



GLOBAL INVESTMENT STRATEGY

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GLOBAL INVESTMENT STRATEGY

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GLOBAL INVESTMENT STRATEGY

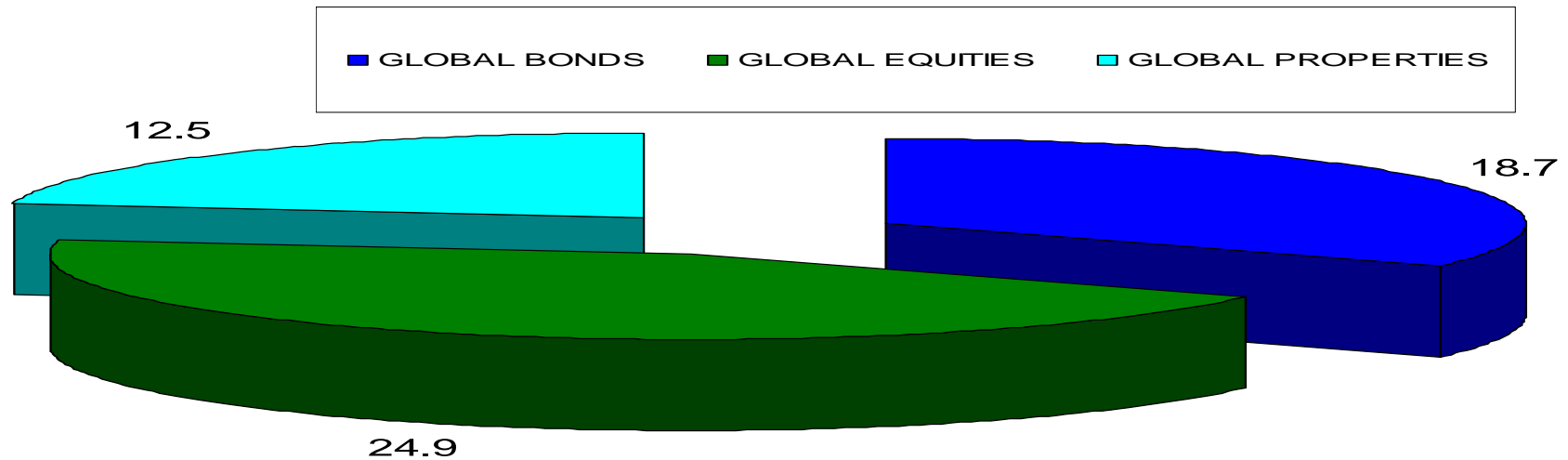
KEY ISSUES

- THE FINANCIAL ASSETS UNIVERSE
- USER GROUPS AND THEIR BEHAVIOUR
 - OBJECTIVES
- INFORMATION AND KNOWLEDGE DRIVEN PROCESS
 - PROACTIVE AND ANALYTICAL ASSET SELECTION
 - FUND ALLOCATION
 - ACTIVE MONITORING
 - RESHUFFLING
 - REPORTING

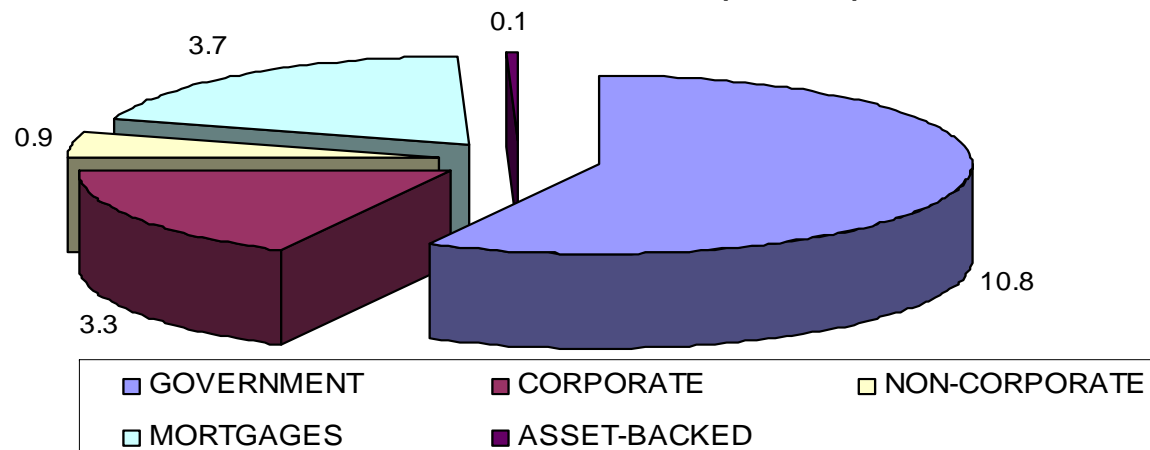
THE FINANCIAL ASSETS UNIVERSE

DECEMBER 2003

BROAD ASSET UNIVERSE (US\$ trn)



GLOBAL BOND UNIVERSE (US\$ trn)



THE FINANCIAL ASSETS UNIVERSE

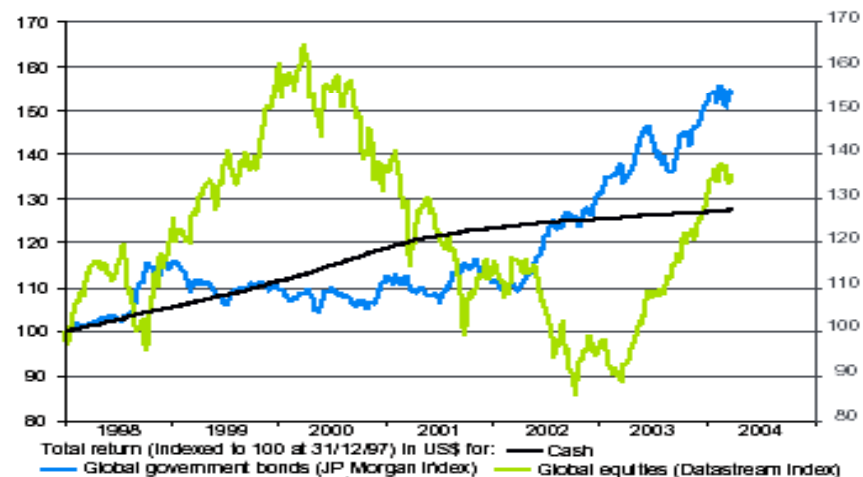
- MAJOR ASSET CLASS RETURNS

AVERAGE REAL ANNUAL RETURN (%)

	Deflation (Less than 0%)	Price Stability (0%-2.5%)	Moderate Inflation (2.5%-5%)	Rapid Inflation (Greater than 5%)
Equities	5.3	17.4	5.3	-4.9
Bonds	8.8	1.8	0.4	-6.2
Number of Years	45	18	34	32

Source: CSFB Equity-Gilt Study, Schroders

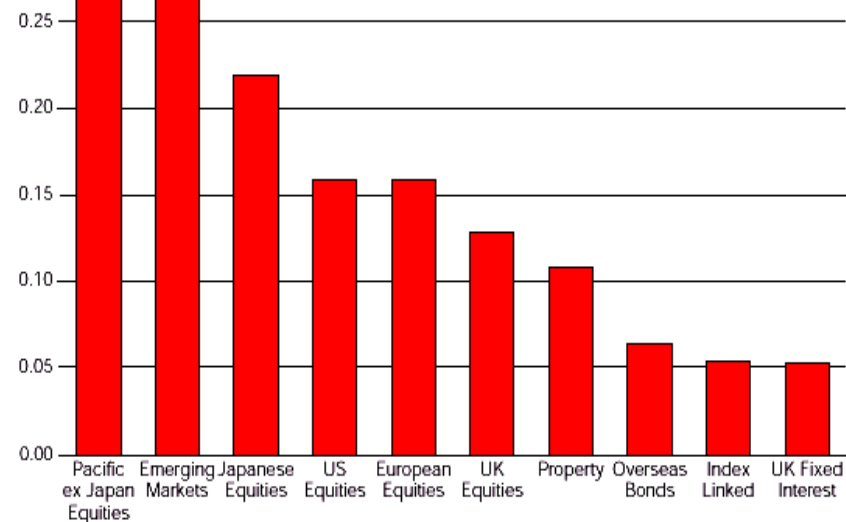
Global asset class returns



Bonds relative to equities



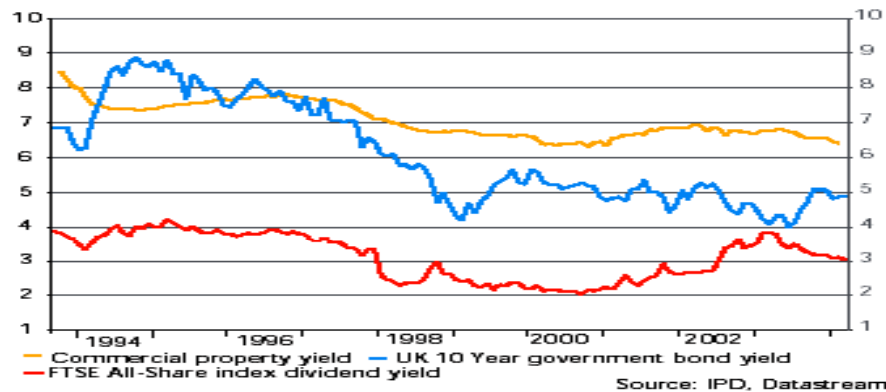
RISK-RETURN PROFILE



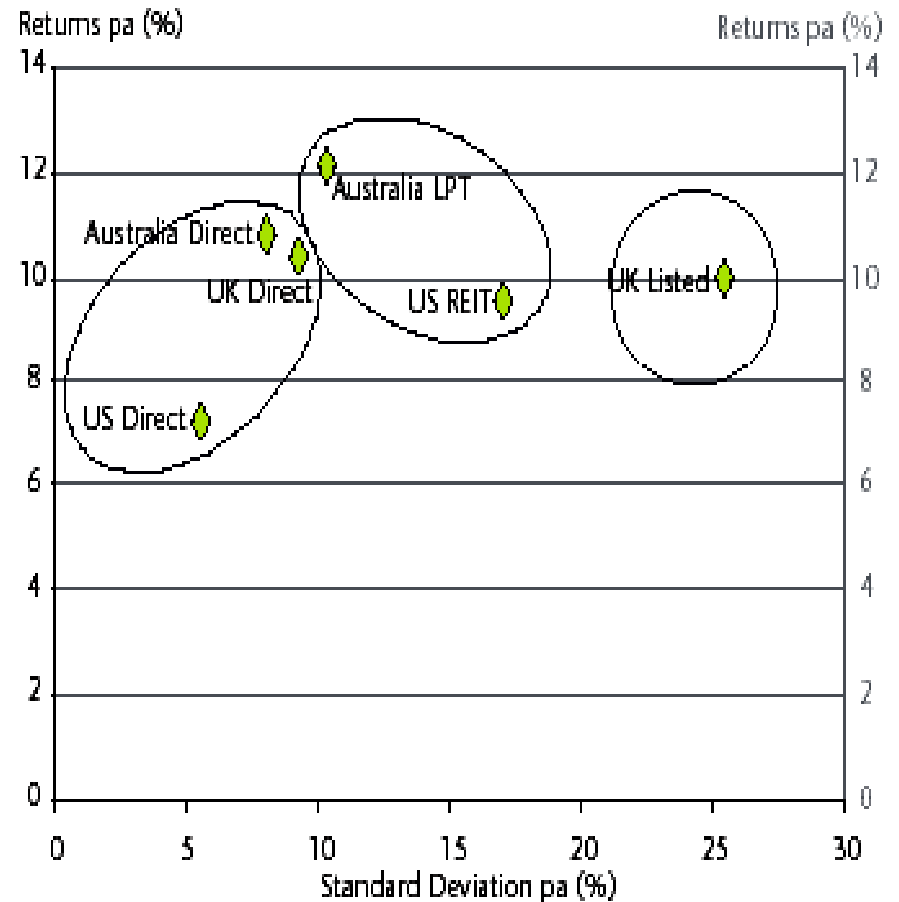
THE FINANCIAL ASSETS UNIVERSE- ALTERNATIVE INVESTMENTS

PROPERTIES (PIFS & REITS)

UK asset class yield

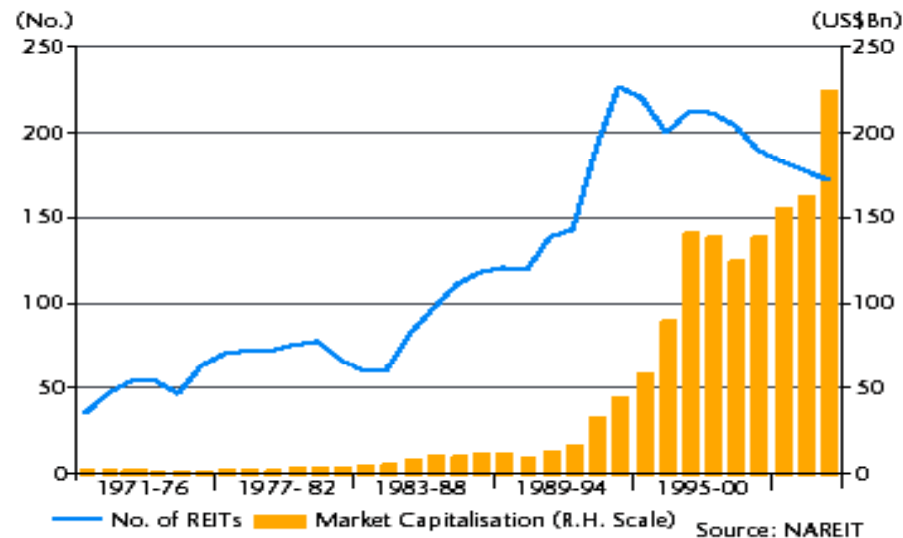


Risk/return for commercial property investment 1985-2003



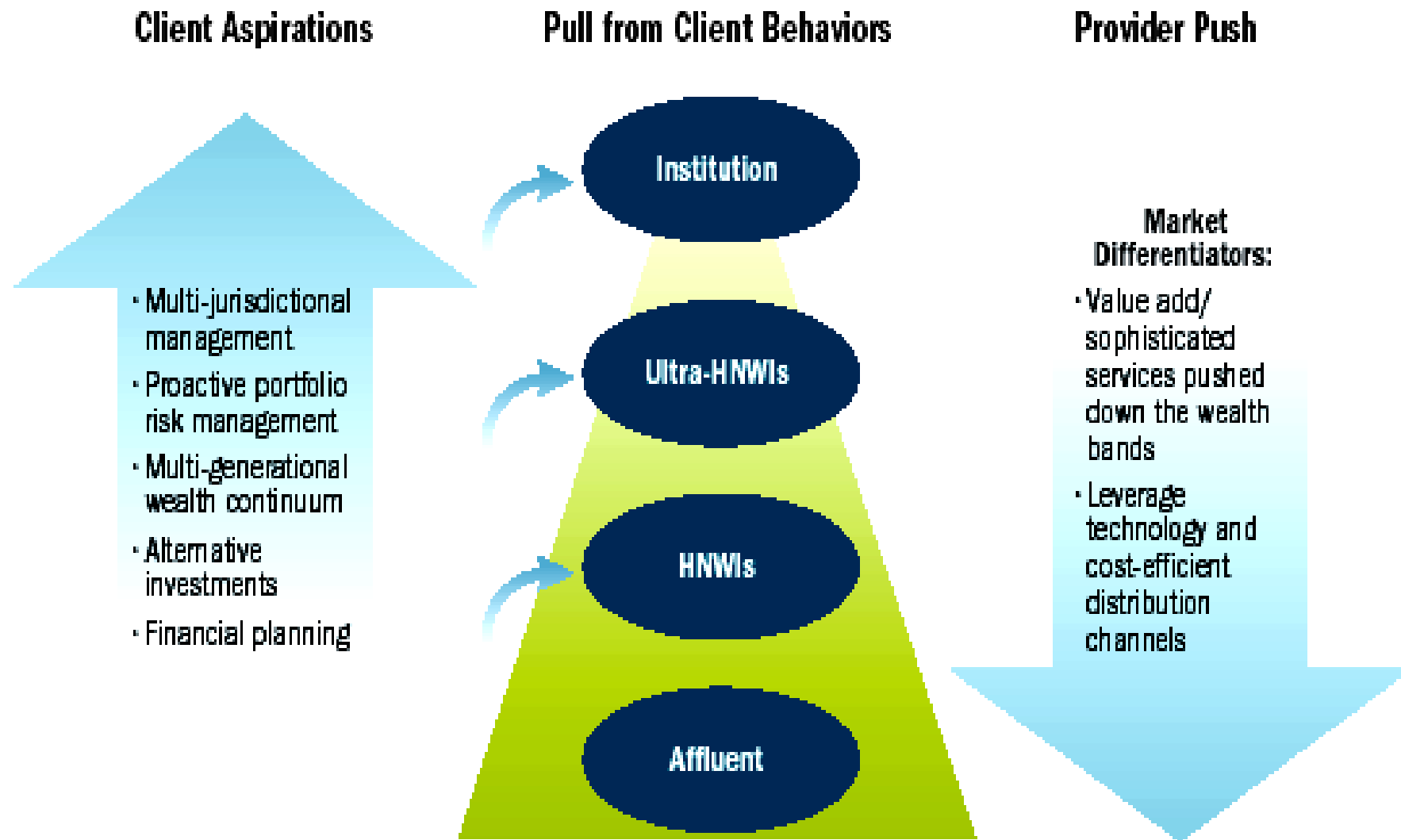
Sources: IPD, NAREIT, PCA, Datastream

Growth of US REITs



GLOBAL INVESTMENT STRATEGY

USER GROUPS AND THEIR EXPECTATIONS



GLOBAL INVESTMENT STRATEGY- WHAT THE INVESTORS LOOK FOR

Characteristics

Institutions

Sophisticated HNWIs

Mindset:

- Unemotional attitude toward investing
- Ratio/fundamentals driven
- Long-term goals while realizing short-term gains
- Close relationships with investment objects (B2B)
- Solution approach vs. product approach

- Rational, increasingly less emotional attitude toward investing
- Service and access to advice and solutions key
- Cash flow and liquidity important (vs. overall yield for institutions)
- Price pressure - greater transparency, e.g., through "RFP"
- Financial solution approach vs. product approach

Methodology:

- Documented strategy to reach specific goals
- Consistent approach, following a strict discipline
- Goals-driven approach to reach long- and medium-term objectives
- Strategic asset allocation for balanced risk management and appropriate diversification
- Frequent rebalancing (dynamic asset allocation)
- Frequent consolidated-performance reporting

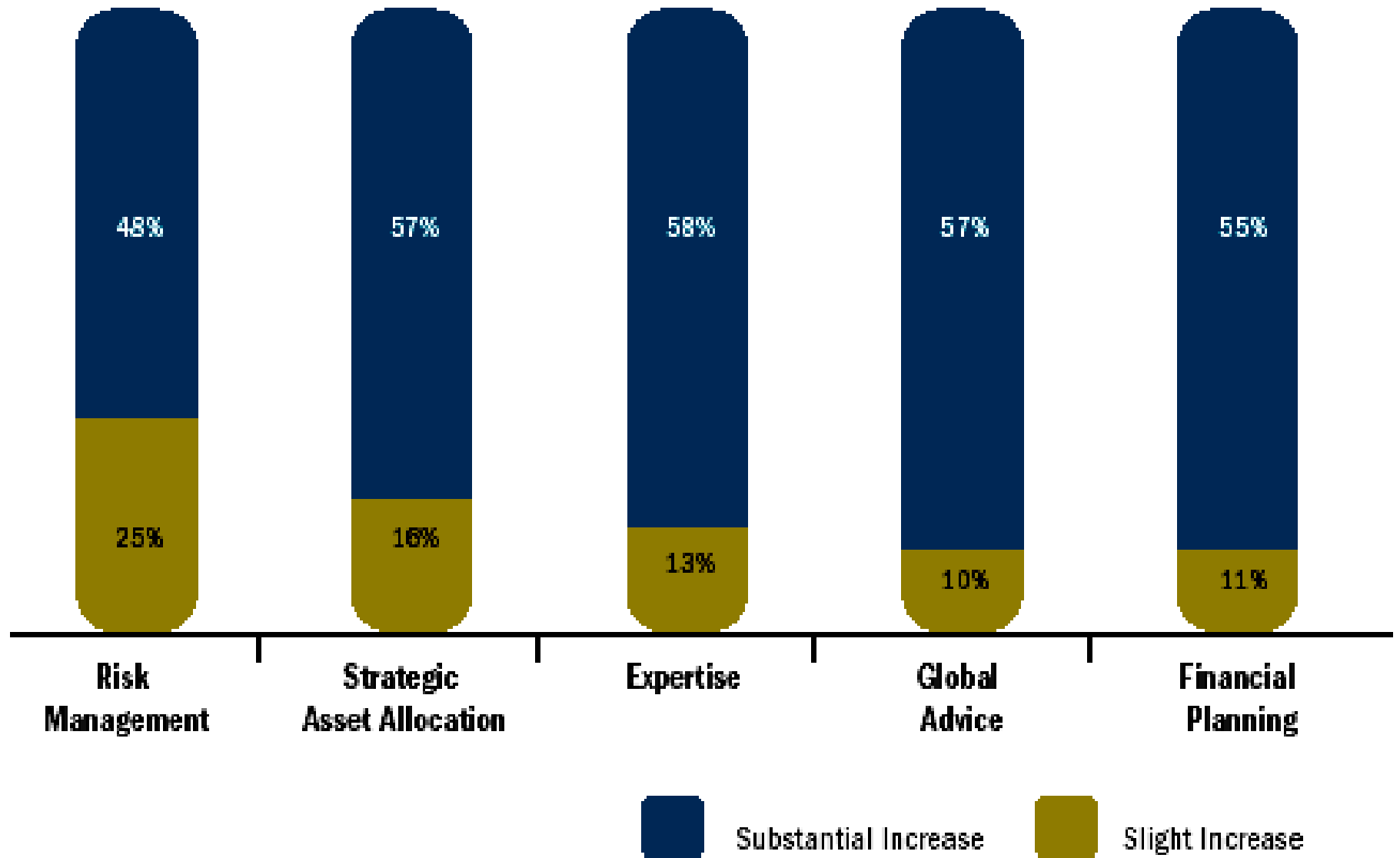
- Greater adherence to "wealth management process"
- Rigorous financial planning to set goals and allocate assets
- Diversification across asset classes, sectors and geographies
- More frequent tracking of progress to goals (closer to dynamic asset allocation)
- Run family/business like an institution with mission statements, communication guidelines, continuity plans, etc.

Products and Services:

- Preferred access to advanced products and markets to better balance portfolios (execution as important as idea generation)
- Demanding solutions; product and service customization
- Higher ratio of alternative investments to balance portfolios and yield higher returns
- Close attention to tax sensitivity

- Increasing demand for comprehensive solutions
- Non-correlated product classes to balance portfolios to achieve higher total return: alternative investments; managed products; real estate
- Tax efficiency services
- Wealth transfer - estate planning, trust
- Global wealth structuring (across jurisdictions)
- CFO services (tax/legal/accounting)

GLOBAL INVESTMENT STRATEGY- PROVIDERS' CONSTANT ENDEAVOUR



GLOBAL INVESTMENT STRATEGY- OBJECTIVES

- **TO ACHIEVE HIGHER THAN AVERAGE
RETURN (15-20%)**
- **CONSISTENCY OF RETURN**
- **SPREADING RISKS**

DEFINING GLOBAL INVESTMENT STRATEGY- INFORMATION AND KNOWLEDGE DRIVEN PROCESS

- **IDENTIFY KEY ELEMENTS INFLUENCING INVESTMENT CLIMATE ACROSS REGION AND COUNTRIES**
- **REVIEW GLOBAL TRENDS AND FORECASTS**
- **KEEP CONTINUOUS VIGIL ON GLOBAL HAPPENINGS**
- **REVIEW FINANCIAL MARKET TRENDS AND FORECASTS**
- **BUILD UP YOUR OWN GLOBAL ALLOCATION BASED ON RISK-RETURN PROFILE OF VARIOUS ASSETS AND MARKETS**
- **CONTINUOUS EVALUATION AND MONITORING**
- **REALLOCATE PORTFOLIO**
- **PERIODIC REPORTING**

DEFINING INVESTMENT CLIMATE

KEY ELEMENTS

ECONOMIC FACTORS

- REAL GDP GROWTH
- INTEREST RATES
- INFLATION
- EXCHANGE RATE
- CURRENT ACCOUNT BALANCE
- FISCAL DEFICIT
- CAPITAL FLOWS
- EMPLOYMENT
- PER CAPITAL INCOME
- DOMESTIC SAVINGS
- INDUSTRIAL PRODUCTION
- CORPORATE GROWTH & PROFITABILITY

NON-ECONOMIC FACTORS

- INTERNAL POLITICAL SITUATION
- EXTERNAL RELATIONS
- GOVERNMENT POLICIES
- FINANCIAL SECTOR REFORM AND MARKET MICRO-STRUCTURE
- STRUCTURAL REFORMS

DEFINING INVESTMENT CLIMATE RESEARCH (1987) REVISITED

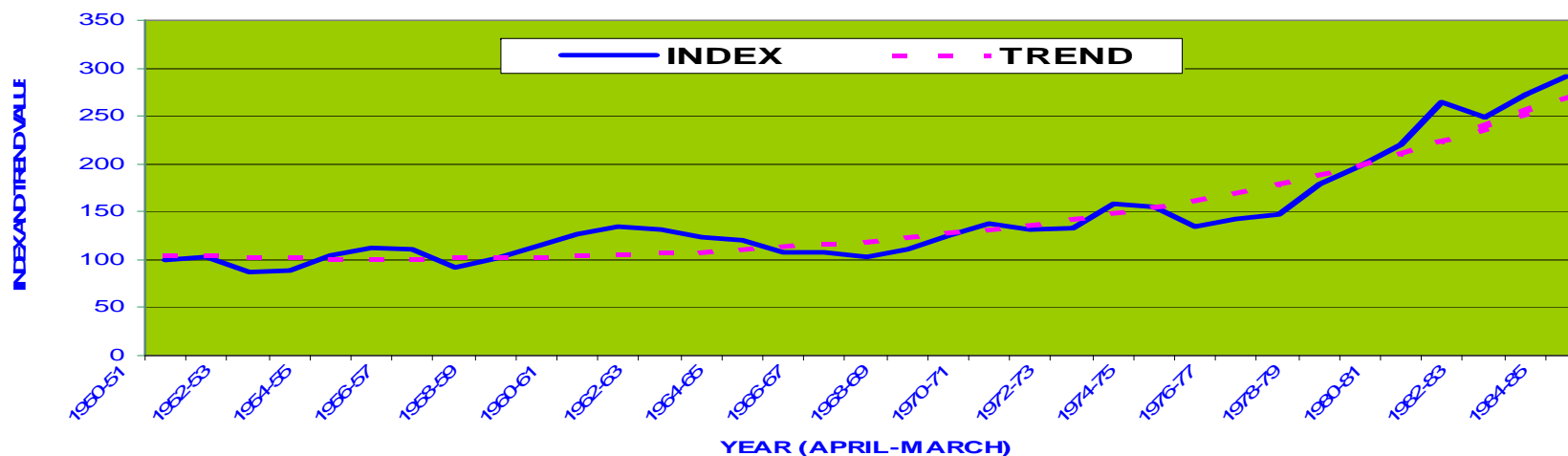
INVESTMENT CLIMATE FOR CAPITAL ISSUES 1951-85

PERIOD (APRIL-MARCH)	INVESTMENT CLIMATE DEFINED	DETERMINANTS				
		ECONOMIC VARIABLES	CORPORATE GROWTH AND PROFITABILITY	STATE OF THE SECURITIES MARKET	POLICY MEASURES	NON-ECONOMIC VARIABLES
1951-56	MODERATELY FAVOURABLE	MODERATELY FAVOURABLE	MODERATELY SATISFACTORY	MODERATELY BUOYANT	FAVOURABLE	FAVOURABLE
1956-61	FAVOURABLE	FAVOURABLE	SATISFACTORY	BUOYANT	FAVOURABLE	FAVOURABLE
1961-66	MODERATELY UNFAVOURABLE	MODERATELY FAVOURABLE	MODERATELY SATISFACTORY	FAIRLY BUOYANT	MODERATELY FAVOURABLE	UNFAVOURABLE
1966-71	HIGHLY UNFAVOURABLE	MODERATELY FAVOURABLE	MODERATELY SATISFACTORY	FAIRLY DEPRESSED	UNFAVOURABLE	UNFAVOURABLE
1971-76	MODERATELY FAVOURABLE	FAVOURABLE	SATISFACTORY	DEPRESSED	FAVOURABLE	MODERATELY UNFAVOURABLE
1976-81	FAVOURABLE	FAVOURABLE	FAIRLY SATISFACTORY	FAIRLY DEPRESSED	FAVOURABLE	FAVOURABLE
1981-85	HIGHLY FAVOURABLE	FAVOURABLE	SATISFACTORY	FAIRLY BUOYANT	MODERATELY FAVOURABLE	FAVOURABLE

METHODOLOGY:

BASED ON INDEXATION (1950-51=100 AND TREND VALUES COMPUTED BY FITTING A SECOND DEGREE CURVE TO LOGRAITHMS
DEFINITIONS ARE CHARACTERISED BY RANGE OF DEVIATIONS AND PERSISTENCY OF DEVIATIONS FROM MEAN DEVIATIONS
DEFINITIONS FOR POLICY MEASURES AND NON-ECONOMIC VARIABLES ARE BASED ON SUBJECTIVE JUDGEMENTS

THE INDIAN SECURITIES MARKET (1951-85)



GLOBAL INVESTMENT CLIMATE

KEY INDICATORS (1)

Table 1.1. Overview of the World Economic Outlook Projections
(Annual percent change unless otherwise noted)

	2002	2003	Current Projections		Difference from September 2003 Projections ¹	
			2004	2005	2003	2004
World output	3.0	3.9	4.6	4.4	0.6	0.6
Advanced economies	1.7	2.1	3.5	3.1	0.3	0.6
United States	2.2	3.1	4.6	3.9	0.5	0.7
Euro area	0.9	0.4	1.7	2.3	—	-0.1
Germany	0.2	-0.1	1.6	1.9	-0.1	—
France	1.2	0.2	1.8	2.4	-0.3	-0.2
Italy	0.4	0.3	1.2	2.0	-0.1	-0.4
Spain	2.0	2.4	2.8	3.3	0.2	—
Japan	-0.3	2.7	3.4	1.9	0.7	1.9
United Kingdom	1.7	2.3	3.5	2.5	0.7	1.0
Canada	3.3	1.7	2.6	3.1	-0.2	-0.4
Other advanced economies	2.8	1.9	3.2	3.5	0.2	0.3
Newly industrialized Asian economies	5.1	3.0	5.3	5.0	0.7	1.1
Other emerging market and developing countries	4.6	6.1	6.0	5.9	1.0	0.6
Africa	3.5	4.1	4.2	5.4	0.4	-0.4
Sub-Saharan	3.5	3.5	4.2	5.7	0.4	-0.6
Central and eastern Europe	4.4	4.5	4.5	4.4	0.6	0.1
Commonwealth of Independent States	5.1	7.6	6.0	5.2	1.7	0.9
Russia	4.7	7.3	6.0	5.3	1.4	1.0
Excluding Russia	6.2	8.1	5.9	5.0	2.5	0.7
Developing Asia	6.4	7.8	7.4	7.0	1.4	0.9
China	8.0	9.1	8.5	8.0	1.6	1.0
India	4.7	7.4	6.8	6.0	1.8	0.9
ASEAN-4 ²	4.3	5.0	5.4	5.4	0.9	1.0
Middle East	4.2	5.4	4.1	5.0	0.5	-0.2
Western Hemisphere	-0.1	1.7	3.9	3.7	0.1	0.4
Brazil	1.9	-0.2	3.5	3.5	-1.7	0.5
Mexico	0.7	1.3	3.3	3.3	-0.1	-0.2
<i>Memorandum</i>						
World growth based on market exchange rates	1.8	2.7	3.8	3.5	0.5	0.6
World trade volume (goods and services)	3.1	4.5	6.8	6.6	1.6	1.3
Imports						
Advanced economies	2.3	3.5	5.7	5.4	0.6	1.0
Other emerging market and developing countries	6.2	8.9	10.2	9.4	3.5	2.3
Exports						
Advanced economies	1.9	2.7	6.3	6.1	1.1	1.2
Other emerging market and developing countries	6.5	8.7	8.1	8.7	4.1	1.4
Commodity prices (U.S. dollars)						
Oil ³	2.5	15.8	3.8	-10.0	1.6	14.4
Nonfuel (average based on world commodity export weights)	0.5	7.1	7.6	-0.8	2.0	5.2
Consumer prices						
Advanced economies	1.5	1.8	1.7	1.7	—	0.4
Other emerging market and developing countries	6.0	6.1	5.7	5.0	-0.1	0.5
Six-month London interbank offered rate (LIBOR, percent)						
On U.S. dollar deposits	1.9	1.2	1.3	3.5	—	-0.7
On euro deposits	3.3	2.3	2.1	2.6	0.1	-0.3
On Japanese yen deposits	0.1	0.1	0.1	0.4	—	-0.1

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during February 13–March 12, 2004.

¹Using updated purchasing-power-parity (PPP) weights, summarized in the Statistical Appendix, Table A.

²Includes Indonesia, Malaysia, the Philippines, and Thailand.

³Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$28.89 in 2003; the assumed price is \$30.00 in 2004, and \$27.00 in 2005.

GLOBAL INVESTMENT CLIMATE

KEY INDICATORS (2)

Table 1.2. Emerging Market and Developing Countries: Net Capital Flows¹
(Billions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total²										
Private capital flows, net ³	217.8	177.6	77.4	86.6	42.2	20.6	47.0	131.2	162.9	100.9
Private direct investment, net	116.0	144.0	153.0	171.2	175.0	189.1	139.3	119.3	135.5	143.3
Private portfolio investment, net	85.0	62.8	38.4	66.0	6.1	-95.7	-98.6	-87.5	-43.9	-36.9
Other private capital flows, net	16.8	-29.2	-114.0	-150.6	-139.0	-72.8	6.3	99.3	71.2	-5.5
Official flows, net	-5.1	48.3	47.3	6.4	-14.5	25.8	3.3	-7.2	-20.0	-18.0
Change in reserves ⁴	-91.2	-104.1	-34.6	-92.7	-116.9	-113.5	-196.0	-363.9	-303.8	-175.7
Memorandum										
Current account ⁵	-95.4	-80.8	-51.4	38.8	128.9	88.1	145.8	207.3	162.5	111.0
Africa										
Private capital flows, net ³	9.1	4.0	9.1	11.8	1.1	6.5	7.2	9.5	13.2	16.8
Private direct investment, net	3.6	7.9	6.9	9.8	8.2	23.0	12.3	14.3	13.7	15.8
Private portfolio investment, net	2.8	7.0	3.7	8.3	-2.2	-8.8	-0.7	1.8	2.5	3.4
Other private capital flows, net	2.7	-10.9	-1.6	-6.3	-4.9	-8.5	-4.4	-6.6	-3.0	-2.4
Official flows, net	-3.0	3.3	4.7	3.5	3.1	1.9	4.2	4.1	4.2	2.7
Change in reserves ⁴	-6.7	-11.2	2.7	-3.4	-13.2	-12.5	-7.6	-14.4	-13.5	-11.4
Central and eastern Europe										
Private capital flows, net ³	25.6	21.8	27.3	34.5	33.4	-1.1	43.8	43.5	45.7	48.1
Private direct investment, net	10.4	11.6	18.0	21.3	22.9	22.7	23.1	13.2	18.2	20.9
Private portfolio investment, net	1.3	5.4	-2.4	4.3	3.6	-0.2	0.7	3.9	5.7	6.7
Other private capital flows, net	13.9	4.8	11.8	8.8	6.9	-23.6	20.0	26.4	21.7	20.5
Official flows, net	—	-2.8	1.1	-2.0	2.7	6.5	-7.2	-5.7	-6.1	-6.5
Change in reserves ⁴	-7.3	-10.1	-9.6	-11.0	-3.1	6.1	-13.6	-11.1	-5.5	-7.8
Commonwealth of Independent States⁶										
Private capital flows, net ³	-7.9	16.3	4.5	-7.6	-15.1	-5.6	-9.7	4.8	-0.5	4.4
Private direct investment, net	4.9	5.9	5.3	4.3	2.4	5.0	4.2	3.6	4.3	4.0
Private portfolio investment, net	-0.1	17.6	7.7	-3.0	-6.0	-9.2	-8.2	-13.3	-8.5	-8.8
Other private capital flows, net	-12.7	-7.2	-8.5	-8.9	-11.5	-1.3	-5.7	14.6	3.7	9.3
Official flows, net	10.9	8.5	9.4	0.1	-3.4	-3.7	-1.1	-4.2	-1.7	-1.3
Change in reserves ⁴	2.1	-3.8	7.5	-2.0	-17.2	-11.3	-11.8	-31.9	-32.4	-25.7
Emerging Asia⁷										
Private capital flows, net ³	118.6	34.0	-50.6	2.7	-4.2	10.1	24.8	84.3	116.8	19.5
Private direct investment, net	53.4	56.5	56.1	66.4	67.4	60.5	53.1	49.3	56.0	54.9
Private portfolio investment, net	32.0	6.3	8.4	56.6	20.1	-54.4	-57.6	-58.4	-18.1	-19.7
Other private capital flows, net	33.1	-28.8	-115.0	-120.2	-91.7	4.0	29.3	93.4	78.9	-15.7
Official flows, net	-13.2	25.2	17.5	1.8	4.0	-2.0	-1.9	-8.6	-3.5	-6.7
Change in reserves ⁴	-46.1	-35.9	-52.6	-87.1	-60.8	-90.7	-157.8	-245.3	-234.8	-118.0
Middle East⁸										
Private capital flows, net ³	2.0	9.6	8.4	-7.9	-24.9	-16.3	-27.6	-22.9	-30.1	-16.3
Private direct investment, net	4.1	5.2	5.1	3.9	7.7	8.1	6.9	8.9	8.9	11.8
Private portfolio investment, net	1.0	-2.7	-6.2	-4.5	-12.3	-15.8	-19.0	-24.3	-27.5	-23.2
Other private capital flows, net	-3.1	7.2	9.5	-7.3	-20.4	-8.6	-15.4	-7.4	-11.4	-4.9
Official flows, net	7.4	6.7	5.2	6.6	-11.0	-3.2	-6.4	-11.0	-7.3	-2.8
Change in reserves ⁴	-18.0	-16.6	10.3	-0.2	-27.4	-10.6	-3.1	-25.6	-11.5	-6.7
Western Hemisphere										
Private capital flows, net ³	70.4	91.9	78.6	53.2	51.9	26.9	8.5	11.8	17.9	28.4
Private direct investment, net	39.6	56.9	61.5	65.5	66.4	68.9	39.6	30.0	34.6	36.0
Private portfolio investment, net	47.9	29.2	27.2	4.4	2.9	-7.2	-13.7	2.9	2.1	4.8
Other private capital flows, net	-17.1	5.8	-10.1	-16.6	-17.4	-34.7	-17.4	-21.1	-18.8	-12.4
Official flows, net	-7.2	7.3	9.5	-3.4	-9.9	26.3	14.6	18.2	-5.6	-3.4
Change in reserves ⁴	-15.2	-26.5	7.2	11.1	4.8	5.4	-2.0	-35.5	-6.1	-6.2
Memorandum										
Fuel exporters										
Private capital flows, net ³	-21.9	28.0	5.1	-25.7	-54.8	-32.4	-50.9	-21.7	-35.0	-12.8
Nonfuel exporters										
Private capital flows, net ³	239.8	149.6	72.3	112.3	96.9	52.9	97.9	152.9	197.9	113.7

¹Net capital flows comprise net direct investment, net portfolio investment, and other long- and short-term net investment flows, including official and private borrowing. In this table, Hong Kong SAR, Israel, Korea, Singapore, and Taiwan Province of China are included.

²Beginning with this issue, Hong Kong SAR is included in these totals and in the emerging Asia group.

³Because of data limitations, "other private capital flows, net" may include some official flows.

⁴A minus sign indicates an increase.

⁵The sum of the current account balance, net private capital flows, net official flows, and the change in reserves equals, with the opposite sign, the sum of the capital and financial account and errors and omissions. For regional current account balances, see Table 25 of the Statistical Appendix.

⁶Historical data have been revised, reflecting cumulative data revisions for Russia and the resolution of a number of data interpretation issues.

⁷Consists of developing Asia and the newly industrialized Asian economies.

⁸Includes Israel.

SOURCE: IMF

GLOBAL INVESTMENT CLIMATE

KEY INDICATORS (3)

Table 1.3. Advanced Economies: Real GDP, Consumer Prices, and Unemployment
(Annual percent change and percent of labor force)

	Real GDP				Consumer Prices				Unemployment			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Advanced economies	1.7	2.1	3.5	3.1	1.5	1.8	1.7	1.7	6.4	6.6	6.4	6.3
United States	2.2	3.1	4.6	3.9	1.6	2.3	2.3	2.2	5.8	6.0	5.5	5.4
Euro area ¹	0.9	0.4	1.7	2.3	2.3	2.1	1.7	1.6	8.4	8.8	9.1	8.9
Germany	0.2	-0.1	1.6	1.9	1.3	1.1	1.0	0.9	8.6	9.9	10.2	10.0
France	1.2	0.2	1.8	2.4	1.9	2.2	1.8	1.6	8.8	9.3	9.4	9.1
Italy	0.4	0.3	1.2	2.0	2.6	2.8	2.1	2.0	9.0	8.7	8.4	8.2
Spain	2.0	2.4	2.8	3.3	3.9	3.0	2.7	2.7	11.4	11.3	10.8	10.1
Netherlands	0.2	-0.8	1.0	2.0	3.9	2.2	1.3	1.0	2.5	4.2	5.3	5.6
Belgium	0.7	1.1	1.8	2.4	1.6	1.5	1.4	1.4	7.3	8.1	8.3	8.2
Austria	1.4	0.7	1.4	2.4	1.7	1.3	1.3	1.3	4.3	4.4	4.4	4.1
Finland	2.3	1.9	2.9	2.5	2.0	1.3	0.7	1.0	9.1	9.0	8.8	8.5
Greece	3.8	4.2	4.0	3.0	3.9	3.6	3.3	3.1	9.9	9.8	9.7	9.8
Portugal	0.5	-1.3	0.8	2.7	3.7	3.3	2.1	1.9	5.1	6.4	7.1	6.8
Ireland	6.9	1.4	3.6	4.7	4.7	4.0	2.6	2.4	4.2	4.9	5.0	4.9
Luxembourg	1.3	1.2	2.3	3.3	2.1	2.6	2.1	1.7	3.0	4.1	4.9	5.5
Japan	-0.3	2.7	3.4	1.9	-0.9	-0.2	-0.4	-0.1	5.4	5.3	4.9	4.9
United Kingdom ¹	1.7	2.3	3.5	2.5	1.3	1.4	1.6	1.8	5.2	5.0	4.9	4.9
Canada	3.3	1.7	2.6	3.1	2.3	2.7	1.4	1.9	7.7	7.6	7.4	7.1
Korea	7.0	3.1	5.5	5.3	2.8	3.5	3.7	3.4	3.1	3.4	3.3	3.2
Australia	3.8	3.0	3.5	3.6	3.0	2.8	2.6	2.5	6.3	5.9	6.0	5.9
Taiwan Province of China	3.6	3.2	4.9	4.9	-0.2	-0.3	0.7	1.5	5.2	5.0	5.0	4.7
Sweden	2.1	1.6	2.5	2.7	2.0	2.3	1.2	2.1	4.0	4.9	4.8	4.5
Switzerland	0.2	-0.5	1.7	2.2	0.6	0.6	0.3	0.4	2.5	3.5	3.2	2.9
Hong Kong SAR	2.3	3.3	5.5	4.5	-3.0	-2.6	-0.5	0.8	7.3	7.9	6.4	5.3
Denmark	1.0	0.2	1.8	2.6	2.3	2.1	1.7	1.8	4.9	6.0	6.0	5.6
Norway	1.0	0.2	2.5	2.0	1.3	2.5	1.2	1.9	3.9	4.6	4.6	4.5
Israel	-0.8	1.3	2.4	3.4	5.7	0.7	-0.3	1.6	10.3	10.7	10.7	10.1
Singapore	2.2	1.1	5.0	4.0	-0.4	0.5	1.2	1.5	4.4	4.7	4.2	3.8
New Zealand ²	4.3	3.5	3.0	2.5	2.7	1.8	2.3	2.4	5.2	4.7	4.9	5.2
Cyprus	2.0	2.0	3.0	3.5	2.8	4.1	1.2	3.7	3.5	3.5	3.4	3.2
Iceland	-0.6	4.0	3.5	4.6	4.8	2.0	2.1	3.3	2.5	3.3	3.0	2.5
<i>Memorandum</i>												
Major advanced economies	1.4	2.2	3.5	3.0	1.3	1.7	1.6	1.6	6.5	6.8	6.5	6.4
European Union	1.1	0.8	2.0	2.4	2.2	2.0	1.7	1.7	7.7	8.2	8.3	8.1
Newly industrialized Asian economies	5.1	3.0	5.3	5.0	0.9	1.4	2.1	2.4	4.1	4.3	4.1	3.8

¹Based on Eurostat's harmonized index of consumer prices.

²Consumer prices excluding interest rate components.

GLOBAL INVESTMENT CLIMATE

KEY INDICATORS (4)- ASIAN COUNTRIES

Table 1.7. Selected Asian Economies: Real GDP, Consumer Prices, and Current Account Balance
(Annual percent change unless otherwise noted)

	Real GDP				Consumer Prices ¹				Current Account Balance ²			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Emerging Asia³	6.2	7.2	7.2	6.8	1.9	2.5	3.8	3.4	3.8	3.8	3.0	2.7
China	8.0	9.1	8.5	8.0	-0.8	1.2	3.5	3.0	2.8	2.1	1.6	1.9
South Asia⁴	4.6	7.0	6.5	6.0	4.2	3.9	4.4	4.1	1.2	0.7	0.1	0.1
India	4.7	7.4	6.8	6.0	4.3	3.8	4.3	4.1	1.0	0.5	0.2	0.3
Pakistan	4.4	5.5	5.4	5.7	2.9	3.6	4.0	4.0	4.1	3.3	1.0	0.5
Bangladesh	4.9	5.4	5.8	6.3	3.8	4.9	5.1	3.5	0.6	-0.3	-1.2	-1.2
ASEAN-4	4.3	5.0	5.4	5.4	5.8	3.9	3.7	3.3	5.6	5.5	4.6	3.4
Indonesia	3.7	4.1	4.8	5.0	11.9	6.6	5.0	4.5	4.5	3.9	2.9	2.2
Thailand	5.4	6.7	7.0	6.7	0.6	1.8	2.2	1.3	5.5	5.6	4.4	2.3
Philippines	4.4	4.5	4.5	4.2	3.1	3.1	3.9	4.0	5.5	2.1	1.6	0.8
Malaysia	4.1	5.2	5.7	6.0	1.8	1.1	2.2	2.5	7.6	11.1	10.9	9.7
Newly industrialized Asian economies	5.1	3.0	5.3	5.0	0.9	1.4	2.1	2.4	5.9	7.6	6.2	5.5
Korea	7.0	3.1	5.5	5.3	2.8	3.5	3.7	3.4	1.0	2.0	1.5	0.9
Taiwan Province of China	3.6	3.2	4.9	4.9	-0.2	-0.3	0.7	1.5	9.1	10.0	7.3	6.2
Hong Kong SAR	2.3	3.3	5.5	4.5	-3.0	-2.6	-0.5	0.8	8.5	11.0	10.3	9.8
Singapore	2.2	1.1	5.0	4.0	-0.4	0.5	1.2	1.5	21.4	30.9	28.0	26.7

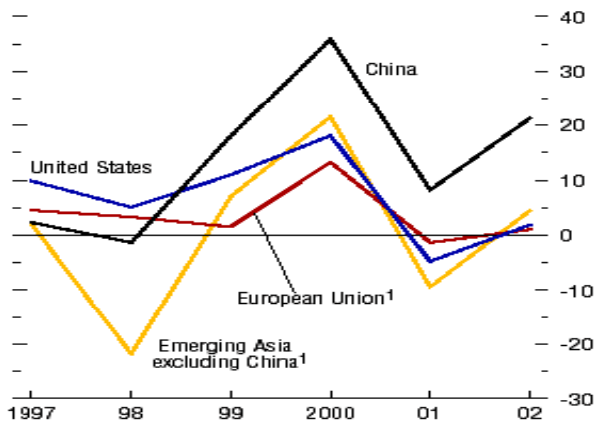
¹In accordance with standard practice in the *World Economic Outlook*, movements in consumer prices are indicated as annual averages rather than as December/December changes during the year, as is the practice in some countries.

²Percent of GDP.

³Consists of developing Asia, the newly industrialized Asian economies, and Mongolia.

⁴Includes Bangladesh, India, Maldives, Nepal, Pakistan, and Sri Lanka.

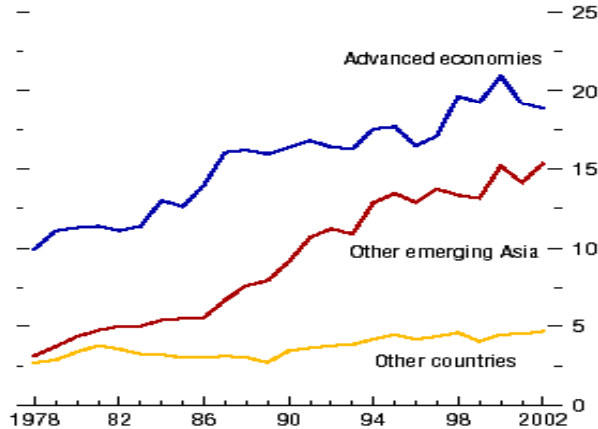
Import Value Growth (Percent)



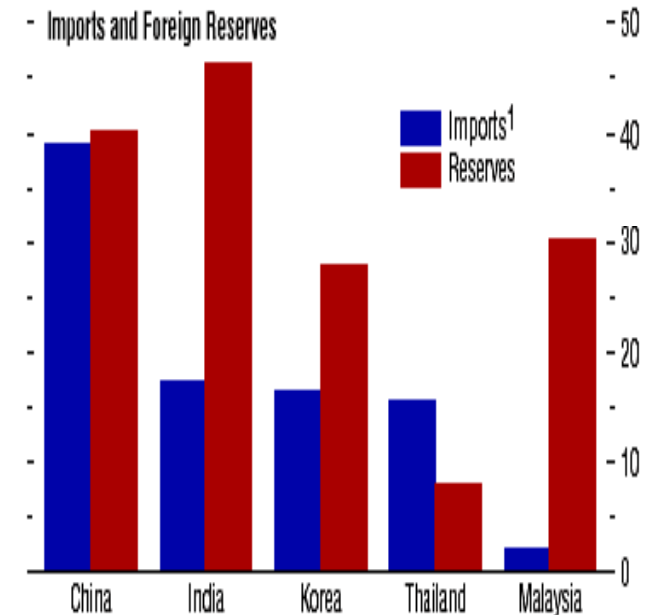
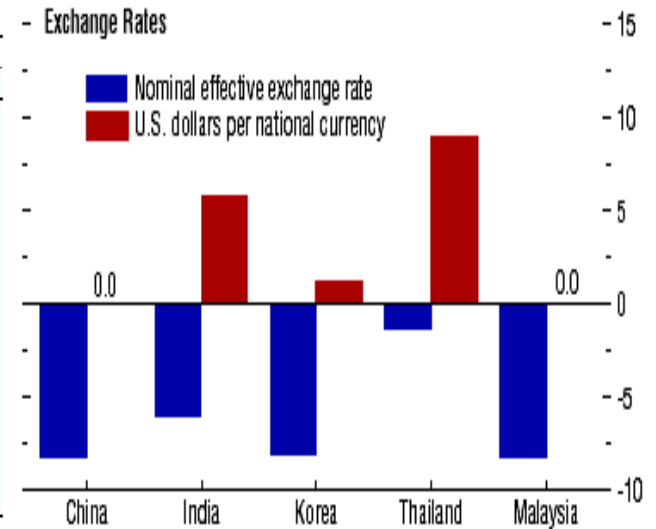
Sources: IMF, *Direction of Trade Statistics*; and IMF staff calculations.

¹Excludes intraregional trade.

Emerging Asia: Exports (Percent of emerging Asia GDP)



Sources: IMF, *Direction of Trade Statistics*; and IMF staff calculations.



GLOBAL INVESTMENT CLIMATE

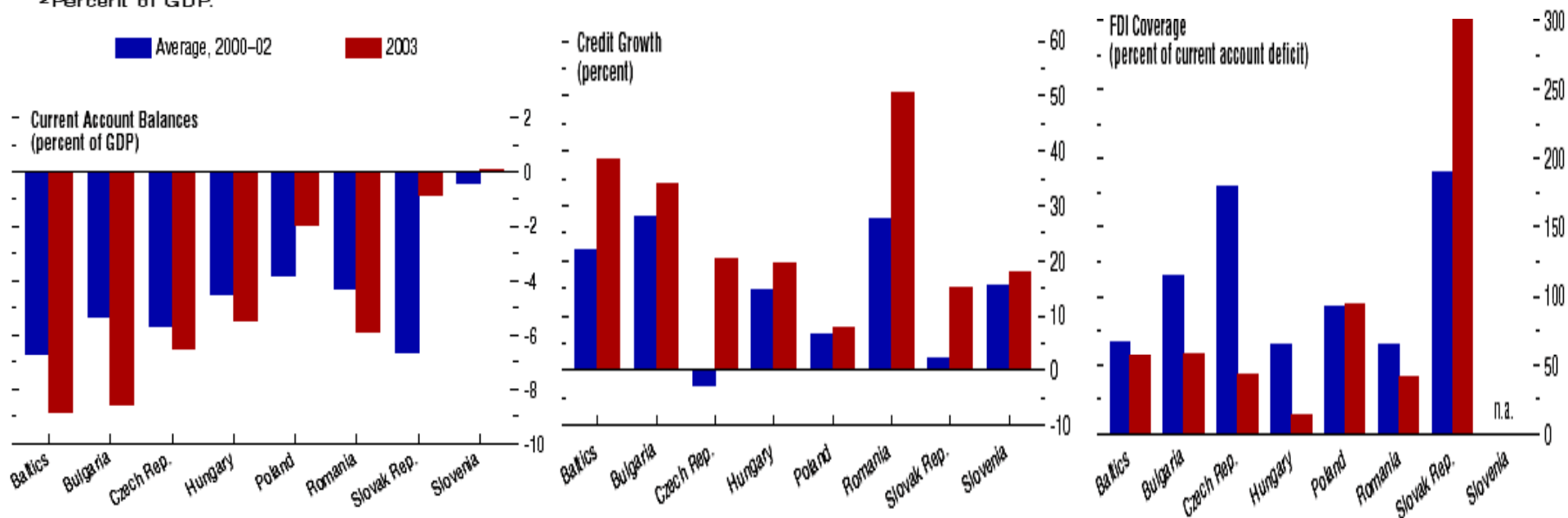
KEY INDICATORS (5)- EU ACCESSION COUNTRIES

Table 1.8. EU Accession Countries: Real GDP, Consumer Prices, and Current Account Balance
(Annual percent change unless otherwise noted)

	Real GDP				Consumer Prices ¹				Current Account Balance ²			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
EU accession countries	4.4	4.4	4.5	4.4	15.3	9.5	7.1	5.6	-3.0	-3.8	-3.8	-3.5
Turkey	7.9	5.8	5.0	5.0	45.0	25.3	12.0	10.6	-0.8	-2.9	-3.0	-2.4
Excluding Turkey	3.0	3.9	4.3	4.2	5.3	3.8	5.1	3.6	-3.9	-4.1	-4.1	-4.0
Baltics	6.4	7.4	6.2	5.9	1.5	0.5	2.1	2.6	-7.3	-8.9	-8.5	-7.2
Estonia	6.0	4.7	5.5	5.0	3.6	1.3	3.0	2.5	-12.2	-13.7	-11.0	-7.5
Latvia	6.1	6.7	6.0	6.0	1.9	2.9	3.0	3.0	-7.2	-9.1	-9.9	-8.1
Lithuania	6.8	9.0	6.7	6.3	0.3	-1.2	1.1	2.5	-5.2	-6.5	-6.7	-6.7
Central Europe	2.2	3.4	4.0	3.8	2.8	2.2	4.2	3.1	-3.6	-3.3	-3.4	-3.5
Czech Republic	2.0	2.9	3.0	3.4	1.8	0.1	3.5	3.0	-6.1	-6.5	-5.4	-4.8
Hungary	3.5	2.9	3.2	3.4	5.3	4.7	7.1	4.4	-4.1	-5.5	-5.3	-4.3
Poland	1.4	3.7	4.7	4.0	1.9	0.8	3.0	2.4	-2.6	-2.0	-2.3	-2.9
Slovak Republic	4.4	4.2	3.9	4.1	3.3	8.5	7.8	4.2	-8.0	-0.9	-2.9	-3.5
Slovenia	2.9	2.3	3.5	4.1	7.5	5.6	3.7	3.4	1.4	0.1	-0.6	-1.0
Southern and south-eastern Europe	4.6	4.5	4.8	4.9	16.1	10.7	9.4	5.9	-3.8	-6.2	-5.6	-5.4
Bulgaria	4.8	4.3	5.0	5.2	5.8	2.3	6.0	3.6	-4.3	-8.6	-8.4	-7.7
Cyprus	2.0	2.0	3.0	3.5	2.8	4.1	1.2	3.7	-5.4	-5.0	-4.4	-4.1
Malta	1.2	1.3	2.6	3.2	2.2	1.3	2.1	2.0	-2.1	-4.3	-3.5	-3.1
Romania	5.0	4.9	5.0	5.0	22.5	15.3	12.0	7.2	-3.4	-5.9	-5.2	-5.2

¹In accordance with standard practice in the *World Economic Outlook*, movements in consumer prices are indicated as annual averages rather than as December/December changes during the year as is the practice in some countries.

²Percent of GDP.



GLOBAL INVESTMENT CLIMATE

KEY INDICATORS (6)- COMMONWEALTH OF INDEPENDENT STATES

Table 1.9. Commonwealth of Independent States: Real GDP, Consumer Prices, and Current Account Balance

(Annual percent change unless otherwise noted)

	Real GDP				Consumer Prices ¹				Current Account Balance ²			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Commonwealth of Independent States³	5.1	7.6	6.0	5.2	13.8	12.1	10.3	8.8	6.9	7.0	6.1	3.8
Russia	4.7	7.3	6.0	5.3	15.8	13.7	11.2	9.9	8.9	8.9	7.9	5.1
Ukraine	5.2	9.3	6.0	4.0	0.8	5.2	6.9	4.6	7.5	6.0	3.6	2.6
Kazakhstan	9.5	9.5	8.0	7.5	5.9	6.4	6.5	5.8	-2.8	2.4	2.3	-0.5
Belarus	5.0	6.8	4.8	3.5	42.6	28.4	22.7	13.6	-2.6	-2.6	-3.5	-3.8
CIS-7	6.4	6.2	5.1	6.2	17.7	8.5	6.4	5.6	-4.2	-7.3	-9.5	-6.4
Armenia	12.9	12.0	7.0	6.0	1.1	4.8	3.0	3.0	-6.6	-7.7	-6.9	-6.2
Azerbaijan	10.6	11.2	8.1	13.2	2.8	2.2	4.0	2.5	-12.3	-25.8	-32.2	-16.3
Georgia	5.5	8.6	6.0	5.0	5.6	4.8	5.8	5.0	-6.0	-7.9	-9.4	-9.5
Kyrgyz Republic	—	5.2	4.1	4.5	2.1	2.7	3.7	3.8	-3.9	-3.5	-4.2	-5.3
Moldova	7.8	6.3	5.0	4.0	5.3	11.7	9.5	6.9	-6.0	-7.9	-7.0	-7.5
Tajikistan	9.1	10.2	8.0	4.0	12.2	16.4	8.5	5.0	-2.7	-1.3	-2.2	-4.7
Uzbekistan	3.2	0.3	2.0	2.0	44.3	14.8	8.9	9.3	2.5	7.0	6.7	4.4
<i>Memorandum</i>												
Net energy exporters ⁴	5.1	7.5	6.1	5.5	14.8	12.9	10.7	9.5	7.7	7.8	7.0	4.4
Net energy importers ⁵	5.2	7.9	5.4	3.8	10.7	9.5	9.1	6.3	3.2	2.7	1.0	0.1

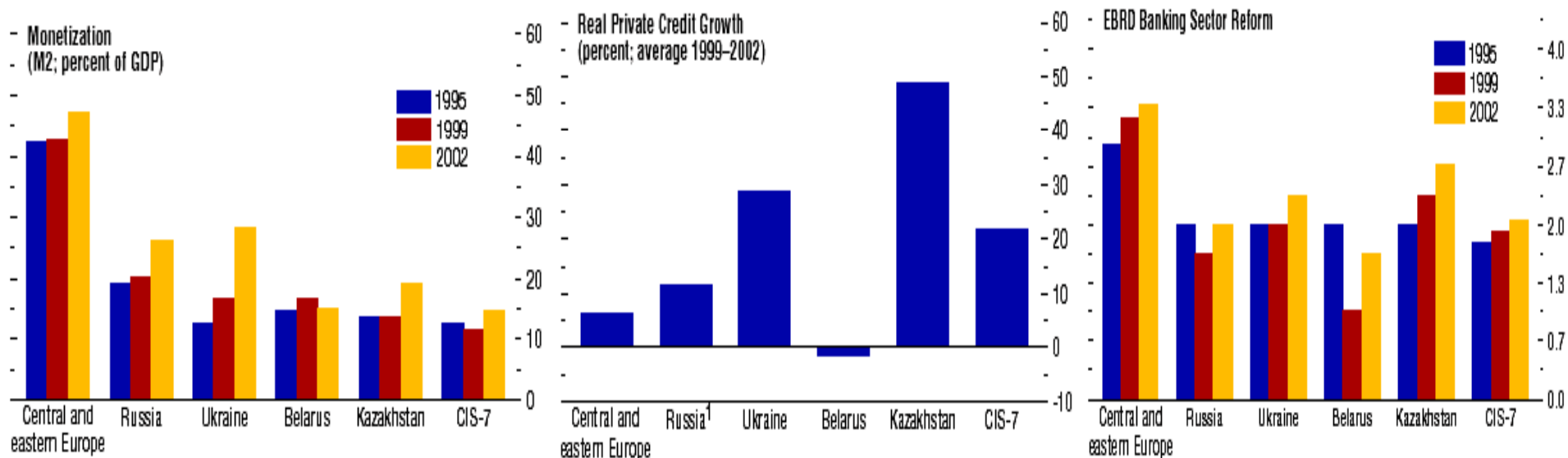
¹In accordance with standard practice in the *World Economic Outlook*, movements in consumer prices are indicated as annual averages rather than as December/December changes during the year as is the practice in some countries.

²Percent of GDP.

³Excludes Mongolia. Updated data for Turkmenistan not available.

⁴Includes Azerbaijan, Kazakhstan, Russia, and Turkmenistan.

⁵Includes Armenia, Belarus, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Ukraine, and Uzbekistan.



GLOBAL INVESTMENT CLIMATE

KEY INDICATORS (7)- WESTERN HEMISPHERE COUNTRIES

Table 1.6. Selected Western Hemisphere Countries: Real GDP, Consumer Prices, and Current Account Balance
(Annual percent change unless otherwise noted)

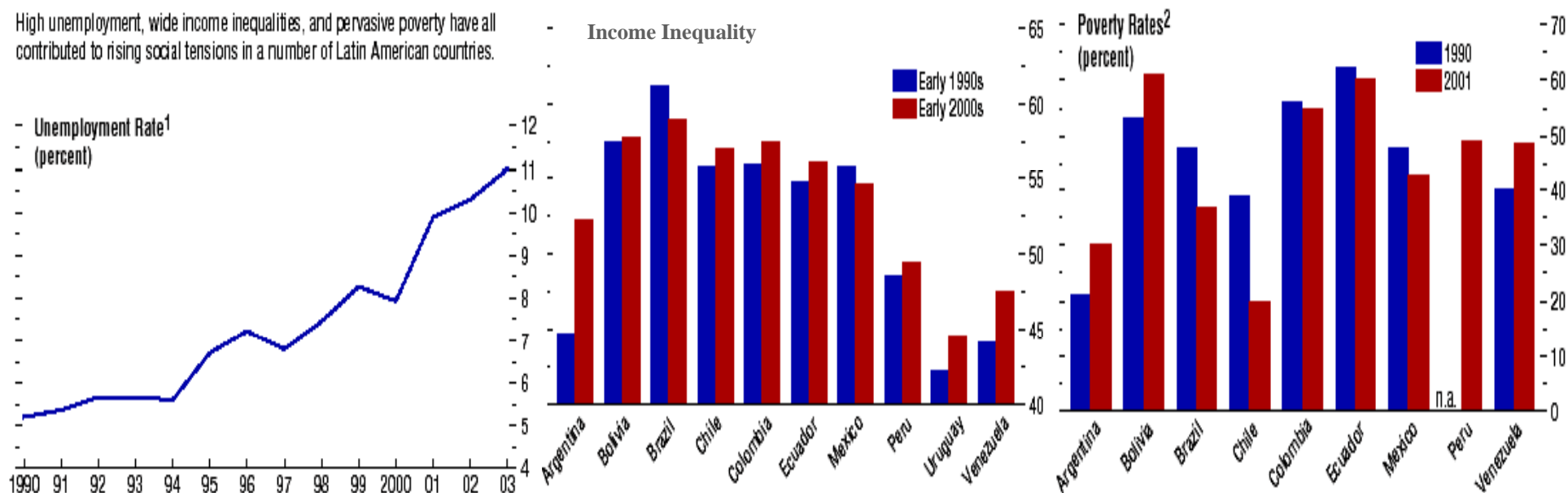
	Real GDP				Consumer Prices ¹				Current Account Balance ²			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Western Hemisphere	-0.1	1.7	3.9	3.7	8.9	10.6	6.2	5.6	-0.9	0.2	-0.4	-1.0
Mercosur³	-1.2	1.9	4.0	3.7	12.0	14.4	6.1	5.8	0.4	1.8	0.6	-0.4
Argentina	-10.9	8.7	5.5	4.0	25.9	13.4	6.7	9.5	10.5	5.7	4.6	1.6
Brazil	1.9	-0.2	3.5	3.5	8.4	14.8	5.9	4.7	-1.7	0.8	-0.4	-0.9
Chile	2.2	3.3	4.6	5.5	2.5	2.8	1.3	2.9	-1.3	-0.8	-0.2	-0.6
Uruguay	-11.0	2.5	7.0	4.0	14.0	19.4	8.3	7.7	1.6	0.4	0.5	1.0
Andean region	0.2	1.2	5.1	3.5	9.1	10.2	8.9	9.3	1.4	2.7	2.3	1.3
Colombia	1.8	3.6	4.0	4.0	6.3	7.1	5.7	5.0	-1.9	-1.8	-2.3	-2.1
Ecuador	3.3	2.6	5.9	3.6	12.6	7.9	3.2	2.7	-4.9	-1.7	1.4	1.5
Peru	4.9	4.0	4.0	4.5	1.5	2.5	2.5	2.5	-2.1	-1.8	-0.7	-0.8
Venezuela	-8.9	-9.2	8.8	1.1	22.4	31.1	29.3	35.0	7.9	11.3	9.3	6.4
Mexico, Central America, and Caribbean	1.1	1.5	3.0	3.5	5.1	5.9	5.6	3.8	-2.6	-1.8	-2.2	-2.4
Dominican Republic	4.7	-1.3	-1.0	4.5	5.2	27.4	28.8	10.6	-3.8	5.6	4.5	2.9
Guatemala	2.2	2.1	2.6	3.5	6.3	5.9	5.0	4.5	-5.1	-4.4	-4.2	-4.3
Mexico	0.7	1.3	3.3	3.3	5.0	4.5	4.3	3.2	-2.2	-1.5	-2.0	-2.2

¹In accordance with standard practice in the *World Economic Outlook*, movements in consumer prices are indicated as annual averages rather than as December/December changes during the year, as is the practice in some countries.

²Percent of GDP.

³Includes Argentina, Brazil, Paraguay, and Uruguay, together with Bolivia and Chile (associate members of Mercosur).

High unemployment, wide income inequalities, and pervasive poverty have all contributed to rising social tensions in a number of Latin American countries.



GLOBAL INVESTMENT CLIMATE REVIEW OF IMMEDIATE PAST

MAJOR DRIVERS

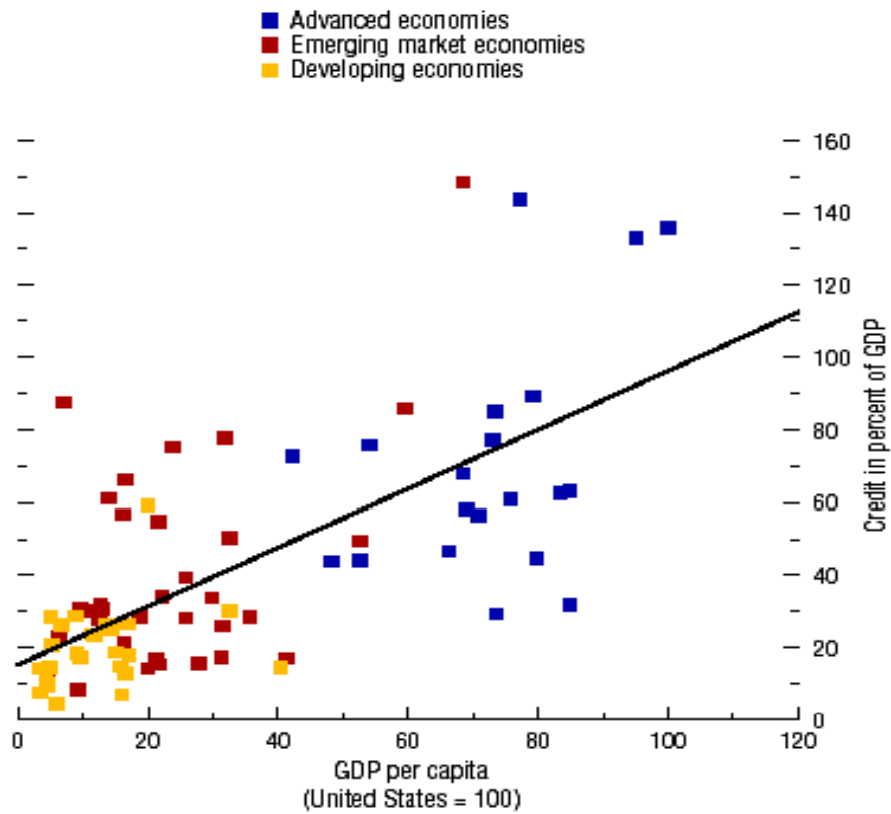
- STRUCTURAL REFORMS
- EUROPEAN MONETARY UNIFICATION & THE RISE OF EURO
- CAPITAL CHASING PRODUCTIVITY
- INDUSTRY COHESION & HIGH CAPACITY UTILIZATION
- LOW INTEREST REGIME & HUGE CREDIT EXPANSION
- TECHNOLOGY BOOM
- CONVERGENCE

MAJOR BENEFICIARIES

ASIAN COUNTRIES, EU, THE UK AND THE US
JAPAN, AFRICA, NEW EU, LATIN AMERICA STILL LAGGING

FINANCIAL DEEPENING AND DEVELOPMENT

Financial development and economic development move in tandem.



Sources: IMF, *International Financial Statistics*; and Penn World Tables.
¹Average values 1970–2000.

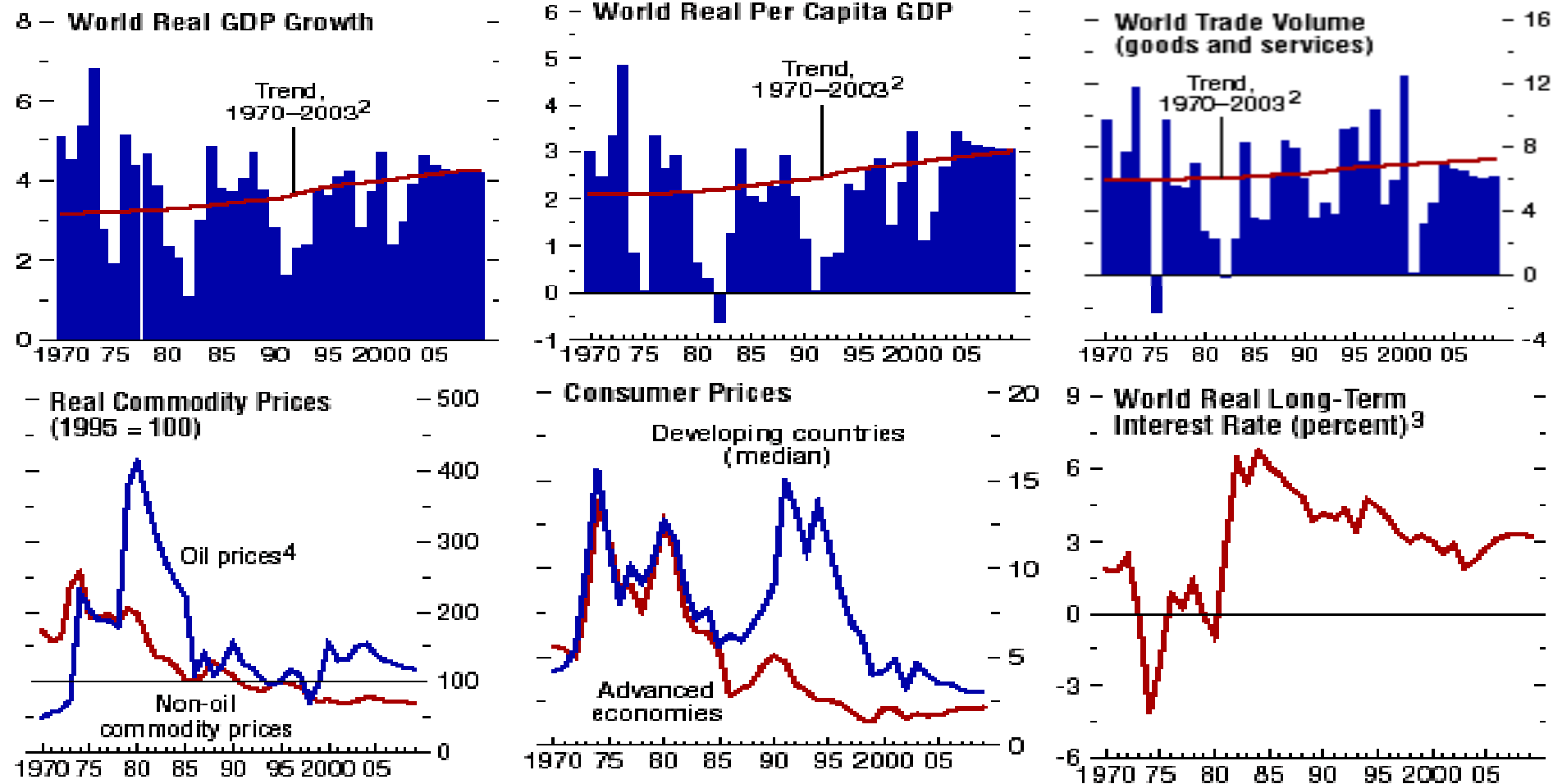
Financial Sector	Labor Markets	Product Markets	Tax	Trade
Credit controls	Employment protection	Basic Product Markets Reform Electricity Postal services Telecommunications Passenger air transport Railways Road freight	Marginal tax rates	Average effective tariffs
Interest rates	Benefits replacement rate		Ratio of indirect tax revenue to total tax revenue	
Restrictions on international financial transactions	Benefits duration		Average effective tax rate on labor	
			Average effective tax on capital	
			Index of factor tax distortions	
		Major Criteria to judge the reform process Barriers to entry Public ownership Market structure Vertical integration Price controls		

STRUCTURAL POLICY INDICATORS AND THEIR COMPONENTS

GLOBAL INVESTMENT CLIMATE

THE EVOLVING SCENARIO (1)

Figure 1.1. Global Indicators¹
 (Annual percent change unless otherwise noted)



¹ Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity weights unless otherwise noted.

² Average growth rates for individual countries, aggregated using purchasing-power-parity weights; the aggregates shift over time in favor of faster growing countries, giving the line an upward trend.

³ GDP-weighted average of the 10-year (or nearest maturity) government bond yields less inflation rates for the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada. Excluding Italy prior to 1972.

⁴ Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil.

WITH THE RECOVERY INCREASINGLY ESTABLISHED, GLOBAL GROWTH IS EXPECTED TO RISE, WHILE INFLATION REMAINS SUBDUED.

SOURCE: IMF

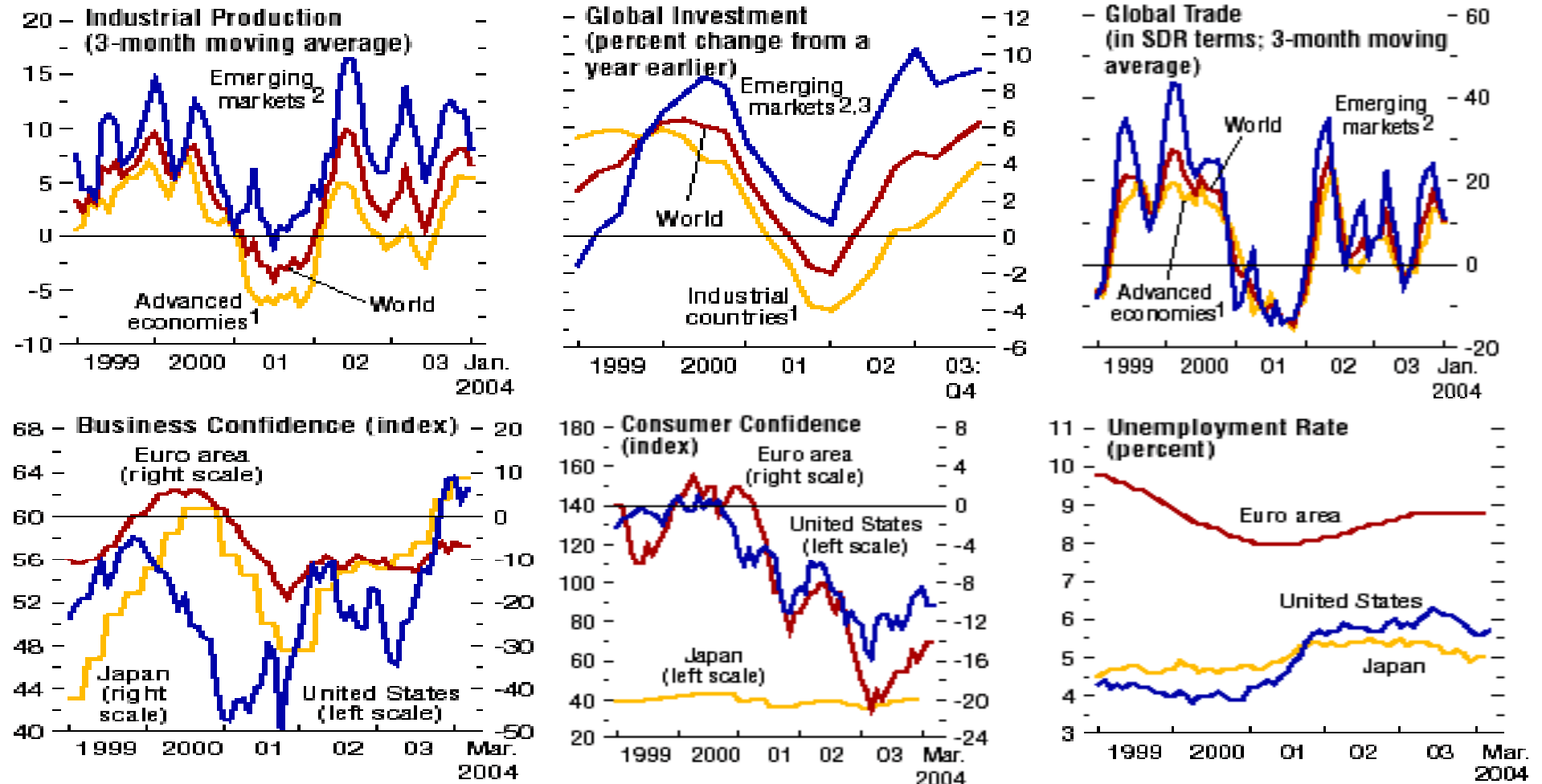
GLOBAL INVESTMENT CLIMATE

THE EVOLVING SCENARIO(2)

Figure 1.2. Current and Forward-Looking Indicators

(Percent change from previous quarter at annual rate unless otherwise noted)

Industrial production and trade growth rebounded in the second half of 2003, accompanied by improvements in forward-looking indicators, particularly business confidence.



Sources: Business confidence for the United States, the Institute for Supply Management; for the euro area, the European Commission; and for Japan, Bank of Japan. Consumer confidence for the United States, the Conference Board; for the euro area, the European Commission; and for Japan, Cabinet Office (Economic Planning Agency). All others, Haver Analytics.

¹ Australia, Canada, Denmark, euro area, Japan, New Zealand, Norway, Sweden,

Switzerland, the United Kingdom, and the United States.

² Argentina, Brazil, Bulgaria, Chile, China, Colombia, Czech Republic, Estonia, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Peru, the Philippines, Poland, Romania, Russia, Singapore, Slovak Republic, Slovenia, South Africa, Taiwan Province of China, Thailand, Turkey, Ukraine, and Venezuela.

³ Data for China, India, Pakistan, and Russia are interpolated.

SOURCE: IMF

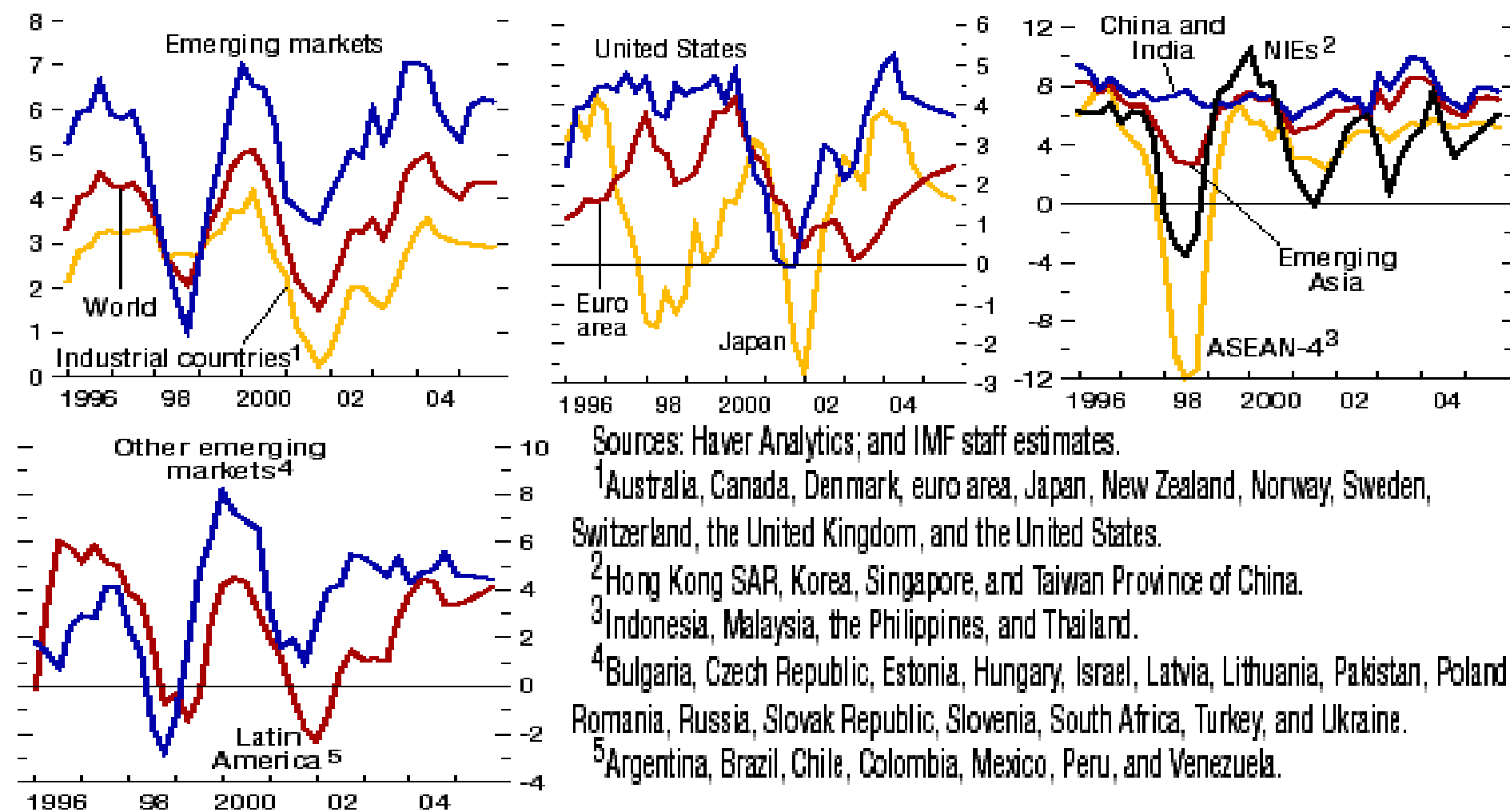
GLOBAL INVESTMENT CLIMATE

THE EVOLVING SCENARIO (3)

Figure 1.8. Global Outlook

(Real GDP; percent change from four quarters earlier)

**GLOBAL RECOVERY HAS STRENGTHENED AND BROADENED,
LED BY THE US AND ASIA**



GLOBAL INVESTMENT CLIMATE

CURRENT OUTLOOK

US

POSITIVES

- Corporate earnings continue to exceed expectations
- Monetary and fiscal environment will remain supportive while Fed sees little inflation risk
- Strong demand for US bonds via central bank foreign exchange intervention

NEGATIVES

- Market valuations are stretched on some measures
- Concerns about the rise in energy costs affecting consumers and business
- Robust economic growth and upturn in some inflation measures exerting upward pressure on yields

EUROPE- EX UK

- Increase in corporate activity and restructuring efforts
- Valuations are still relatively attractive
- Attractive as lower inflation opens the way for ECB rate cuts

- Economic news remains mixed, especially for the consumer
- The rise in the euro in recent months has put exporters under pressure
- Risk of bond supply expanding as the Stability Pact crumbles

UK

- Potential for earnings upgrades as revenue growth and cost cutting boost profits
- Valuation is attractive against bonds and cash
- Strong desire for yield from some investors, eg pension funds
- Improving credit quality as balance sheets strengthen

- Stock market has fewer cyclical companies than many overseas markets
- Vulnerable to weakness in Europe, a much stronger pound, or sharp interest rate increases
- Monetary policy tightening and growing fiscal deficits pressure bond yields
- Starting to become overvalued

PACIFIC EX-JAPAN

- Domestic demand is buoyant in most countries
- Region will continue to benefit from outsourcing

- China has begun to take firmer action to slow down excessive growth
- Governance issues are still deterring some investors

JAPAN

- Strong corporate earnings growth boosting investment and increasingly employment
- Japanese exports benefiting from an upturn in regional and global trade flows
- Strong demand from risk averse domestic investors

- Lack of domestic participation in the market
- The recent rally means a considerable amount of good news has been priced in
- Economic upturn leading to positive inflation in some sectors

OTHER EMERGING MARKETS

POSITIVES

- Stable currencies and inflation allowing countries such as Brazil to cut interest rates
- Industrial production rising in response to US demand, e.g.. in Mexico

NEGATIVES

- Valuations are no longer as supportive in many markets
- Some profit taking after the recent strong run

*GLOBAL INVESTMENT STRATEGY
PROACTIVE & ANALYTICAL ASSET ALLOCATION*



- PERFORMANCE CONSISTENCY
 - INVESTMENT STRATEGY
 - RISK- RETURN PROFILE
 - PERIODIC REVIEW

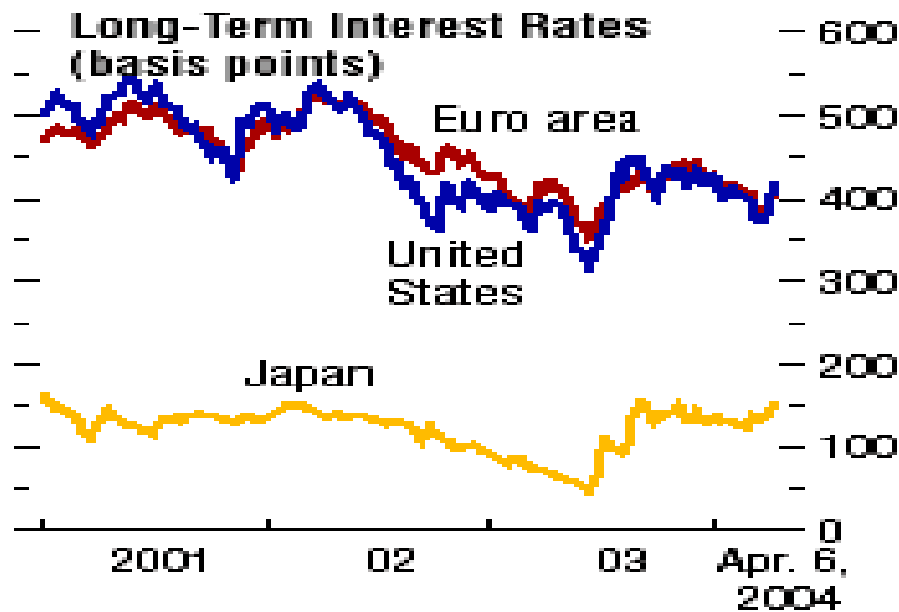
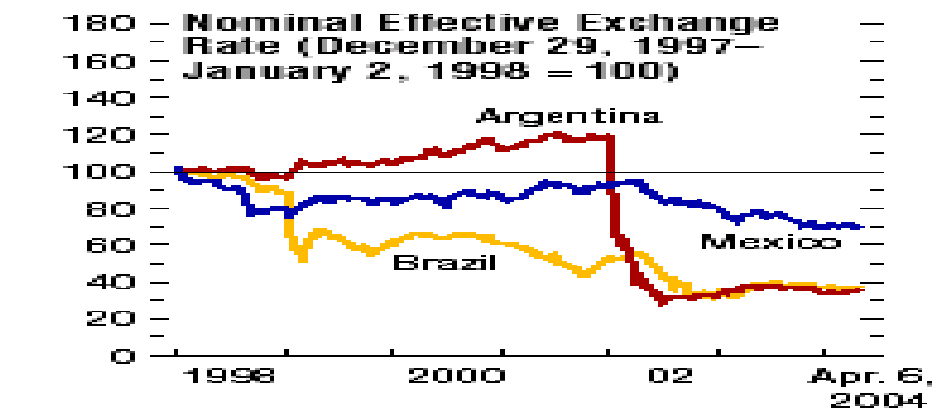
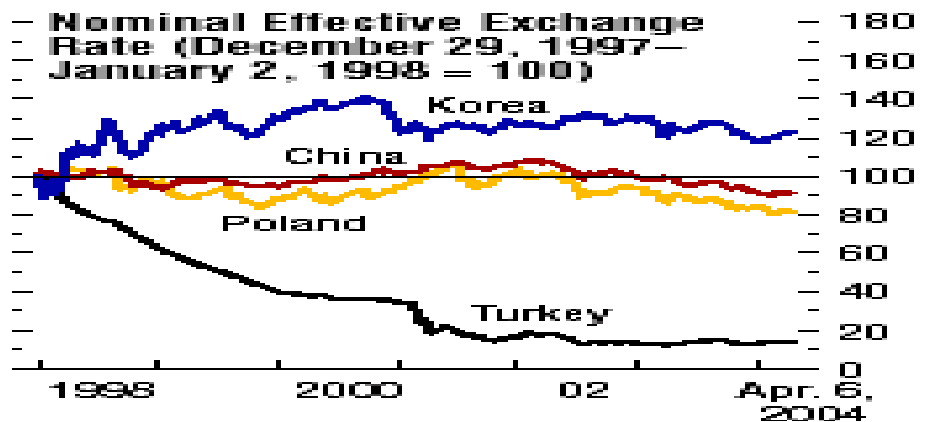
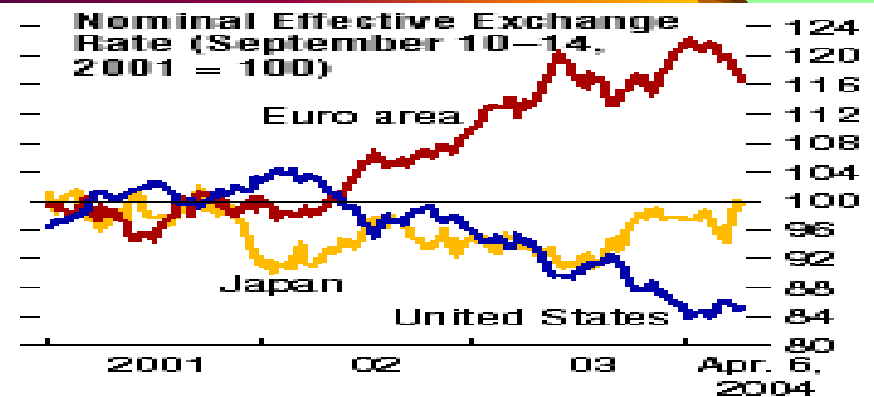
GLOBAL INVESTMENT STRATEGY

ASSET CLASS RETURN- CASH IS THE KING

Global currency indices



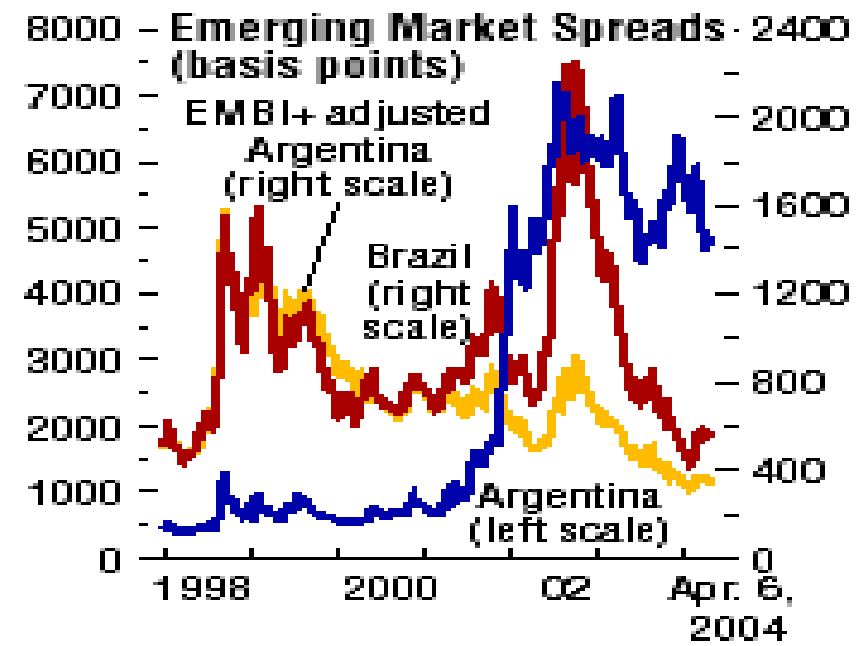
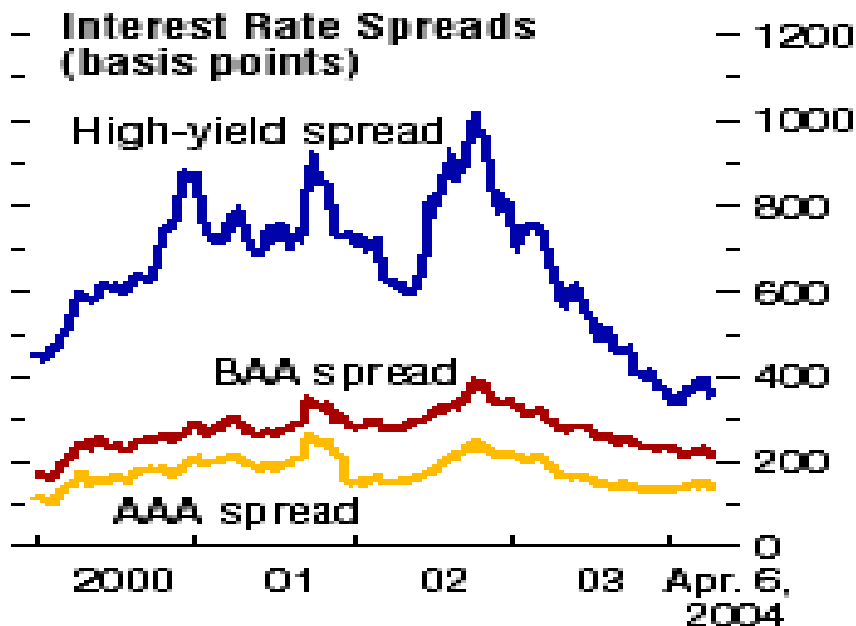
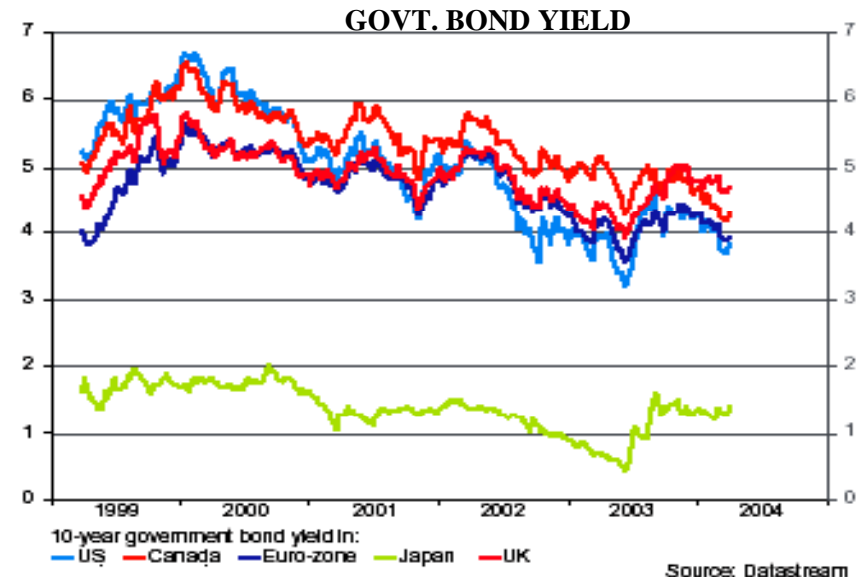
Source: Datastream



GLOBAL INVESTMENT STRATEGY

ASSET CLASS RETURN- BONDING WITH BONDS

	Current 10 year Bond Yield	Consensus Inflation 2004	Forecast Real 10 year Bond Yield	Fair Value Bond Yield
USA	4.50%	2.20%	4.00%	6.10%
Japan	1.50%	-0.20%	3.00%	2.80%
Euro-zone	4.20%	1.80%	3.00%	4.80%
UK	5.00%	2.40%	3.50%	5.90%



GLOBAL INVESTMENT STRATEGY

ASSET CLASS RETURN- BOND BASICS

SOVERIGN BONDS

MACRO-ECONOMIC MODEL IN PREDICTING FAIR VALUE

➤ INFLATION COMPONENT- INFLATION EXPECTATION (5%)

➤ OTHER MACRO COMPONENTS

REAL GDP GROWTH (20%),

CURRENT ACCOUNT BALANCE AS % OF GDP (45%)

FISCAL DEFICIT AS % OF GDP (25%)

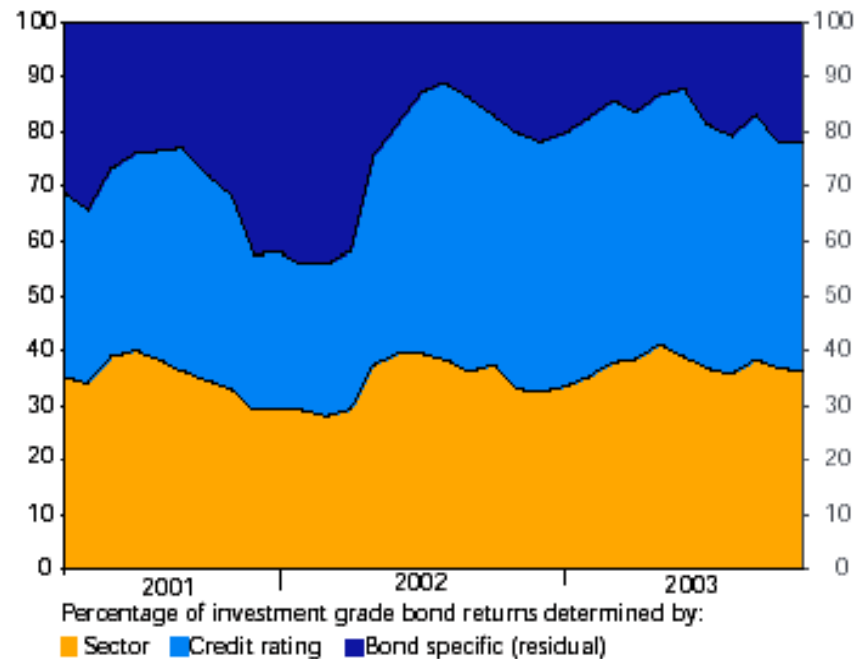
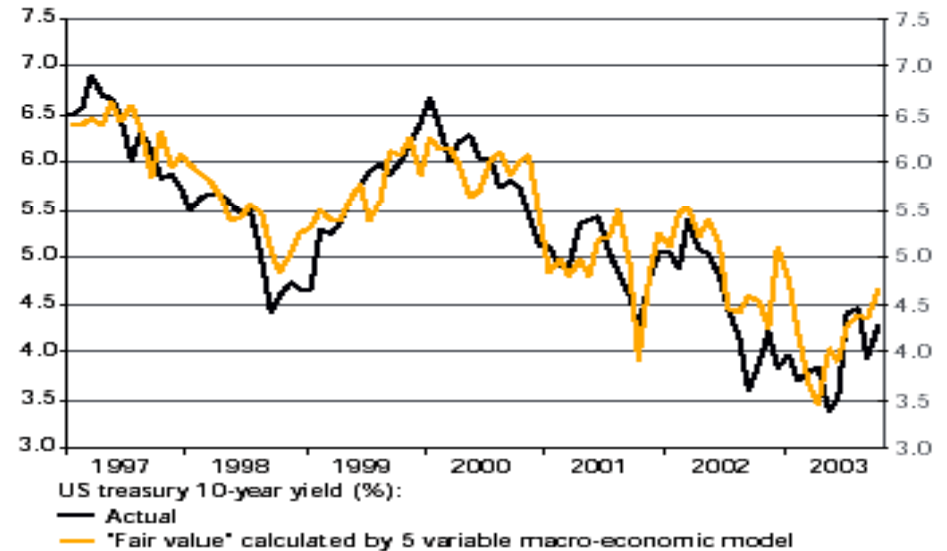
MONETARY CONDITIONS- 3-MONTHS INTEREST RATE
LESS 1 YEAR INFLATION(5%)

CORPORATE BONDS

➤ CREDIT RATING (42%)- AAA, AA, A, BBB

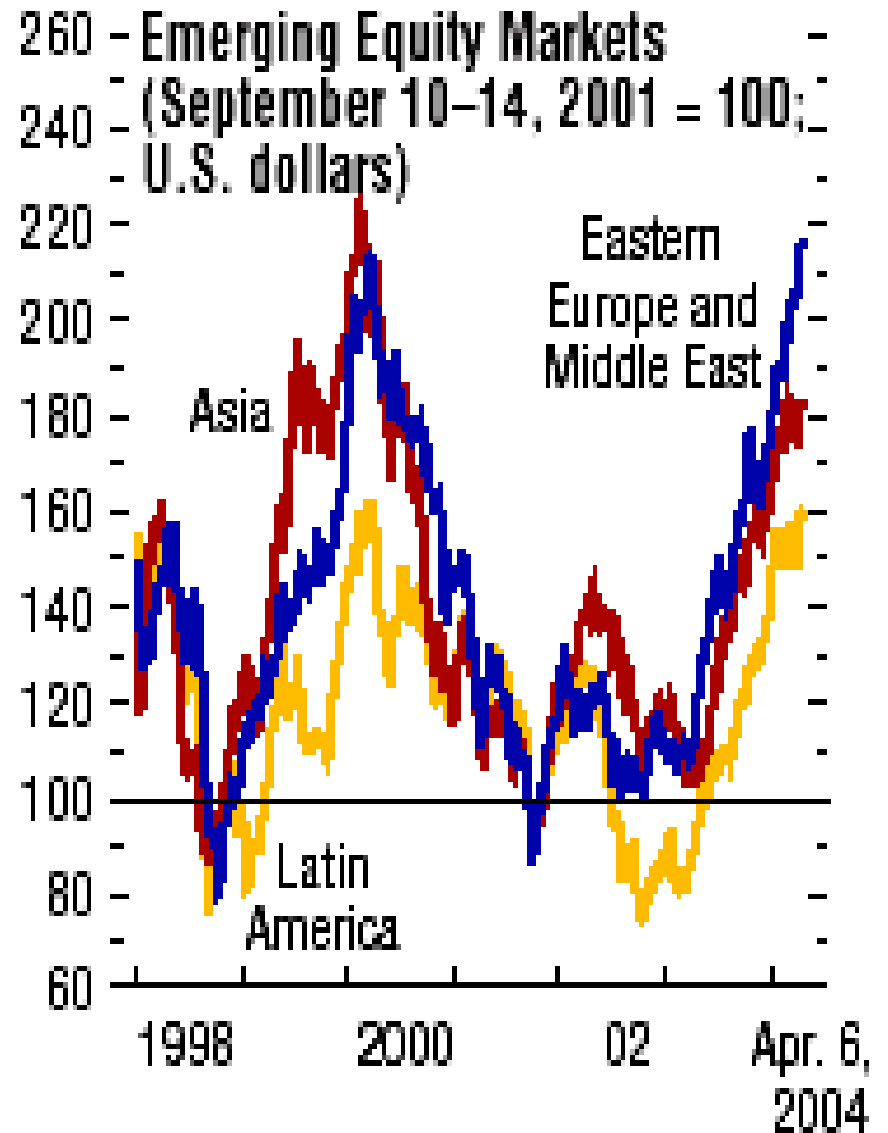
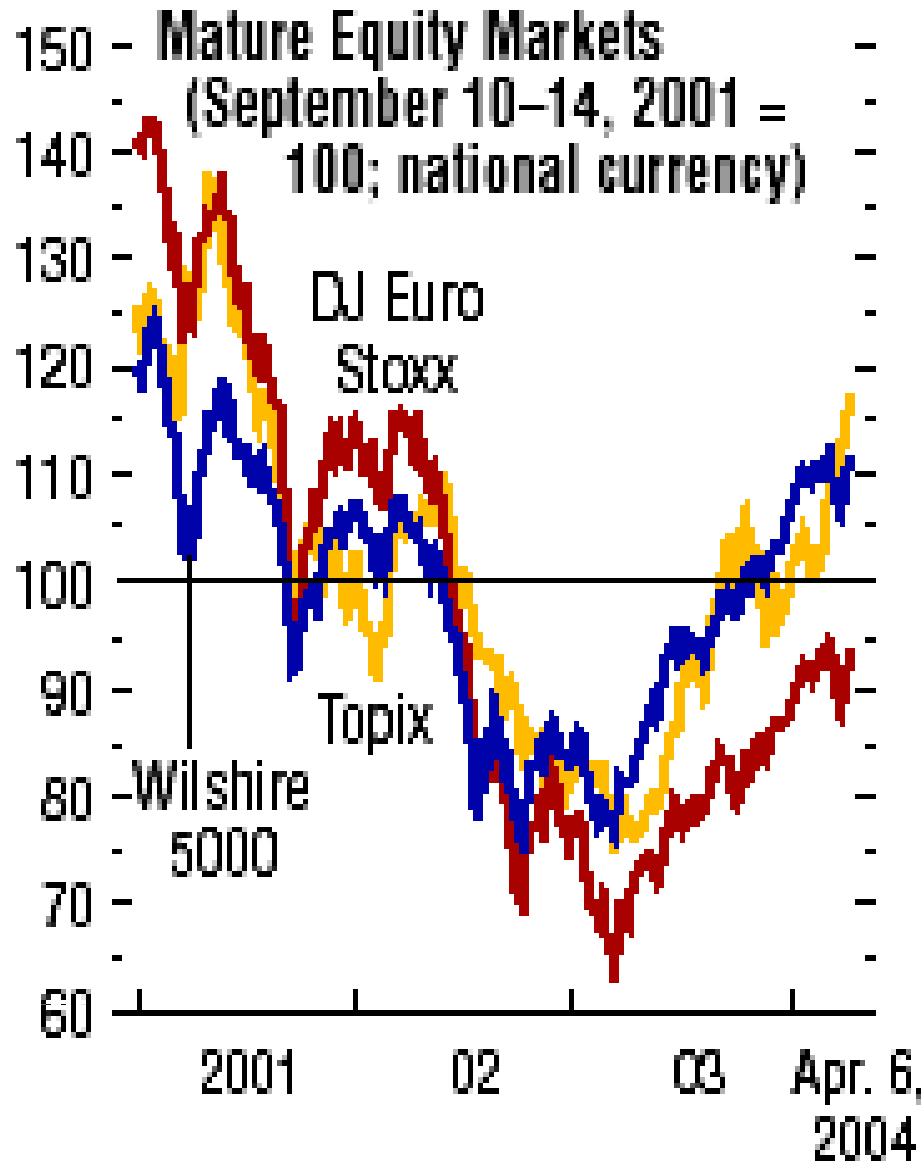
➤ SECTOR(39%)- UTILITIES, FINANCIAL, INDUSTRIAL,
SECURITIZED, QUASI-GOVT.

➤ ISSUER SPECIFIC(19%)



GLOBAL INVESTMENT STRATEGY

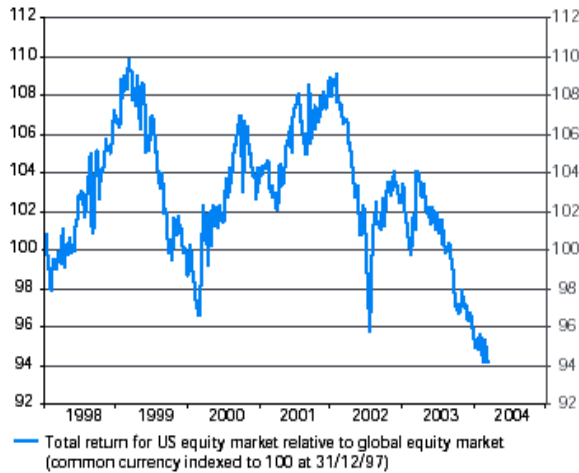
ASSET CLASS RETURN- EQUITY MARKET PERFORMANCE (1)



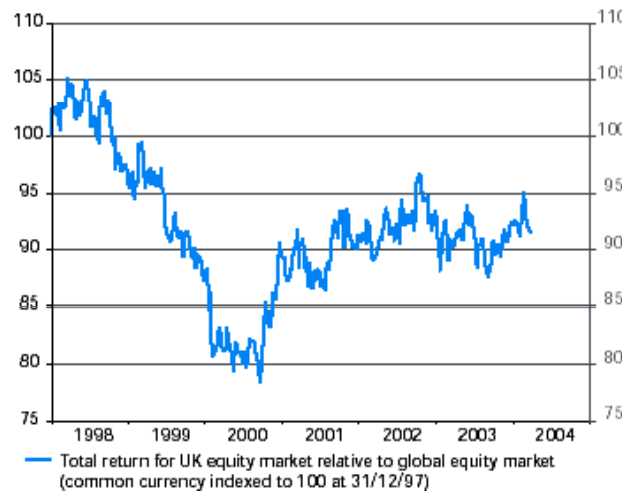
GLOBAL INVESTMENT CLIMATE

ASSET CLASS RETURN- EQUITY MARKET PERFORMANCE (2)

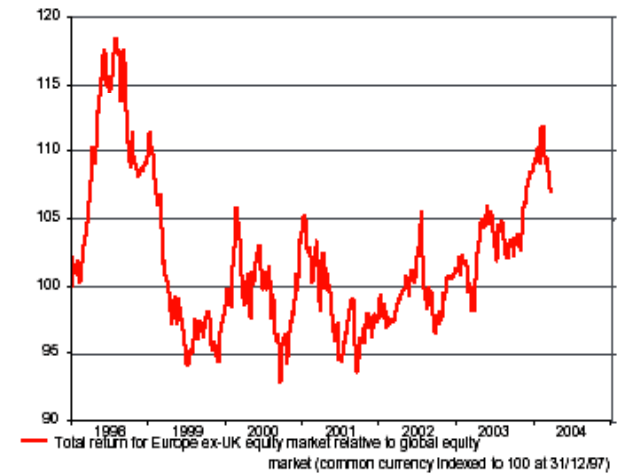
US equities relative return



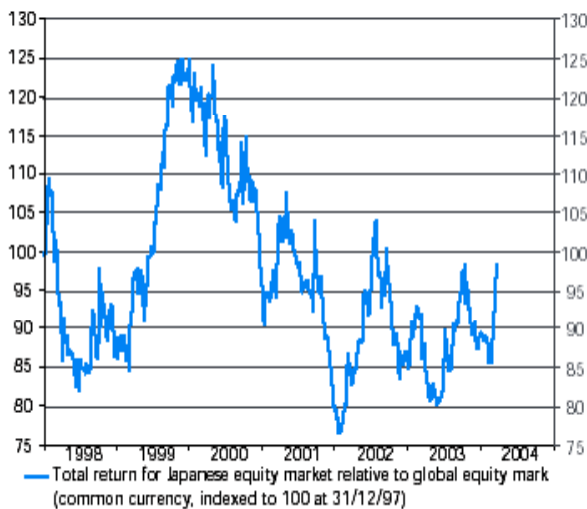
UK equities relative return



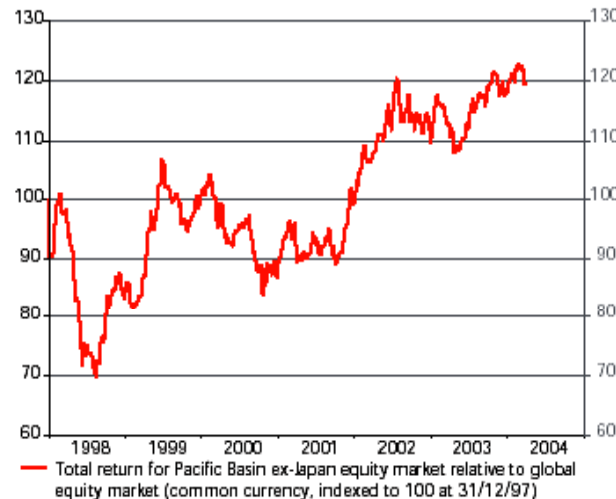
Europe ex-UK equities relative return



Japan equities relative return



Pacific ex-Japan equities relative return

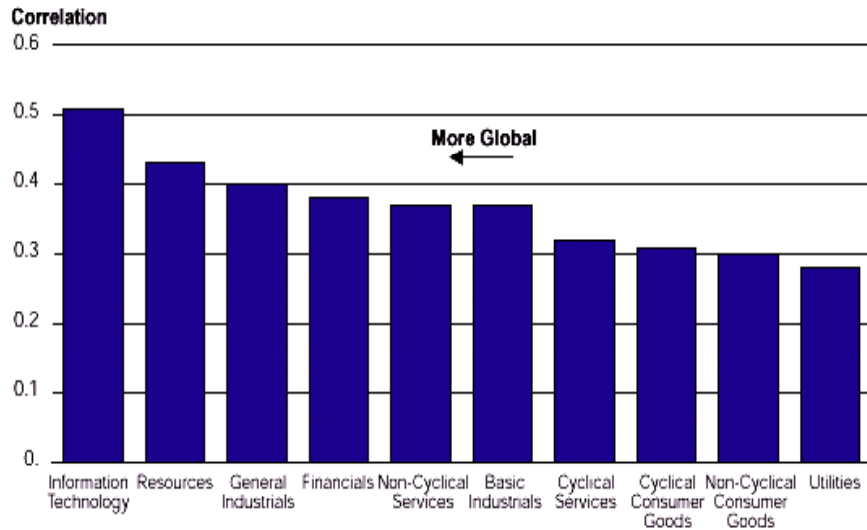


Emerging market equities relative return

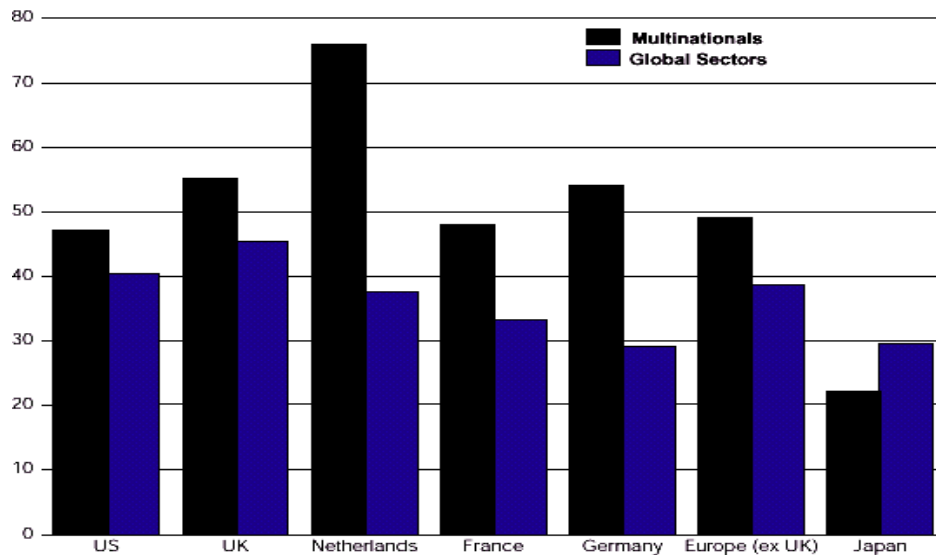


GLOBAL INVESTMENT STRATEGY- EQUITY MARKETS (STOCK PICKING)

Global Industry Cohesion



Multinational Companies and Global Sectors as a Percentage of Major World Indices



Global sector performance



Source: Datastream

Investors get defensive

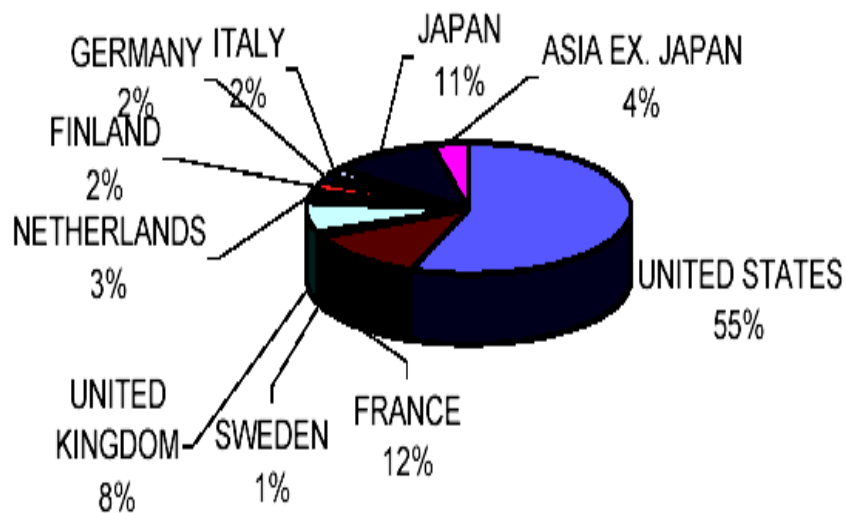


Source: Datastream

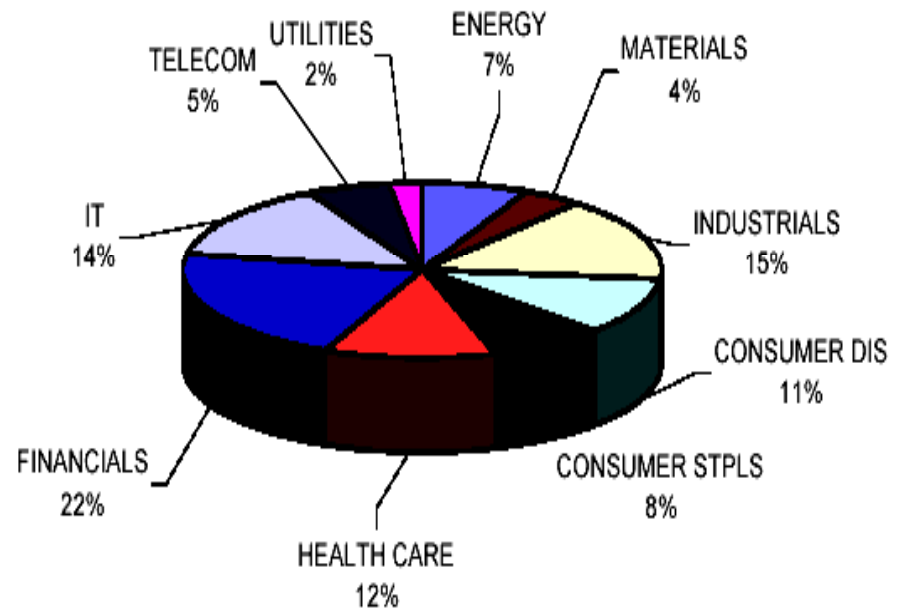
GLOBAL INVESTMENT STRATEGY- EQUITY STRATEGY

	Historic P/E	Earnings Growth (EST.)	Dividend Yield	Bond Earnings Yield
USA	20.4 x	15%	1.70%	0.9 x
Japan	69.4 x	22%	0.90%	1.1 x
Euro-zone	19.8 x	12%	3.00%	0.8 x
Pacific Basin	20.8 x	20%	3.40%	-
UK	15.1 x	10%	3.20%	0.8 x

Geographic Allocation



Sector Allocation



GLOBAL INVESTMENT STRATEGY SUMMARY- OUTLOOK AND ASSET CLASS 1

Global Overview - Productivity and profitability to drive global markets

We remain optimistic on equities as profits look set to exceed expectations and valuations are supportive. Our view is based on strong US productivity and demand for Asian exports, along with stimulatory monetary conditions. Rises in inflationary expectations and strong US payrolls through the course of this year should justify our caution on bonds.

Global Sectors - Sectors jostling for pole position

Consumer staples have performed strongly since the start of February. Some of the more bearish commentators suggest this marks a lasting change in investor sentiment, reflecting weakness in recent economic data. However, we believe it is just a case of these sectors of the market closing the gap on the cyclical stocks that led the way last year.

GLOBAL INVESTMENT STRATEGY SUMMARY- OUTLOOK AND ASSET CLASS 2

US Equities - Positioning for the next stage in the cycle

The engine of economic growth is moving from the consumer to the corporate sector. Stronger cash flow is encouraging companies to engage once again in merger and acquisition activity. Election years are normally good for equities but stock market leadership has temporarily moved away from the cyclical sectors to more defensive areas.

European ex-UK Equities - M&A revival should boost prices

M&A activity has been slower to develop than in some other markets and we expect it to have a positive influence over the rest of the year. The fee income will also help raise banking sector profits at a time when they are under regulatory fire for being too dependent on mortgage lending.

GLOBAL INVESTMENT STRATEGY

SUMMARY- OUTLOOK AND ASSET CLASS 3

UK Equities - Extracting value

Rising commodity prices have become a key factor in driving investors' decisions. However, commodity-related sectors have not all responded in what might be seen as a rational way. We discuss some of the other influences. Acquisitions, both real and imagined, are also starting to drive stock prices again as the corporate sector embarks on another round of expansion.

Japanese Equities - Good performance helped by improving economy

The Japanese stock market was one of the best performers in the first quarter. Investors have benefited not only from a sharp recovery in economic growth, but also a broadening out of activity into services and consumer spending. Banking and property are two sectors where the impact is most noticeable.

GLOBAL INVESTMENT STRATEGY SUMMARY- OUTLOOK AND ASSET CLASS 5

Pacific Basin ex-Japan Equities - Earnings moving up a gear

While political wrangling dominates the news headlines in Asian markets, it is the improvement in corporate earnings that is winning the hearts and minds of investors. India is shaping up to take on China as the engine of Asian demand, while the Australian stock market looks set to lag again this year.

Emerging Market Equities - Upward momentum to continue

The broadening of the economic recovery from the US and China to the rest of the world should continue to drive emerging markets. The power of global liquidity, allied to falling local interest rates will be a key driver in 2004. We expect Latin America to outperform the other regional components of the emerging market index.

GLOBAL INVESTMENT STRATEGY

SUMMARY- OUTLOOK AND ASSET CLASS 6

Bonds - All eyes on the US

Global bond markets continue to be led by developments in the US economy and its currency. Economic releases support the idea that economic expansion has become more broadly based, but bond investors are being guided by the Fed's signals that there is little risk of a rise in short term interest rates for some time.

Modeling- Adding value to bond portfolios

Although bonds have assumed greater importance since the equity market peaked in 2000, and now represent one-third of all listed securities, the efficiency of models for forecasting their yields is mixed. Many of the methods used underestimate the importance of variables such as sector and credit rating in driving returns. We believe that having the right model is vital in adding value to bond portfolios.

GLOBAL INVESTMENT STRATEGY

SUMMARY- OUTLOOK AND ASSET CLASS 7

Treasury - All eyes on Japan

Sharp fluctuations in currency markets are currently a key driving force behind financial markets. The steady decline in the dollar has stalled temporarily as sustained intervention by the Bank of Japan pays off. However, we believe the dollar's longer-term downward trend will resume in the coming months. Markets continue to vacillate on the timing of interest rate moves.

Property - Increasing institutional allocations to property

This year, institutional investors are likely to take over from debt-backed investors as the main driving force in the UK property market. Regulatory emphasis on liability matching should encourage higher property allocations. Part of this will be felt in the 'hidden' demand for property through the growing private vehicle sector of the market.

JUNE 04

	Positive	Negative	Our View
US Equities 22%	<ul style="list-style-type: none"> Corporate earnings continue to exceed expectations Monetary and fiscal environment will remain supportive while Fed sees little inflation risk 	<ul style="list-style-type: none"> Market valuations are stretched on some measures Concerns about the rise in energy costs affecting consumers and business 	<p>The market should move higher into the summer as the earnings newsflow remains robust</p> <p>STAY HEAVY</p>
European Ex-UK Equities 18%	<ul style="list-style-type: none"> Increase in corporate activity and restructuring efforts Valuations are still relatively attractive 	<ul style="list-style-type: none"> Economic news remains mixed, especially for the consumer The rise in the euro in recent months has put exporters under pressure 	<p>Prospects for the region are slowly improving as the global recovery becomes more synchronised</p> <p>MOVED TO HEAVY</p>
UK Equities 12%	<ul style="list-style-type: none"> Potential for earnings upgrades as revenue growth and cost cutting boost profits Valuation is attractive against bonds and cash 	<ul style="list-style-type: none"> Stock market has fewer cyclical companies than many overseas markets Vulnerable to weakness in Europe, a much stronger pound, or sharp interest rate increases 	<p>Solid earnings growth and attractive valuations should continue to underpin UK equities</p> <p>STAY HEAVY</p>
Japanese Equities 8%	<ul style="list-style-type: none"> Strong corporate earnings growth boosting investment and increasingly employment Japanese exports benefiting from an upturn in regional and global trade flows 	<ul style="list-style-type: none"> Lack of domestic participation in the market The recent rally means a considerable amount of good news has been priced in 	<p>Upturn in global investment cycle is positive for Japanese equities</p> <p>STAY HEAVY</p>
Pacific Basin Ex-Japan Equities 6%	<ul style="list-style-type: none"> Domestic demand is buoyant in most countries Region will continue to benefit from outsourcing 	<ul style="list-style-type: none"> China has begun to take firmer action to slow down excessive growth Governance issues are still deterring some investors 	<p>Should benefit from an improvement in world trade, and relatively favourable valuations</p> <p>STAY HEAVY</p>
Emerging Market Equities 2%	<ul style="list-style-type: none"> Stable currencies and inflation allowing countries such as Brazil to cut interest rates Industrial production rising in response to US demand, eg in Mexico 	<ul style="list-style-type: none"> Valuations are no longer as supportive in many markets Some profit taking in commodities after the recent strong run 	<p>Recent strong performance suggests limited upside in the short term</p> <p>STAY NEUTRAL</p>
International Bonds			STAY LIGHT
US 4%	<ul style="list-style-type: none"> Strong demand for US bonds via central bank foreign exchange intervention 	<ul style="list-style-type: none"> Robust economic growth and upturn in some inflation measures exerting upward pressure on yields 	<p>STAY VERY LIGHT within International bonds</p>
Euro-zone 2%	<ul style="list-style-type: none"> Attractive as lower inflation opens the way for ECB rate cuts 	<ul style="list-style-type: none"> Risk of bond supply expanding as the Stability Pact crumbles 	<p>STAY HEAVY within International bonds</p>
Japan 2%	<ul style="list-style-type: none"> Strong demand from risk averse domestic investors 	<ul style="list-style-type: none"> Economic upturn leading to positive inflation in some sectors 	<p>STAY NEUTRAL within International bonds</p>
UK Bonds			STAY LIGHT
Gilts 1%	<ul style="list-style-type: none"> Strong desire for yield from some investors, eg pension funds 	<ul style="list-style-type: none"> Monetary policy tightening and growing fiscal deficits pressure bond yields 	<p>STAY LIGHT within UK bonds</p>
Corporate 3%	<ul style="list-style-type: none"> Improving credit quality as balance sheets strengthen 	<ul style="list-style-type: none"> Starting to become overvalued 	<p>STAY HEAVY within UK bonds</p>
Property 14%	<ul style="list-style-type: none"> High yields and low volatility attractive to investors Occupier demand for office space improving 	<ul style="list-style-type: none"> High levels of vacancy in the office sector will continue to dampen rental growth 	<p>Capital values expected to show some growth despite continued weakness in rental values</p> <p>STAY NEUTRAL</p>
Cash 6%	<ul style="list-style-type: none"> Equities are at risk if there are concerns about the pace of economic recovery, currency volatility or higher oil prices 	<ul style="list-style-type: none"> The medium term outlook for equity markets is relatively positive, as policy makers try to reflate the world economy 	<p>Equity markets should outperform cash over the next year</p> <p>STAY LIGHT</p>

GLOBAL INVESTMENT STRATEGY: SPREADING PROFESSIONAL RISKS

**ONCE YOU DECIDE ON THE ASST CLASS,
REGIONAL AND INDUSTRY ALLOCATION
WHAT OTHER OPTIONS DO YOU HAVE TO
SPREAD YOUR INVESTMENT RISKS?**

- **MANAGED PORTFOLIOS**
 - **FUNDS/TRUSTS**
- **LOOK FOR TAXATION BENEFITS- OFFSHORE**
 - **HEDGING STRATEGY**
- **PROPRIETARY TRADING STRATEGY**

GLOBAL INVESTMENT STRATEGY

SELECTING MUTUAL FUNDS

- **DOMICILE & NATURE**
 - **BASE CURRENCY**
- **MATCHING ASSET ALLOCATION CRITERIA**
- **PEDIGRY AND COMPREHENSIVE REVIEW OF MANAGEMENT**
 - **RESEARCH CAPABILITIES**
 - **TRACK RECORD OF FUND MANAGERS**
 - **PERFORMANCE CONSISTENCY**
 - **INVESTMENT STRATEGY**
- **MONITORING PORTFOLIO HOLDINGS**
 - **PEER GROUP PERFORMANCE**
- **MATERIAL CHANGES- CHANGE IN OWNERSHIP, FUND MANAGER, INVESTMENT STYLE**

GLOBAL INVESTMENT STRATEGY

ACTIVE MONITORING

- INVESTMENT CLIMATE & MARKET SENTIMENT
- PERFORMANCE REVIEW OF BROAD ASSET CLASS
- PERFORMANCE AND VALUATION REVIEW OF SUB- ASSET GROUPS
- PERFORMANCE, INVESTMENT STRATEGY AND VALUATION REVIEW OF INDIVIDUAL ASSETS AND MARKETS

GLOBAL INVESTMENT STRATEGY

RESHUFFLING



- PERIODIC
- RISK-RETURN PROFILE
- MOVEMENT WITHIN PREFERRED REGION
- MOVEMENT WITHIN PREFERRED ASSET CLASS
- ENTRY AND EXIT TIMING

GLOBAL INVESTMENT STRATEGY REPORTING

PERIODICITY

MONTHLY, QUARTERLY, ANNUAL

KEY ELEMENTS:

PERFORMANCE

VALUATION

CHANGE IN STRATEGY

ENTRY & EXIT

SPECIFIC ISSUES