1] In general, emerging markets have more resilient financial systems. Thus the current situation for emerging markets economies can be better described as a very severe cyclical correction rather than the start of a balance sheet adjustment process that seems to be going on in developed markets.[2]
- Several emerging markets countries have room to increase fiscal spending without risking inflation in the short- to medium-term.
- Although global growth is slowing down, emerging markets growth is likely to remain relatively high, with increasingly more focus on domestic demand rather than export growth. Despite very worrisome expectations in the beginning of the year, the average growth in emerging markets for 2009 is now expected to be clearly positive. China, India, Poland, Indonesia, Peru and Egypt are all expected to grow in 2009. Growth expectations have been adjusted upward.
- Emerging markets are positively correlated to commodity prices, due to the energy and materials exposure in the index and owing to several commodity-exporting countries (Russia, Brazil, South Africa and Mexico among others). For the larger Asian emerging markets (China, India, Korea and Taiwan), however, it is a net positive effect, as these countries are large importers. Commodity prices have obviously rebounded from the lows at

[1] UBS Equity Strategy
[2] As defined by MSCI.

the end of last year. Prices are now at a level which enables exporting countries to have economies without cash problems while the importing countries can avoid cost inflation.

- The current accounts of most emerging economies is still a positive factor for the asset class. Even Russia continues to have a positive balance. Improvements can be seen in major importers of commodities, such as Korea and Turkey. Korea recently had the most sizeable monthly current account surplus in its history.

Last month, the most important macro news came from Latin America:

- In Brazil, the government raised taxes on certain inflows into the country. With elections coming next year, more political interference is expected.
- In Mexico, the parliament approved a new tax regime, much weaker than the regime proposed by the government. The government is anxiously looking for new revenues, as oil production is falling rapidly. It is still unclear whether the move will be sufficient for the rating agencies to maintain the current credit rating of the Mexican state.

We have kept a positive macro conclusion for emerging markets. We do see short-term risk due to the global economic recession, but the outlook for emerging markets should be better than that of developed markets based on relatively higher growth (China and India) and a much better financial position.[3]

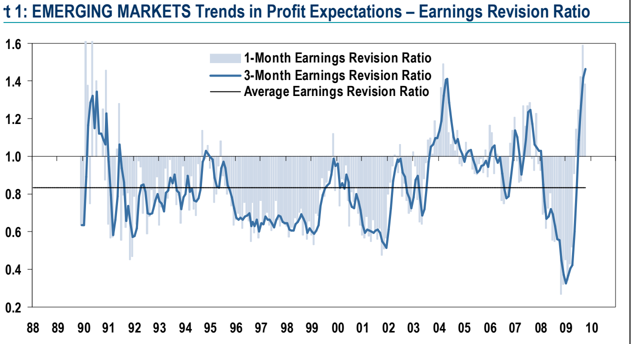
Earnings Expectations: 0

EARNINGS

	IBES Earnings growth		3M revisions	
	2009	2010	FY1	FY2
EMEA	-22.6	21.5	4%	2%
Asia	20.2	29.7	10%	13%
Latin America	-13.8	24.9	5%	6%
Emerging Markets	-2.5	26.5	9%	11%
MSCI World	-7.7	26.3	7%	7%

The earnings outlook continues to improve, with the most significant revisions still in Asia. Estimated growth rates for emerging and developed markets are very similar. As earnings revisions for both regions are now very close, we have downgraded the revisions factor to neutral.[4]

t 1: EMERGING MARKETS Trends in Profit Expectations – Earnings Revision Ratio



: Merrill Lynch Global Quantitative Strategy, MSCI, IBES

[3] As defined by MSCI.
[4] Ibid.

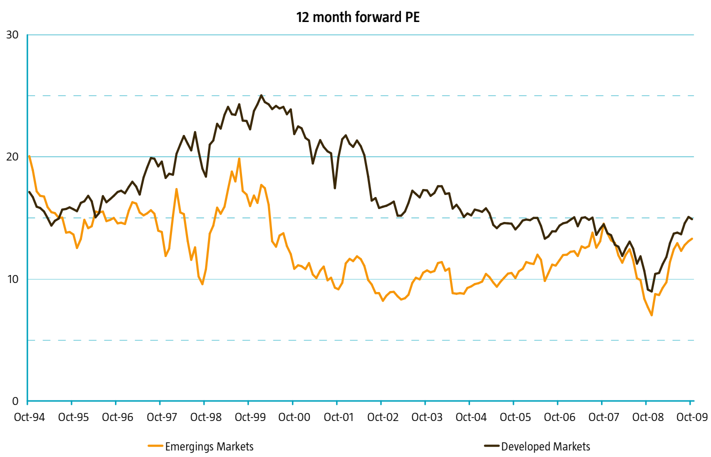
Valuation: 0

VALUATION

	P/E			P/CF		P/B		DY	
	2009	2010	5 yr. avg.	current	5 yr. avg.	current	5 yr. avg.	current	5 yr. avg.
EMEA	12.9	10.6	12.3	8.2	8.5	1.7	2.1	2.4	2.5
Asia	17.7	13.6	13.9	11.9	8.3	2.1	2.0	1.9	2.6
Latin America	16.9	13.6	13.2	9.2	8.1	2.3	2.4	3.3	2.9
Emerging Markets	16.2	12.8	13.4	10.2	8.4	2.0	2.1	2.3	2.6
MSCI World	18.1	14.3	15.8	9.4	9.4	1.8	2.2	2.6	2.5

EMEA is an abbreviation for Europe, the Middle East and Africa. P/E is Price/Earnings, P/CF is Price/Cash Flow, P/B is Price/Book, DY is Dividend Yield.

Emerging markets are trading slightly cheaper than developed markets on price/earnings. On other multiples, emerging markets are more expensive. We rate this factor as neutral.



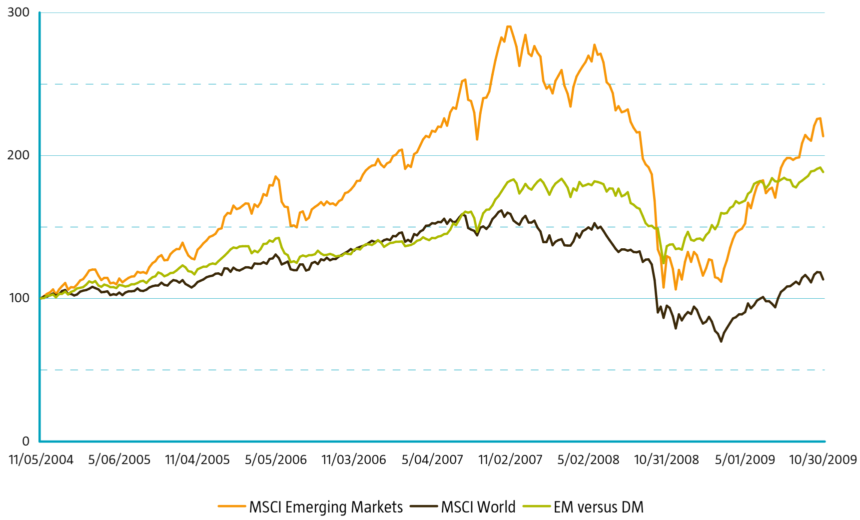
Source: Bloomberg

Technical analysis: +

TECHNICAL

	Total Returns USD			
	1M	3M	6M	12M
EMEA	3.4	11.6	40.2	47.8
Asia	0.0	4.8	35.7	66.4
Latin America	2.1	15.6	49.2	77.0
Emerging Markets	1.2	8.5	39.6	64.1
MSCI World	2.0	6.8	25.5	19.5

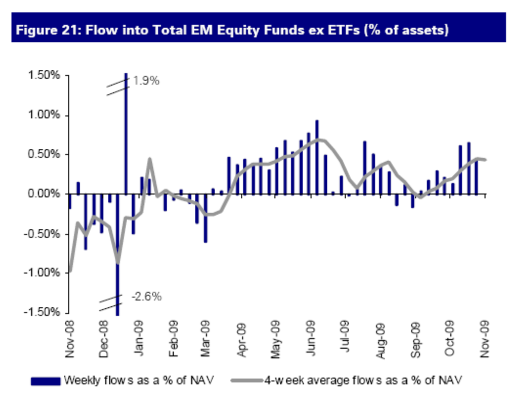
After the strong run year-to-date, the technical profile for emerging markets is stronger than for developed markets.



Source: Bloomberg

Sentiment, demand/supply: +

Sentiment towards emerging markets has been very positive so far this year. Emerging markets debt spreads have been falling and inflows have been substantial. In relative terms, flows into emerging markets funds are better than flows into developed markets funds.



Source: Bloomberg

Summary and Conclusion

In a global equity portfolio, we recommend strategic and tactical overweights in emerging markets.

Macro environment: +

Relatively higher growth, better external and credit positions justify a positive macro rating for emerging markets.

Earnings growth: 0 (from +)

Similar expected growth rates between developed and emerging markets, just slightly better earning revisions for emerging markets.

Valuation: 0

Valuations in emerging markets are in line with developed markets.

Technical analysis: +

Emerging markets equity markets have better technical profiles compared to developed markets.

Sentiment, demand/supply: + (from 0)

In relative terms, flows into emerging markets funds are better than flows into developed markets funds.

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Index Definitions

The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of June 2006 update the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

The S&P/IFCI (International Finance Corporation Investable) indices are designed to measure the type of returns foreign portfolio investors might receive from investing in emerging market stocks that are legally and practically available to them. Constituents for the S&P/IFCI series are drawn from the S&P/IFCG stock universe based on size, liquidity, and their legal and practical availability to foreign institutional investors.

Index returns are provided for comparison purposes only to show how the composite's returns compare to a broad-based index of securities, as the indices do not have costs, fees, or other expenses associated with its performance. In addition, securities held in either index may not be similar to securities held in the composite's accounts.