



# GLOBAL THEMATIC INVESTORS

NEWSLETTER

MARCH 2008

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## Arabia Felix

*It's not just about oil*

Stretching like a curved scimitar from Syria in the north to Morocco in the south-west, the so-called Arab Crescent is a diverse but compelling investment story. The Arab World economies are an important part of the *Emerging Middle Class* theme.

And it's not just about oil. The very values that the West prides itself upon: private ownership, middle class aspirations and growing property ownership are driving this region to a new level of prosperity. Investors are poised to benefit for years to come from strong stock markets, strong currencies – not just from the prospect of strong oil prices.

*Arabia Felix* is the Latin equivalent of the name (*Eudaimon Arabia*) the ancient Greek geographer Ptolemy gave to the land that is now modern Yemen. Whilst owning three-quarters of the world's oil today may indeed be considered fortunate, it was actually the region's relatively fertile land and reliable rainfall that got Ptolemy's attention.

When people talk about “the Arab World”, they think of oil. The BP Statistical Review's most recent number show why:

Region	Billions of barrels of oil	% of total
OPEC	915	76%
Saudi	264	22%
UAE	98	8%
USA	30	3%
UK	4	0.3%
World	1207	100%

(plus the Canadian tar sands of 164 = 1371)

Although the UAE oil reserves are smaller, they're reckoned to last a lot longer owing to the more conservative pump rates. At their present pump rates, the UAE

will pump oil for over 90 years. In fact, UAE and Saudi will both pump longer than people now expect, since the years numbers are based on present pump rates and presently known reserves.

But not all of the “Arab World” is swimming in oil. And “Arab World” is far too simplistic and monolithic a term for a region with hundreds of different ethnic groups, languages and cultures. Iran, for example often lumped in with their neighbours across the Gulf, is not even of homogeneous Arab descent.

The British and other Great Powers tried to simplify things by drawing arbitrary straight lines in the sand, appointing some leaders who'd been to the right kinds of school and imposing closer cultural links. But the Arab World, or “MENA” (Middle East and North Africa) as we'll call it here, has resolutely shrugged off colonialisation. Geographically, politically and economically, MENA is the very opposite of America, the icon of the “free world”. But it's starting to resemble it in some surprising ways. And this is what makes it interesting as an investment area.

Not all of the MENA (Middle East and North Africa) countries have functioning stock markets (Syria doesn't, for one) but the ones that really matter do. Some (like Saudi Arabia) just don't need outside capital and are closed to foreigners as they've been drowning in petrodollars.

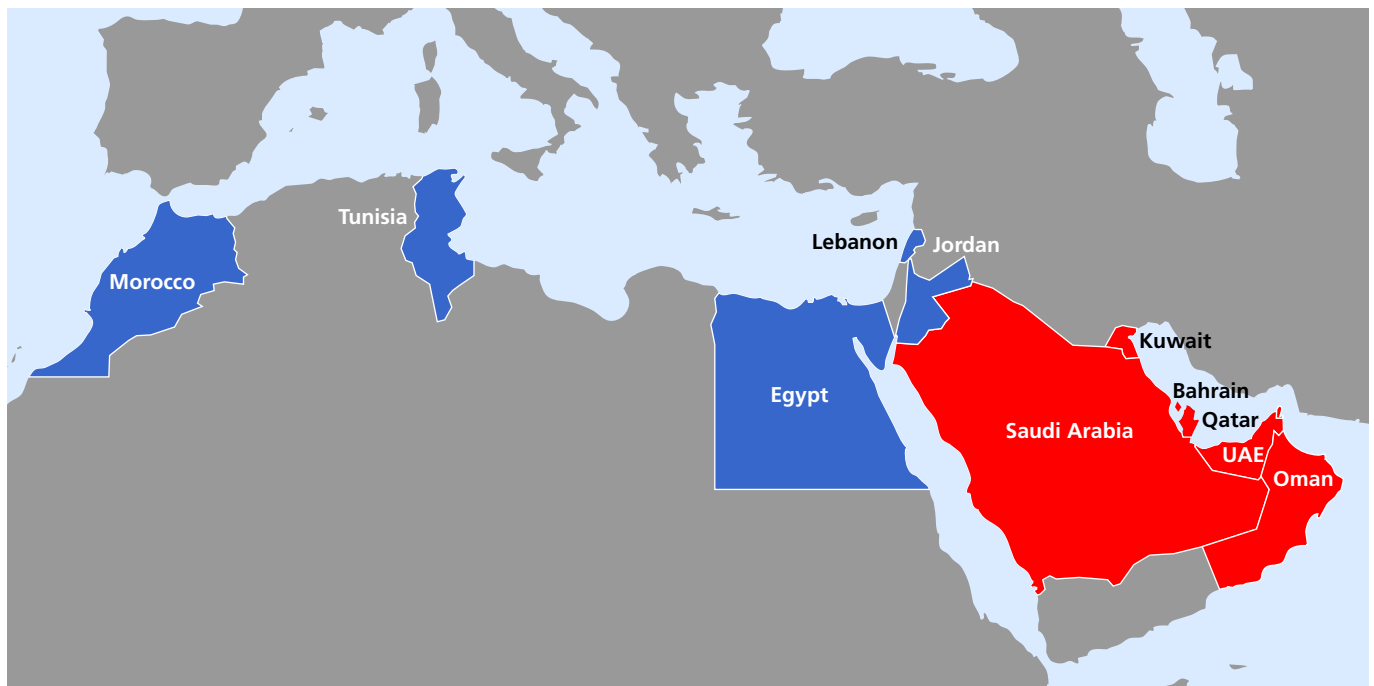
Others (like Qatar and Bahrain) are only partly open to foreigners. But the MENA stock markets that are open provide an almost unrivalled opportunity.

Please forgive our rather broad brush overview, but we see Arabia (MENA) versus America in the following general terms:



Measure	Arabia (MENA)	America
Politics	Authoritarian, non democratic	Federal, democratic
Oil	70% of world reserves	Running out since the 1970s
Current account	Huge surplus (30% GDP)	Huge deficit
Budget	Huge surplus	Huge deficit
Long term GDP	4–10%	2–4%
Consumption % GDP	20–45%	70%
Currency	Currencies busting upwards	USD melting down
Banking system	Massively liquid	Sub Prime Slime
Work force	Young, hungry	Ageing, regulated
Stock markets	Nascent, low correlation	Mature, highly correlated
Earnings per share growth	+20–30%	+5–15%
PER historic	16x	18x
Return on Equity	15–30%	10–20%
Dividend yields	2.0–5.0%	2.0%

### MENA Countries



MENA countries held in fund shown above, with GCC shown in red

The western liberal press may jump up and down about womens' rights, shariah law and authoritarian monarchies, but the fact is that the existing MENA political and economic structures are in general good for business. And whatever their cultural and geopolitical divisions, the two regions – Arabia and America – are joined at the hip via the west's dependence on oil and the necessity to take seriously the most politically incendiary region in the world.

What's most important for GTI investors is that MENA nations are at a point in their history where a young and upwardly mobile middle class – not all of whom are of Arab descent – seek the same privileges as they see in the west. And their leaders – in most cases – realize that they mustn't stand in the way or they'll just be sowing trouble for themselves later on. Western knowledge of MENA countries may have been limited to "One Thousand and One Nights" in the past, but this is all about to change:

### Jazz Age in Jebel Ali

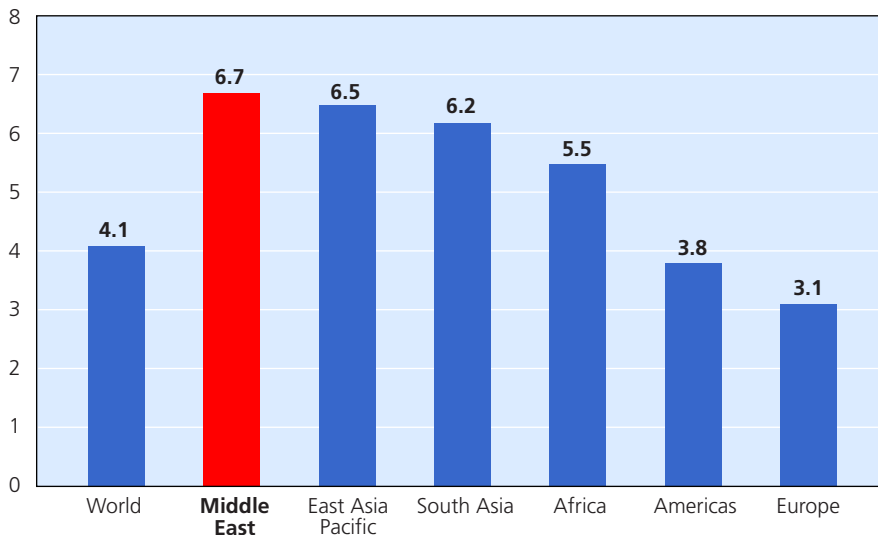
When an economy grows at 20% nominal, yes, a fifth, every year, the effect is palpable. Try and get a taxi on the street. Try and get a table at a good restaurant. Try and find affordable housing. Try and make a meeting in the rush hour. The infrastructure groans. Skyscrapers rush upwards like totem poles, each claiming to dwarf everything else on the planet. Developers cry, "build it and they will come". The effect of seeing a third as many cars on the road every year pours rocket fuel on animal spirits.

The new rich seek solace in the arms of the consumer trappings they've never had before. Visitors to Dubai complain peevishly about the falling standards of living. Locals shrug and tell jokes about the appalling traffic and inconveniences. But everybody feels proud that they're part of something bigger than themselves. It's all very American. It's the Middle East's "Jazz Age". Read F Scott Fitzgerald's books for a glimpse of the energy and (im)morality of the Jazz Age in the '20s. Screw up your eyes and you see Dubai today.

Dubai in 2008 in New York in 1928 – Jay Gatsby meets Jebel Ali.

Jebel Ali was the spark that started it all for Dubai; a deep water port that everyone said could never succeed when Dubai's Ruler Sheikh Rashid decided to build it. There were not enough ships to repair, there was not enough oil to ship, there was not enough economic activity in the Gulf. Wrong, wrong, wrong. Jebel Ali, along with the Great Wall of China and the Hoover Dam, is one of the three man-made objects that can be seen from outer space.

**Estimated Average Annual Growth Rate of Tourist Visitors by Region, 1995 to 2020, (%)**



Source: World Tourism Organisation, 30/01/07

### Huge Investments Planned in Airports to Handle Passengers

Location	Airport	Planned Capacity Million	Investment Planned US\$ Billion
Dubai	Jebel Ali	120	8.2
Saudi Arabia	Jeddah King Abdul Aziz International	50	8.0
Abu Dhabi	Abu Dhabi International	50	7.0
Qatar	Doha International	93	5.5
Dubai	Dubai International	70	4.1
Oman	Muscat Seeb International	12	3.3

If this obvious bubble-in-the-making were selling at 40 times earnings, with Cairo taxi drivers forsaking their day jobs to trade stocks, and Miami hedge fund managers learning Arabic at night school, we'd be pretty worried. But the MENA markets for the most part have escaped these traditional bubble signs. And some have had some bone-shaking bear markets in recent times. So we're pretty relaxed.

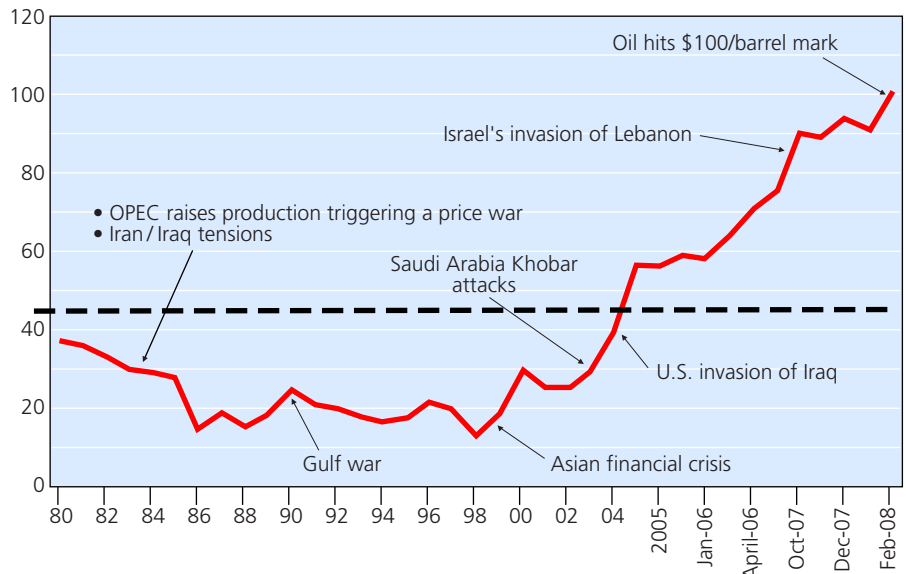
**So what's so mean about MENA?**

The MENA countries control nearly 70% of world oil reserves, 40% of global gas reserves, yet account for only 30% and 10%, respectively, of global oil and gas production. This more or less guarantees a windfall income of up to USD 5 trillion over the next 25 years.

We thank GTI's Middle East adviser, EFG Hermes of Cairo, for much of our data on MENA. EFG is the quality investment banking house in Egypt, having pioneered asset management in the MENA region over the last decade and a half. EFG manages over USD 10 billion and hires smart, western trained Arabs returning to the Arab world to participate in the success story of MENA.

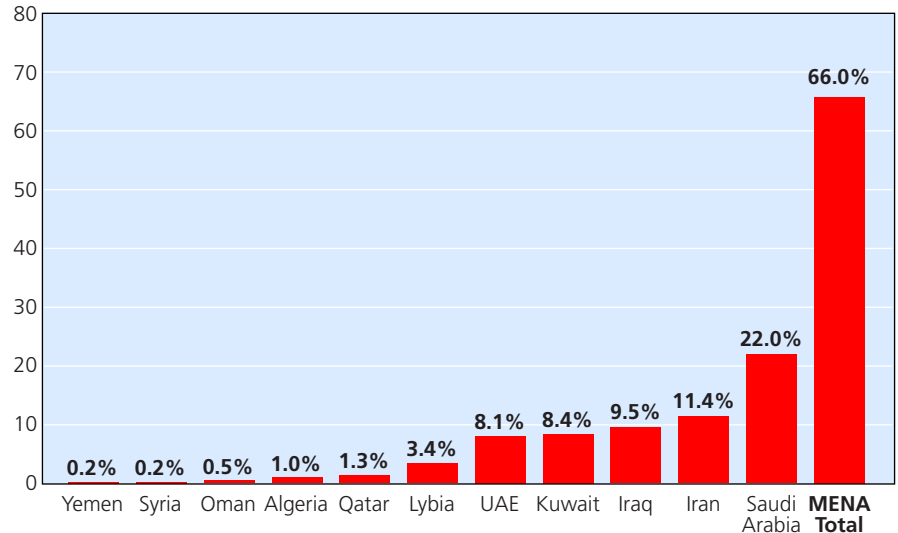
Bruce used to serve on the asset allocation committee of the government of Abu Dhabi (a small emirate of 400,000 people – about the same size as Liverpool – with 8% of the world's oil reserves at its disposal). Bruce tells me that most of the oil that Abu Dhabi has produced comes from the tricky part, the sea. The easy bit – which they're storing up for when they really need it – lies more or less untouched in the easy-to-drill desert expanses behind it. Though they've been frugal managers of their own resources so far, quite a few petrodollars seem to have stuck to Abu Dhabi's fingers already. ADIA's money is only the small change that the Ruler passes down for his country after he's taken his fair share.

**Historical and Projected Oil Prices, 1980–2008, Brent Crude USD per Barrel**



Source: Energy Information Administration, Merrill Lynch, EIU, McKinsey & Co, OPEC Annual Report

**Proven Oil Reserves (% Share of Global)**



Source: Energy Information Administration, Bloomberg, Deutsche Bank, Goldman Sachs

**Sovereign-Wealth funds, USD Billion**

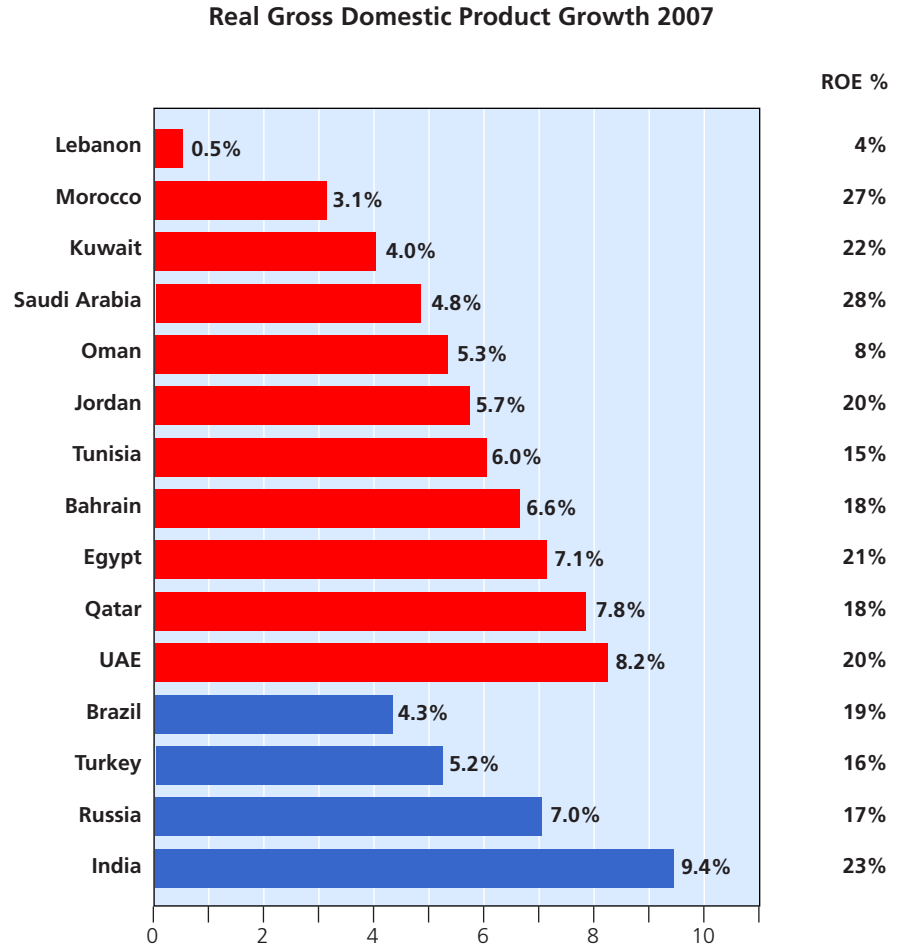
Country	Fund	Assets
UAE	Abu Dhabi Investment Authority	875
Singapore	GIC	330
Saudi Arabia	Saudi Arabian Funds	300
Norway	Government Pension Fund	300
China	State Investment Corporation	300
Singapore	Temasek Holdings	100
Kuwait	Kuwait Investment Authority	70
Qatar	Qatar Investment Authority	70
Australia	Australian Future Fund	40
US (Alaska)	Permanent Fund Corporation	35
Russia	Stabilization Fund	32



MENA growth rivals that of *the* fastest growing economies in the world. MENA is humming along at nearly 7% per annum, versus 6% in South East Asia (China c10%), Eastern Europe by 5% and 4–5% in Latin America. The Sub Saharan African economies (also a large part of GTI’s asset allocation) are growing at the same sprightly pace as MENA. And both MENA and Africa share a similar but vital characteristic.

Economic growth rates quoted by the IMF and OECD – vastly over-rated institutions as record-keepers – are as reliable as banks’ versions of their sub prime exposure. Official numbers grossly understate real growth rates because of the enormous unofficial or “black” economies. What we know for sure is that we’re investing in one of the fastest growing – perhaps the fastest growing – areas of the world. And the Gulf Cooperation Council (GCC) countries – a subset of the MENA countries – are on their own generating current account surpluses of over 30% of GDP.

Energy has contributed to MENA surpluses of nearly USD 600bn between 2005 and 2007, surpluses higher than both China’s and Japan’s. This is the highest official number in all emerging markets. In contrast to previous

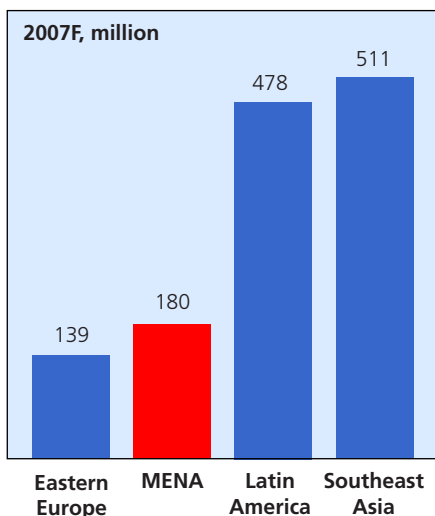


Source: Economist Intelligence Unit, Bloomberg, Deutsche Bank

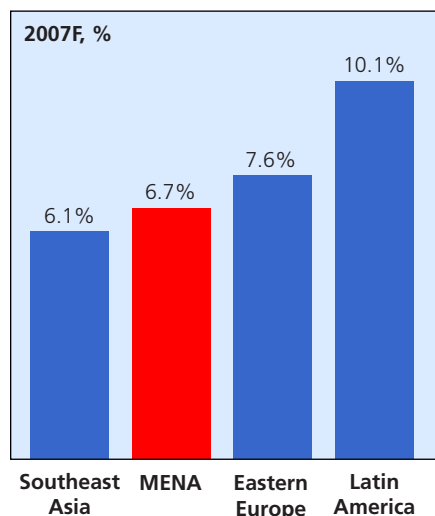
commodity bull cycles, the petrodollars are being put to better use this time round by reducing domestic debt and investing in long term productive

assets. (One might add that the sub prime crisis has also given them a great opportunity to Hoover up some trophy western banking assets on the cheap).

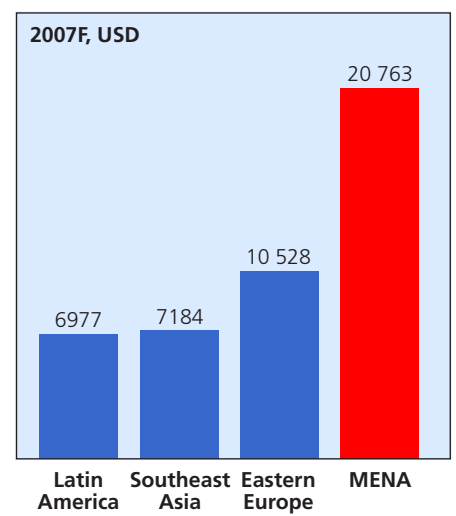
**Population**



**Inflation Rate (CPI)**



**GDP per Capita**



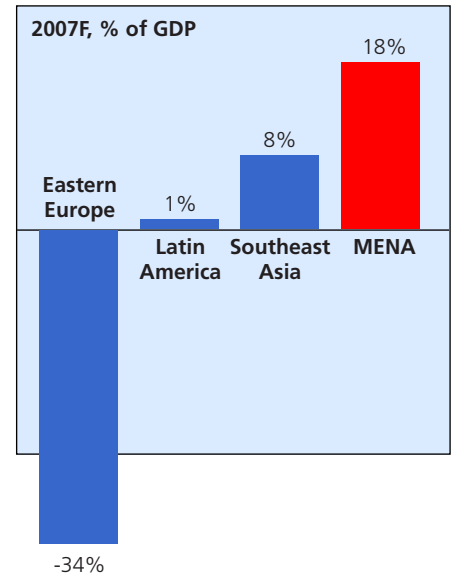
Source: FEG Hermes, Economist Intelligence Unit, Deutsche Bank, Goldman Sachs, CIA

Inward investment in infrastructure and property is driving a diversification out of the hydrocarbon sector. Regional investment in real estate projects is to be about USD 60bn for 2006 to 2008. Both public and private investment is at new highs. This all puts Dirhams and Riyals into the pockets of the Emerging Middle Class. And it also is creating a new generation of “knowledge workers” as the economies move from dependence on oil production to providing the services they increasingly need (banking, IT, communications, property, retail etc).

Inflation has been growing in the MENA zone, though is lower than in many other emerging regions. From

near zero in 2000, GCC inflation is now in the 5–15% range. If it gets out of control, the option remains to bust out of the USD currency pegs favoured by so many of the MENA countries and revalue their currencies, dampening inflation that way. Kuwait did this in May last year. (Norway, another petro-rich country without a currency peg, has hiked rates by 3% in the last two years and seen a near 20% appreciation of its currency against the USD). So we think that a currency revaluation – justified on economic grounds – is in there “for free” in the MENA markets. Currency revaluations would be an added kicker to the USD denominated performance of our investments there.

**Current Account Balance**



Source: EFG Hermes

**Purchasing Power**

The emerging middle class of the MENA countries have real purchasing firepower. Per capita GDP in the GCC should reach USD 63 000 by 2050, which should put it on a par with Japan (USD 69 000), Germany (USD 67 000) and Italy (USD 58 000). Qatar (USD 43 000) and UAE (USD 37 000) are amongst the highest in the world already.

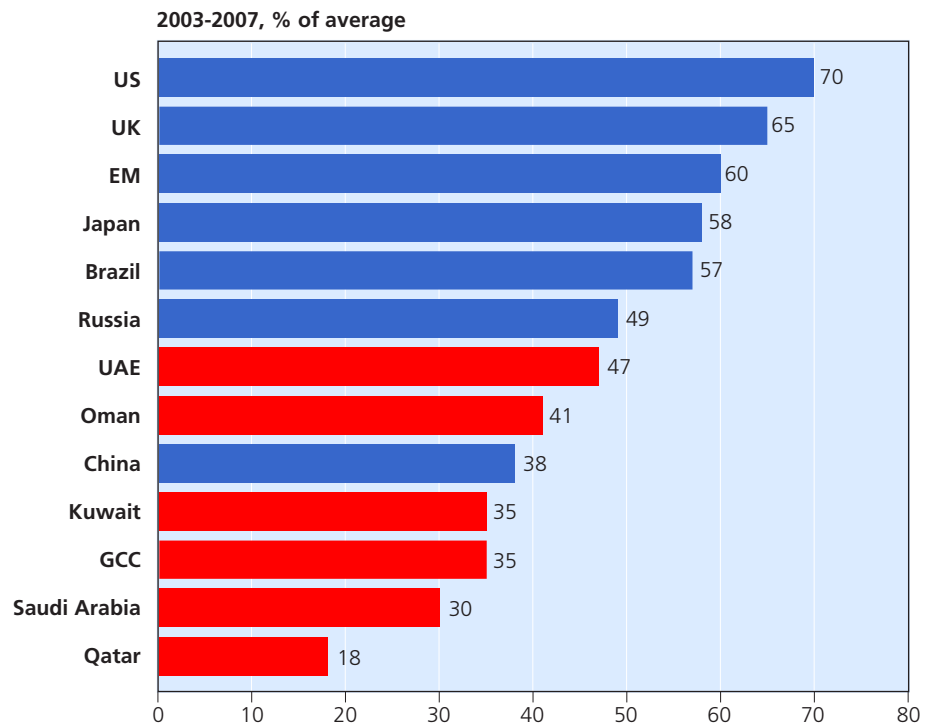
Despite this, private consumption is as yet a small percentage of GDP, so has plenty of room to grow.

Higher growth means higher consumer spending. Normally, this tends to increase imports and put pressure on the current account. Fortunately for MENA, the rest of the world is queuing up at the petrol pumps to buy what they happen to be selling, so they can well afford it.

**Psst. Fancy a Bargain in the Soukh?**

The MENA capital markets nearly everywhere are opening up thanks to the lifting of investment restrictions to foreign investors (eg the Dubai International Finance Center). Governments understand that mature capital mar-

**Private Consumption to GDP**



Source: EFG-Hermes Research, Merrill Lynch, Economist Intelligence Unit

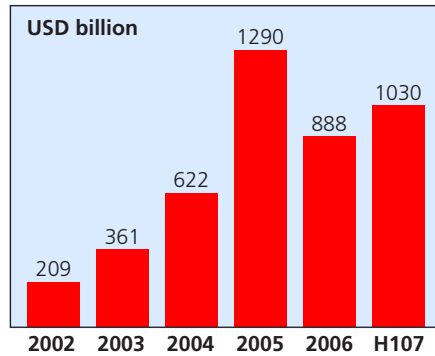
kets are needed in the future in the same way as non-hydrocarbon sources of income. As their middle class emerges, capital is being created domestically that can be harnessed to the benefit of the country.

150 companies in MENA have market caps of over USD 1bn. Six companies out of the FT Global 500 are in the GCC, with Saudi Basic Industries (SABIC) the largest. MENA's daily traded value in 2006 exceeded that of South East Asia, South Africa and Latin America combined.

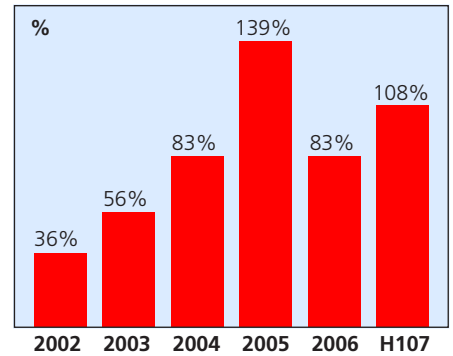
On its own, Saudi Arabia's daily traded value is higher than Brazil, Russia, Turkey or India. It's the most liquid emerging market in the world. By a long way.

So far, foreign access restricted, but GTI has found a way in through its advisers.

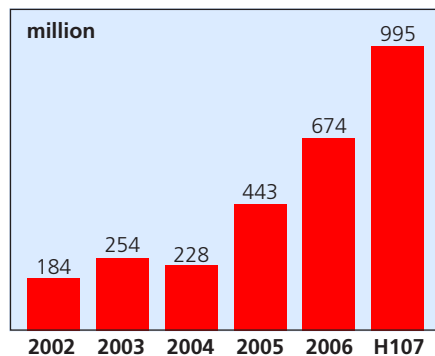
**Market Capitalization**



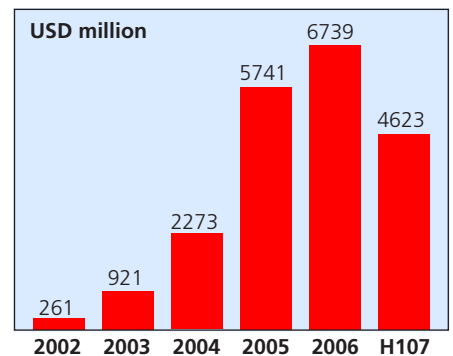
**Market Capitalization/GDP**



**Average Daily Trading Volume**

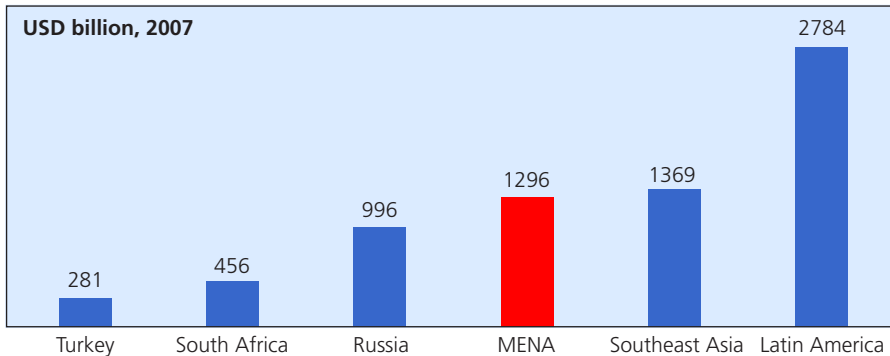


**Average Daily Value Traded**



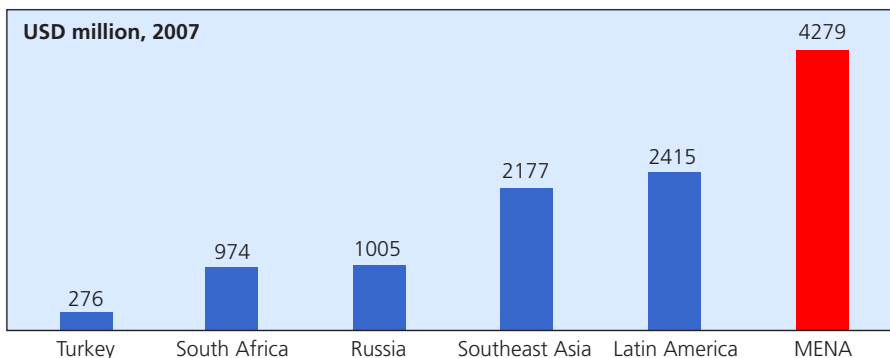
Source: EFG-Hermes Research

**Comparative Market Capitalization**



Source: Bloomberg, HSBC, IMF

**Comparative Average Daily Traded Value**



Source: Bloomberg, HSBC, IMF

**MENA Capital Markets Average Daily Traded Value**

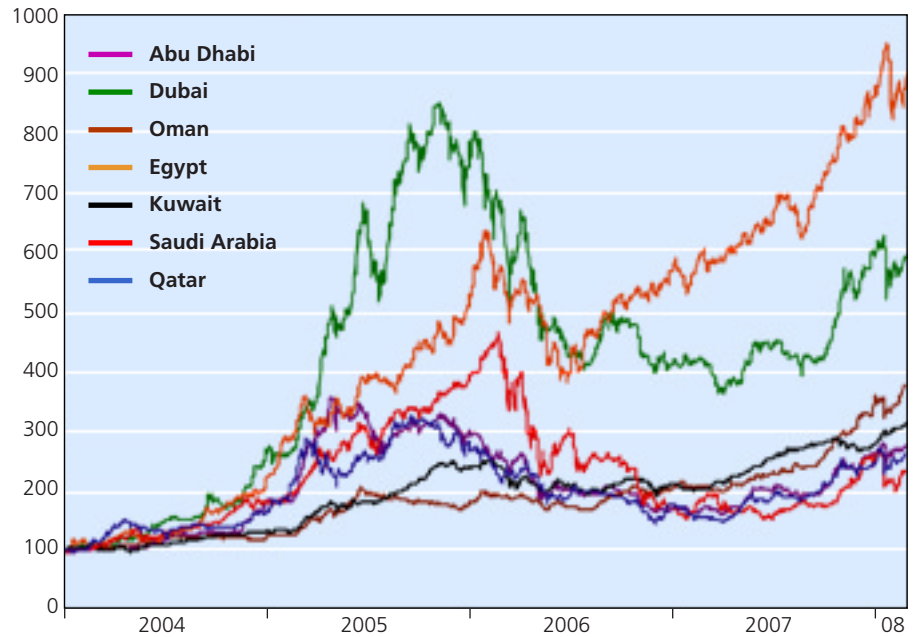
	2007 USD million
Lebanon	4
Morocco	N/R
Kuwait	520
Saudi Arabia	2736
Oman	21
Jordan	61
Tunisia	2
Bahrain	4
Egypt	201
Qatar	121
UAE	608
Brazil	1726
Turkey	745
Russia	2006
India	1080

Source: Economist Intelligence Unit, Bloomberg, Deutsche Bank

In recent times, MENA stock markets have had 3 distinct phases. From 2004 to 2005 a steady period of growth, followed by a blow-off period for some (eg Dubai, Saudi Arabia and Egypt). Then, from 2005 to 2007 a horrible bear market -some falling by a half- as the excesses were wiped out along with the day-trading taxi drivers.

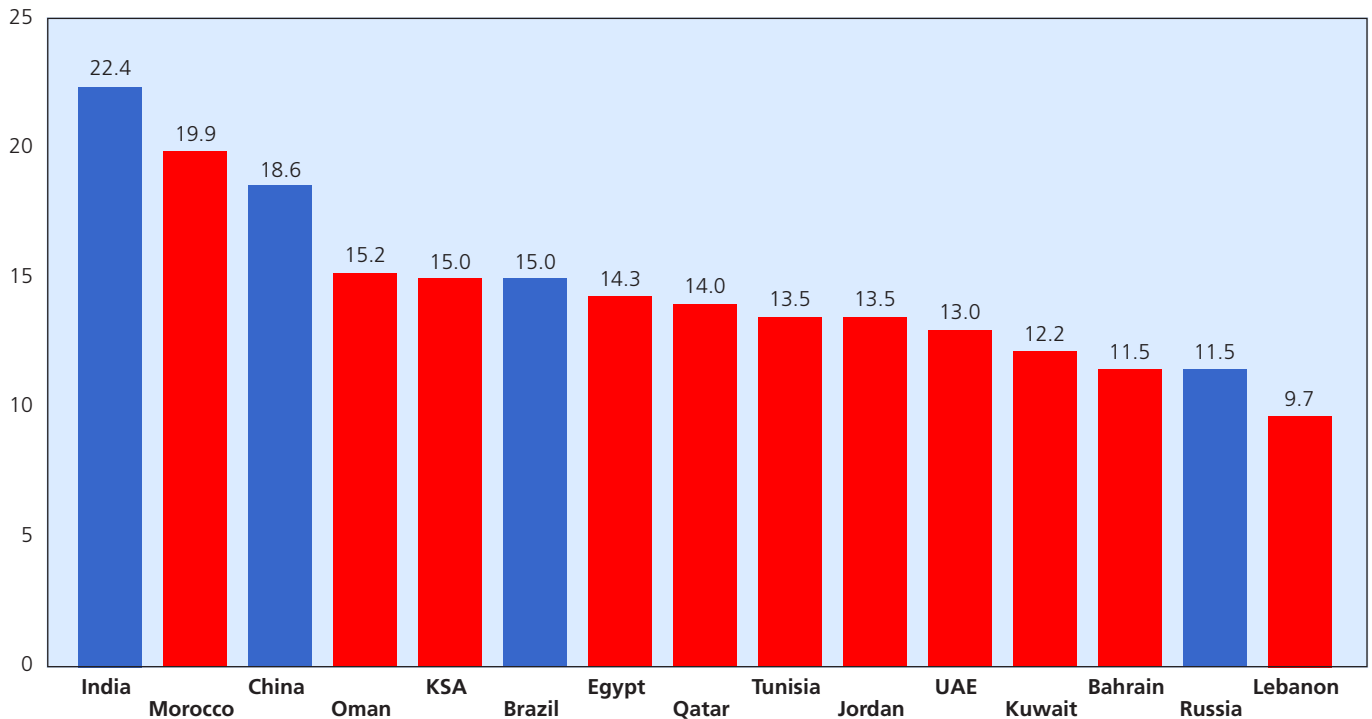
Finally, from 2007 to now, a steadier period and partial recovery (a full recovery in Egypt's case). Domestic retail sentiment remains fairly shaky but there are signs of foreign participation increasing (at least until the recent sub prime related problems).

MENA Market Performance, 2004 – 29/2/08



Source: Bloomberg

MENA Valuations versus BRIC Countries, (P/E)



Source: EFG-Hermes Asset Management, Morgan Stanley

Valuations are reasonable and in the past traded much higher. Given the high ROEs (25%+) and the 2008 earnings growth (20%+), it can be argued that the region should trade at a premium to other emerging markets in the long term. Certain countries (eg Oman) have exceptionally attractive dividend yields; locals in frontier markets often value stock markets in comparison with what they could earn in a bank deposit.

Finally, we asked our advisers for a breakdown of the holdings in the fund, and they came up with this table:

#### MEDA Fund Country Allocation

Country	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Feb-08
Egypt	16.0%	30.9%	34.2%	29.4%	23.6%	22.5%
Morocco	8.8%	12.8%	1.3%	0.0%	1.0%	1.1%
Lebanon	0.0%	0.0%	11.8%	7.0%	0.0%	0.0%
Tunisia	5.1%	5.4%	0.6%	1.0%	0.0%	0.0%
Jordan	5.4%	2.1%	0.0%	0.0%	3.2%	1.8%
<b>Non-GCC</b>	<b>35.3%</b>	<b>51.2%</b>	<b>47.9%</b>	<b>37.4%</b>	<b>27.8%</b>	<b>25.4%</b>
Kuwait	8.3%	11.0%	30.7%	16.1%	8.0%	17.7%
Oman	16.5%	14.1%	8.0%	6.4%	6.2%	5.1%
Bahrain	18.5%	12.5%	6.2%	9.5%	0.0%	0.0%
Qatar	9.1%	6.7%	3.1%	9.0%	10.8%	13.2%
UAE	5.6%	0.0%	0.0%	10.3%	22.0%	23.0%
Saudi Arabia	0.0%	0.0%	0.0%	0.0%	22.8%	14.8%
<b>GCC</b>	<b>58.0%</b>	<b>44.3%</b>	<b>48.0%</b>	<b>51.3%</b>	<b>69.8%</b>	<b>73.8%</b>
Total Exposure	93.3%	95.5%	95.9%	88.7%	97.6%	99.2%
<b>Average Exposure</b>	<b>88.0%</b>	<b>92.3%</b>	<b>95.1%</b>	<b>93.6%</b>	<b>94.2%</b>	<b>95.0%</b>

The fund GTI uses seems to be trading on valuations 30% lower than the market as a whole and to have a much more favourable PEG (price to earnings growth) ratio. As value investors who love a good growth story, we hope it'll provide great returns for years to come.

Inshallah.

# So What Does the Rest of 2008 Hold for GTI?

*You've got the time if we've got the money*

*"History shows that time, not timing, is the key to investment success. Therefore, the best time to buy stocks is when you have money."*

*Sir John Templeton*

*"To buy when others are despondently selling and to sell when others are greedily buying requires the greatest fortitude and pays the greatest reward."*

*Sir John Templeton*

2007 was the "Year of Sub Prime Slime". January 2008 was its apotheosis. Many stock markets fell by nearly 10%, some a lot more. So much has been written about this worldwide, from China to Chattanooga, that we'll keep it short.

Central Banks moved to support the financial system, fearful of the economic contagion from Wall Street to Main Street. They did so at a deathly pace that sent markets into a tail spin in January. We were surprised that Central Banks "didn't get it" and delayed their response in the face of the meltdown. This meant we didn't take as much avoiding action as we might have liked.

The good news – and it is *very* good news – is that valuations have become much more attractive – even *extremely* attractive – in almost all GTI areas. Stand-outs are: small cap gold shares, some oils, Japan, selective Asian countries (eg Taiwan and Thailand), selective financials, biotech, water stocks and real estate. Investor sentiment in many major markets is at a 20 year low and this – coupled with good value and insider and M&A buying – is almost invariably followed by a good period for equity markets.

But there's no "quick fix" after the technical damage to stock markets of the last six months. And Central Banks are key. Provided the financial sectors in OECD hold up, and they are being

sorely tested at the moment, we can look forward to good equity markets for some time to come.

The longer term effect of "Sub Prime Slime" may be to have lengthened the bull equity cycle (in June, markets were looking for 6% yields on USD paper; now they face the prospect of 1 to 2%). A failure by Central Banks to calm financial markets by meeting the challenges arising from Sub Prime is our biggest fear for 2008. We – and financial markets worldwide – will review their success closely.

We also understand that it's not the known risks – and Sub Prime is nothing if not well known – that shock investors, but, rather, the banana skins that trip you up. So, with an appropriate sense of humility, we look forward to 2008 and beyond. *Basta* Sub Prime. This too shall pass.

## **Now for the boring bit that can actually make you a lot of money**

Amidst the collapse of global stock markets, we're going to irritate our readers by writing about the single most important subject in equity investing.

It's infinitely more important, subtle and – yes – boring than the sound bites of the financial press: more vital to understand than the stock markets themselves, more meaningful than the opinions of the talking heads on CNN and CNBC, more transparent than the ruminations of the Fed, more powerful than the latest bank failure, more wealth-creating than hot stock tips or cold fusion. Sadly, it gets all too little coverage. It's too slow in creating its effects. But it's the very key to investment success in global equities. That is what GTI is all about. On the edge of your seat yet? The answer is "Time", boring, no? Hardly. Please bear with us.

Opinion divides as to whether Albert Einstein or Benjamin Franklin said that compound interest was "the

eighth wonder of the world". Compound interest – the mathematical rule that creates fortunes for investors provided they reinvest the income from capital over a long period of time – is simply the result of letting "Time" help you get rich.

## **Hard proof**

Let's test this thesis of Sir John's. Let's show a few examples of what he means.

Our Nordic region advisers, Nils-Odd Tonnevold and Richard Stott of Connectum in Oslo, point out the futility of timing equity markets and trading your way to success. Studies show – this is an astounding fact – that under 20% of traders make money over time. Which means that 80% end up losing it. What follows will not make your broker happy, but it should help you make money by avoid the emotional banana skins of equity investing. Nils and Richard write:

*"Looking at the UK FTSE All-Share Index over the period January 1986 till December 2006 shows the value of ignoring the media and staying invested in the markets through the bad as well as the good times. If you had been invested throughout that period your annual return would have been 11.74% – a nice return to have. If you missed the single best day (and those sorts of days usually come immediately after some of the worst periods) your return would have been only 11.44%. Taking things a bit further, missing the five best days would have meant your return would be down to 10.4% and missing the best 25 days would have reduced your return down to 6.72% by which time you would have been better off owning short-term government bonds! It would seem that when it comes to stock market investing, inactivity really is your friend.*

*Despite the sensible, logical advice of your favourite wealth manager, watching*

*a falling stock market can still be difficult to bear psychologically, particularly over an extended period. Yet again however the benefits of staying disciplined and remaining in the markets become clear if we look at a few examples. Again using data from the UK we look at three well known market downturns and then compare them to the subsequent periods. We will show what happened to investors who were 100% invested in the stock market and those who had a more balanced portfolio of 60% in shares and 40% in bonds.*

**EXAMPLE 1****The Crash of 1973–1974**

	Annualized Return (%)
<b>Downturn</b>	
<i>January 1973–December 1974</i>	
100% Equity	– 29.5%
60% Equity, 40% Bonds	– 13.3%
<b>Next 2 Years</b>	
<i>January 1975–December 1976</i>	
100% Equity	+ 56.0%
60% Equity, 40% Bonds	+ 39.1%

*The economic problems of the mid 70's definitely had a major short-term effect on stock market returns but yet again long-term investors were rewarded for their patience by enjoying significant returns in the following years that more than compensated them for the previous falls in the market.*

**EXAMPLE 2****Black Monday (1987)**

	Annualized Return (%)
<b>Downturn</b>	
<i>January 1987–December 1987</i>	
100% Equity	– 0.7%
60% Equity, 40% Bonds	+ 3.5%
<b>Next 2 Years</b>	
<i>January 1988–December 1989</i>	
100% Equity	+ 27.4%
60% Equity, 40% Bonds	+ 21.5%

*1987 was not nearly the “catastrophe” that many would have you believe for stock market investors but those who were scared out of the market by Black Monday failed to enjoy the benefits of the substantial gains enjoyed by those who kept their money in the markets.*

*Our last example is not too distant to most investors' memories centring on the bursting of the internet bubble in 2000.*

**EXAMPLE 3****The Tech Wreck (2000-2002)**

	Annualized Return (%)
<b>Downturn</b>	
<i>January 2000–December 2002</i>	
100% Equity	– 15.4%
60% Equity, 40% Bonds	– 7.2%
<b>Next 2 Years</b>	
<i>January 2003–December 2004</i>	
100% Equity	+ 15.2%
60% Equity, 40% Bonds	+ 10.8%

*Yet again the long-term benefits of staying in the markets are shown.*

*These scenarios repeat themselves time and again in the investment world and we have to battle our emotions to achieve the best results for our investments. These examples also show the benefits of owning a portfolio diversified into a number of different types of investments. During strong downturns, diversified portfolios help protect against significant loss of value and make it easier to view extreme movements in stock markets with a sense of detachment.*

*We don't know when the current uncertainty and fear will disappear from markets but we know from experience that well diversified portfolios which maintain their exposure to stock markets through both the good and bad times provide their owners with the best possible chance of achieving their financial goals”.*

Quite. Thank you, Nils and Richard.

Traders – remember that 80% of them fail over time<sup>1</sup> – who still question the magical and mathematically proven power of time have to ask themselves some hard questions. Is their need to “trade” equities in some way linked to a psychological need to be active rather than a conviction that active trading is the best way to go? Is there somewhere in the human psyche a masochistic reflex or deep-seated desire to fail that can not suppress itself even where one’s own money is involved?

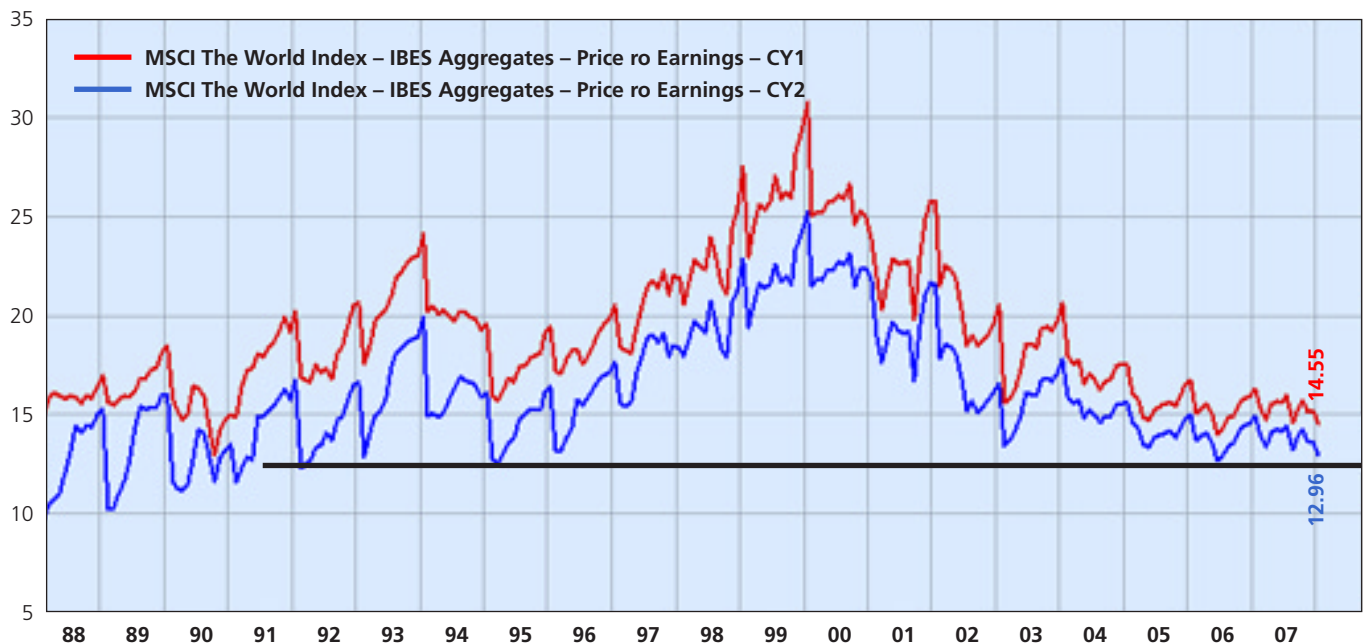
### What did we do in GTI? We kept perfectly still.

We made few changes to the GTI portfolio over the last quarter. As the black news of sub prime and the endless pundits dominated the media, we repeated our mantra “If you must panic, panic early / be a fast sheep, but don’t ever be a slow one”. One change we did make was to try and mitigate the risk of a Wall Street panic by further diversifying the portfolio away from the Wall Street “leash effect” and toward markets correlating less highly with the developed world. We first stuck our toe in the

water and then got well immersed in the new Arab World fund we’ve bought. It’s now one of the largest position in our portfolio.

We and most of the GTI advisers, as you will read, find the business background full of promise. Most find the markets excellent value once again. The overwhelming majority at Davos World Economic Forum – the titans of industry rather than the shell-shocked leaders of finance – said the same thing. Here are some recent metrics for equities:

### Unlike in 2000, Global Equity Markets Are Not Expensive



Source: GaveKal Research

The worm that remains to turn is the technical deterioration of world stock markets caused by the last 6 months’ of bear market. Once financials steady and stock markets form sustainable bases, we believe good times will return. This could take 6 days, 6 weeks or 6 months. We just don’t know. But time is your friend ... and emotion is your enemy.

### GTI advisers positive but we need at least one quarter in the recovery room

The last time we wrote the GTI newsletter, we spoke of bubbles in Asia.

How quickly the world changes. Those bubbles are a thing of the past now. The dramatic falls of the last 6 months have probably had the effect of prolonging this equity bull cycle.

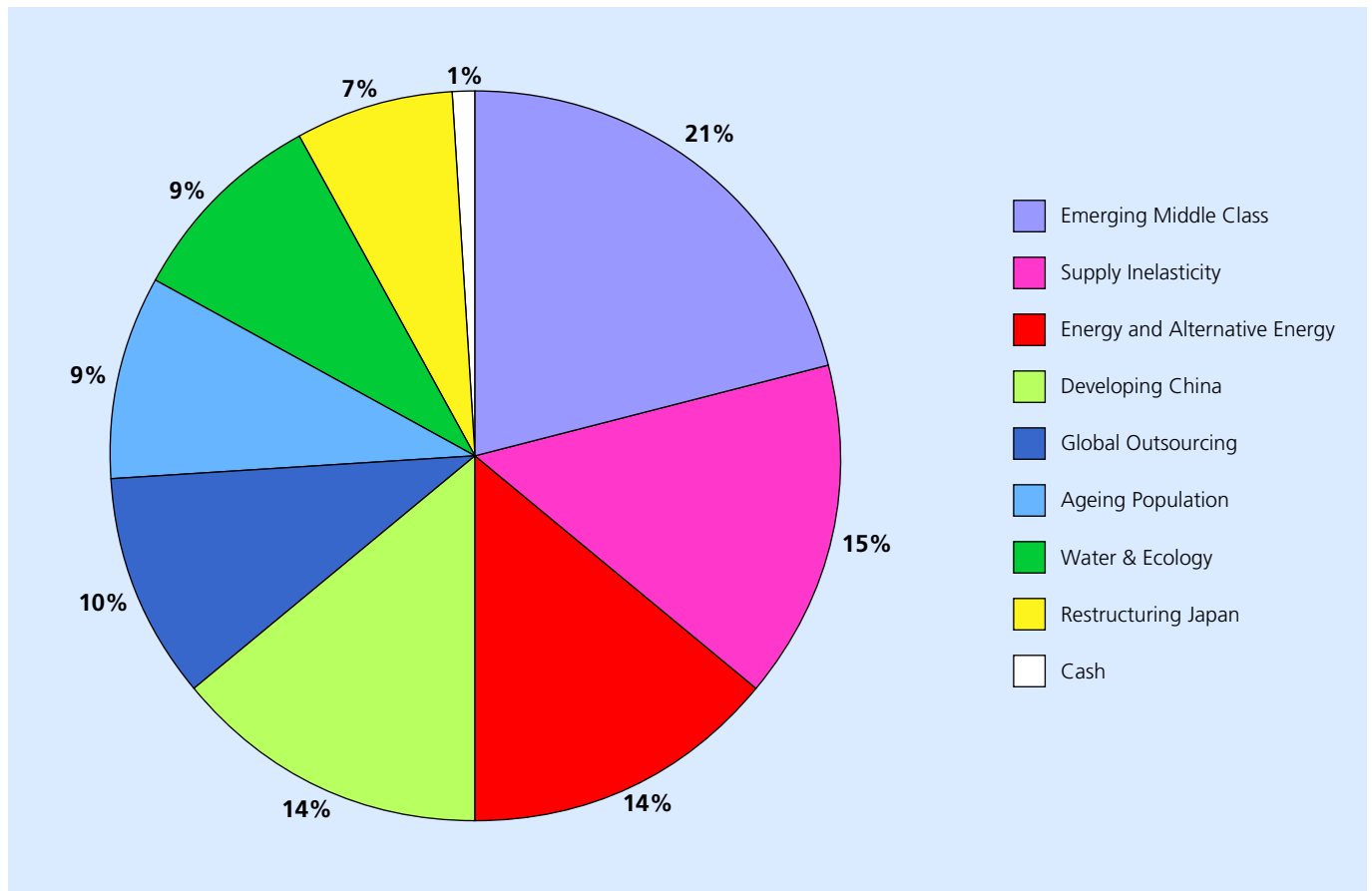
Some of the GTI themes continue to disappoint from a stock market point of view, and we continue to under-own them. *Ageing Population* and *Restructuring Japan* are two of these. Both are good value and are under owned. The GTI advisers remain astonished by the lack of interest in their areas. But that’s not enough to draw us in.

Our big bets are still in the “Scarcity” themes in the portfolio (*Energy*

and *Alternative Energy* and *Supply Inelasticity*). We thought about increasing the underweight in the *Restructuring Japan* theme, but we think it’s too late to sell at this stage. In fact, we will look for a pick up in the Japanese financials index in order to increase the theme as a whole. *Emerging Middle Class* is now the elephant in the GTI room, owing to our addition of the MENA adviser.

<sup>1</sup> “Do Individual Day Traders Make Money?” Barber, Lee, Liu and Odean, University of California, Berkeley, May 2004

Here’s our current GTI thematic allocation, which shows us pretty well fully invested:



### And here’s our USD performance

in balanced accounts, audited by Horwath International of Zurich for 2003, 2004 and 2005:

<b>GTI</b>	<b>2003 (4Q+)</b>	<b>+ 23.6%</b>
<b>GTI</b>	<b>2004</b>	<b>+ 18.6%</b>
<b>GTI</b>	<b>2005</b>	<b>+ 19.8%</b>
<b>GTI</b>	<b>2006</b>	<b>+ 20.1% (unaudited)</b>
<b>GTI</b>	<b>2007</b>	<b>+ 20.6% (unaudited)</b>

Our lawyers say we can’t tell you more about the fund aspect of GTI, but if anyone is curious as to how to invest in GTI, they can contact Iain Little on [iain.little@butterfield.ch](mailto:iain.little@butterfield.ch). The P&C GTI Fund was amongst the best performing funds in the world in its area (global equities funds of funds) in 2007, but we are not allowed to tell you more than this.

# Why We Invest According to Global Themes

*The investment rationale for Global Thematic investing is simple.*

In a free global marketplace capital tends to flow to sectors where long term growth rates – and hence returns – are more attractive than the average. This capital – whether of a private or public sector sort – bids up prices of assets in these sectors and creates “sustainability” of growth. As investment managers, it’s our role to “allocate capital” (Warren Buffett’s hallmark phrase) to where the best potential returns (and lowest prices and risks) are available. Pricing is important; “overpaying” for assets is always dangerous. The same theme may be “played” at one stage of the cycle through one fund<sup>2</sup>, then at another stage through another, depending on the attractions of the specialist sector. Robust long term global themes may remain a powerful way to make money for decades, whilst the funds chosen to “play” them may be – though do not *have* to be – different at different times.

**Our eight winning global themes that are shaping our economic and investment lives are:**

**GTI The restructuring of Japan**

**GTI Supply inelasticity in commodities**

**GTI Energy and alternative energy**

**GTI The emerging middle-class**

**GTI Global outsourcing and internet hub**

**GTI Ageing population**

**GTI The development of China**

**GTI Water shortages and ecology**

**When the facts change, as Keynes said, we’ll change our mind on some of these eight themes, but our best guess is that we may be retired long before we do.**

**GTI investment advisers all share five distinguishing characteristics:**

## 1. Investment edge

The best managers have an “edge” in their chosen market. It doesn’t particularly matter what it is, as long as they’ve got it.

## 2. Research

The best managers are research – and not marketing – intensive.

## 3. Good performance in a bad market

Good friends are staunch in bad times. Good managers do better than the crowd in bad times. Road-holding on slippery corners is important for cars.

## 4. A good idea at a good price

Great managers – like great generals – usually have the “luck” to be in the right place at the right time. We require that they understand that the good idea must also be attractively priced.

## 5. People, people, people

Venture capitalists usually seek companies run by people who are serial successes in the same field over many years. Investment adviser selectors should do the same. The best of them have excellent ego-control despite their success.

<sup>2</sup> Although we refer to “funds” and “managers” in this paper we may use direct shareholdings if appropriate funds do not exist. These directly held shares will be screened using our proprietary ISN system for their correlation to particular themes and factors to ensure efficient portfolio management.

# Restructuring Japan

*Haikus are tricky  
Like Tokyo market meltdown  
Just as snow on wall*

## News from our advisers

*Our principal specialist Japan adviser – a mid and small cap value manager – wrote to us at the end of December:*

*TOPIX fell 3.7% in December and 12% over the year, making it the worst performing major market in 2007. With our mainly domestic portfolio we were fortunate to be roughly in line with TOPIX given the pronounced weakness in the smaller indices and the falls in various sectors such as warehousing and real estate of 20%, construction of 23%, banking of 28% and other financials of 39%. As with other global markets, the strength was in commodity stocks and cyclicals, such as shipping. In addition to the international credit crisis, investor sentiment has been knocked by lack of progress by shareholder activists, by political uncertainty following the LDP's defeat in the upper house elections and by greater regulation in certain industries, notably consumer finance and housing.*

Topix Japan Banks Index



Source: [www.fullermoney.com](http://www.fullermoney.com)

**This adviser's USD performance** numbers since their fund's inception in 4/8/99, acquired in the teeth of a horrible Japanese bear market are:

	2007	Since inception
Adviser performance	- 6.2%	+ 82.2%
TOPIX Index	- 6.4%	+ 3.5%
Nikkei 225	- 5.2%	- 11.4%

**GTI comment:** We were not encouraged by our Adviser's recent negative remarks about poison pills, but this month's comment describes a stronger corporate outlook. In addition, we feared that the Japanese government's crass policies might prevent our theme playing out. But this report makes us think again. The valuation argument relative to bond yields is compelling. We are looking to increase this theme and will pick our moment, which will be dependent on the Japanese banks index picking up. There is no sign of it happening yet. We'll keep this under review.

*The dire short term consequences of the new Building Standards Law introduced in June have finally led to the Cabinet Office cutting its growth forecasts to March 2008 to 1.3% from 2.1%. Consumption has remained weak as consumers face higher food and energy prices, but retail sales in November were 1.6% up on the year. Wages are stagnant but there is some talk from the Keidanren of allowing basic salaries to rise in the spring. The employment picture is still fairly healthy as the unemployment rate improved marginally to 3.8% in November, although the job offers-to-applicants ratio fell below one for the first time in almost two years. Housing and construction data for November were better than expected and suggest that the worst is over but the process of recovery may still take some time. Nationwide CPI rose 0.6% year on year and core ex food 0.4%: the fastest growth for 10 years!*

*News generally remains good on the corporate front. A record 235 firms bought back shares in November and, as a result of the large number of buybacks during the year, the stock of equity shrank for the first time since 2003. The number of takeover bids increased to over 100 in 2007 from 65 in 2006 with the average bid fetching a 30% premium over market price. This month TPG, the US buyout fund, invested \$270m into troubled **NIS**, a consumer finance company. **Daiwa House**, Japan's second largest house builder, is in talks to buy a third of **Odakyu Construction**, demonstrating the opportunities for financially strong companies. On the negative side, the Financial Services Agency issued a business improvement order to **Japan Securities Finance** for overcharging on shares lent for margin trading.*

*The risk-reward looks enticing as Japanese equity valuations are at their lowest in 25 years in terms of earnings and relative to bonds are the cheapest ever. Almost 50% of TOPIX now trades below book value. As we noted in the last newsletter, the dividend yield on TOPIX is higher than 10 year bond yields, an event that has previously proved short lived and led to sharp rallies. Whilst foreigners are downbeat, it could be significant that domestic pension funds through the trust banks have been buyers for seven consecutive weeks and individuals are net buyers once again.*

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# Supply Inelasticity

Gold due to correct

## News from our advisers

*Our principal specialist commodities advisers wrote at the end of December:*

The previous gold price high of US\$850/oz set in 1980 was taken out early in the New Year by a freshly invigorated market. Despite having set a new record in nominal terms, gold needs to break through the US\$2,000/oz mark before it can be considered to have achieved a new high in inflation-adjusted terms. Gold's credentials are solid and there is scope for further price rises. The launch of China's first gold futures contract in early January strengthens the already bullish investment case. While there is potential for a short-term pull-back we fully anticipate the gold price pushing through at least the US\$1,000/oz barrier before year-end.

There were 2 main issues ... in 2007. Cost inflation was rampant, which placed undue pressure on margins. Second, the global credit crunch and resulting financial crisis had a particularly negative impact on the emerging producer sector to which the fund has significant exposure.

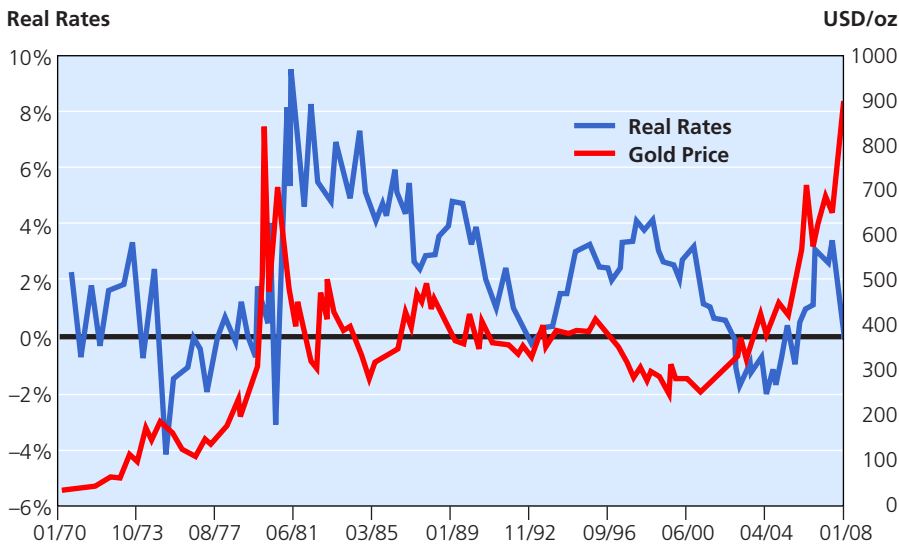
The market is currently not looking beyond the current credit crisis and until it does there is likely to be a short term preference for the larger capitalisation gold equities. Our fundamental value-based approach suggests that the emerging gold producers remain undervalued and ... the intermediate and emerging producers stand to out-perform significantly at some point. The re-rating, when it comes, will be sudden and we plan to be suitably invested in the emerging sector during 2008.

This adviser's USD performance numbers since their fund's inception in 1/4/03 are:

	Year-to-date (end 1/08)	2007	Since inception
Adviser performance	+2.4%	+16.1%	+337.0%
FTSE Gold Mines Index	+9.9%	+21.0%	+191.0%
Gold Bullion	+11.0%	+31.0%	+174.4%

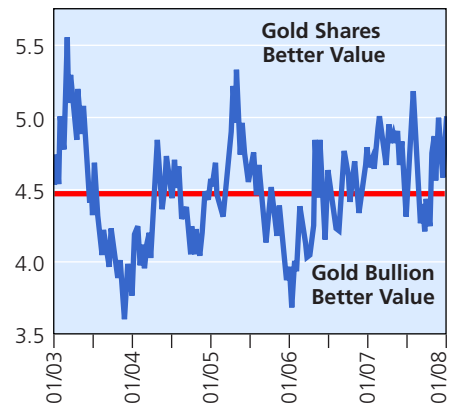
**GTI comment:** Small cap gold stocks, in which the adviser is a recognized expert, and in which we have most of our gold exposure, have massively underperformed both large cap golds and gold itself in the last year or so. Since we expect gold to correct sometime soon (Platinum's recent correction may be a clue to a coming correction in gold and silver), the question is whether we should lighten up an underperforming sector. On balance, we'll stick with the existing weightings. Our adviser points out that after the recent interest rate cuts in the US, inflation-adjusted interest rates are negative and are expected to fall further as the FED continues to ease. The last time we saw negative real rates was between April 2002 and January 2006, over which time gold rose 54%, the FTSE Gold Mines Index 107% and our adviser's investments rose 170%.

Monetary Relation: US Real Rates Are Declining



Source: Bloomberg

Gold Price / XAU Index



Source: Bloomberg



# Energy / Alternative Energy

*A rare port in the storm*

## News from our advisers

*Our principal specialist energy fund advisers wrote at the end of December:*

*The fund rose 11.6% in December in sterling terms and thus outperformed the index by 2.6%. For the year, the fund was up 33.3%, an outperformance of 5.1%. Within the fund, December's strong performers were **Hess, Petrobras, Anadarko, Imperial Oil** and **Nexen**.*

*It increasingly feels like we are moving into a period where \$70-100 will be a likely new trading range. The oil price averaged \$72 in 2007, versus \$66 for 2006. It is definitely arguable that the world would have little difficulty absorbing a further 10% rise in 2008.*

*There are risks in all this theorising of course. The ones of most concern are either a marked slowdown in economic growth in China or a very rapid expansion in production in Iraq occurring without OPEC making the necessary cuts to accommodate it. At the moment these risks are unlikely but one can never be sure, and the reported increase in Iraq's production in recent months reminds us of that.*

**This adviser's USD 5 year performance numbers to 31/12/07 are:**

	Year-to-date (end 12/07)	Last 5 years annualised
Manager performance	36.0%	34.4%
Benchmark (MSCI Energy)	30.4%	26.7%

**GTI comment:** our Adviser's aim is to give us "bang for our buck" by investing in leveraged plays on the sector. The slowdown may well affect the oil price in 2008. However, our adviser thinks that shares are discounting an oil price of about USD 60 a barrel, so there is room for the oil price to fall a fair amount without a big collapse in oil stocks or our investments.

### Crude Oil NYME



Source: [www.fullermoney.com](http://www.fullermoney.com)

# Emerging Middle Class

*It's all beer and skittles in Africa*

## News from our advisers

*Our principal specialist emerging middle class advisers wrote at the end of January:*

*The early signs that emerging economies can de-couple from Europe and the US could prove to be wrong. What is clear is that markets do not currently think this is possible and as a result they have not de-coupled during this drawdown. This does not mean they cannot develop an element of economic independence from the US. Whilst the Chinese authorities are determined to neutralize inflation due to the potentially destabilising political consequences, the risk exists that they become over zealous. Their historical track record is good, but there is always room for policy error. In our minds China still holds the key to the performance of this asset class, not the US.*

*Another of GTI's emerging middle class advisers (a specialist Sub-Saharan African Adviser) wrote at the end of February:*

*This was a good month for the fund. Somewhat surprisingly, the rise (+5%) was not due to a strong recovery in Zimbabwe after the substantial negative impact that it had last month ... the gains this month came from strong performances in Egypt, Kenya and Nigeria.*

*Kenya came alive in the last week of the month following an agreement brokered by Kofi Annan between the two main rival political parties. Our largest holding there, **East African Breweries**, reported superb interim results to the end of December with a gain of over 28% in net profits and yet another sizeable increase in their cash flow. Beer volumes were up 19% and spirits up 21%.*

***Nigerian Breweries** reported stunning results as well. Sales rose 29% but net profits jumped 74%, the result of good cost control and strong underlying momentum in sales. The company aims to grow its capacity by 10% per annum simply to keep up with growing consumer demand. Despite that annual capex, the company continues to pay a healthy dividend to the shareholders with the stock yielding nearly 5%. **Nigerian Breweries** is a part of the **Heineken** Group who recently reported that their businesses in emerging markets and especially Africa were highly profitable. Indeed we are led to understand that Nigeria makes more profit for them than the whole of the US market.*

**This manager's USD performance** numbers since their fund's inception in 1/4/02 are:

	Year-to-date (end 12/07)	Since inception
Adviser performance	+61.9%	+453.2%
MSCI Emerging Markets Index	+36.6%	+280.5%

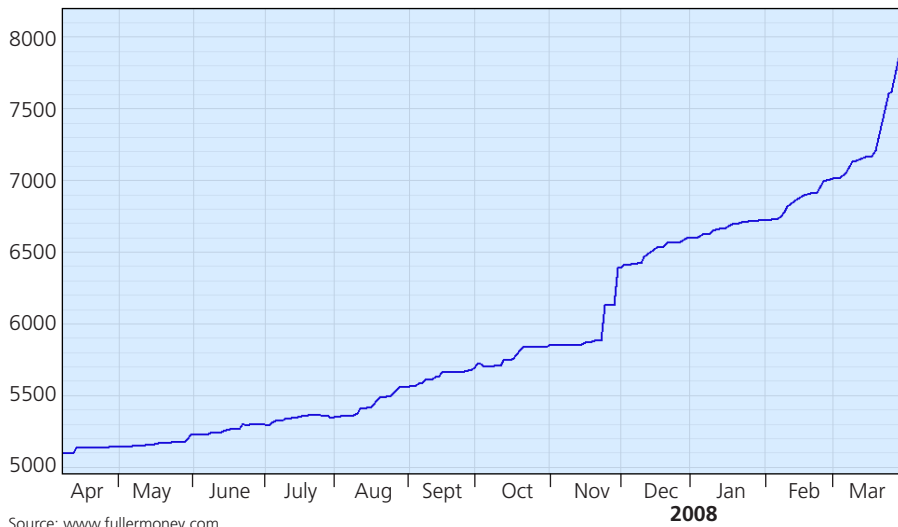
**This manager's USD performance** numbers since their fund's inception in 1/7/05 are:

	Year-to-date (1/08)	2007	Since inception
Adviser performance	- 7.0%	+48.8%	+101.0%
MSCI Emerging Markets Index	- 12.6%	+36.5%	+120.4%

**GTI comment:** The forgotten continent – Africa – is back with a vengeance. We find it remarkable that Heineken makes more money in Nigeria than in the USA, where the population is 50% larger and GDP per cap 40 times the size. As an example of the power of the emerging middle class, take the example of another of our holdings, MTN Nigeria.

MTN Nigeria was granted an operational license in February 2001 and has now spread in Nigeria to cover over 252 cities and towns. It's the leading cellular operator in Nigeria with 15 million subscribers and 44% of the industry market share as of June 2007. MTN Nigeria's revenue has been growing at a compound annual growth rate around 32% between 2003 and 2006 and Average Revenue Per User is expected to decline as subscriber numbers grow. Yet the growth prospects for the mobile industry in Nigeria remain

**Ghana Stock Exchange All Share**



extraordinary, with subscribers expected to rise to 98.5 million by 2012 and MTN can be expected to be part of this growth. We defy any of our readers to find a similar rate of growth for a similar company anywhere else in the world.

GTI's Emerging Middle Class adviser, a Perma-Bull of emerging markets, makes the important point that the "Wall Street Leash Effect" (the degree to which other markets are influenced by Wall Street) is still an important factor for emerging middle class markets.

**Nigeria Stock Exchange**



# Global Outsourcing / Internet Hub

Value appearing as well as strong results

## News from our advisers

*Our principal Global Outsourcing / Internet Hub advisers (India Fund) wrote at the end of January:*

... our largest holding, biscuit maker **Britannia**, reported 177% EPS growth for the third quarter ... There is no reason not to expect sales of USD 700mn to reach USD 1.5bn five years from now and net margins to expand from last year's 4.7% to over 8%. On this basis, 17.5x March 2008 earnings does not feel expensive to us. We expect the share price to double over the next 18 months on news that the recent spat between joint controlling shareholders, Danone and the Wadia family, is resolved. Although one of India's largest food groups the stock remains illiquid (it has taken us a year to accumulate our 5.8% block). Hair and skin care company **Marico** ... reported third quarter profits up 62% yoy, amazingly its seventh successive quarter of plus 20% net profit growth. **Tata Tea**, India's largest tea brand and owner of Tetley Tea, reported third quarter profits up 83%. The company plans to use the USD 1bn earned from its sale of Glaceau Water to Pepsi to expand the reach in India of its Mount Everest bottled water (the capacity of which is larger, incidentally, than Evian's). The stock, on only 11x March 2009 earnings, should attract more attention as management opens up to the investment community.

About 10% of the Indian portfolio is in public sector banks which trade on single digit PERs and about 1.0 to 1.5x book value. Happily none of them would know what a Collateralised Debt Obligation was if it hit them in the face.

Our adviser's USD performance numbers since their fund's inception are:

	Year-to-date (end 2/08)	2007	Since inception
Adviser performance	- 15.0%	+62.3%	+541.6%

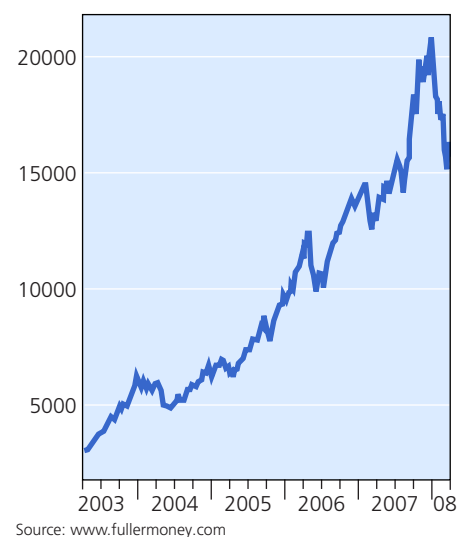
**GTI comment:** the earnings story in India is simply outstanding and there is no contagion from Sub Prime Slime. Our advisers have been mopping up some Indian property companies, which they say are standing at discounts to Net Asset Value of 30-40% after the recent shake-out. Some industrial sectors are slowing (the index that measures hiring in Indian IT is now showing signs of real slow down) and Indian 10 year bond yields have fallen from 8.4% in mid 2007 to near 7.7% now. A pause that refreshes after the headlong growth of recent years is welcome.

GTI uses an Indian specialist adviser for this theme, as India is its major beneficiary worldwide.

India 10yr Government Bond Yield



India BSE Sensex Index (Mumbai)



# Ageing Population

Taking the pulse of the politics

## News from our advisers

*Our principal specialist pharma and biotech adviser wrote at the end of December:*

*... large cap biotechnology companies now trade at the cheapest valuations in history. PE ratios have fallen to approximately 20, dragged down by Amgen which now trades at less than 11x 2008 projected earnings.*

*The FDA has been stuck now for several years now in cautious mode with more emphasis on safety than innovation ... only 17 new pharma products (so called "new chemical entities" or NCEs) were approved during the year. The last time FDA approvals were at this low level was in 2002, and before that in 1983 ... a new President (regardless of party) would likely appoint a new FDA Commissioner in 2009.*

*If ... 45 million under-served consumers (ie Americans with no health insurance) are brought into the healthcare system the resulting increase in volume of many healthcare products is widely estimated to be +5% or more, which would provide a boost for industry akin to the volume increases triggered by the Medicare prescription drug benefit.*

*The biotech industry PEG ratio (ie the PER ratio divided by the earnings growth rate) now stands at 1.1x, an historical low and a remarkable 54% lower than the pharma PEG and 18% lower than the S&P500 PEG. When / if large cap biotechs begin to perform as we expect, our large cap portfolio will generate very strong performance.*

*We continue to mine legislative proposals for potential actionable ideas. The majority of proposals appear most negative for pharma and managed care, while being potentially positive for generics, healthcare IT, acute care hospitals and healthcare distributors.*

**This adviser's GBP performance** numbers over the last 5 years are:

	Year-to-date (end 1/08)	2007	Last 5 years
Adviser performance	- 3.8%	+4.1%	+46.6%
Datastream World Pharmaceutical Index	- 4.2%	- 0.3%	+28.1%

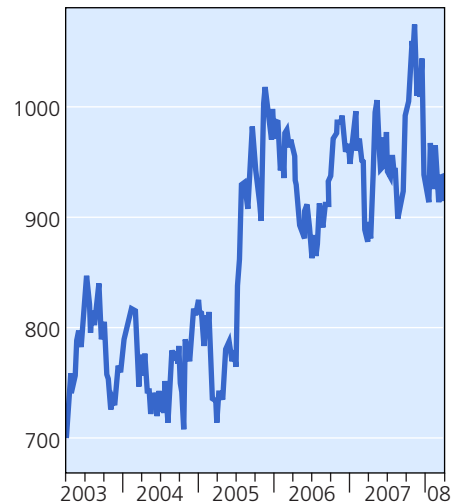
**GTI comment:** we maintain exposure to this theme at our lowest permitted level (about 5%). There is longer term excitement ahead in view of the post-US election year potential changes in the FDA. And the sector seems "cheap". But it is too early to build a big position in this theme; we just can't see the catalyst to get interest going in the sector.

S&P500 Pharmaceuticals



Source: www.fullermoney.com

S&P500 Biotech Index



Source: www.fullermoney.com

# Developing China

*Post-Olympic slowdown?*

## News from our advisers

*Our principal specialist Asian advisers wrote at the end of January:*

*An unpleasant month which would have been more enjoyably spent on a beach or the ski slopes. We did not escape the turbulence. The NAV of the Asia Fund lost 10.1% in January. None of the damage was prompted by stock specific news. Asia is being put through the ringer, as it usually is when developed markets succumb to spasms of uncertainty.*

*From a big picture view our region would seem still to be in rude good health. For sure, a sharp slowdown in the West would take the shine off the earnings of exporters and cyclical, but happily our exposure here is virtually zero. Our exposure is to domestic consumption which, we accept, may slow if exports contract sharply, but, even so, growth here remains well underpinned by pent-up consumer demand and early stage infrastructure spending.*

*The bigger risk is a contraction in PERs (which is what has happened in January). The Asia Fund is trading on an historic harmonic mean PER of 14.7x. This number falls to 12.6x if the 25% earnings growth we are forecasting in 2008 materialises. Having reviewed earnings forecasts for each of our holdings we believe this number is still more than achievable.*

*We suspect that once the storm passes investors will remind themselves that the rise of Asia is a once in a lifetime event and re-engage enthusiastically. A huge infrastructure boom is only just starting. India is talking about spending USD 350bn on roads, airports and ports etc over the next 5 years and the Chinese have earmarked USD 250bn just for railways. Liquid banking systems and huge foreign exchange reserves mean that much of this will be self funded.*

*We do not think that the wheels are about to fall off in our neck of the woods ... there are clearly two risks. First that weaker manufacturing activity depresses domestic consumption. This is possible on the margin especially to the extent that local consumption has been buoyed by booming stock markets. The second risk is that, even if earnings hold up, our stocks are re-rated.*

*Earnings growth in 2007 looks like coming in at about 37% for our portfolio based on interim and quarterly numbers reported to date (this number is an amazing 53% in India).*

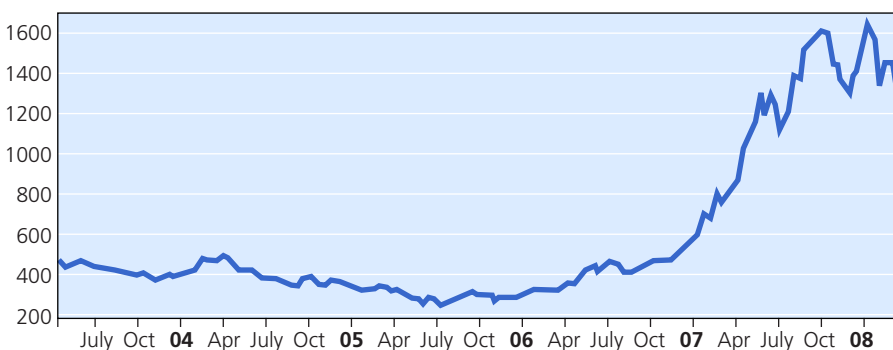
**This adviser's USD performance** numbers since their fund's inception in 1996 are:

	Year-to-date (end 2/08)	2007	Since inception
Adviser performance	- 7.0%	+32.1%	+350.7%

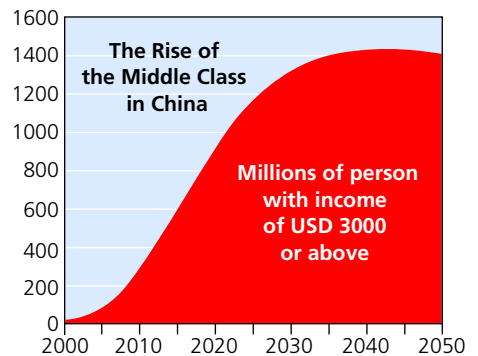
**GTI comment:** China has been growing at 11.4% pa real in 2007. Add back inflation (5%) and you have an economy that gets larger by about a fifth, every year. Though it's still small stir-fry (about a fifth the size of the USA economy) it means that about a fifth of the world's population is living in a country with an unsustainably high growth rate. What China wants and needs is a little less growth. A slowdown to 8-9% would be in everybody's interests in the longer term.

The Olympics will give China a boost in any case this year. The risk is that this reduction in growth from 11% to near 8% could have a negative effect on its stock market (a boom-time economy that is "only" growing at 8% can feel pretty chilly to those fired up by 10% growth over the last 25 years). It's doubtful that the Chinese authorities will allow a wholesale collapse in the Chinese market in the year of the Olympics, particularly when they have the best part of a USD 1 trillion of State Owned Enterprises to off-load to willing buyers in the near future. We'll keep our weighting in this theme at about neutral for the time being.

**China Shenzhen A-Shares**



Source: www.fullermoney.com



Source: CIEC, Goldman Sachs Research estimates



# Water Shortage / Ecology

*Never cheaper, never greener*

## News from our advisers

*Our principal specialist water and ecology advisers wrote at the end of December:*

*The company NAV was up 4.9% over the month compared with the MSCI World Index, which gained 1.9% and the IMPAX ET50, which rose 8.8% over the same period.*

*During the month, the UN climate conference in Bali produced a two-year road map for negotiation to reduce greenhouse gas emissions post 2012 (though no binding target), as well as new climate change adaptation funds, anti-forestation mechanisms and technology transfers. The outcome was widely seen as a small step forward for a global agreement, with the US finally at the table.*

*In alternative energy and energy efficiency, President Bush signed into law a landmark energy bill that will increase US vehicle efficiency, boost ethanol use and phase out the incandescent light bulb. The bill was the focus of intense speculation prior to enactment and disappointed the renewables lobby by failing to extend tax credits for wind and solar, and dropping a federal renewable portfolio standard. The industry must now wait and see if tax credits will be extended beyond 2008, though market confidence is high and we expect developments in Q1.*

*In water treatment and pollution control, the European Union approved two laws governing air quality and marine protection.: The Marine Directive will establish the first ever binding EU limits on ambient levels of ultra-fine particles from 2015, including new controls on heavy vehicle emissions.*

*In waste technologies and resource management, electronic waste continued to climb up the US political agenda with Wisconsin the latest state to propose a manufacturer funded recycling programme, along similar lines to the EU WEEE directive.*

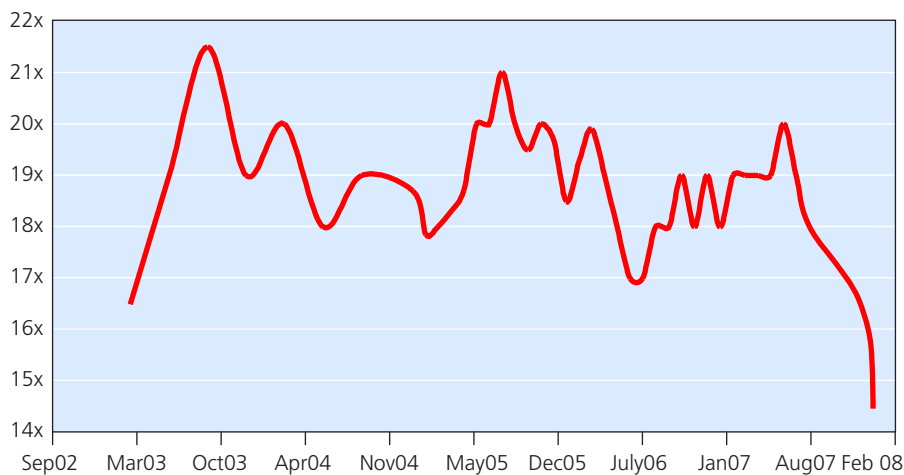
*Stocks that contributed to the increase in the company NAV include **Itron**, up 24% on news of new contracts, **Vestas**, up 14% on strong Q3 margins and positive outlook, and **Stantec**, which rose 15% following news of acquisition activity. Disappointing performance came from **Kingspan** as growth expectations were downgraded for 2008, related to exposure to construction markets.*

**This manager's GBP performance** numbers over the last 5 years are:

	Last year (end 12/07)	Last 5 years
Adviser performance	+16.3%	+139.1%
MSCI World Index	+5.3%	+62.2%
Impax Environmental Technologies 50 Index	+68.4%	+206.3%

**GTI comment:** This PE forward chart shows that our GTI Water and Ecology adviser's portfolio of stocks is trading at less than 15x. It has never looked cheaper since inception. CAGR is currently at 25%, so the PEG ratio is substantially below 1x. The caveat is 2008 eps forecasts. Common sense tells us that earnings numbers could well undershoot, but with a start point of 0.6 PEG Ratio there is room to accommodate this downside and still retain appeal. Given the recent focus on Water, Environmental and in particular Alternative Energy issues both globally and more specifically within the EU, we'd be surprised if this theme didn't do well in the next 2 to 3 years given its strong growth drivers. We are keeping to a broadly neutral weighting in GTI.

### GTI Advisor PER (est) for Profitable Companies



### Bloomberg World Water Index



Source: [www.fullermoney.com](http://www.fullermoney.com)

## Oh, and One Last Thing ...

One of the five GTI criteria in selecting advisers is an entrepreneurial culture. Asset management is an entrepreneurial activity, according to Yale University's David F. Swensen, in his book *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investing* (The Free Press, 2000). Swensen, arguably the most successful

asset allocator in the USA for decades – the endowment fund at Yale stood at \$1.3 billion when he joined in 1985; today he is responsible for over \$22.5 billion in endowment assets and other investment funds.

His philosophy calls for “selecting managers with an entrepreneurial orientation, fiduciaries improve the chances for investment success. Large

*multi-product, process-driven financial service entities face the daunting hurdle of overcoming bureaucratic obstacles to creative decision making. Small, independent firms with excellent people focused on a well-defined market segment provide the highest likelihood of identifying the intelligent contrarian path necessary to achieving excellent investment results.”*

# The Team that Developed the Global Thematics Philosophy

*The editors – two professional fund managers each with over 25 years in the international investment business, half of it working together*



## Iain Little

*Iain is British and has spent 25 years in private banking as a global strategist and portfolio manager. He's held senior positions with Kleinwort, Benson in Hong Kong and London and with Pictet et Cie, the largest Swiss private bank in Geneva, London and Tokyo.*

*Iain now works as Managing Director of Butterfield Asset Management (Switzerland) Ltd, Bank of Butterfield's Swiss private banking arm.*

*Iain was a co-founder of P&C Global Wealth Managers SA in Zurich and on the board of GTI Fund Investment, Cayman, managers of the P&C GTI Fund. He serves as a non-executive director of other specialist funds, including the Arisaig India Fund.*

*Iain is principal advisor to the P&C GTI Fund.*

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## Bruce Albrecht

*Bruce is British and has held a number of high profile jobs as head of investment over 30 years in the industry. He was Head of European investment for the Abu Dhabi Investment Authority (the single largest pool of own-managed money in the world, reported to be several hundred billion USD), Chief Investment Officer for Pictet London, and Chief*

*Investment Officer for Rothschilds. He worked closely with Iain Little for a decade in Pictet London.*

*Bruce is Senior Vice President, Group Asset Management of Bank of Butterfield Bermuda, so has overall responsibility for investment in the Butterfield Bank Group worldwide.*

*Bruce is on the board of GTI Fund Investment, Cayman, managers of the P&C GTI Fund, and Director of Investment Strategy Network (ISN, [www.investment-strategy.net](http://www.investment-strategy.net)), a systematic stock selection tool.*

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