COMMENTARY

November 20, 2009

Dear clients and colleagues,

We have attended the Morgan Stanley Asia Pacific summit this week in Singapore. We would like to share some of our observations with you.

To start, we feel that Asian economies are really starting to decouple from the Western world and should experience faster growth in the years to come. The consensus is very bullish on Asian economies with China, Vietnam and Indonesia leading the way.

The flipside of that strong consensus is that it is already reflected in stocks prices which in our in opinion are fully valued with many now approaching bubble territory.

Japan stocks are left behind and there really is a Asia ex Japan attitude. A contrarian call would be to be to buy Japan although it has proven to be a value trap many times before.

What else came out of the conference.

There seems to be a consensus building that China will revalue the Renminbi in 2010. That is influencing many Chinese companies who seem to think this will be the case and are putting hedges in place to protect their profits.

Although a very big market, the competition in China is ferocious and many sectors are already becoming more mature.

Another consensus seems to be around the oil sector as an overweight, with the assumption that oil prices stay where they are and stocks valuation reflect a much lower oil price.

Technology because of valuation and cyclicality is the least preferred sector at this time with utilities next.

Expectations are for inflation to pick up and surprise on the upside sometime in 2010, many companies are starting to feel the impact of rising commodity prices in the last 6 months and have indicated that they will start raising price in the near future.

In that context, interest rates should start to rise in 2010, as a reminder, Australia has already increased rates twice in the last 2 months.

India is often mentioned as an even bigger opportunity than China, most companies still mentioned that the poor infrastructure in India needs to be fixed first.

Our investment approach favors secular grow story as opposed to more cyclical stocks. Clearly, companies exposed to the growth in Asia should be clear winners.

And contrary to popular belief, one does not have to invest in emerging market stocks. A review of the MSCI World showed that around 30% of sales for developed market economies now come from emerging markets.

We had a few companies reporting results this week. Vitasoy, a Hong Kong company which is a leader in the soy and juice beverages reported sales growth exceeding 10% (+25% in China) and profits grew more than 20%.

We also had 2 US consumer discretionay reporting, both showing strong sales and profits, Chico's a women's wear retailer and Philips Van Heusen (Calvin Klein).

We will continue our trip to Singapore by visiting more than 10 companies on-site early next week before heading off to Japan.

We will be happy to give you our impressions in a few weeks.

Have a good week.

The Global Alpha Team