For Professional Investors

ROBECO

Emerging Markets Monthly Report

September 2009

- Robeco Emerging Markets Equities team

Macro Environment: +

MACRO

	GDP		Inflation	
	2009	2010	2009	2010
EMEA	-0.8	2.6	7.2	6.0
Asia	0.8	5.3	1.2	2.2
Latin America	-0.5	2.8	4.1	4.1
Emerging Markets	0.2	4.1	3.1	3.4

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 economies are relatively well positioned.

- The financial position for most emerging 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) EM company has a net-debt-to-equity ratio of 23%, for the average developed market company this is 58%. In general, emerging markets have more resilient financial systems.[1]
- 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 which seems to be going on in developed markets.[2]
- Several emerging markets 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.
- Emerging markets are positively correlated to commodity prices, due to the energy and materials exposure in the index and to several commodity-exporting countries (Russia, Brazil, South Africa and Mexico among others). For the larger Asian emerging markets (China, India, Korea, Taiwan), however, it is a net positive effect, as these countries are large importers. Commodity prices have obviously rebounded from the lows at the end

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

of last year. At the moment, prices are at a level which enables exporting countries to have economies without cash problems, while the importing countries can avoid cost inflation.

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

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

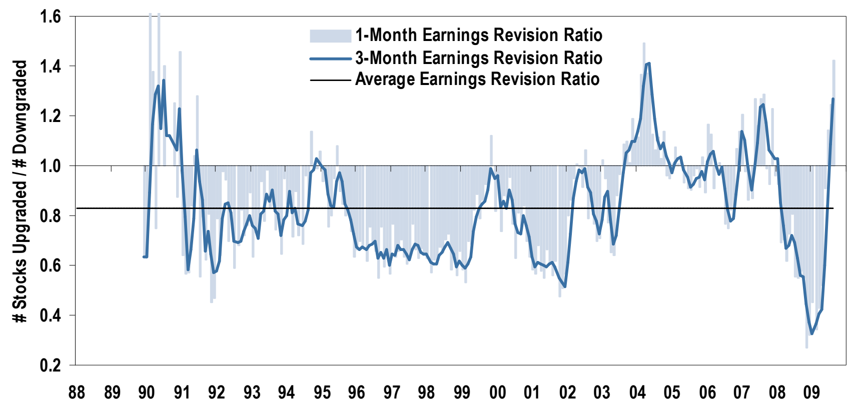
Earnings Expectations: +

	IBES Earnings growth		3M revisions	
	2009	2010	FY1	FY2
EMEA	-26.1	22.8	1%	1%
Asia	18.8	29.7	11%	14%
Latin America	-15.1	25.3	4%	5%
Emerging Markets	-5.1	26.9	9%	11%
MSCI World	-8.1	25.6	4%	5%

EMEA is an abbreviation for Europe, Middle East and Africa.
Source: IBES. Regions as defined by MSCI.

The earnings outlook continues to improve, and the Asian region continues to compare positively with the other regions. Estimated growth rates for emerging and developed markets are very similar, but emerging markets have better earnings revisions. We therefore maintain the earnings factor as a positive.[4]

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



Source: Merrill Lynch Global Quantitative Strategy, MSCI, IBES

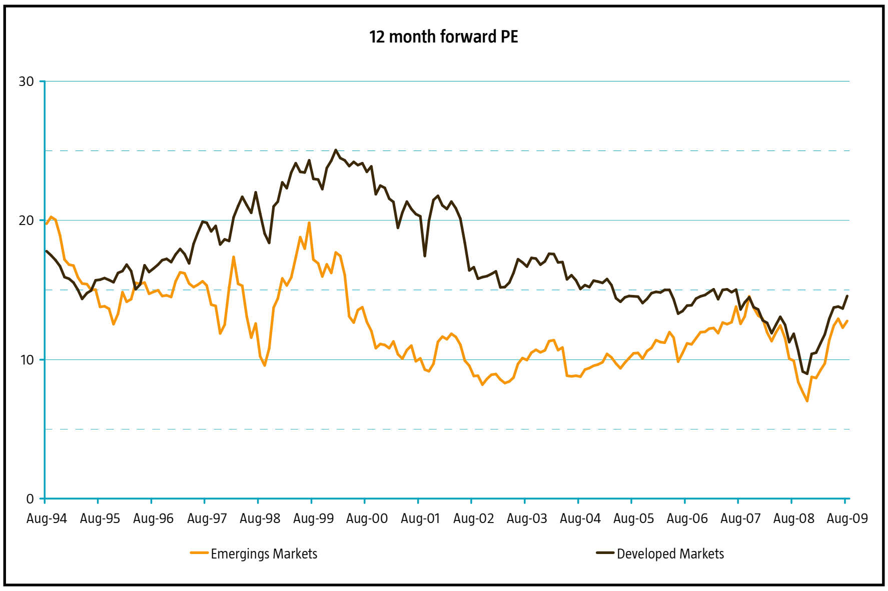
[3] As defined by MSCI.
[4] Ibid.

Valuation: 0

	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	12.3	10.0	12.3	7.5	8.5	1.7	2.1	2.7	2.5
Asia	17.6	13.6	13.8	11.2	8.2	2.2	2.0	1.9	2.6
Latin America	15.5	12.4	13.1	9.4	8.1	2.3	2.4	3.2	2.9
Emerging Markets	15.7	12.4	13.3	9.8	8.3	2.1	2.1	2.3	2.6
MSCI World	17.9	14.2	15.7	9.0	9.4	1.9	2.2	2.5	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 the valuation factor as neutral.



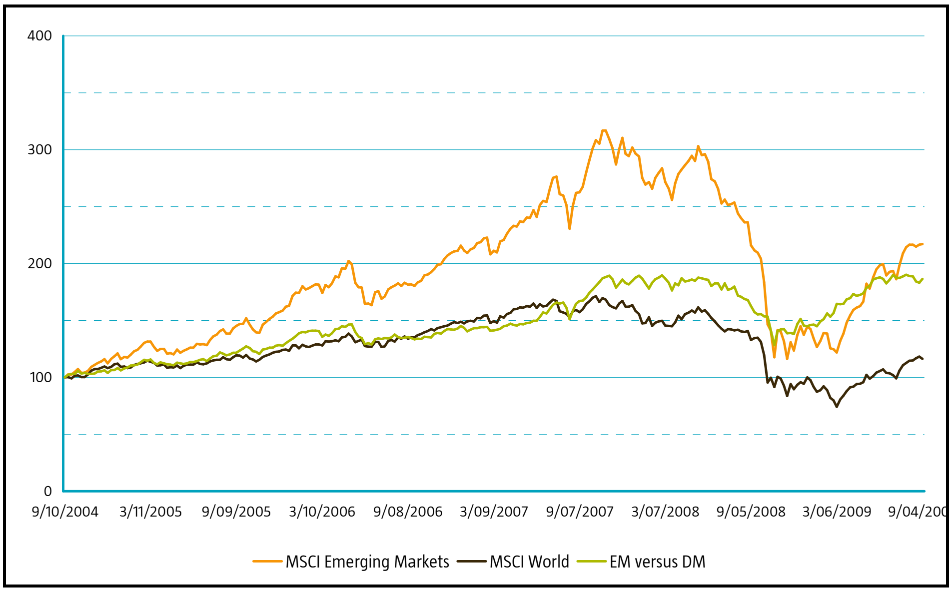
Source: Bloomberg

Technical analysis: +

	Total Returns USD			
	1M	3M	6M	12M
EMEA	5.8	20.4	60.3	1.9
Asia	9.2	19.8	60.5	28.1
Latin America	12.0	24.8	72.9	19.8
Emerging Markets	9.1	21.0	63.2	19.4
MSCI World	4.0	17.6	42.3	-1.6

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

After the strong run year-to-date, the technical profile for emerging markets is stronger than for developed markets.[5]

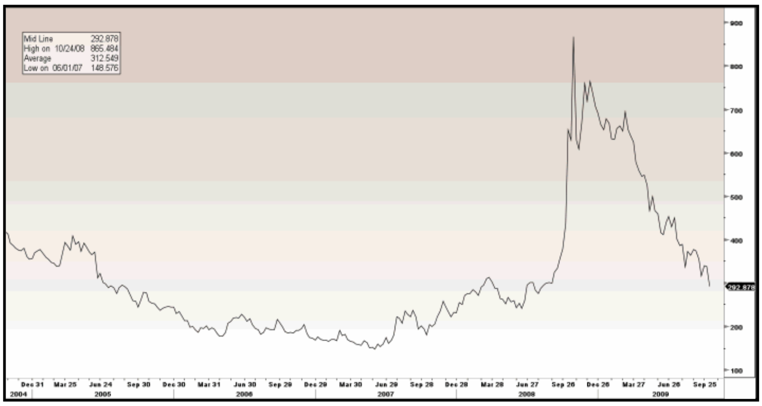


Source: Bloomberg

[5] As defined by MSCI.

Sentiment, demand/supply: 0

Sentiment towards emerging markets has been very positive so far this year. Spreads have been falling and inflows have been substantial. In recent months, sentiment has stabilized.



Source: Bloomberg

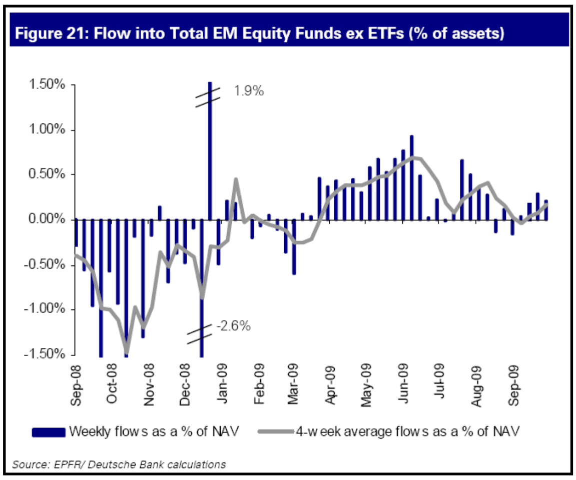


Figure 21: Flow into Total EM Equity Funds ex ETFs (% of assets)

Source: EPFR/ Deutsche Bank calculations

Summary and Conclusion

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

Macro environment: +

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

Earnings growth: +

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

Valuation: 0

Valuations in emerging markets are in line with developed markets.

Technical analysis: +

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

Sentiment, demand/supply 0

Sentiment has stabilized after improving in the first three quarters of the year.

Model portfolio

We have changed the model portfolio as follows:

+ Indonesia: from neutral to overweight (+0.5)
+ Egypt: underweight from -0.6 to -0.3

- Malaysia: underweight from -1.0 to -1.5
- Israel: underweight from -0.8 to -1.1

Country	Benchmark weight	Relative weight Model portfolio
Poland	1.1	-1.1
Hungary	0.6	-0.6
Czech Republic	0.5	-0.5
Russia	6.3	1.0
Kazakhstan	0.0	0.5
Turkey	1.5	1.5
Israel	2.7	-1.1
Jordan	0.0	0.0
UAE	0.0	0.5
Egypt	0.6	-0.3
Morocco	0.3	-0.3
South Africa	7.0	-2.0
EMEA	20.6	-2.5
Malaysia	2.7	-1.5
Thailand	1.3	-0.8
Indonesia	1.9	0.5
Philippines	0.4	-0.4
Taiwan	11.7	-0.5
Korea	13.8	4.0
India	7.6	0.5
Pakistan	0.0	0.0
China	17.5	1.0
Asia	56.8	2.7
Brazil	15.7	1.0
Mexico	4.3	-1.0
Argentina	0.0	0.0
Chile	1.4	-1.4
Peru	0.6	1.0
Colombia	0.7	0.1
Latin America	22.6	-0.2
GEM	100.0	0.0

This information is for a model portfolio. Weightings in an actual portfolio may vary.

Déjà vu

Emerging markets equities have certainly had a rollercoaster ride over the last two years. In the year between October 2007 and the end of October 2008, when emerging markets bottomed, stock prices plunged by 62%. Since then, the index has surged by 90%. In times of crisis, emerging markets are hit harder, but their recovery, once it comes, is much larger.

Important Information

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.