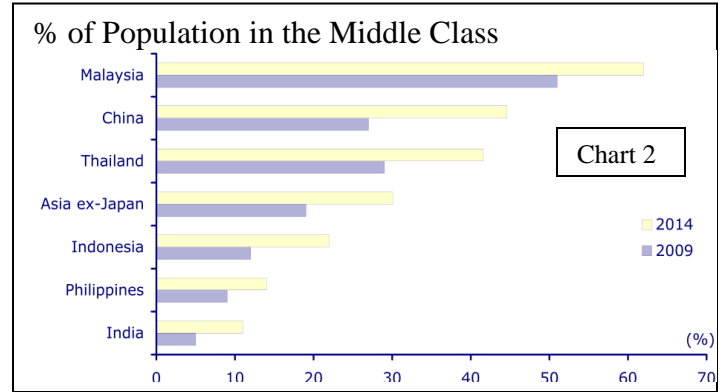
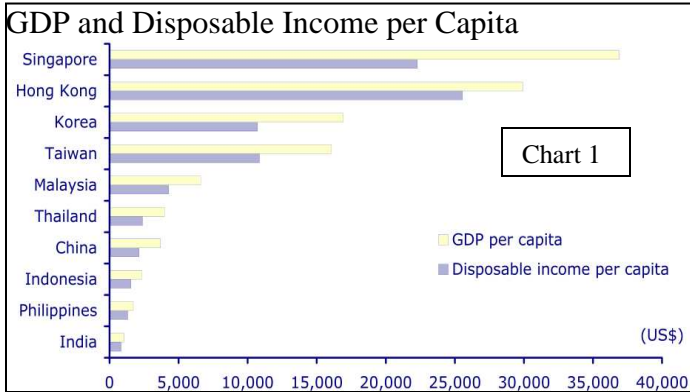




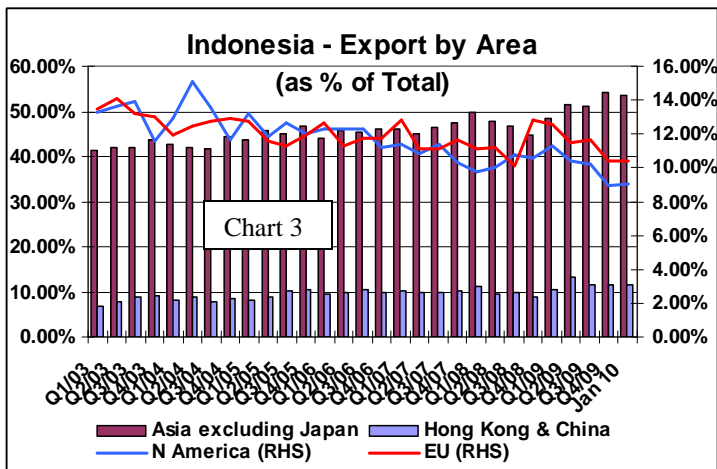
ASEAN ECONOMIES

The Association of SE Asian Nations, ASEAN, consists of 11 countries. The top five--Indonesia, Thailand, Malaysia, Singapore and the Philippines--have a combined GDP of over US\$1.3 billion (2008 figures), larger than India and with 37% of the population, higher disposable income per capita (Chart 1). The proportion of the middle class in major ASEAN economies is also greater (Chart 2). May's *Issues* highlights the potential spending and investment trends, key drivers of GDP, in Indonesia, Malaysia and Thailand--the top three in ASEAN with a combined GDP of US\$1 trillion.



Sources for Charts 1 and 2: Euromonitor, CLSA Asia-Pacific Markets.

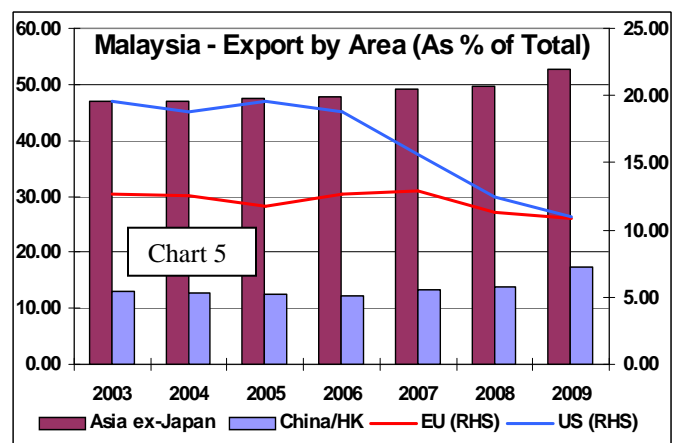
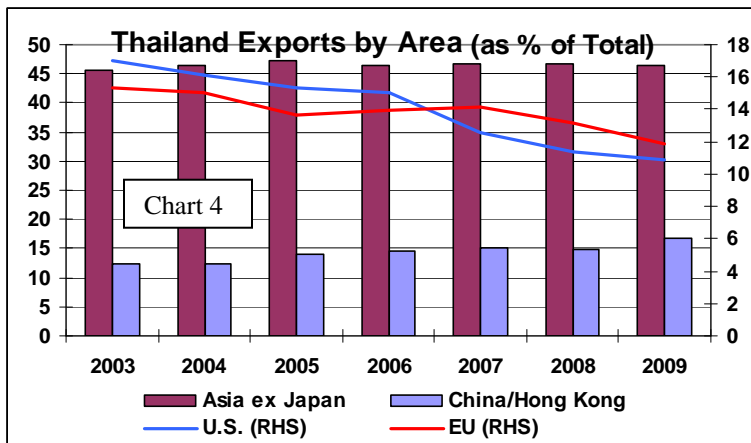
The Rise of ASEAN as an Economic Bloc



Free trade pacts in Asia (58 as of 2009, up from three in 2000) and investments by multinationals have substantially raised ASEAN's intra-regional trade and economic integration over the years.

Major ASEAN countries now export 45% to over 50% of their total to Asia ex Japan (Charts 3-5). Note that the share of China + Hong Kong stands at only one-third of that. Intra-ASEAN trade is the largest bloc.

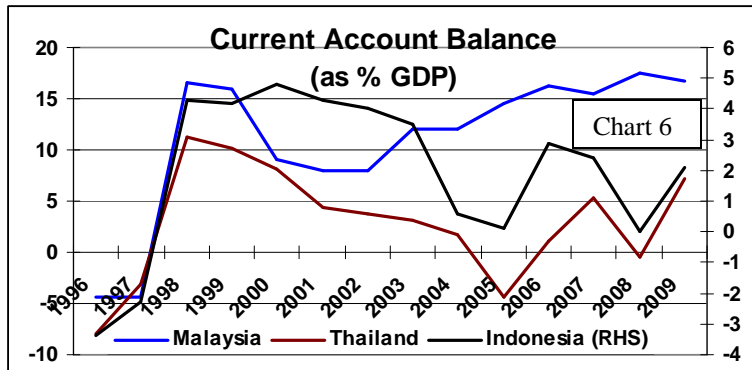
Singapore/Malaysia is now the biggest destination for Indonesia and Thailand exports, currently in the mid-tens vs. 10%-12% each to the U.S., EU and Japan.



Sources (Charts 3-5): CEIC, Bloomberg

Liquidity x Confidence → Drivers of Private Sector Spending and an Investment Upcycle

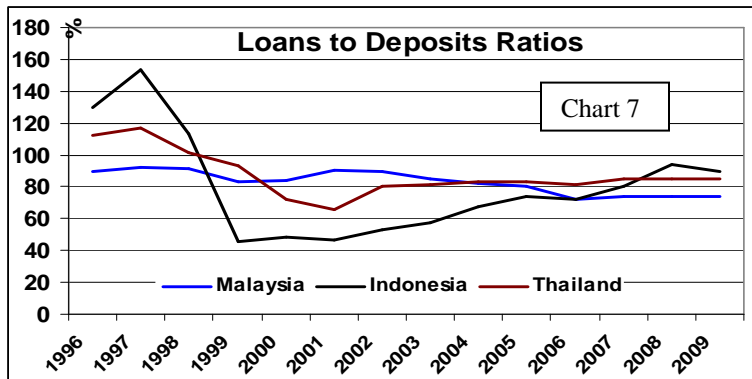
1. Liquidity Conditions: Liquidity of an economy, the source of funds, comes from a) the external sector, where the current account surplus is key, and b) the domestic banking system.



The stronger the current account surplus, the easier the liquidity conditions for that economy. Economies with current account deficits are always at the mercy of the willingness of other countries to lend them funds. Greece's current problem offers a prime example.

Chart 6 shows Malaysia with an incredible surplus of 15% of GDP, Thailand a strong 7% and Indonesia a healthy 2%--in stark contrast to the 1995-97 deficit situations that led to the Asian financial crisis of 1998 when foreign funds exited.

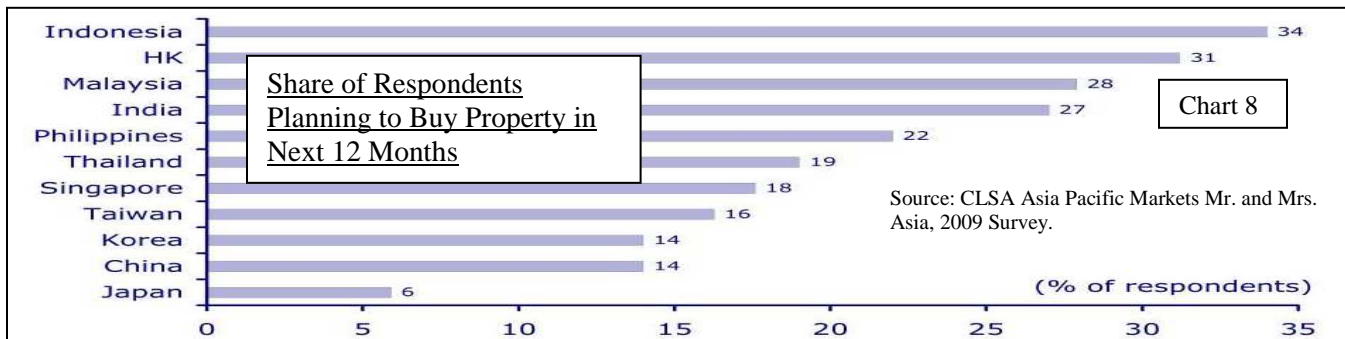
Source for Charts 6 and 7: CEIC, Bank of Thailand.



Liquidity in the banking system is the other key provider of funds. A good indicator here is the loans-to-deposit ratio (LDR) that measures the lending capacity of banks (Chart 7).

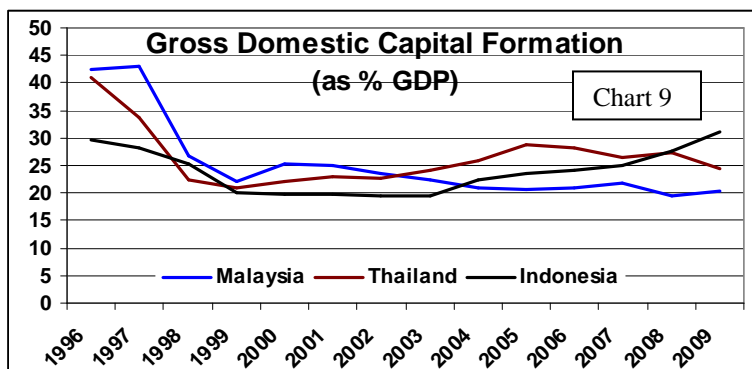
With ratios at over 100% at the pre-1998 crisis, ASEAN banks were relying on foreign borrowings to fund domestic spending and investments. In contrast, ASEAN banks now have plentiful liquidity, with LDRs ranging from 70% to 85%.

2. Confidence: Of various consumer and business confidence indexes, one of the best proxies is home purchases.



Source: CLSA Asia Pacific Markets Mr. and Mrs. Asia, 2009 Survey.

Upcoming Spending and Investment Cycle in ASEAN Economies



Summary: Currently, ample liquidity exists to propel *sustainable* investment booms in ASEAN that could rival or even exceed pre-1998 peaks. Indonesia is leading. Its GDCF as a percentage of GDP in 2009 scaled the 1996 peak (Chart 9) and with a positive current account balance.

Indonesia's local confidence factor ranks at the top, but Malaysia is not far behind and improving. Despite political turmoil, sales of cars and homes in Thailand have stayed buoyant.

Source for Chart 9: CEIC, Bank of Thailand.

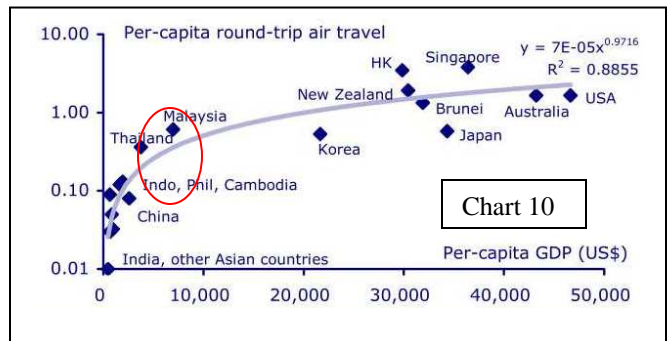
Growth Sectors: Properties, PCs, Home Improvements, Appliances, Banking, Travel, Automobiles

Size of Auto Market in ASEAN > India or Korea

Total passenger-vehicle sales				
(No.)	1999	2009	Change	Change (%)
Europe	16,855,000	17,525,000	670,000	4
Japan	5,761,643	4,808,000	(953,643)	(17)
USA	16,880,711	10,430,936	(6,449,775)	(38)
Total	39,497,354	32,763,936	(6,733,418)	(17)
Australia	774,191	929,366	155,175	20
China	1,496,210	10,300,182	8,803,972	588
India	615,527	1,631,777	1,016,250	165
Indonesia	85,131	608,000	522,869	614
Korea	1,246,801	1,449,000	202,199	16
Malaysia	286,391	529,298	242,907	85
Singapore	52,378	73,005	20,627	39
Taiwan	413,449	294,423	(119,026)	(29)
Thailand	246,388	520,000	273,612	111
Total	5,216,466	16,335,051	11,118,585	213

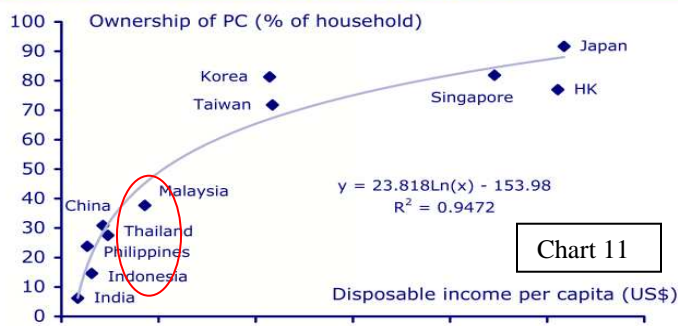
Source: Table 1 and Chart 10: CLSA Capital Markets.

ASEAN Air Travel Is Growing in Double-Digits

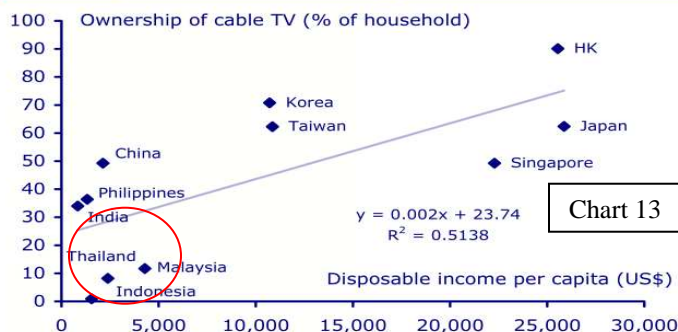


Charts 11-14 (Source: Euromonitor) show the penetration rates of PCs, and home appliances vs. disposable income all at the steep up-phase of their growth curves, indicating good growth opportunities over coming years.

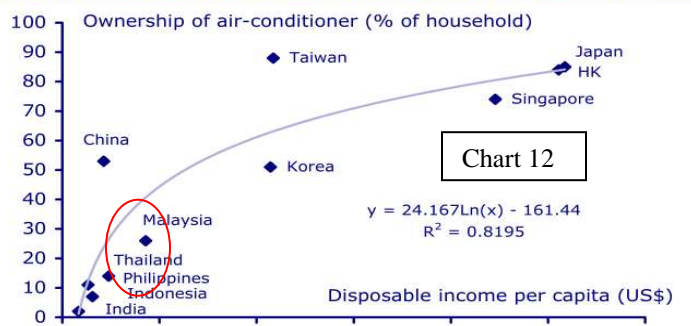
PC penetration versus disposable income



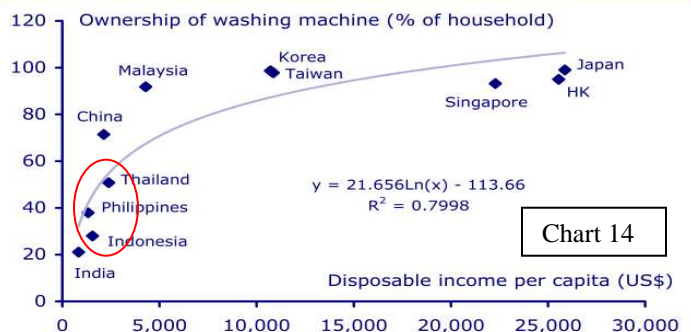
Cable-TV penetration versus disposable income



Air-conditioner penetration versus disposable income



Washing-machine penetration versus disposable income



Conclusion

India has participated well in the BRIC emerging market theme for years. By now, BRIC is probably at risk of being overly hyped. In stark contrast, ASEAN has been ignored. As discussed, the size of ASEAN in terms of GDP and purchasing power rivals, if not exceeds, that of India. Liquidity and domestic confidence conditions are right for the investment + spending cycle to accelerate in a number of top ASEAN economies over coming years. Indonesia has taken the lead and, no surprise, its bourse is the best performer in Asia. We see signs that other ASEAN economies, at varying speeds, are moving in a similar direction.

We expect ASEAN bourses' days in the sun will come from investors in the global emerging markets theme and we have been increasing our exposure to these markets and conducting a series of investment visits in the region to identify more opportunities in the domestic sectors of its markets.

The NAV GSI Asian Capital Growth Fund—US\$25.11 & The Long/Short Fund—US\$23.31 (Apr 29, 2010)