

Key notes



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UBS Asian Consumption—Portfolio Manager, Namit Nayeghandhi

What is the Asian consumption story based on?

- Quality companies delivering high Return on Capital (ROC) through production of goods and services
- Changes to government policies creating a benign environment and structural growth stories found through themes such as: The young demographic, urbanisation and cultural change.
- The changing Asian consumer:
 - ◊ Increased opportunities to find jobs, secure higher disposable incomes with a greater propensity to take on debt

Portfolio construction and benchmark

- Majority of stocks will be Asian local brands
- Will avoid companies with a material level of exposure to developed markets
 - ◊ Do not want to dilute the overall exposure to Asia
- Customised benchmark - MSCI Asia ex Japan Consumer & Healthcare Sectors Index
 - ◊ Investible universe of 6,000-7,000 Stocks
 - ◊ Portfolio holdings usually 40-50 stocks
- Diversification available through a wide number of sub-sectors. These include:
 - ◊ Autos, consumer and packaged food, beverages, retail, internet
 - ◊ Telecoms, financials, properties (so long as they sell directly to the end consumer)

How do stocks get in or out of the portfolio?

- Three filters:
 - ◊ Quality companies in right market;
 - ◊ Due diligence to establish scalability;
 - ◊ The right valuation
- Which sectors are attractive in Spring/Summer 2011?
 - ◊ The Indian tobacco market
 - ◊ Huge trend moving from hand rolled to filter cigarettes
 - ◊ Indian Tobacco (ITC) has a 75% market share and straddles price points, giving it the potential to succeed within a growing market
- If a holding thesis is violated, any existing holding within the portfolio will be sold
 - ◊ This is rare - stock picked tends to be more about valuations
 - ◊ Our stock selection models aim to reduce the risk of paying inflated prices for stocks in the event of market euphoria

Process, resources and risk management

- Global and Asian sector analysts and specialists enable deep understanding of stocks within universe
- Weekly portfolio construction meetings for committee to check and confirm holding thesis for each stock held within portfolio

Track record and outlook

- Underweight in Korea hurt in early 2011
 - ◊ However, Korea is a momentum-driven market so it can perform well for 4-5 months but then drop off sharply. We believe it has little structural growth potential, with our underweight position in the region having recently proved beneficial
- Not a substitute for a core Asian equity fund
- The Fund is a play on the growing and long-term structural change affecting consumer trends within Asia



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