



GLOBAL THEMATIC INVESTORS

MONTHLY NEWSLETTER UPDATE

NOVEMBER 2008

CONTENTS

After The Bomb
Page 1

"Never in the field of human conflict..."
Page 2 - 4

"... was so much owed by so many to so few"
Page 5

"Give me the return of my money, not the return on my money..."
Page 5

Bruce's Hamburger List
Page 6

"GTI Stock Of The Month"
Page 6

A quick tour of our GTI advisers.
Page 7

Why we invest according to global themes
Page 8

The Team That Developed the Global Thematics Philosophy
Page 8

After The Bomb

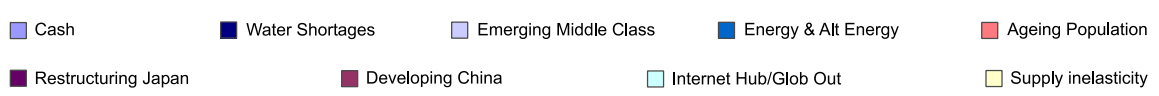
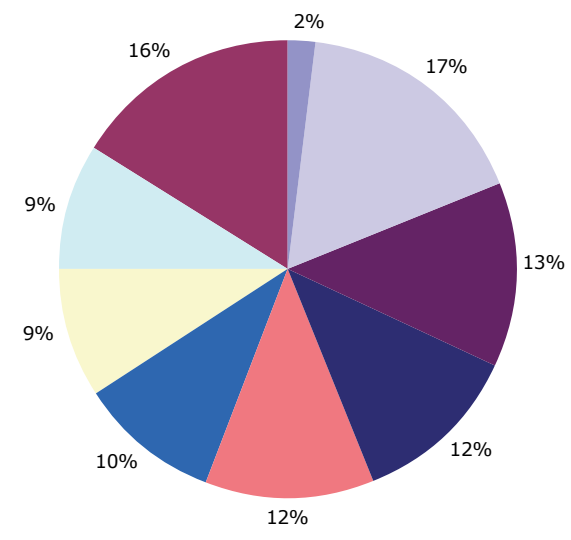
A nuclear bomb hit our markets in October. No explanation other than massive global deleveraging can explain the commonality in the falls of *all* asset classes. The devastation in 2008 is best captured in the table below.

| Stock Market | Performance local currency From high (date) -15/11/08 | Performance local currency From 1/1/08 – 15/11/08 |
|---------------------|---|---|
| Japan | -54% (07/07) | -44% |
| India | -56% (01/08) | -54% |
| UK | -35% (10/07) | -34% |
| USA | -40% (10/07) | -36% |
| MSCI World Index | -47% (10/07) | -44% |
| MSCI Far East Index | -62% (11/07) | -57% |
| MSCI China (Free) | -65% (11/07) | -57% |
| MSCI Arab Market | -46% (01/08) | -43% |
| AMEX Gold shares | -64% (03/08) | -55% |
| Gold | -29% (03/08) | -11% |
| Oil | -61% (07/08) | -40% |

The indices above pretty well capture the bulk of the areas where GTI invests. GTI has no Sub Prime slime banks, no first world financials, no debt-prone developed world consumer stocks, no leverage and no "alphabet soup" structured products. And little good it did us.

Asset Allocation by Global Theme

| | |
|------------------------|-----|
| Emerging Middle Class | 17% |
| Developing China | 16% |
| Restructuring of Japan | 13% |
| Ageing Population | 12% |
| Water & Ecology | 12% |
| Energy & Alt. Energy | 10% |
| Supply Inelasticity | 9% |
| Global Outsourcing | 9% |
| Cash | 2% |



We have clear advice for our readers. If you're a long term investor, it's far too late to sell. If you're a long term investor, it is almost certain you will make good money in the years ahead (we give estimated return numbers later on).

Economically, there is a race against time to prevent the contagion spreading into the real economy. It's already five

minutes to midnight. People and firms (though not governments) start by *delaying* and then go on to *cancel* new purchases, laying off workers and planning for lower growth. At the point of *cancellation*, there is little chance of reversing the process and it becomes self-feeding.

We have no doubt that our 8 global

themes will fare well once the world's financial confidence returns. But we must also acknowledge that it is –per-versely- events on Wall Street that have driven our themes' investments into bargain basement territory.

So understanding Wall Street is extremely important. Observing the wreckage, these are the key points:

- A fast market fall beats a slow fall. The crashing bear of 1987 beats the grinding bear of 1973.
- On valuation grounds, it's possible -even probable- that we've seen the bottom in October, or close to it.
- But we need an injection of greed to reverse the negative psychology. And the best way of spotting emerging greed is bottoming out on major stock market charts.
- *We cannot find a period in the last century of US data when a volatile period of this magnitude was NOT followed by a change in primary trend within a few months.* In case your name is Rip Van Winkel, the primary trend has been down these last 12 months. If past history is any guide, it's about to change.

We are not sure that October 10 was the bottom on Wall Street (Sorry, Folks, No Dice). The charts and our own indicators have yet to confirm this. We need more evidence of more bottoming on more stock market charts. But the action in recent days is highly significant, if not downright spooky for those who have spent their lives reading tea

leaves in the form of charts and technical and behavioural activity.

First, a word of reassurance. We're not going to bore you with macro-schmacro jargon. This "economic fundamental" stuff is far too subjective and emotional and we've yet to meet an economist with two yachts. For what it's worth (and it's

not worth much) we actually *agree* with the most negative doomsters and Armageddon experts *du jour* that the economic outlook is Absolutely Vile. Ironically, as we explain below, this volatility is what makes us hopeful that we are near the lows. Where Wall Street goes, others will follow.

“Never in the field of human conflict...”

In money terms, we've been in the worst bear market in history. Yes, we've seen bigger percentage down moves (October 1987), we've seen greater “real” (ie inflation adjusted) losses (the 1970s), we've seen greater economic carnage (the Soup Kitchen / Dust Bowl 1930s). But never have we seen such huge volatility and money sent to “Money Heaven”. Try this for size:

- The MSCI World Equity Index has lost half its value from the top, or USD 25 trillion
- USD 25 trillion is 10 times the estimate of the credit problem and equivalent to roughly half of world GDP (or about twice USA GDP). The world is already discounting a disaster.
- The US housing market alone has lost USD 6 trillion from the 2006 highs (= the entire retirement savings of all 80 million Baby Boomers.....annual housing losses are close to the annual GDP of China)
- The Baltic Exchange Capesize Index (a proximate indicator of world trading activity and prime casualty of drying up of letters of credit) has lost 94% since early June

We could go on. Others will, *ad nauseam*.

“Never in the field of human conflict...” (cont.)

This huge market volatility reflects a Titanic fight between two equally weighted, mutually incompatible but preposterous outcomes. On the one hand (Outcome “A” for Armageddon), the wholesale meltdown of the global financial system. On the other hand (Outcome “B” for Back To The Future), the immediate return to 2003 and the Goldilocks world of 10%+ per annum equity returns in a stable global macro environment.

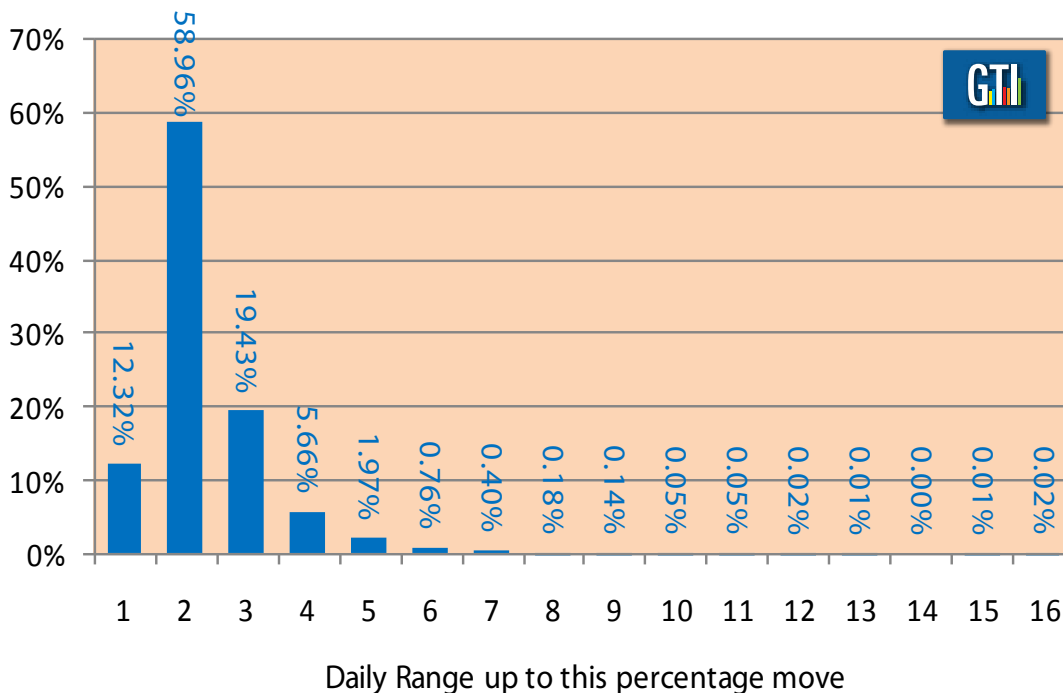
When the share price of RBS –in the top half dozen banks in the world- has a daily

movement “trough to peak to trough to peak and back again” of nearly 200% (8/10/08) we know that the market mechanism isn’t pricing assets properly.

Neither “Goldilocks” nor “Armageddon” are credible outcomes, given the lessons of history. But the markets are heavily discounting Outcome A. So any slight shift towards Outcome B will have a dramatically positive effect on sentiment. Those who run to cash now are betting on an event –the End of The World- that has been reported many times but remains strangely exaggerated.

Here are two charts, which show the staggering volatility we have seen. What we have just observed was exceptional. Since 1928 (a total of roughly 20,000 trading days) 4 out of the 20 most volatile days, or 20% of all observations, took place in one month - October 2008. Nearer term, this number is even higher. Since 1990 (a total of roughly 4,000 trading days), 70%, or 14 of the top 20 days for volatility, were recorded last month.

Volatility - 1928-2008 Daily Price range high-low percentage



The normal daily range for the DJII is 1-2%. Over half of trading days show this range. The highest 20 daily ranges since 1 October 1928 are shown on the right. October 2008 volatility dominates the list since 1990, but in the very long term, the crashes of 1929-32 and 1987 are more dramatic.

Dow Jones Industrial Daily Range in percent

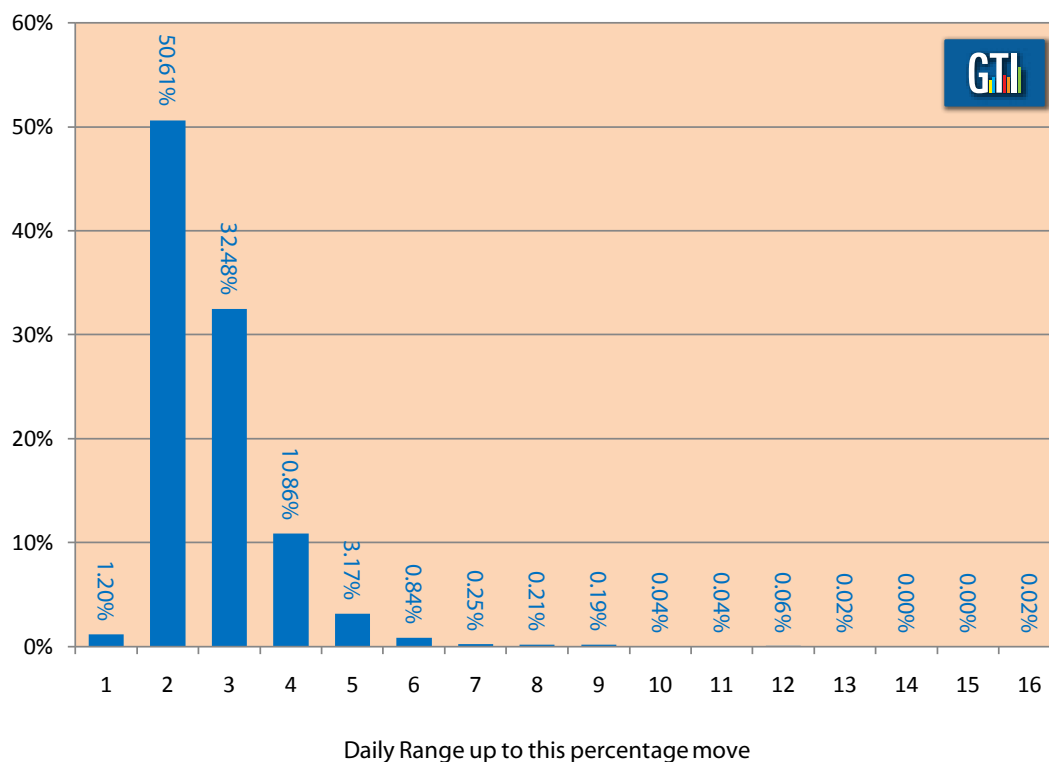
Largest daily range %

| | |
|------------|-------|
| 19/10/1987 | 29.0% |
| 20/10/1987 | 27.9% |
| 29/10/1929 | 18.9% |
| 21/07/1933 | 16.9% |
| 10/10/2008 | 15.6% |
| 28/10/1929 | 15.0% |
| 24/10/1929 | 14.9% |
| 06/10/1931 | 14.8% |
| 30/10/1929 | 13.0% |
| 13/10/2008 | 12.3% |
| 09/10/2008 | 11.7% |
| 18/12/1931 | 11.7% |
| 20/07/1933 | 11.5% |
| 07/11/1929 | 11.1% |
| 16/10/2008 | 11.0% |
| 03/08/1932 | 10.8% |
| 29/05/1962 | 10.7% |
| 12/08/1932 | 10.6% |
| 14/09/1932 | 10.5% |
| 06/11/1929 | 10.4% |

“Never in the field of human conflict...” (cont.)

Volatility - 1990-2008

Daily Price range high-low percentage



Dow Jones Industrial Daily Range in percent

Largest daily range %

| | |
|------------|-------|
| 10/10/2008 | 15.6% |
| 13/10/2008 | 12.3% |
| 13/11/2008 | 12.0% |
| 28/10/2008 | 11.8% |
| 09/10/2008 | 11.7% |
| 16/10/2008 | 11.0% |
| 24/07/2002 | 10.1% |
| 14/10/2008 | 9.7% |
| 15/10/2008 | 9.2% |
| 28/10/1997 | 8.9% |
| 07/10/2008 | 8.7% |
| 06/10/2008 | 8.6% |
| 29/09/2008 | 8.5% |
| 22/10/2008 | 8.5% |
| 31/08/1998 | 8.4% |
| 03/01/2001 | 8.2% |
| 08/10/2008 | 8.1% |
| 23/10/2008 | 8.1% |
| 04/04/2000 | 7.9% |
| 27/10/1997 | 7.9% |

This chart shows how the volatility in October 2008 dominates the stock market action since 1990.

As we have said, we cannot find a period in the last century of US data when a volatile period of this magnitude was NOT followed by a change in primary trend within a few months.

Here's an update of our “Magnificent Seven”, our proprietary scorecard that will signal when it's safe for a conservative investor to go back into the stock market water. We think that a score in the mid 40s will be a major buy signal (one of many that we follow):

| Index / Indicator | Score Now (/10) | Target |
|---------------------------------|-----------------|---|
| 1. S&P500 Banks | 7 | 6 (bottoming out) |
| 2. S&P Global 120 Financials | 5 | 6 (still searching for a bottom) |
| 3. LIBOR / Treasury 3mth spread | 7 | 6 (hold below 2%, now 2.1% and falling) |
| 4. US Bank BBB Treasury spread | 4 | 6 (hold below 2.5, now 5.5% and climbing) |
| 5. OEX Volatility | 5 | 6 (go below 25 and hold, now 66) |
| 6. Case Schiller House Prices | 4 | 6 (no sign of bottom yet) |
| 7. Oil Price | 8 | 6 (the most bullish indicator) |
| TOTAL | 40 | 42 |

Last time the score was 38. We are improving towards our target in the mid 40s, mainly owing to a lower oil price. It is likely that an easing in credit conditions (numbers 3 and 4) will be needed for this to occur.

If you want to follow these 7 key indicators, we can think of no better way than through our markets adviser, www.fullermoney.com <<http://www.fullermoney.com>>

“... was so much owed by so many to so few”

No event in human history has been countered so decisively and unanimously by ALL the nations of the world (last weekend's G20 meeting is just the latest). This Global Financial Crisis is

the illegitimate child of Globalization. Its nemesis will be global too. The global treasuries or central banks of over 100 countries are fighting the problem in any and every way possible. We cannot

stress this enough. Stock market bears are now ranged against the largest arsenal of anti-crisis financial weaponry in human history. The problems may be awesome, but so are the remedies. Expect more remedies.

“Give me the return of my money, not the return on my money...”

All our GTI advisers say they see “value” in their equity sectors. But so what? And what sort of returns can we expect in the next few years?

Over the last 100 years or so stocks in major markets like the USA and UK have returned 9% per annum before inflation (depending which numbers and time period you use). This includes all periods (WWI, WWII, The Great Depression, 9/11, the super-inflationary 1970s etc).

Roughly a third of this 9% total return -3% - relates to dividend yields. Now remember that this 9% is for the market as a whole (including the Dogs of The Dow). Because they're growing faster than the average sector (GTI = **China, India, Water, Energy** etc), we believe conservatively that our 8 global themes should be able to generate equity returns that are at least 20% higher than the whole market, so a total real return of 11%.

But hang on.....we've just had a huge bear market. If you fit a trend line to long term stock performance, you can easily conclude that “fair value” for stocks is currently at half of the recent fall (so about 30% above where we are now). Interestingly, most major markets compared to their 200 day moving averages -a lagging, trend smoothing

device- are trading about 25% to 35% cheap.

You should buy stocks when they're cheaply valued and sell them when they're expensive. If we assume that markets are 30% cheap relative to their long term trends, you can make a case that over the next 5 years (as part of the post-Bear catch up), returns could easily be $11\% + (20\%/5) = 15\%$ per annum. Provided they pay their dividends, 4 to 5% of this 15% is already in the bag. 15% per annum means you double your money in well under 5 years and have also got a hedge against inflation.

If we go for “safety”, what's the alternative?

Cash yielding 1 or 2% and falling. Bonds yielding under 4% and falling. Both guarantee long term failure; both are murdered by inflation. Government bond yields are negative in real terms (though they may appear more attractive as yearend inflation numbers will come in soft and temporarily lift real bond yields). Corporate bonds are perceived as too risky. Gold is not acting as a storehouse of value. Hedge funds....who knows where the bodies are buried?

So where in the world do we see opportunity? The GTI areas (**emerging**

markets, commodities, energy, water etc). Why?

US consumers are deep into a wealth decline. They lost money -20% on average so far- on their houses. Now they've lost 30% or more on their investments and pensions. UK consumers are following the US path, so don't expect any miracles there. Europe has uncoordinated policies and deep-rooted problems with the EUR (ask an Italian exporter what he thinks about the EUR these days and you're likely to hear the “F” word sung Bel Canto in Italian). Developed world risks are everywhere.

Markets are anticipatory, not reactive. They look ahead. If we look at emerging markets (the area where GTI has its biggest investments and which has been hardest hit by fleeing international investors), things look almost the opposite of the developed world.

Emerging consumers are not leveraged. 2008 is not 1998 (when they were leveraged at the time of the Asian and Russian Crises).

A year ago, their “problem” was too much growth; they were growing too fast for sustainability (in 2009 BRIC GDP will slow to a “pedestrian” +5.3% from 2007 levels of 8%, with company earnings clipping along at +16%).

The migration towards middle class status continues apace. Unlike in the west, where replacement –a highly discretionary activity at the best of times- is the biggest driver of consumer purchases, billions in the developing world are making their first ever purchase of goods.

Outsourcing –another GTI theme- will continue or even accelerate as the West is forced to cut costs (the Rupee, a key variable, has fallen by 25% against the USD in the last 6 months). The West is becoming less and less important. In China, the ratio of internal trade has risen from 37% in 2000 to about 48%

now. China sells more computers to Asia than to the USA and even Europe has leap-frogged USA as a business partner (1994: 39%, 2002: 39%, 2007: 48%).

Bruce's Hamburger List

"To refer to a personal taste of mine, I am going to buy hamburgers for the rest of my life. When hamburgers go down in price, we sing a "Hallelujah Chorus" in (our) household. When hamburgers go up, we weep. For most people, it's the same way with everything they will be buying - except stocks. When stocks go down and you can get more for your money, people don't like them anymore".

OK, it's Buffet talking and not us, and we all know he's developed an attachment to stocks for the long run. But consider what it means for returns if you can prise yourself way from prevailing negative sentiment.

Bruce has just put together a Hamburger List.

To get on Bruce's list, you've got to elbow aside a lot of competition. You've got to be a major blue chip international stock with an established global franchise and a consistent track record of maintaining dividends through thick and thin. Preferably, your dividend yield is twice or three times the cash deposit yield in your own country.

And, whilst the financials will certainly power ahead if the stock market bottomed in October, we're not going to try and be clever. Financials are off-limits for now.

Here is Bruce's first hamburger, Royal Dutch, our **Energy and Alternative Energy** theme adviser's biggest holding by far (10%).

A large blue chip stock the size of a small country with a fat 5% dividend yield that hasn't been cut since WWII. Royal Dutch, and others on Bruce's list, are stocks that now trade on the valuations of bonds (on account of their high dividend yields). The difference is that stock yields increase, whilst bond yields stay the same. In fact, many bonds have features that allow borrowers to take the yield away by calling them early.

GTI Stock of the Month --Royal Dutch Shell A shares, 1675p



Source: Fullermoney

A quick tour of our GTI advisers

Supply Inelasticity theme adviser, Evy Hambro, Fund Manager at Blackrock, described his “100 days of hell” during which his fund fell by 75% from the May high to the recent October low. *“The sudden change in sentiment in financial markets was like two tectonic plates shifting repeatedly during August and September and then, finally, breaking apart, causing a financial earthquake the likes of which we haven’t seen before. Mining share prices... were crushed...until this year, the largest month-on-month fall in the history of the index had been -34.9%, but this proved to be a minnow compared with what happened this year. Monthly moves of -16.6% to 27 July, followed by another -22.1% in September and finally a further 53.9% to the low of the market (so far) on 27 October left the index down 74.6% from the May high to the recent October low. This unprecedented fall in valuations has destroyed USD1.1 trillion of market cap and nearly four years of positive returns”...mining shares are long-dated assets behaving like “short-dated” assets. This situation will not last forever and investors should take advantage of it while they can”.*

GTI’s **Developing China theme** adviser, Lindsay Cooper wrote a letter to us (after a 54% fall in the value of our investments with them in 2008). His firm -Arisaig Singapore- started its superb Asian consumer investment business in the teeth of the devastating Asian crisis of 1998. *“We have no doubt that 2009.....will be a similar period of recovery.*

The NAV of our fund back then rose over nine times from the Asian Crisis low of 1st September 1998 to its end December 2007 high, making our investors a compound annual return of 26.9% over this nine year period. History will judge October 2008, in our view, to be another such low. Much of the forced selling.....has now abated. The evolution of the major Asian economies from a trade to a more domestic consumption focus should ensure even more of a following wind this time round.....investing is a long game”.

Jon Chew manages some of our African investments (supposedly a lowly correlated asset class!) through his excellent firm Imara. Africa is part of our **Emerging Middle Class theme**. Jon wrote to us after a 40% fall in the value of our investments with him: *“Too late to sell – time to think about buying!.....I receive monthly reports from a range of ex-colleagues who have set up their own companies and who are investing in various parts of the world. To a person, they all report tremendous value and growth with high and visible yields and earnings’ growth, and low PE’s. Africa is no different. But, given that as investment professionals we all know that stocks are cheap but still face redemptions that have to be met, this knowledge that stocks are table-thumping cheap seems to matter very little in the current environment. The bottom line is when dividend yields can be confidently expected to exceed local interest rates, since local*

investors then have an incentive to switch back into equities..... The good news for Africa is that for the credit crunch to affect the banks, you need credit. And credit is not something that was/is widely available in Africa even in the best of times. As most listed companies have had to generate their own cash flow to fund capex and working capital, we expect any permanent damage to be slight. Most countries are focused on domestic demand as the middle classes evolve and as the informal sector gradually becomes formal..... Company visits across a range of countries, including oil producers like Nigeria, suggest solid earnings’ and volume growth with no hint of any contagion or slowdown. Earnings’ growth of 20-30% is a common expectation of company management across Africa. This means that while the developed world struggles to gain confidence in earnings’ and dividend expectations at a time of very low visibility, African dividend yields are altogether more transparent and are now quite high. For domestic pension funds looking to lock in high rates of return, and in Africa there are now many quite big ones, these high yields must be mouth-wateringly tempting.

Jon Chew sums up our own views on the major GTI areas, which is why we quote him at length.

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, 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. whilst the funds chosen to “play” them may be -though do not have to be- different at different times.

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

Hong Kong and London and with Pictet et Cie, the largest Swiss private bank in Geneva, London and Tokyo.

Iain now works as a Partner of P&C Global Wealth Managers SA in Switzerland.

Iain is also on the board of GTI Fund Investment, Cayman, managers of the P&C GTI Fund and 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.



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 Consultant to Bank of Butterfield Bermuda.

Bruce is a Partner in P&C Global Wealth Managers SA in Zurich and 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), a systematic stock selection tool

Global Thematic Investors (“GTI”) is a monthly newsletter written by Iain Little and Bruce Albrecht. Views and opinions expressed in GTI are therefore solely theirs and theirs alone. In particular, they don’t relate to the Butterfield Bank Group, P&C, GTI’s own advisers or anyone else alive or dead. GTI is published by Global Thematic Investors Limited, a company domiciled in Hong Kong and incorporated under the Hong Kong Companies’ Ordinance on the 15th September, 2005. GTI is not intended for and should not be given to private customers. GTI is written to be read solely by sophisticated and professional investors, such as family offices, business corporations, banks and financial intermediaries. GTI’s purpose is to keep clients of the two writers informed about their global thematic investment thinking, so nothing contained within GTI should be taken as a recommendation. Statements and opinions are often forward-looking and therefore subject to uncertainty and containing inherent risks. In many cases they belong to people or companies who are not connected to the writers, so no responsibility can be taken for their accuracy. The predictions and forecasts described or implied may not subsequently be achieved. GTI does not constitute a solicitation to buy anything, invest in anything, sell anything or indeed do anything except read purely as information what is written within its pages. GTI is composed of information and opinion believed by the writers to be accurate and based on sources which they believe to be reliable and honest, though GTI may not have independently verified this information. Where GTI mentions a fund or collective vehicle, only certain persons in certain jurisdictions may be allowed to invest in those funds and collective vehicles. Since access may be restricted to certain persons in certain jurisdictions, you should not proceed further unless in your relevant jurisdiction the information contained herein can be made available to you without contravening legal or regulatory requirements. The investment products described in GTI may follow strategies that are speculative and involve a high risk of loss. GTI points out the breathtakingly obvious and mind-numbingly repetitive truism that the value of investments, funds, securities, currencies and all other instruments mentioned in it may go up as well as down and a favorable performance record is no indication of future performance. Opinions of the writers may also change without any notice.