

AUGUST'S
HOT TOPICEmerging
Market
Equity

A BUBBLE IN THE MAKING?

Investors have surged back into emerging equity funds this year, after making net withdrawals last year. Net sales have risen to a record €15bn during the first half of the year. Although the question of whether emerging markets have decoupled from the developed world remains a matter of debate, many investors believe there are good reasons to invest anyway, such as the emerging economies' relatively young population and abundance of commodities. The strong performance of the Chinese stock market following the Government's stimulus package earlier this year has contributed to investor enthusiasm. While there are fears in some quarters that a bubble is developing, particularly in China, the majority of European investors are spreading their risk with broadly based emerging equity funds. These funds attracted nearly €6.4bn during the first half of this year, followed by Greater China funds which pulled in almost €4.9bn.

TIME FOR INVESTORS TO UP THEIR EXPOSURE?

It is estimated that the majority of investors in the developed world only have around 5% emerging markets exposure in their portfolios. Fund managers argue that a greater allocation to these markets would make sense to take advantage of their growth potential. With the banking sectors in Asia and Latin America in a much sounder state and less consumer debt, these markets are set to recover from the recession ahead of the developed world. Already, according to latest figures from the International Money Fund, China contributes more to global economic growth than any other country, with Russia, Brazil and India also among the top eight contributors.

CROSSING BORDERS FOR SUCCESS

The fund groups which have gained most from this year's recovering appetite have been cross-border groups in Luxembourg and Dublin. Over €12bn has flowed into their coffers so far this year. JP Morgan, Barclays and Société Générale have led the field in terms of sales. Although actively managed funds have proved the top sellers, Barclays and Société Générale have benefited from flows into their ETFs, with iShares MSCI Emerging Markets and Lyxor ETF China Enterprise featuring among the top 25 selling funds. However, investors have been more ambivalent about emerging Europe. Central and Eastern Europe funds have seen outflows. But Russian Equity is the sixth most popular sector and Polish Equity funds also attracted positive sales.

IN BRIEF

Emerging markets currently account for just 10% of the world's equity market capitalisation.

Over 80% of the world's population lives in the emerging markets. More than one billion are predicted to join the consumer middle class by 2030.

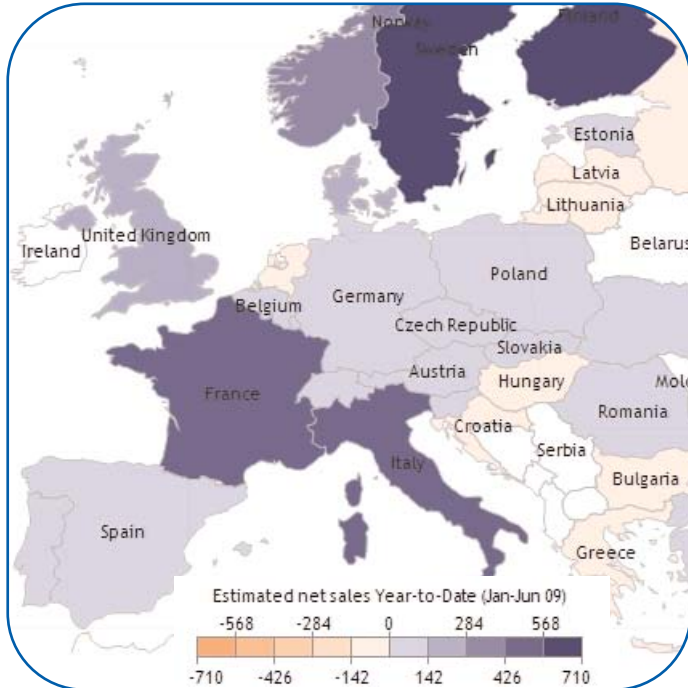
The number of emerging equity funds in Europe currently stands at 1,590. Only 47 new funds have been launched this year.

Assets under management in emerging equity funds in Europe halved in 2008 but have recovered this year by 50%.

According to Ignis HEXAM, volatility in emerging markets has been trending lower and is now within a narrower range than the S&P 500 Index.

Emerging markets have outperformed developed markets over the last ten years.

European map of Emerging Mkt Equity sales in H109 (€m)



Top 10 largest markets for Emerging Mkt Equity (€m)

Fund market	# funds	Assets Jun 09	YTD gth %
International	699	128,989.4	54.7
United Kingdom	75	11,306.9	40.9
Italy	61	7,334.9	40.2
Sweden	42	6,029.6	68.3
Germany	56	3,286.2	33.6
Poland	63	3,222.6	11.2
Denmark	41	3,030.7	46.7
Finland	53	3,019.1	90.6
France	47	2,342.1	66.0
Norway	9	2,222.1	69.7
Rest	499.0	7,249.3	34.6
Total	1,645.0	178,032.8	51.7

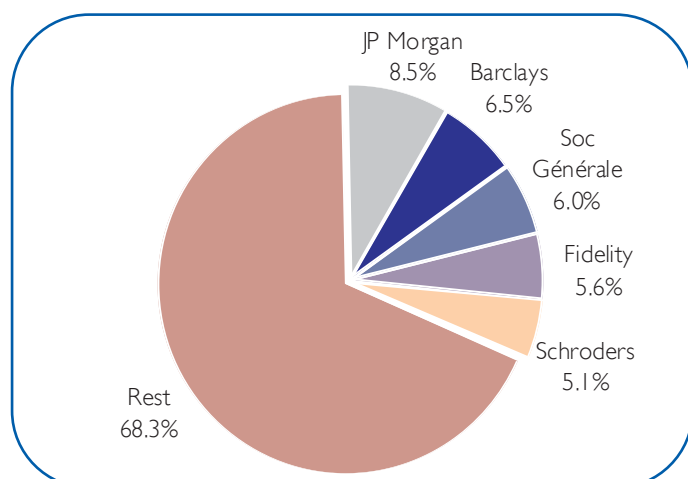
Top 5 Emerging Mkt Equity groups by assets in Jun 09 (€m)

Master Groups	Nat	Assets
JP Morgan	US	11,339.8
Fidelity	BM	9,103.4
HSBC	UK	8,276.0
Deutsche/DWS	DE	6,316.8
Schroders	UK	6,051.4
Rest		136,945.4
Total		178,032.8

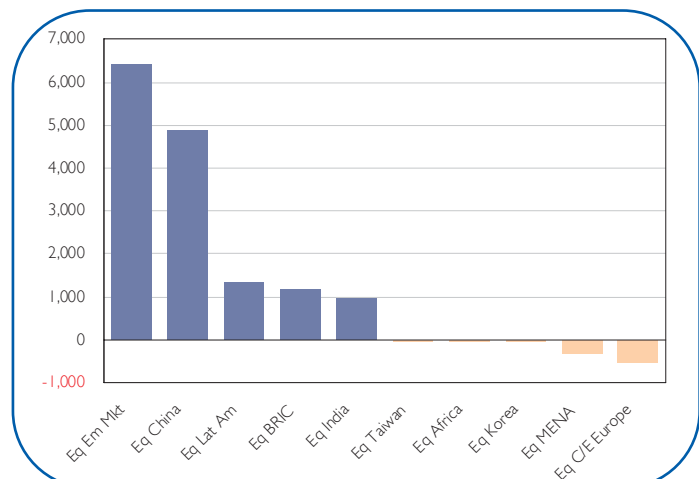
Best-selling Emerging Market Equity funds in H109 (€m)

Fund	Dom	Sales
Fidelity - China Focus Fund	LX	675.0
JPMF - Emerging Markets Equity	LX	508.4
JPMF - China Fund	LX	502.7
Thames River - Global Emerging Markets	IE	495.5
Capital International - Emerging Markets	LX	473.9
Rest		12,746.7
Total		15,402.0

Top 5 Emerging Mkts Equity groups by sales in H109 (€m)



Top and bottom 5 Emerging Mkts Eq sectors in H109 (€m)



Notes: Sales are estimated net sales. H109 is the period Jan-Jun 09. There were a total of 27 emerging market equity sectors used in this analysis.