

Emerging Market Debt – attractive yield with solid fundamentals

November 2012

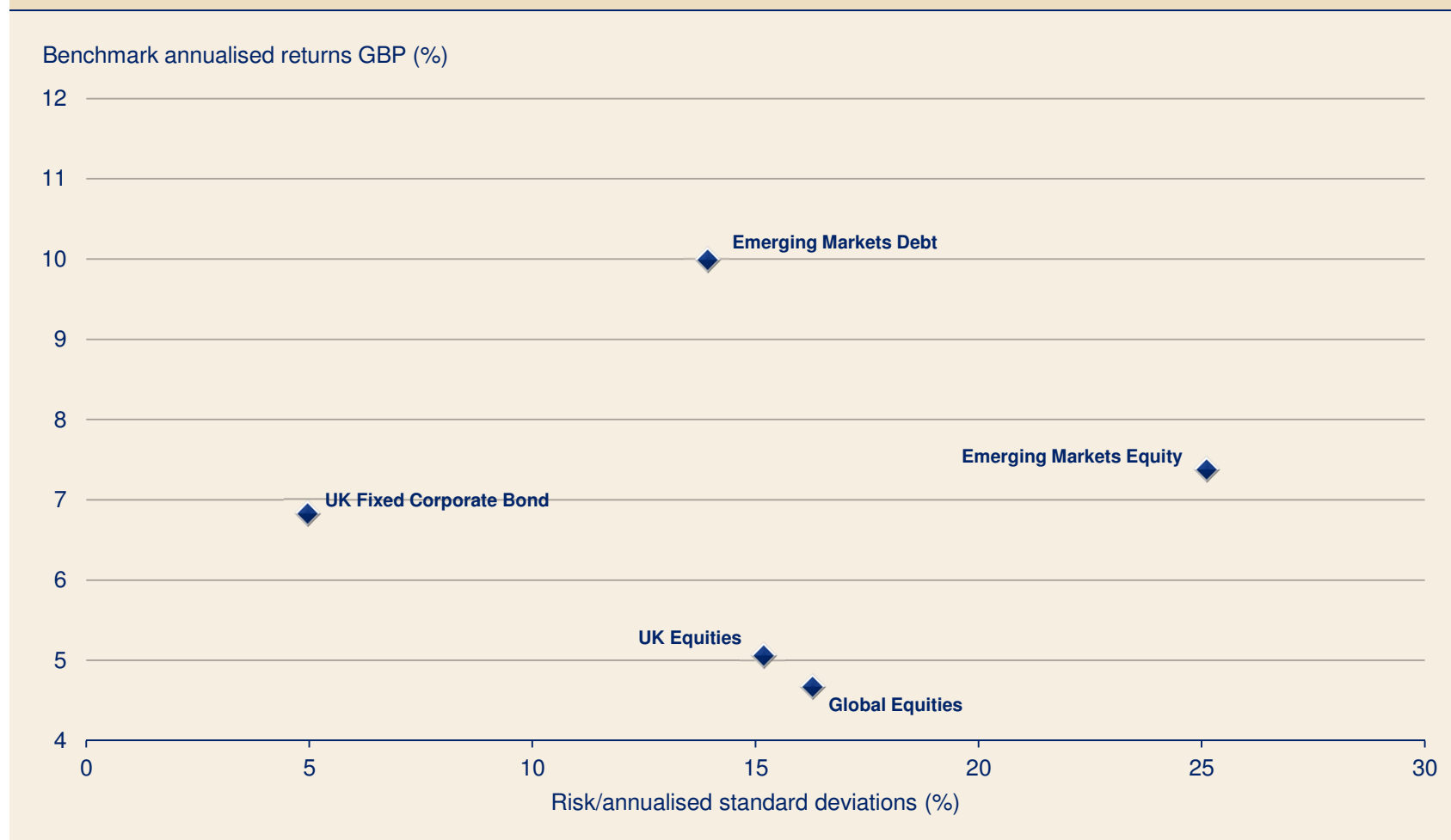
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- EMD asset class comprises countries and companies that are fiscally sound
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Risk & return data support the case for EMD

15 years benchmark risk and returns



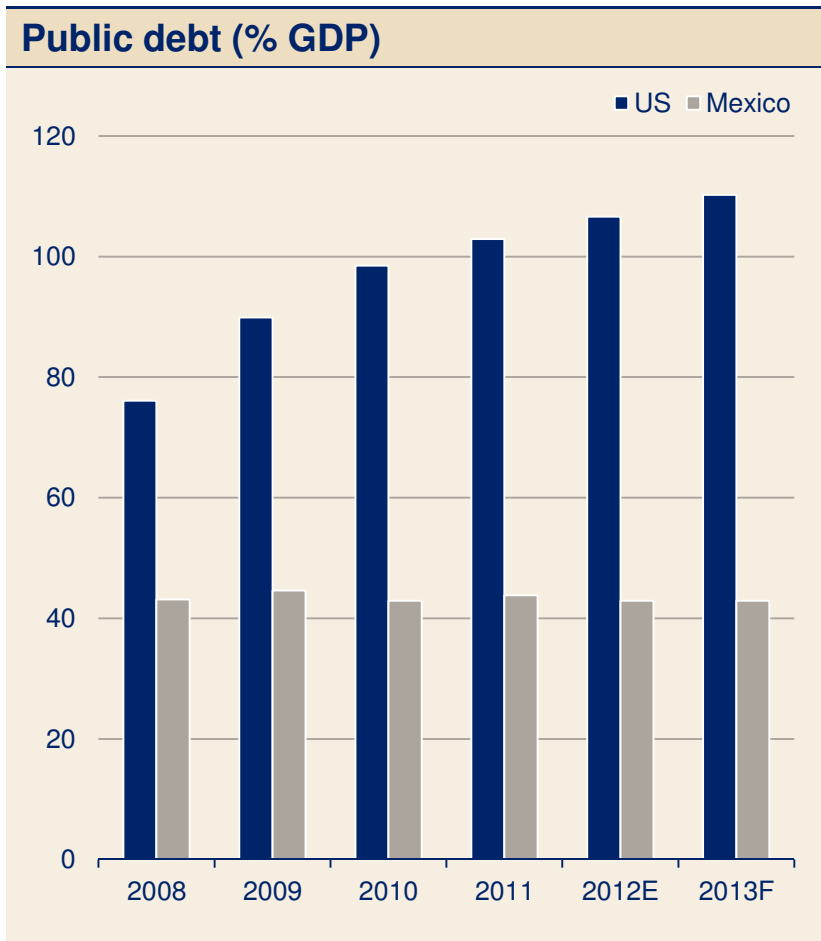
* All figures were correct at the close of business on 31 Aug 12

Benchmarks Used: Emerging Markets Debt – JPM EMBI Global Diversified Emerging Markets, Equity – MSCI Emerging Markets, Global Equities – MSCI World UK Equities – FTSE AllShare UK Fixed Corporate Bond – Merrill Lynch Sterling Non-Gilts

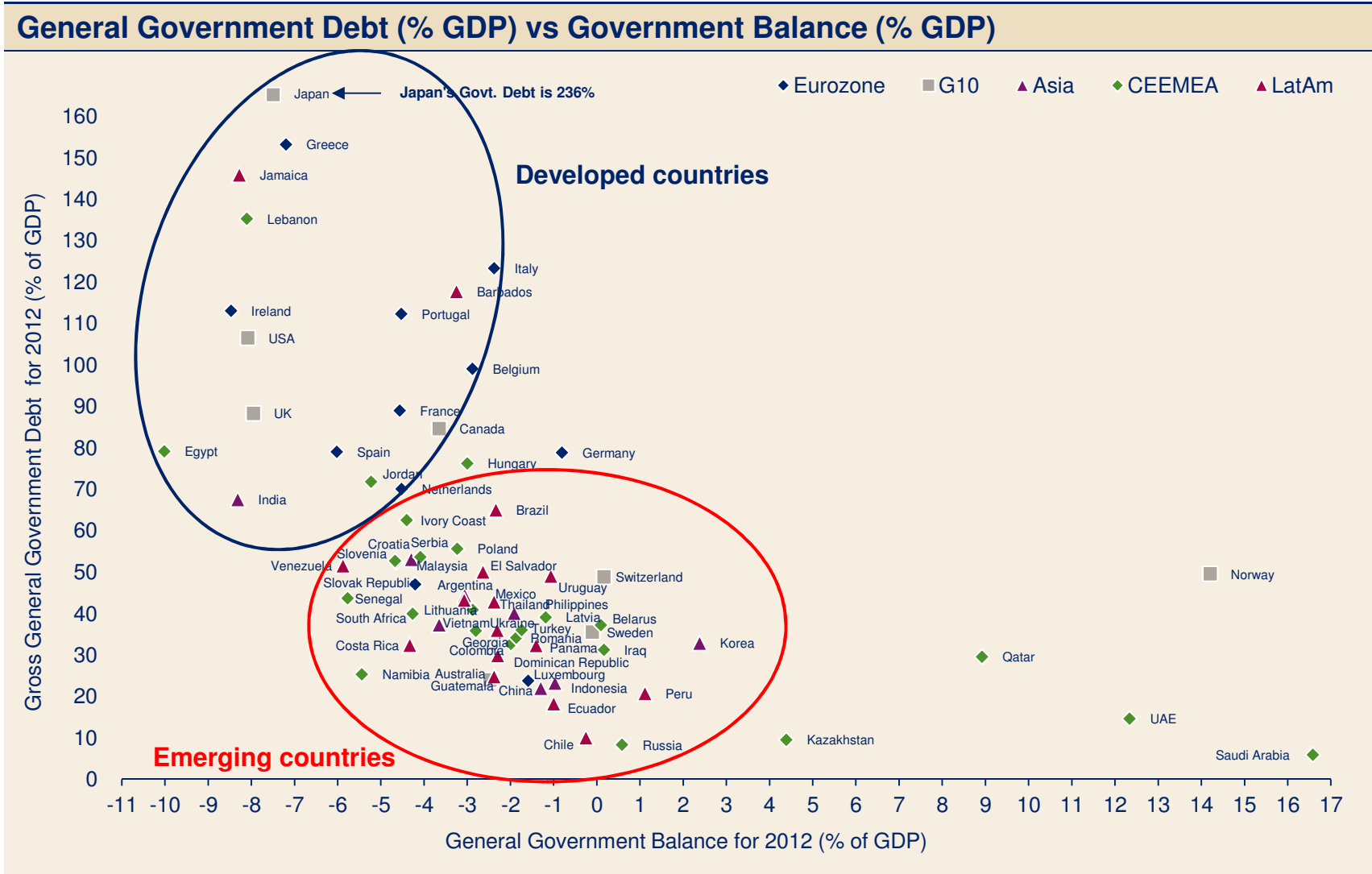
The perception of risk versus the reality

	Country A	Country B
Public Debt (% GDP)	106.6	44.2
Fiscal Deficit (% GDP)	-8.1	-2.4
GDP Growth (%)	2.1	3.6
10 Year Real Yield (%)	- 0.2	0.6
	US	Mexico

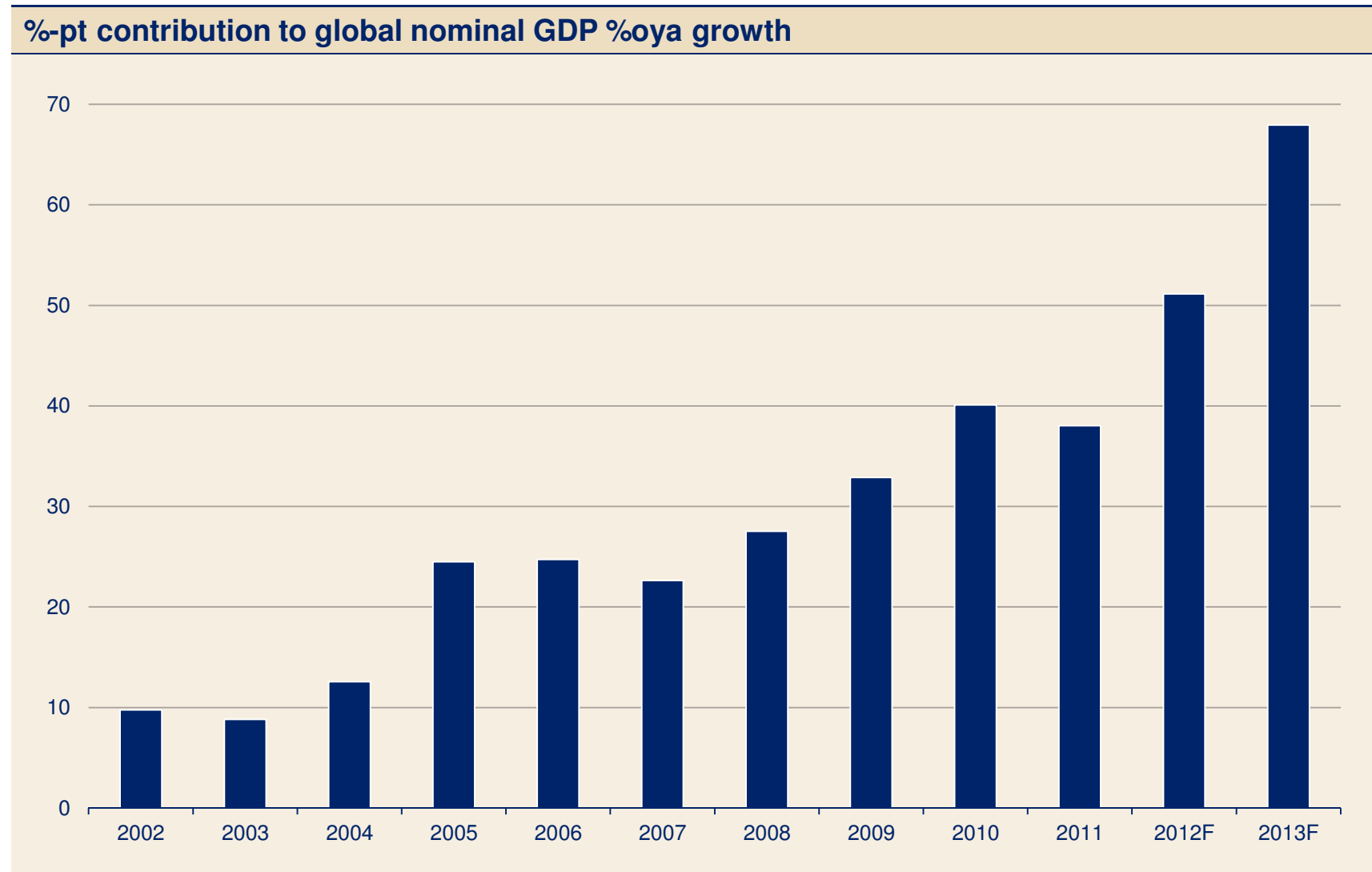
The biggest is not necessarily the best!



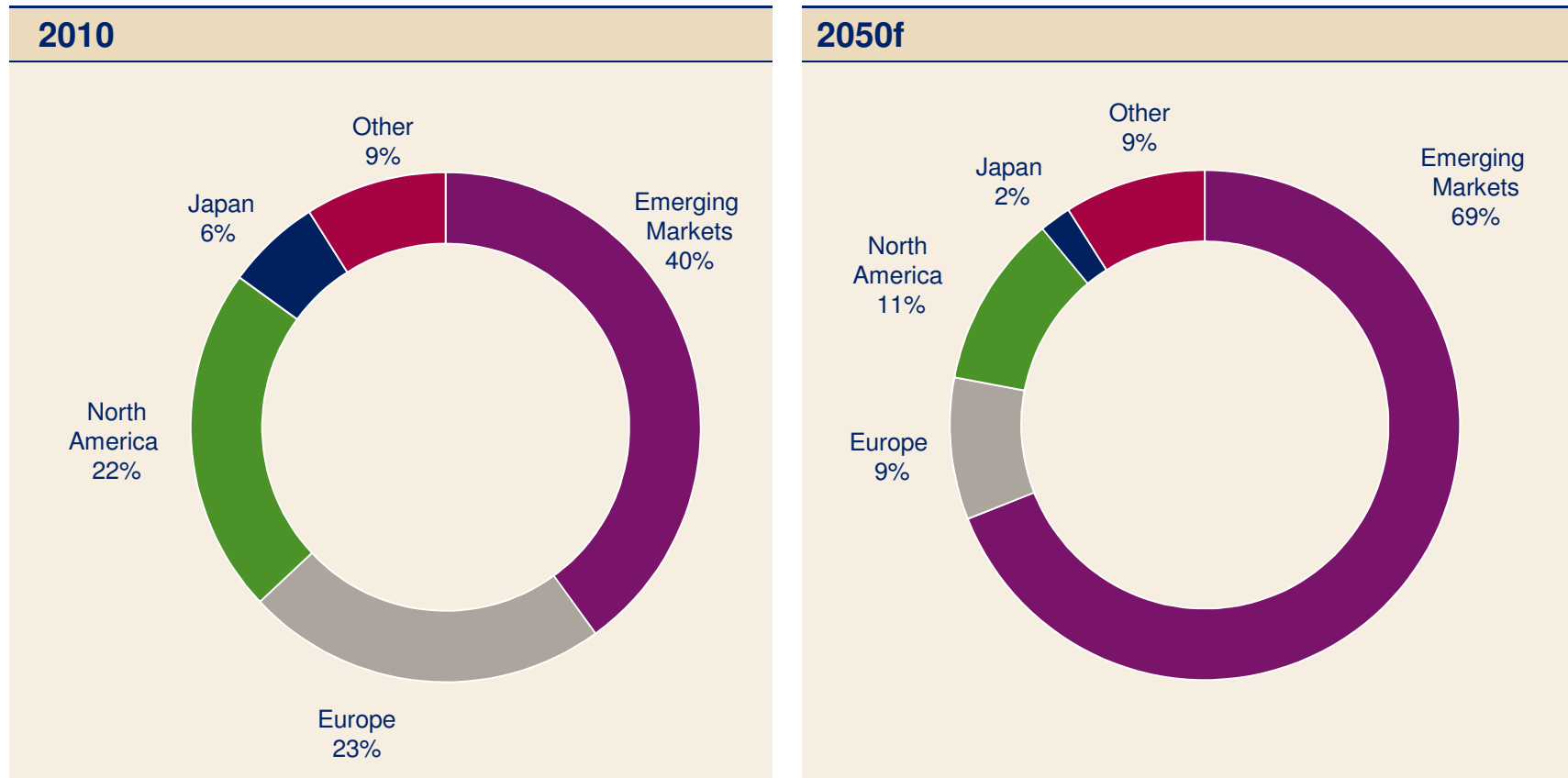
EM economies have considerably lower debt levels...



EM now accounts for more than 70% of global GDP growth China's share now at 50%

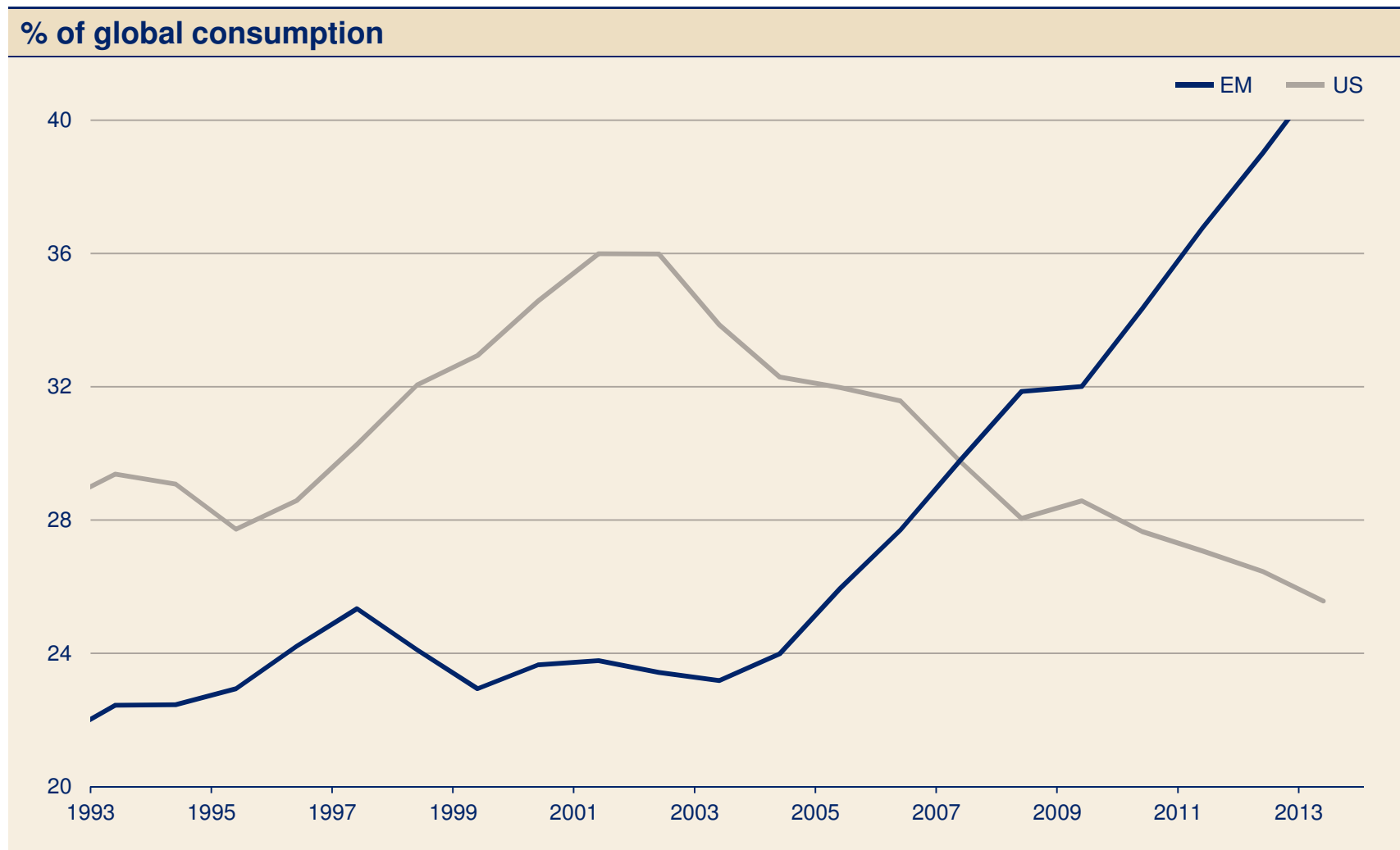


... and are likely to be the main drivers of future growth



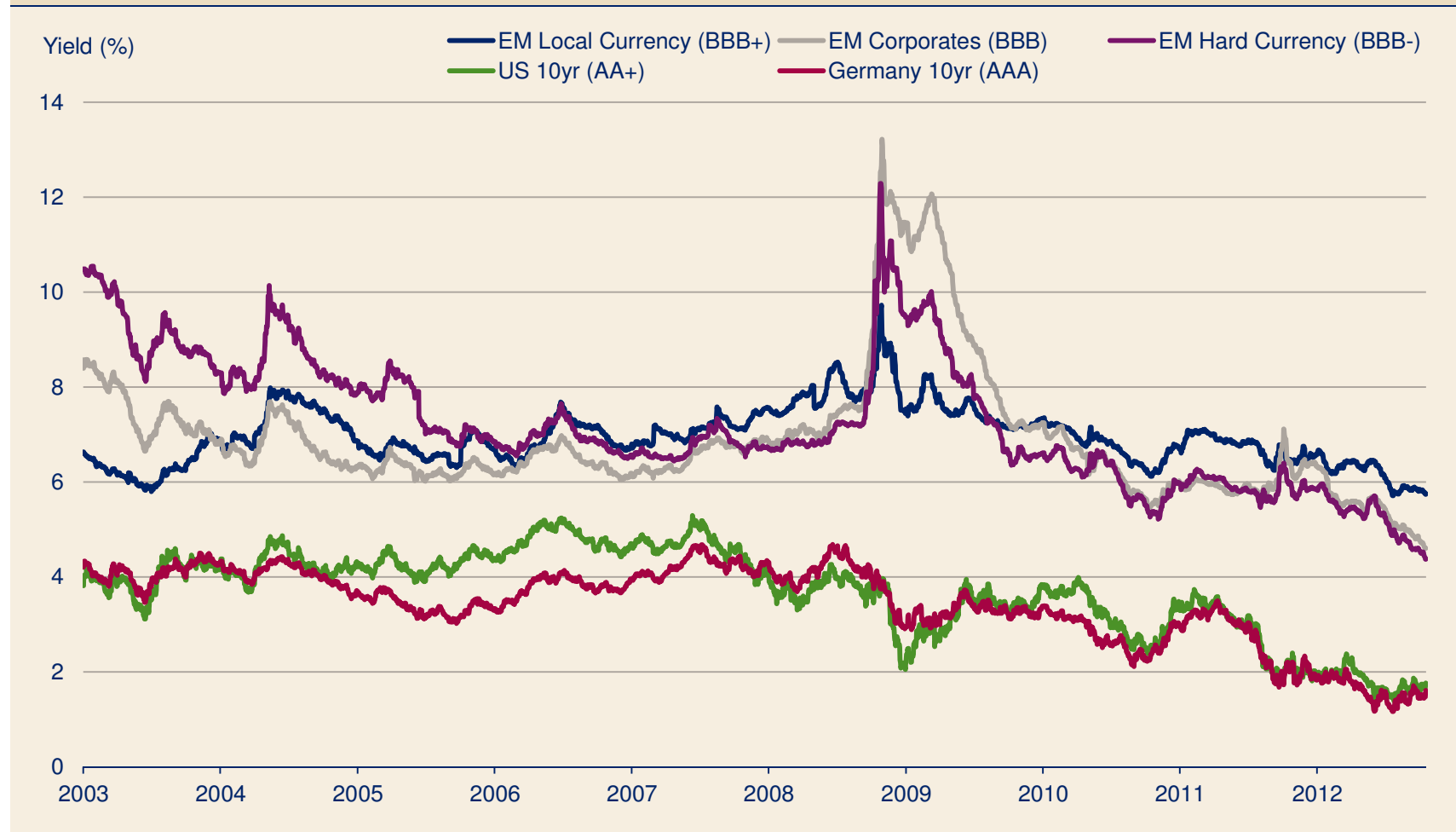
- By 2050 Emerging Markets are forecast to represent 69% of world GDP versus 40% now
- With a growing, financially independent, aspirational middle class

EM now accounts for 40% of global consumption



EMD yields stand out in 'lower for longer' world

EM external, domestic and corporate indices are all investment grade



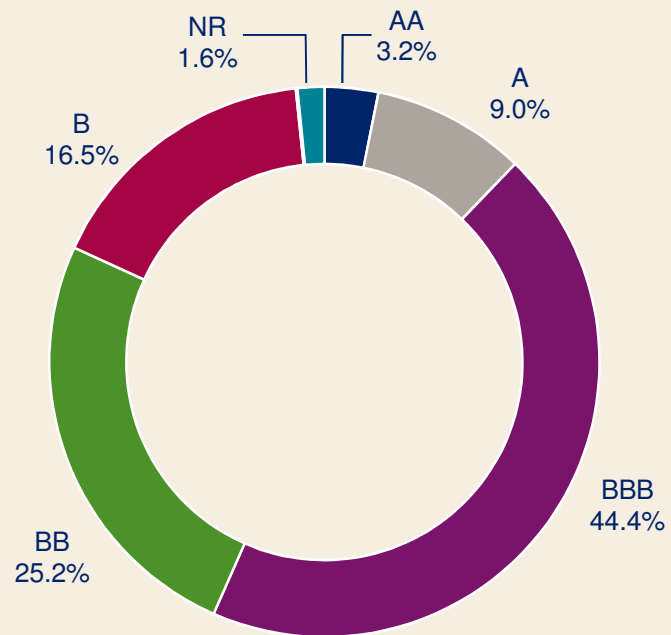
EM Local currency index: JPM GBI-EM GD, EM Hard currency index: JPM EMBI GD, EM Corporate index: JPM CEMBI BD
Source: JP Morgan, S&P, Bloomberg, 17 Oct 12

Real yields remain elevated...

Country	10 year bond yield (%)	Inflation y-o-y (%)	Real yield (%)	Credit rating (S&P)
Brazil	9.5	5.3	4.2	A-
Colombia	6.0	3.1	2.9	BBB+
South Africa	7.1	5.0	2.1	A
Malaysia	3.4	1.4	2.0	A
Indonesia	5.7	4.3	1.4	BB+
Russia	7.4	6.6	0.8	BBB+
Mexico	5.4	4.8	0.6	A-
US	1.8	2.0	-0.2	AA+
UK	1.9	2.2	-0.3	AAA
Germany	1.6	2.0	-0.4	AAA

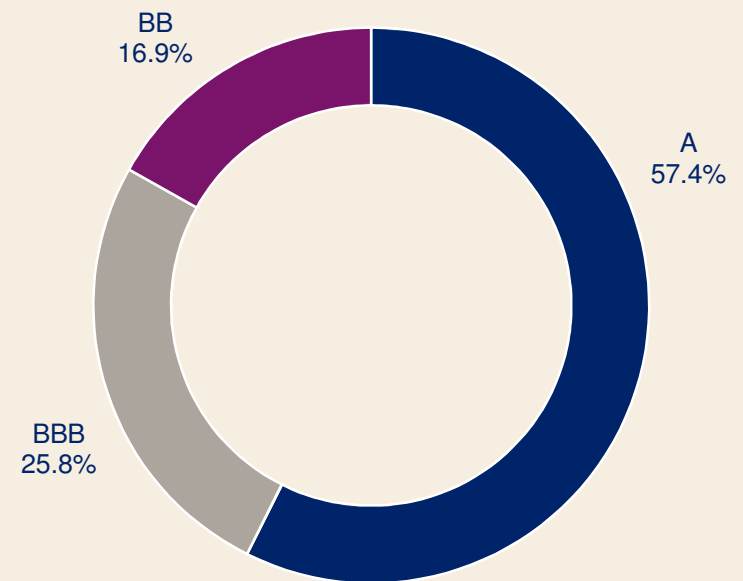
... for investment grade credit quality

S&P breakdown of EMBI Global Diversified Index



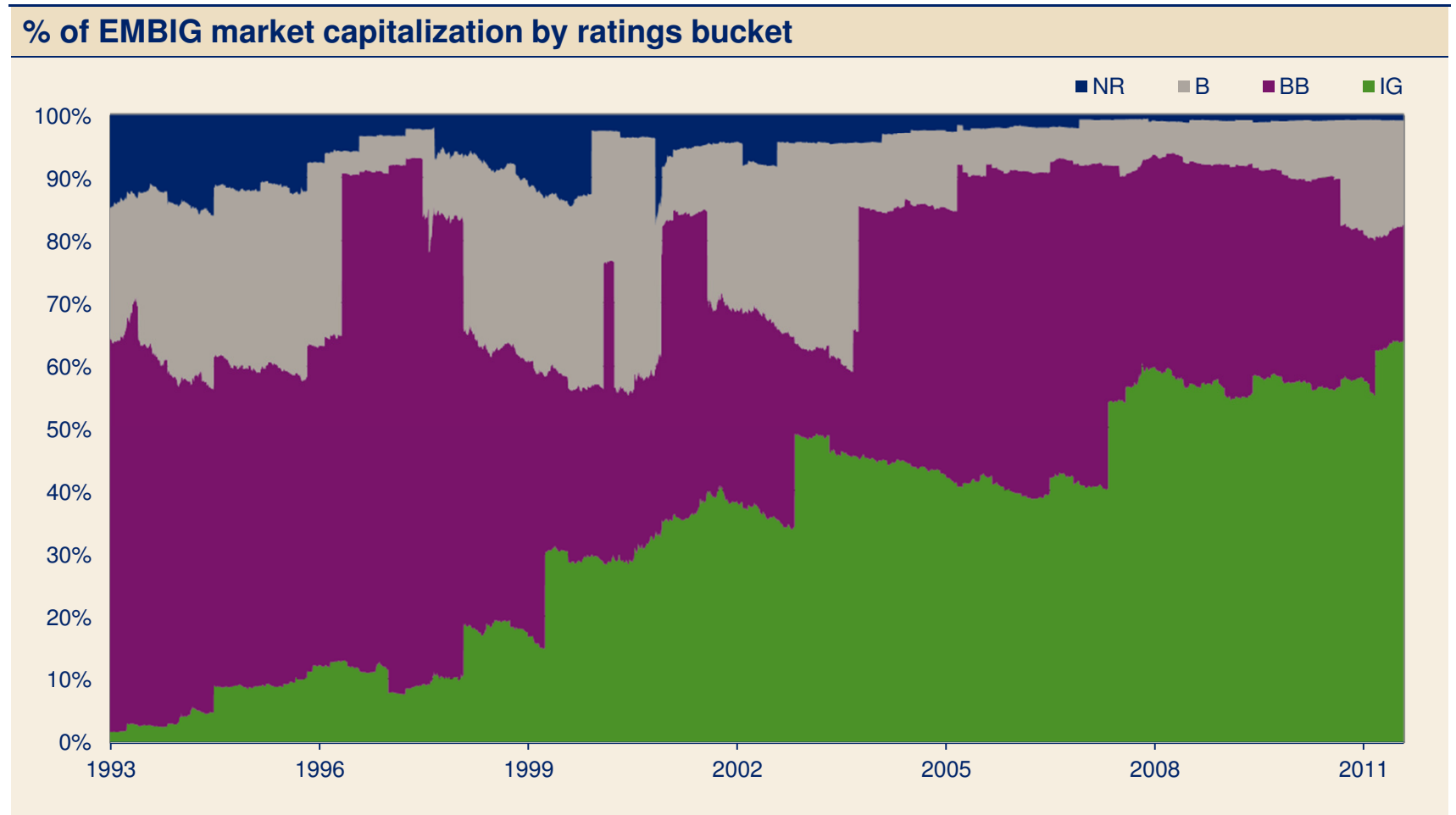
- External debt is 57% investment grade
- Average credit quality is BBB-

S&P breakdown of GBI-EM Global Diversified Index

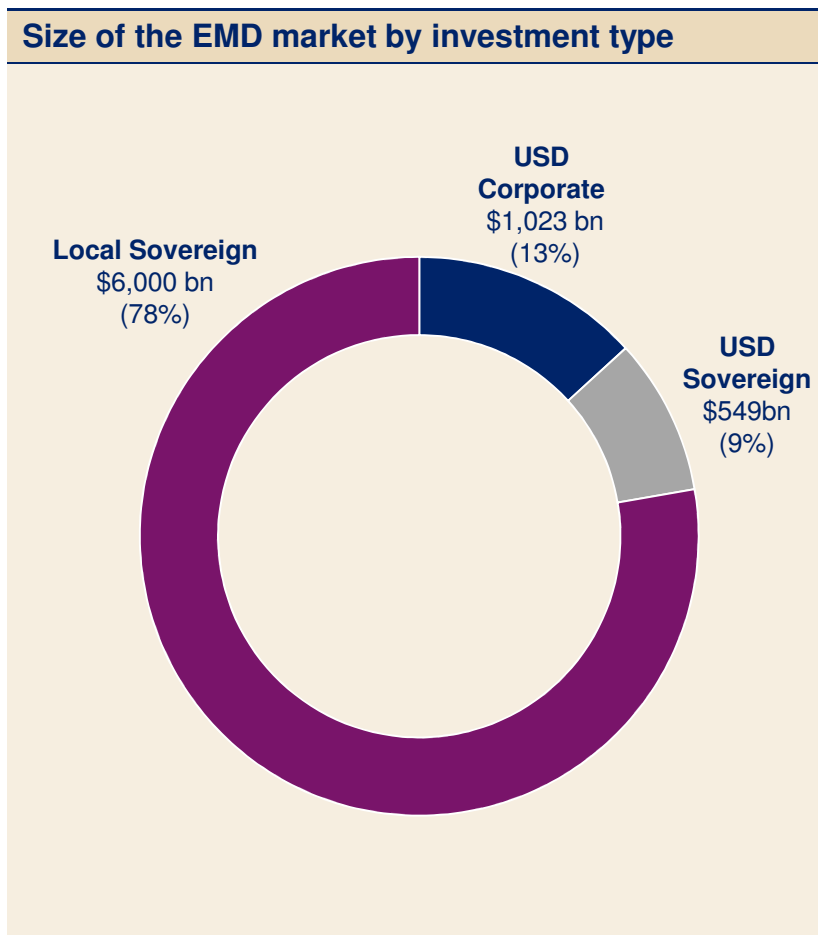
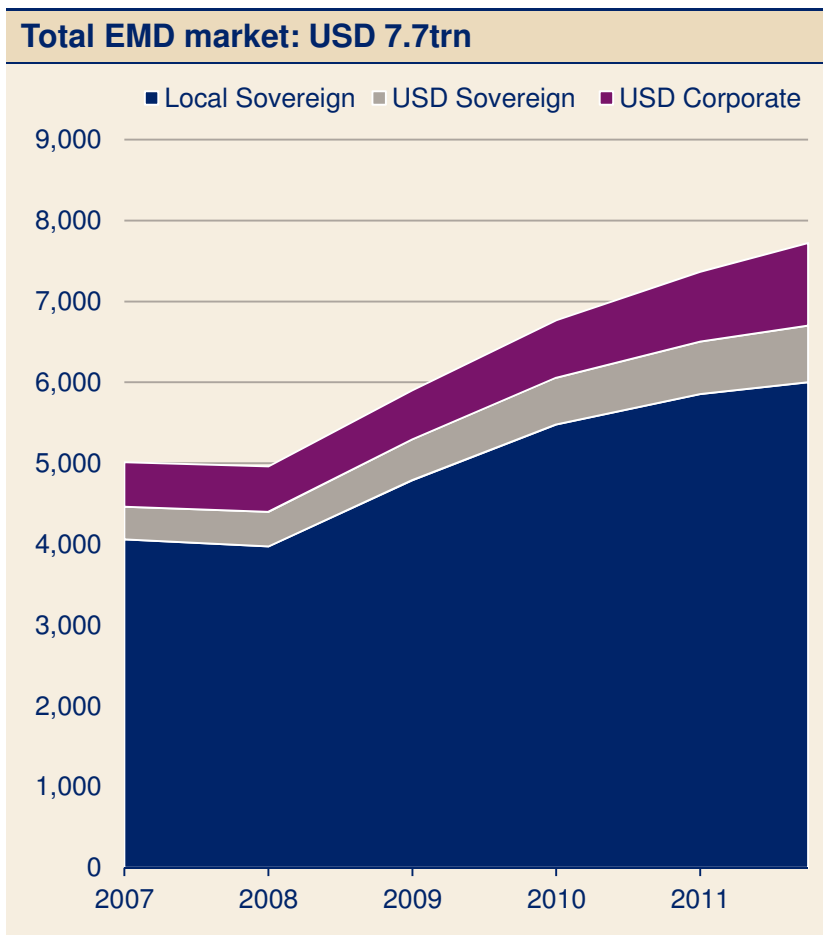


- Domestic debt is 83% investment grade
- Average credit quality is BBB+

EM sovereign debt has shown steady improvement in credit quality

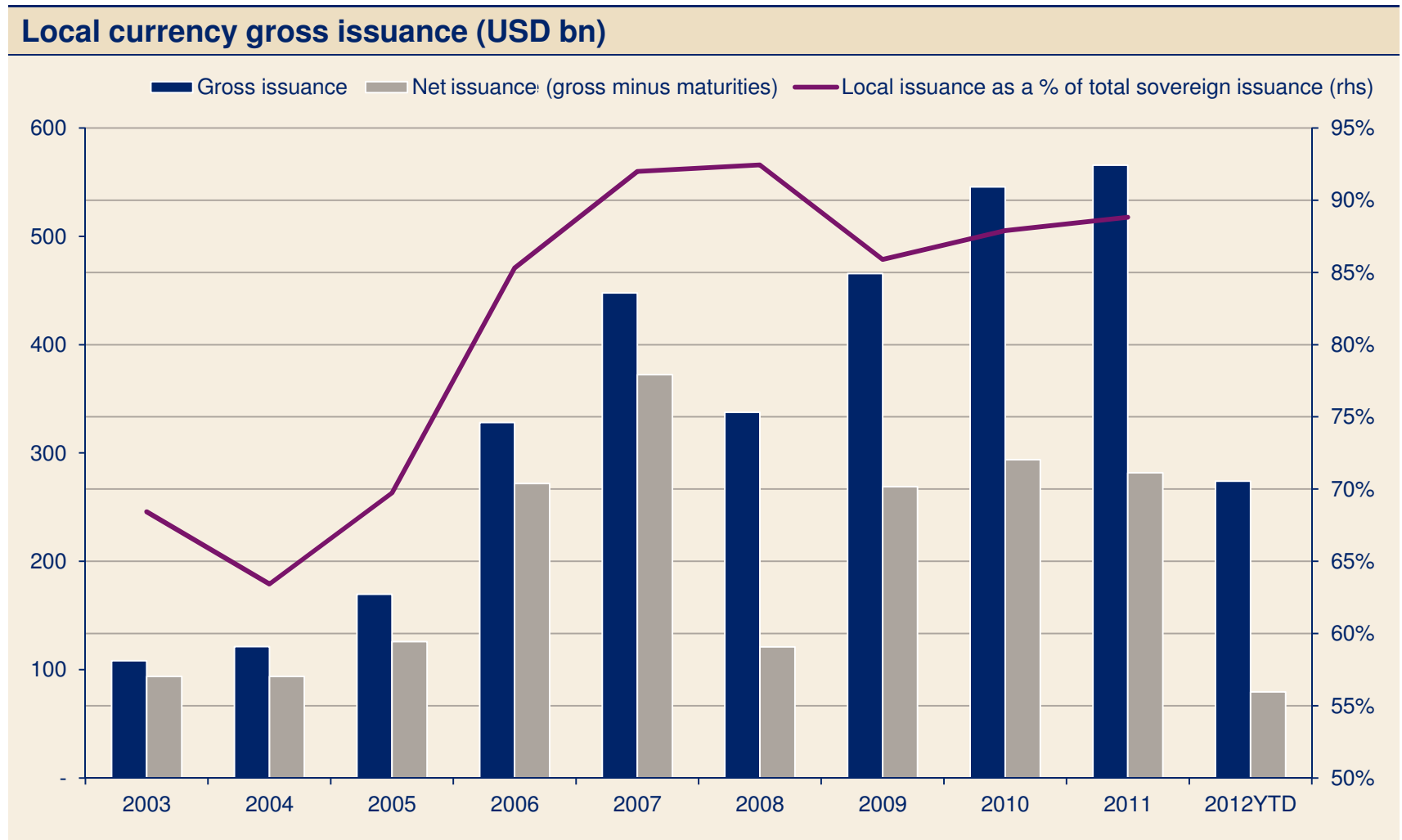


The EMD universe has grown rapidly ...



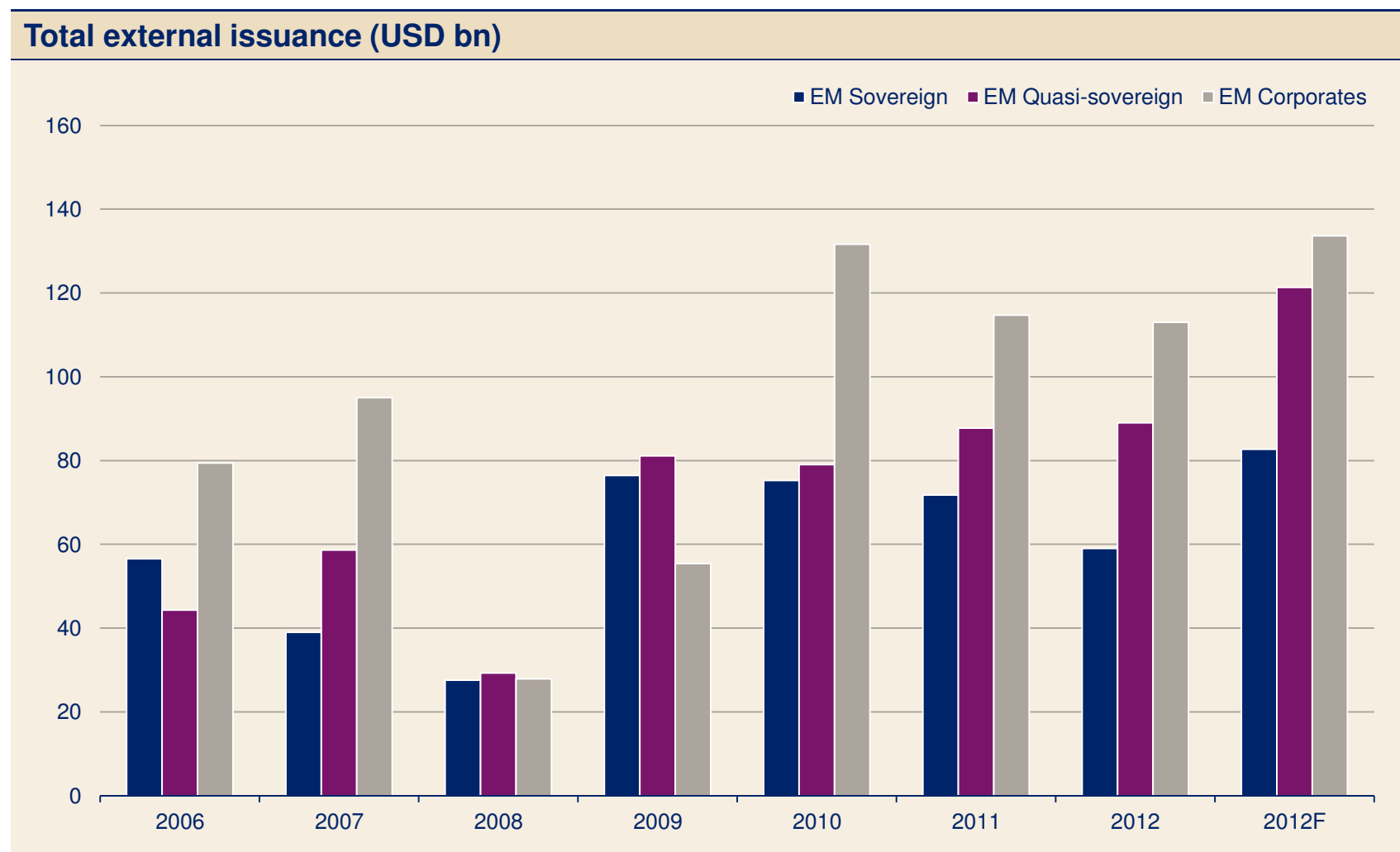
- EMD local debt is more than three times the value of external debt

EM local market issuance dwarfs hard currency issuance for sovereigns



Note: Data for local issuance includes countries in the GBI-EM Broad index as well as those under review for inclusion, along with Israel, which is in the GBI index.
Source: Bond Radar, JP Morgan, official sources

Low sovereign issuance paves the way for corporates

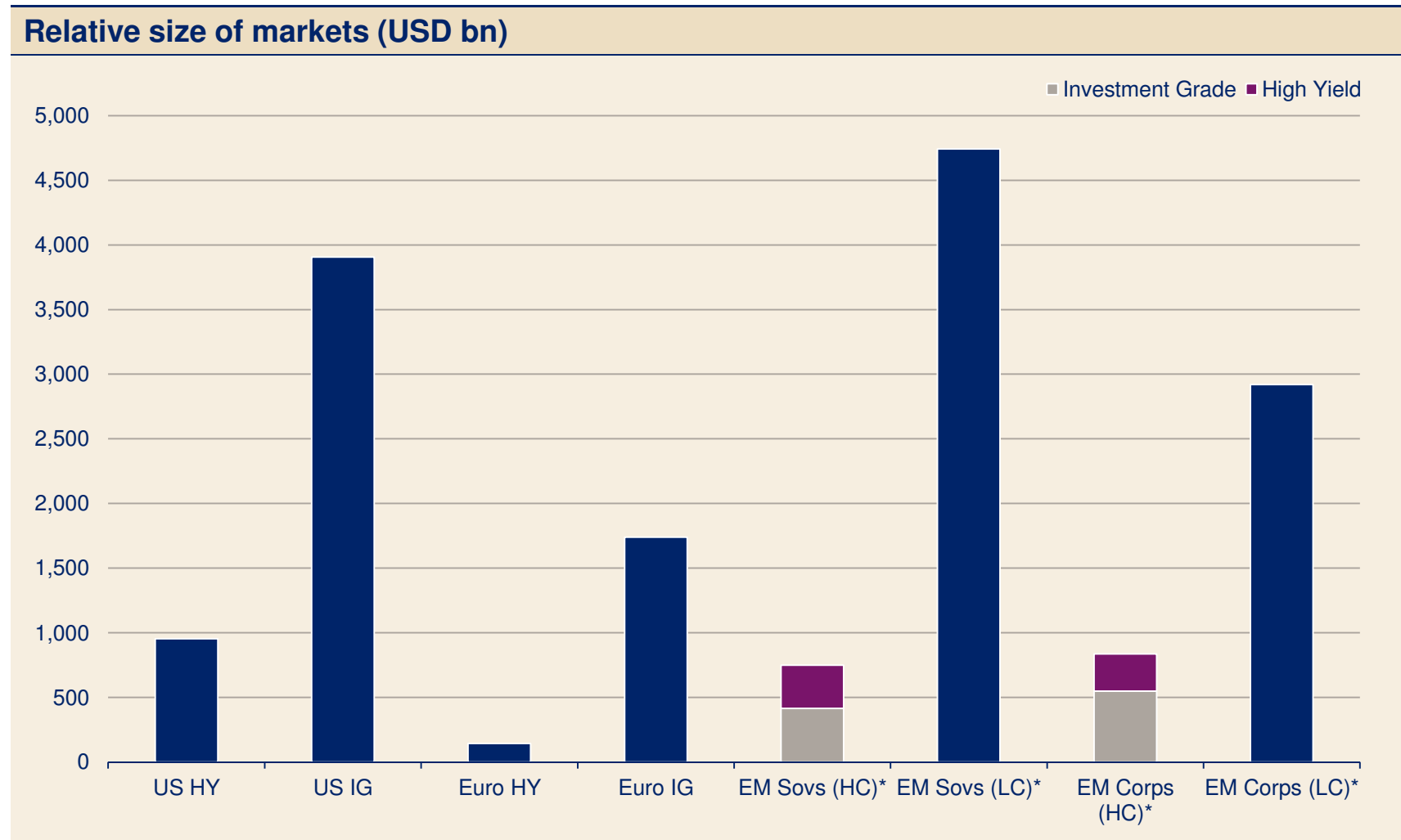


* Issuance multiple of corporate and quasi-sovereign over sovereign

Source: JP Morgan, Sep 12

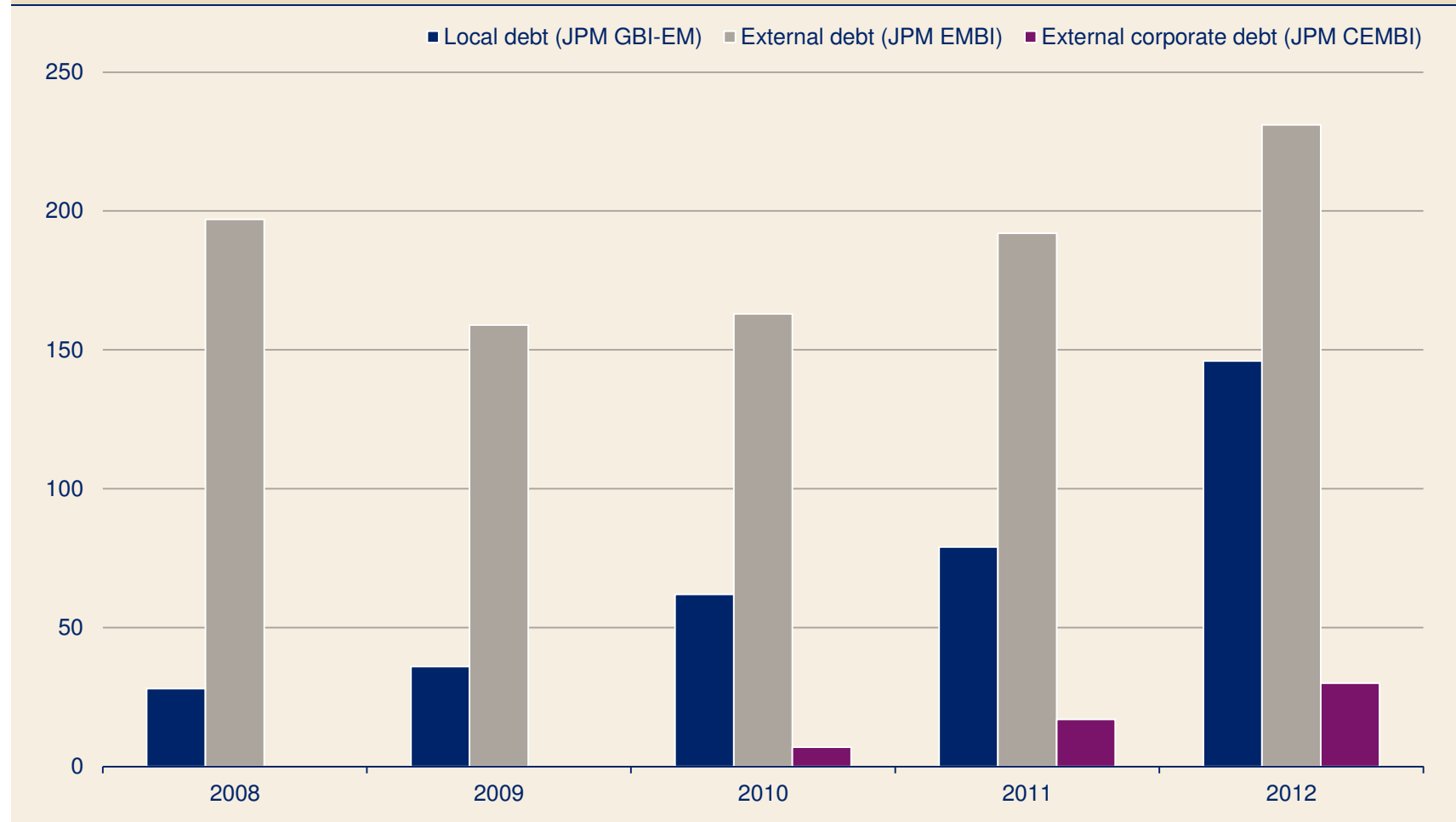
For illustrative purposes only

Which is rapidly developing into a discrete asset class



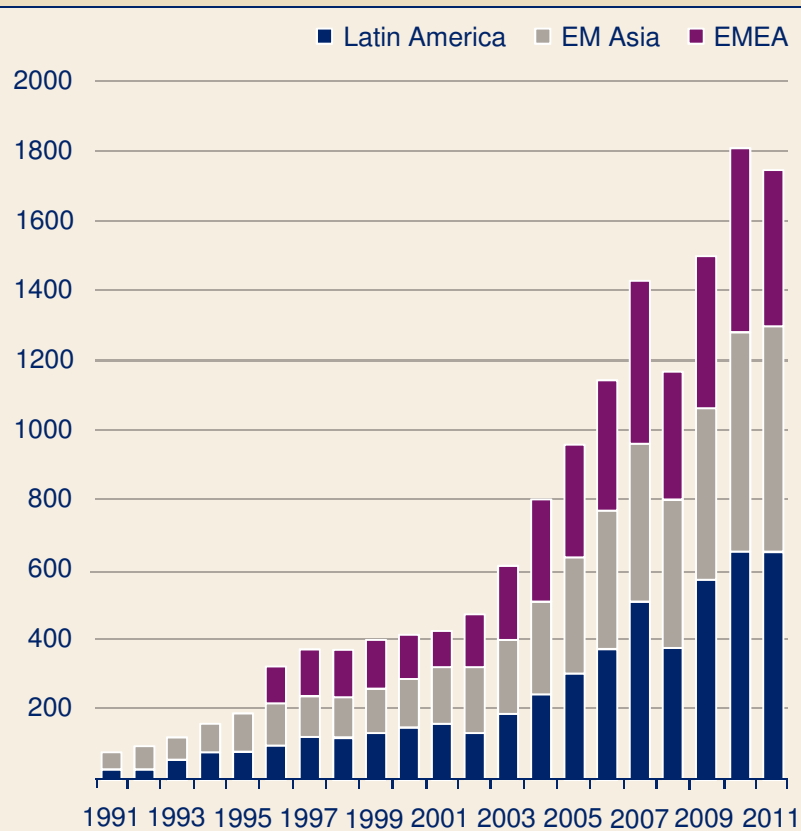
With a growing, dedicated investor base

Estimated value of assets managed against EM indices (USD bn)

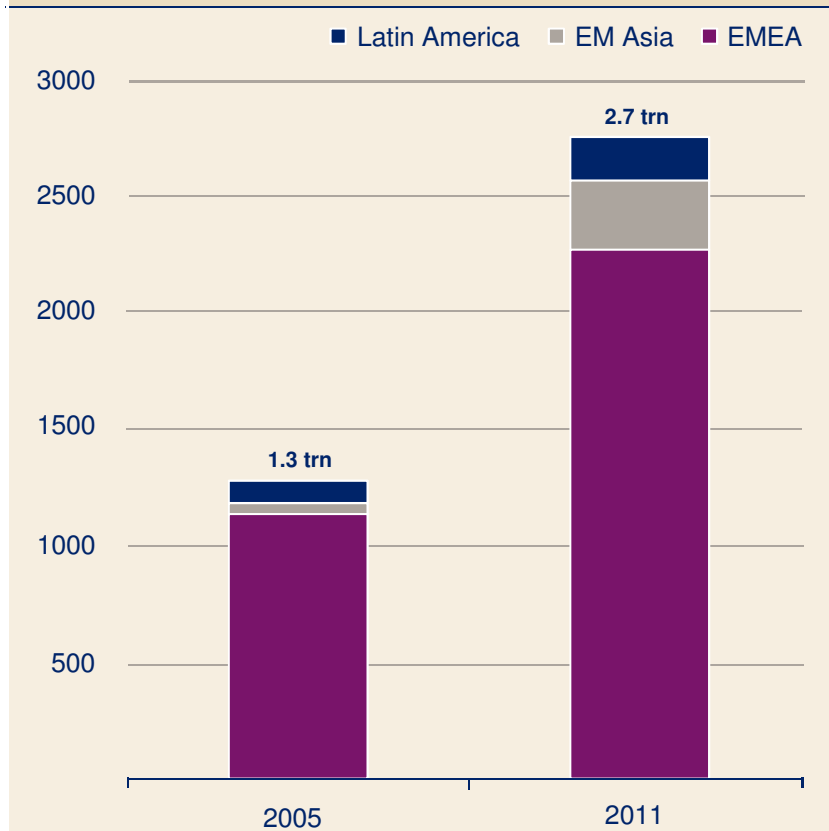


EM local pension fund assets have risen past \$1.7trn, while EM insurance company assets approach \$3trn

Pension fund assets (USD bn)

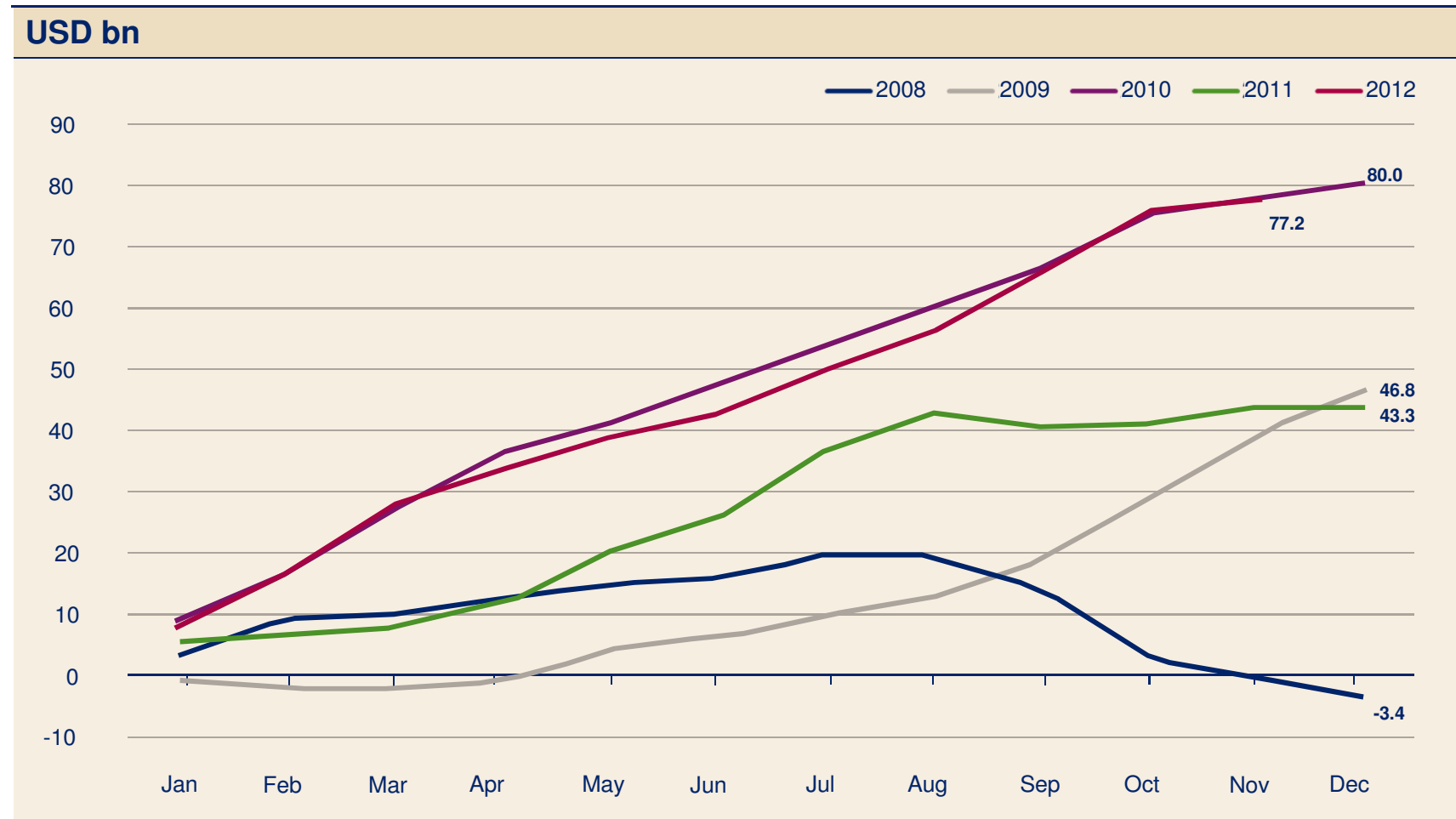


Insurance company assets (USD bn)



This is a structural story

EM fixed income flows will likely end the year at a new record US\$85 billion



But the same perceptions exist for companies

	Company A	Company B
Net interest margin (%)	2.6	5.5
Return on common equity (%)	11.0	20.5
Total capital ratio ¹ (%)	14.9	15.1
Yield of representative 2016 senior bond ² (%)	1.6	2.9
	JP Morgan A2 rated US bank	Bancomer A2 rated Mexican bank

1. Total capital/risk weighted assets

2. Mid yield to maturity

Source: Company presentations and reporting, figures for Q1 2012.

Securities selected for illustrative purposes only.

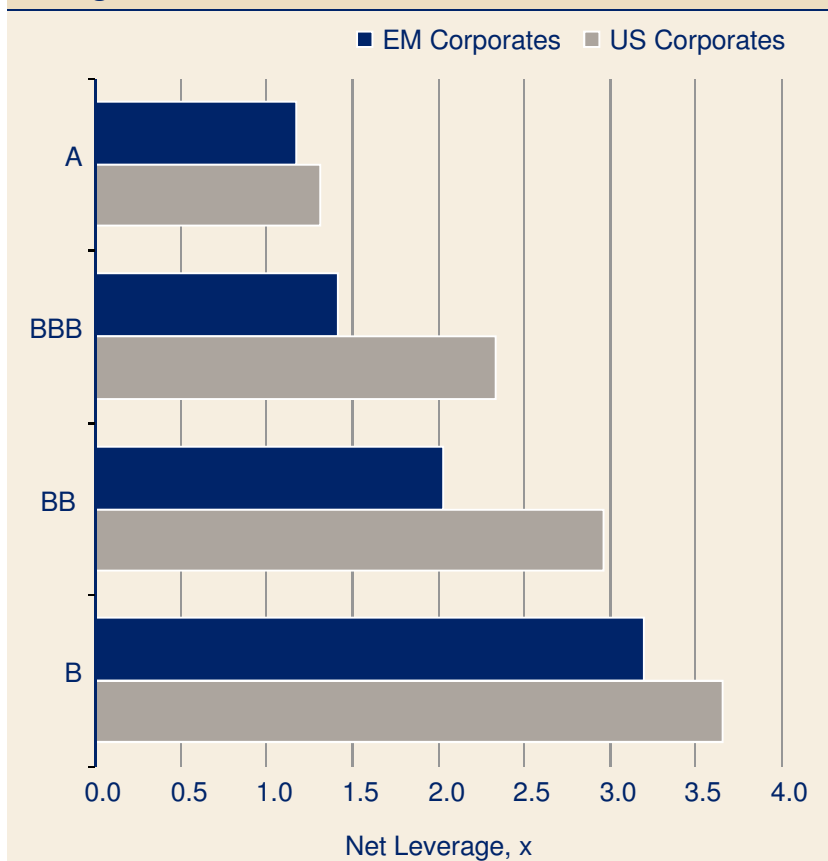
Yet, EM companies have consistently lower default rates...

12 month rolling Speculative grade default rates	Emerging Markets	US	Europe	Global
2011	0.59	1.98	1.60	1.71
2010	1.25	3.29	1.01	2.82
2009	6.17	11.19	8.02	9.52
2008	2.20	4.13	2.63	3.56
2007	0.18	1.00	1.02	0.89

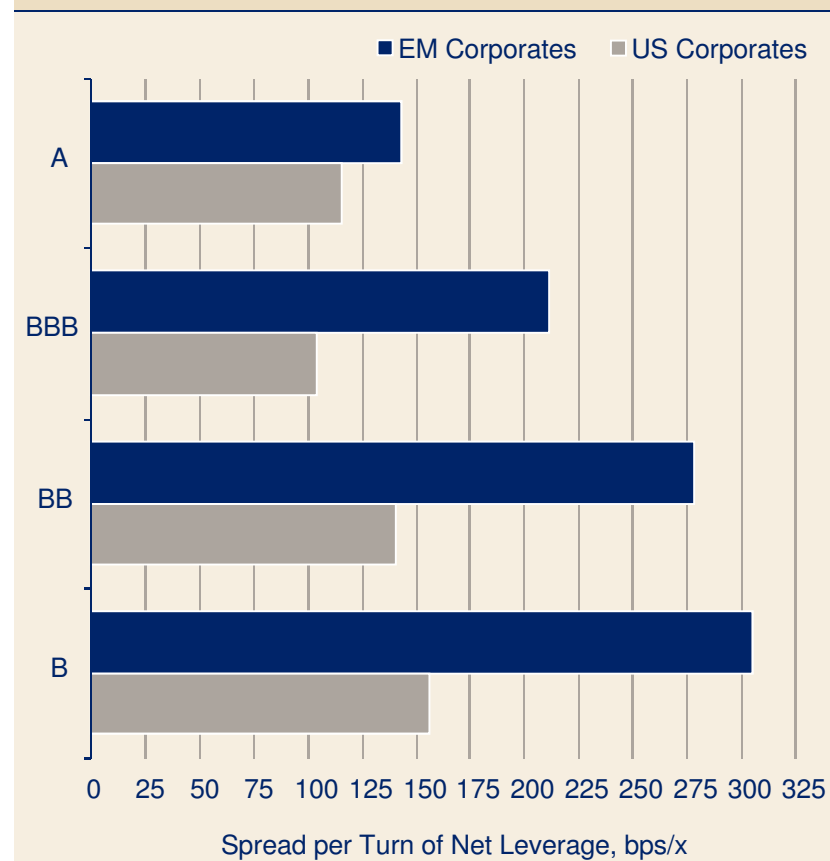
U.S. default rate includes issuers incorporated in U.S. tax havens (for example, Bermuda and Cayman Islands). Europe refers to Austria, Belgium, Bulgaria, Channel Islands, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the U.K. Data through March 31, 2012. Subject to revision. Source: Standard & Poor's CreditPro®, May 2012

... but trades at wider spreads

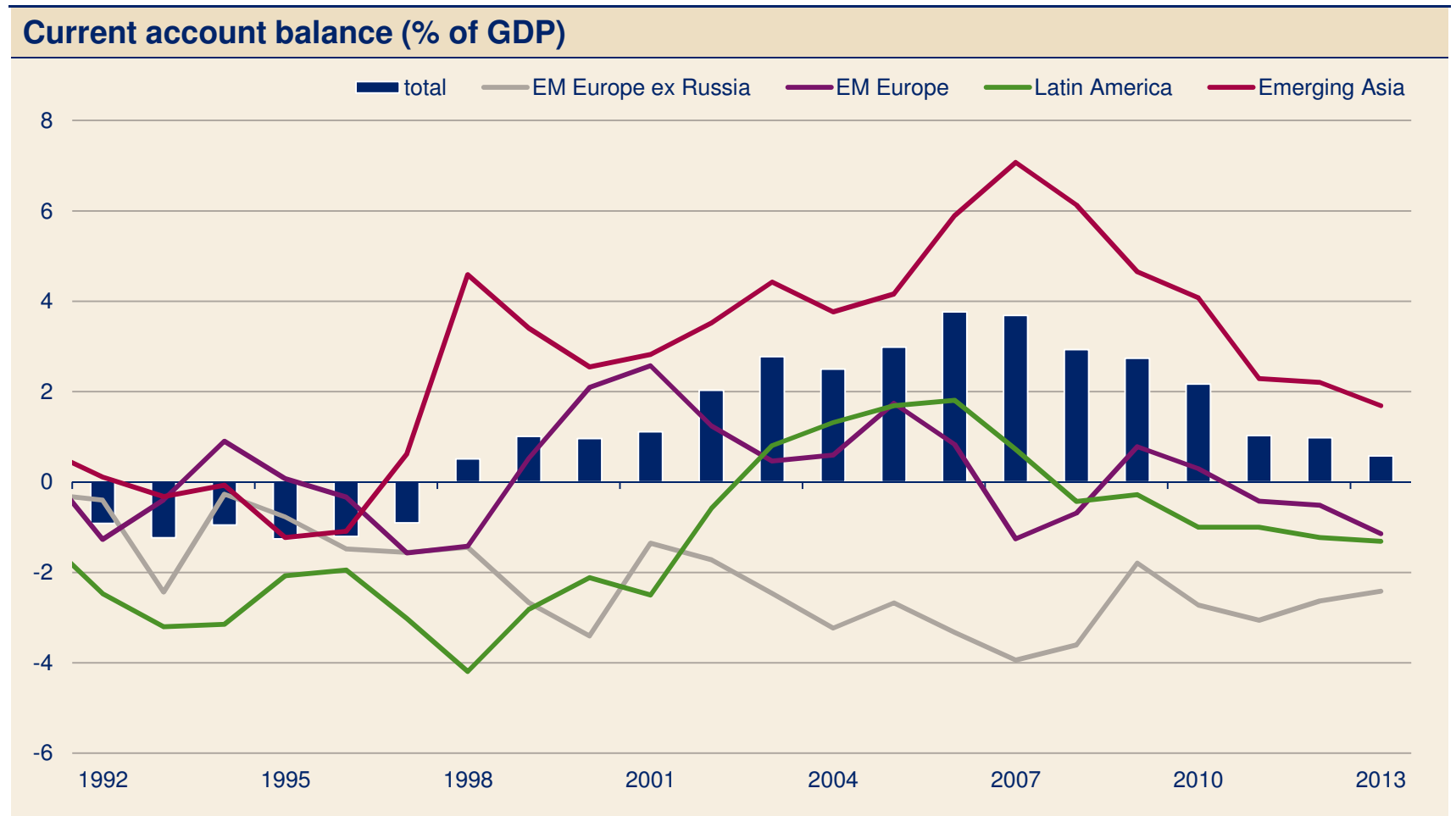
EM corporates have lower leverage in the same ratings buckets ...



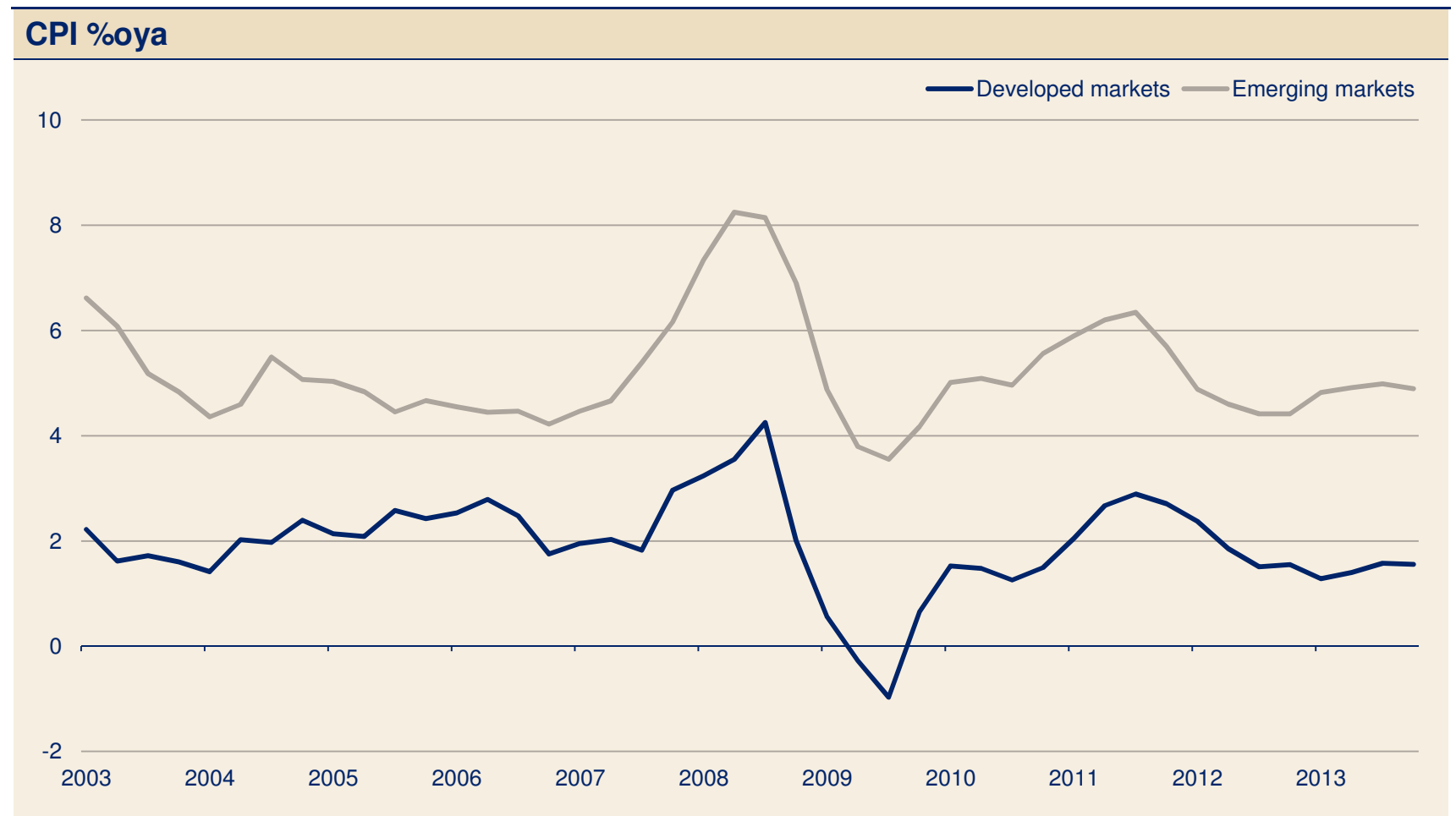
... and wider spreads despite lower leverage



EM countries have maintained current account surpluses for 15 consecutive years



EM inflation has been well-contained and has trended lower after peaking in July last year



Summary

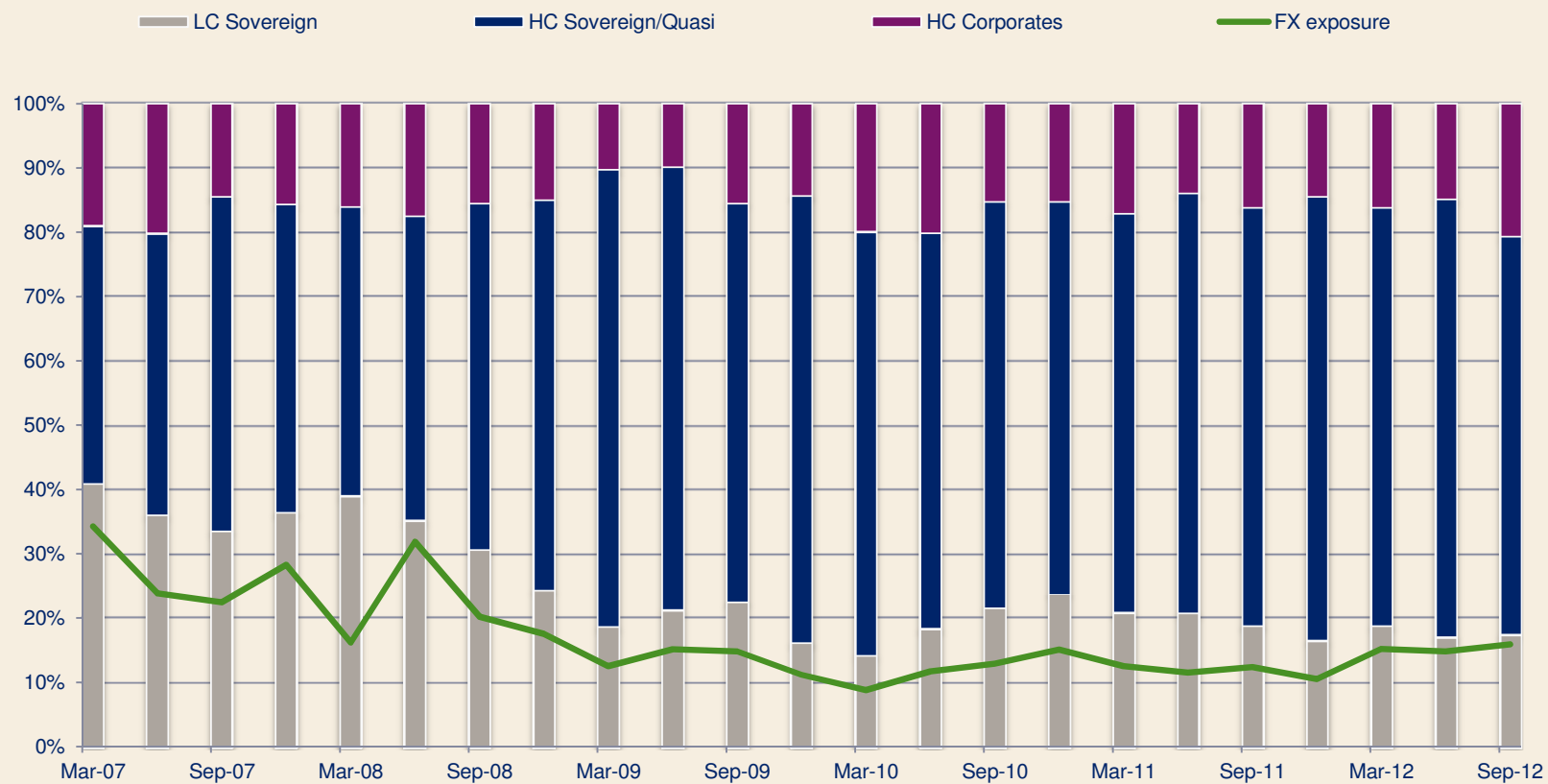
- EMD markets are extremely attractive with better fundamentals and lower default rates
- Perceptions are often counter to this reality in both countries and companies
- This is a rapidly growing asset class which is predominantly investment grade
- Inflows are structural and should remain steady amid search for yield
- EMD offers attractive return opportunities



Appendix

Aberdeen: EMD Plus allocation history

EMD Plus



Important information

- Investors should be aware that past performance is not a guide to future returns, the value of investments and the income from them can fall as well as rise and investors may get back less than the amount invested
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