GTI GLOBAL THEMATIC INVESTORS

QUARTERLY LETTER TO SHAREHOLDERS IN THE P&C GLOBAL THEMATIC INVESTORS FUND FEBRUARY 2011

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PUTTING TWO FAIR WINDS AT YOUR BACK

The whole point of investing through global themes is to put the wind at your back.

Long term global themes - the ageing of Europe and Japan, the Development of China, the growing shortage of clean water - are impossible to stop, however many bullets are flying in Cairo's Tahrir Square. Pursuing long term themes in your investment marathon is likely to give you a better chance of breaking the tape. Provided you've got the endurance, the wind of long term economic change should push you along at a merry pace.

Indeed, long term GTI demographics (the median age of 80mn Egyptians is only 24) drive Cairo's political restiveness, and also provide hope for muscular economic growth if a political solution can be achieved

But there's another investment wind that may be just as strong, and, if it's applied to global thematic investing it will put a further spring into your stride.

This investment wind – now a significant part of our own GTI portfolio of stocks - is a type of business with an attribute so powerful that it is a wonder that it is so seldom discussed. And there may be good reasons.

These businesses are so powerful that governments - of all political hues - look upon them with suspicion, and often try to legislate against them. The media is often denied access to their byzantine corridors. "Sell-side" brokerage firms tend to emphasize their competitors as there is little prestige in touting well-known names.

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"Buy-side" investment managers, a race paid to appear clever, often miss them because they're too obvious, or are scared off by the higher valuations that quality confers.

And the investing world in general –witness the screeds of indiscriminating and purely quantitative sector analysis produced by City analysts (yawn!) - tends to miss the point by comparing ordinary apples with, well, plums.

Finally, history is so marked by occasional traumatic failure that it is generally assumed that these businesses sow the seeds of their own destruction.

Indeed, it is only by being truly "global" –one of the choruses of this newsletter - that they can truly protect themselves in the longer term. So what is this quality that gives these companies a real edge?

Dominant position.

Look Away Now: Staring Dominance in the Face

In our everyday lives, we all know Dominance when we see it.

The following quote comes from no touchy-feely "shrink", but from Walt Disney Co, the company that made a mouse dominant. *"In the corporate parlance, 'everyone wants to be the boss of everybody.' Dominance is almost invisible in human affairs and yet, it is arguably present everywhere. Every time two people meet, the experts suggest that the question of dominance or submission gets answered in the way one person holds eye contact and the other glances away, or in the way one unconsciously shifts vocal tone to match the other. Thus, trying to figure out who's in charge is almost as natural for people as breathing."*

So can corporations sense dominance in each other? Of course they can. Even mighty Procter & Gamble will think twice about the expense and challenge of launching a new toothpaste category to compete with Colgate's dominance of the Indian toothpaste market. That's not to say they won't do it. But they'll think hard about it before they do. Most of the time, lesser firms will avoid eye contact with the dominant player.

In academic business circles, dominant businesses are seen in terms of process and traits. David Rosenbaum's *"Market Dominance: How Firms Gain, Hold, or Lose It and the Impact on Economic Performance" (Westport, CT: Praeger 1998),* cites the 6-fold characteristics of dominant firms:

1. **being a first mover**
2. **strong leadership**
3. **cost advantages, often through economies of scale**
4. **effective product promotion to stimulate demand**
5. **strategic use of patents and technology**
6. **general dominance through size**

Where does dominance come from? Typically, dominance comes to companies from cost advantage. **Dow** and **Alcoa** had lower costs in certain stages of production; **Ford** pioneered cost efficient assembly line manufacture; **GM** lowered costs through massive sales volumes; and **Kodak** created advantage by exploiting the complementary camera and film markets.

Vertical integration didn't always work so well; **GM** integration lowered costs in the firm's early years, but this brought it higher costs later in its history. Nor did first-mover technological inventiveness; inventing the best mouse-trap is of absolutely no value, if you cannot then commercialize it. Betamax lost out to VHS, despite being arguably the better technology.

How does business dominance impact economic and share price performance—and how can we make money out of it?

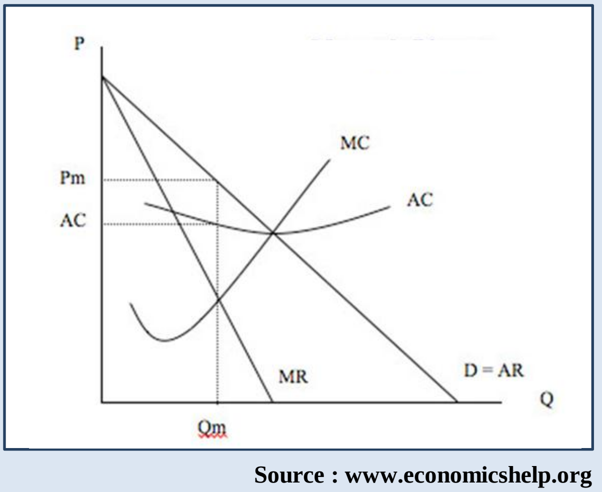
Monopoly, Dominance, Leadership

On the question of business performance, there is little doubt that a dominant, or monopolistic, enterprise is more able to "price-give" (business jargon for "force its customers to pay up for its product") than a smaller business in a more crowded field. That's one reason governments try to take dominant companies down a peg.

But you don't have to be a monopoly or even dominant to preserve your profit margins if you're just plain efficient. It's just a whole lot easier if you are.

In 2011, in our developed world, few monopolies survive, and no wonder; competition is the crux of economics. For the best part of a century, governments have led lynching parties against "anti-competitive" monopolies.

Despite the consensus that monopolies are a "bad thing" for consumers, dominant companies enjoy some of the advantages of a monopolistic position. Monopoly-style profits can fund R&D to enhance a dominant position, for example.



Source : www.economicshelp.org

Here's how Economics 101 explains that monopolies are a "bad thing", with the help of a squiggly chart. Those with an ounce of common sense can skip the squiggly chart.

1. **A Monopolist is a price maker because he does not face any competitors**
2. **A monopolist will seek to maximise profits by setting output where Marginal Revenue = Marginal Cost**
3. **If the market were competitive the price would be lower and output higher**

For investors, the success of dominant, or near-dominant, companies –**Coke**, **Amazon**, **De Beers**, **Wal-Mart**, **Microsoft**, **Fanuc**, **Intel**, **Toyota**, **Procter & Gamble**, **Nestlé** - is so compelling that, as investors, we neglect it at our peril. We'll show that in a minute.

And when 59% of the top 150 economic entities in the world are business corporations (see list of the top 100, where it's "just" 44%), it has never been more important for the global investor to know where dominance lies (no wonder governments want to cut them down to size via anti-trust legislation):

Rank	Country	$US Millions
1	United States	$14,256,300
2	Eurozone	$12,455,979
3	Japan	$5,067,526
4	China	$4,909,280
5	Germany	$3,346,702
6	France	$2,649,390
7	United Kingdom	$2,174,530
8	Italy	$2,112,780
9	Brazil	$1,571,979
10	Spain	$1,460,250
11	Canada	$1,336,067
12	India	$1,296,085
13	Russia	$1,230,726
14	Australia	$924,843
15	Mexico	$874,902
16	South Korea	$832,512
17	Netherlands	$792,128
18	Turkey	$617,099
19	Indonesia	$540,277
20	Switzerland	$500,260
21	Belgium	$468,522
22	Poland	$430,079
23	Wal-Mart	$408,214
24	Sweden	$406,072
25	Austria	$384,908
26	Norway	$381,766
27	Saudi Arabia	$369,179
28	Iran	$331,015
29	Greece	$329,924
30	Venezuela	$326,498
31	Denmark	$309,596
32	Argentina	$308,741
33	South Africa	$285,983
34	Royal Dutch Shell	$285,129

Rank	Country	$US Millions
35	Exxon Mobil	$284,650
36	Thailand	$263,856
37	United Arab Emirates	$261,348
38	British Petroleum	$246,138
39	Finland	$237,512
40	Columbia	$230,844
41	Portugal	$227,676
42	Ireland	$227,193
43	Hong Kong	$215,355
44	Toyota Motor	$204,106
45	Japan Post Holdings	$202,196
46	Israel	$194,790
47	Malaysia	$191,601
48	Czech Republic	$190,274
49	Egypt	$188,334
51	State Grid	$184,496
52	Singapore	$182,232
53	AXA	$175,257
54	Nigeria	$168,994
55	Pakistan	$166,545
56	China National Petroleum	$165,496
57	Chile	$163,670
58	Chevron	$163,527
59	ING Group	$163,204
60	Romania	$161,110
61	Philippines	$160,476
62	General Electric	$156,779
63	Total	$155,877
64	Bank of America	$150,450
65	Kuwait	$148,024
66	Volkswagen	$146,205
67	Algeria	$140,577
68	ConocoPhillips	$139,515

Rank	Country	$US Millions
69	BNP Paribas	$130,708
70	Hungary	$128,964
71	Peru	$126,734
72	Assicurazioni Generali	$126,012
73	Allianz	$125,160
74	New Zealand	$125,160
75	AT&T	$123,018
76	Carrefour	$121,452
77	Ford Motor	$118,308
78	ENI	$117,235
79	J.P. Morgan Chase	$115,632
80	Hewlett-Packard	$114,552
81	E.ON	$113,849
82	Ukraine	$113,545
83	Berkshire Hathaway	$112,493
84	GDF Suez	$111,069
85	Daimler	$109,700
86	Nippon Telegraph & Telephone	$109,656
87	Kazakhstan	$109,115
88	Samsung Electronics	$108,927
89	Citigroup	$108,785
90	McKesson	$108,702
91	Verizon Communications	$107,808
92	Crédit Agricole	$106,538
93	Banco Santander	$106,538
94	General Motors	$104,589
95	HSBC Holdings	$103,736
96	Siemens	$103,605
97	American International Group	$103,189
98	Lloyds Banking Group	$102,967
99	Cardinal Health	$99,613
100	Nestlé	$99,114

Source : Fortune Global 500 2010, IMF

Dominance and Cash Flow

History shows that leaders - numbers 1, 2 and 3 in any sector - are likely to remain leaders for long periods of time. It is rare indeed that the King is deposed. Leadership –itself a massive advantage - lies just one rung down from "dominance", just as "dominance" aspires to "monopoly". Being a leader or dominant is legal. Being a monopoly normally isn't.

The leading 3 companies' size and power enable them to build "moats" round their businesses – Buffett's key test for "sustainable competitive advantage" - by establishing dominance in distribution, logistics, R&D, advertising muscle, terms of trade, or "routes to market".

What does a dominant company look like? Well, it probably looks like CEO Polman's description of **Unilever**: "*First, we have strong brands and category positions. In fact, 13 of our brands have more than EUR1bn in turnover and 70% of our portfolio actually comes from categories or market combinations in which we are leaders. We have the number one position in seven out of the 11 categories in which we operate.*"

This is the type of product range that distinguishes a dominant company like **Unilever Indonesia** with 30-70% market share of 15 product categories –everything from Sunsilk shampoo to Pepsodent toothpaste to Blue Band margarine. Unilever, a 77 year veteran of the Indonesian archipelago, has competitive edge in being able to exploit its local geography of thousands of islands and the eccentricities of the local Mom and Pop store network.

Such a company deserves a premium and it's certainly got one; Unilever Indonesia trades on 30x earnings. We will explain why this is not as expensive as it looks later on. GTI holds **Unilever Indonesia**.

Dominant firms maintain dominance in a variety of ways. Arisaig Partners say that dominant FMCG (Fast Moving Consumer Goods) companies:

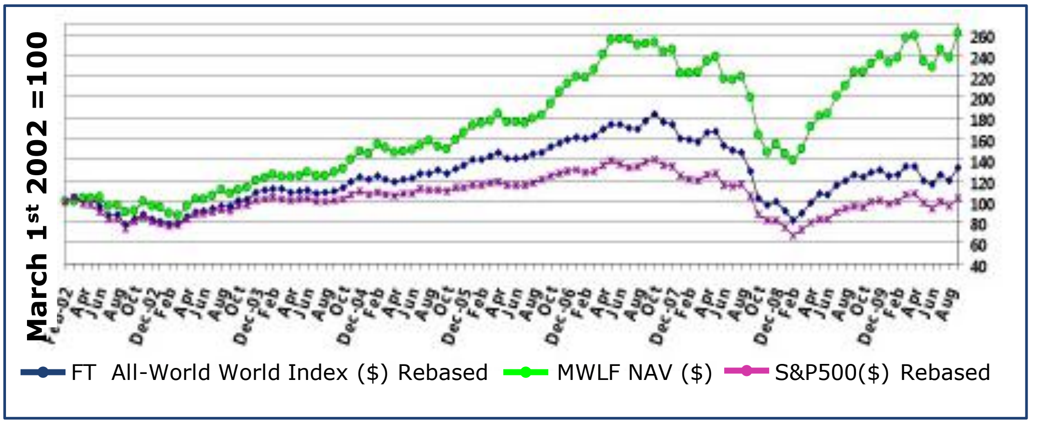
1. **Operate in advantaged markets with low dependence on technological change and with scale benefits**
2. **Stay ahead of customers' changing taste patterns**
3. **Develop sophisticated pricing and packaging strategies**
4. **Commit to quality and thereby establish brands**
5. **Adapt to international markets**
6. **Leverage the brand and expand the range of products**
7. **Plan an efficient distribution policy**
8. **Invest in the value-added areas and outsource the low return elements**

This all adds up to one superior advantage all leading companies enjoy: huge cash flow, the life blood of any business. Incidentally, many of the features of dominant FMCG companies can be applied to other sectors too.

Act Mundane but Think Global

The most sophisticated understanding of investing in leaders comes from GTI's list of advisers, a boutique investment firm in London called Mundane Asset Management. Principal Anthony Garnett preaches with fervour about the different leadership models. Mundane must know what they're doing; their track record is also a leader:

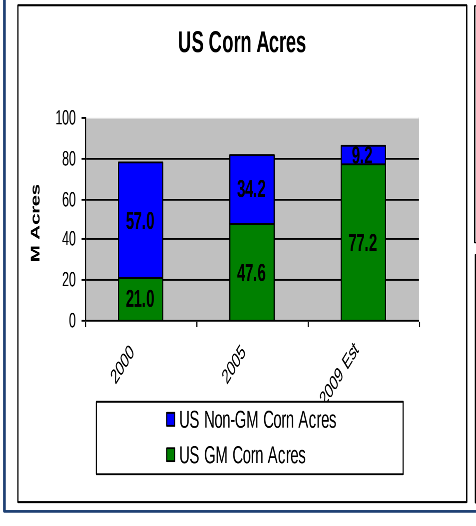
Mundane World Leaders Fund

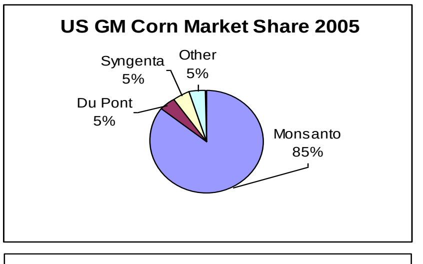


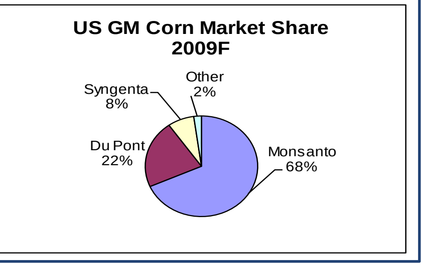
Source : Mundane Asset Management

Come Share my Umbrella

One example is the *"Duopoly Umbrella model*", where a leading company sets a price in thinly populated markets and another company benefits by offering better value.







- Leading company sets prices in a market characterised by few players. Perception of price skimming.
- Secondary player(s) grow under the price umbrella by matching or exceeding value to customer. Second mover risk advantage?
- Slow response by leader?
- Significant barriers to entry to new entrants?

Source : Mundane Asset Management

Heinekenisation

Another is the *"Heinekenisation" model* (**Heineken, TNT**), where a leader's success with standard, lower margin products leads on to higher margin profitability at a later stage.

- Invade country
- Gain leading market share
- Best practice operations and use global scale
- Overlay standard products with premium brand
- Harvest superior ROIC

Bloated World Leader

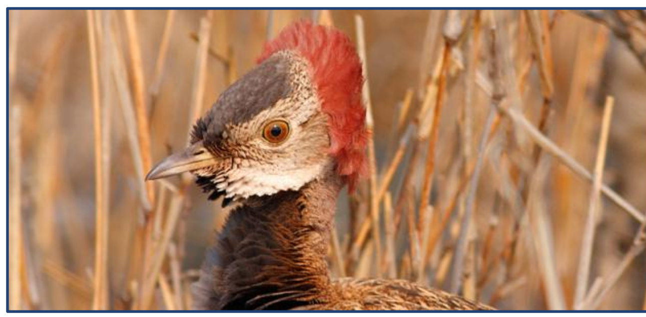
Another (**Unilever** fits into this one) is the "*Bloated World Leader" model,* where the effect of greater efficiency in a large scale business can vulcanize profits.

- Leader in denial
- Excellent customer base but little profitability
- Scale leaves scope aplenty for transformation
- Inward looking culture can be inverted

Tweet, tweet,

Our personal favourite is the *"Red Crested Korhaan" model*, referring to an avarian denizen of South Africa.

In this case, a leading company which plays dead or injured in the face of threats and gets away with murder as result.



Mundane Model Summary

Cost Benefits Shared with Customers Feedback loop of EDLP. Michael Porter's lowest cost operator strategy. Only room for one? Examples: Tesco, Wal-Mart, Costco, Amazon	Red-Crested Korhaan (Wounded animal ruse) Company plays dead or wounded more in rhetoric than reality as an action to survive regulatory or other onslaughts. Examples: TNT, GM.
Duopoly Umbrellas Extravagant product pricing by leaders allows lower cost models to flourish under their umbrella. Sustainabilty question marks. Examples: Monsanto/Syngenta, Coke/Cott, Gillette/Bic. Lego/Megablocks	Heinekenisation Dominate new countries with leading market share in the standard priced products and add the premium priced product on top. Cost of production and distribution alike but better ROE. Examples: Heineken.
Surgery Stocks (Cancer Surgery Stocks) Cut out or spin off poor performers, or businesses with differing capital needs, and the market will reassess value. Examples: V.Numerous. Agfa/consumer film.	Toll Bridge A toll bridge which customers find convenient to use. Positive feedback loop entrenches the competitive moat. Examples: Shopping centres, SES Global, Amazon, Google.
LBO without the BO World leader saddled with debt. Management can only run the business for cash, like an LBO. Good control of costs, inventory and capex. Every $ of debt reduction is a $ on market cap Examples: ABB, ICI, Zurich Financial.	Capital Cycle Model Animal spirits drive inopportune capital allocation at top of cycle and starve businesses of capital at the bottom. Assets can be bought below replacement cost at cycle base. Examples: SES Global/satellites, ZFS/Insurance. Resource stocks.
Trading the Present for the Future Business run for the long-term at the expense of short term. Often the way private businesses think. Ebit and tax refined for LT. Examples: Amazon (Bezos), Richemont (Rupert), Liberty (Malone), Mittelstand co's Germany.	Bloated World Leader (Sales matched by costs) Leader becomes mediocre and company fails to adapt to environment. High market share and substantial turnover allows the scope to cut costs and recover. Most do much more and re-establish innovation. Customers rarely desert. Examples: Goodyear, Unilever.
Symbiotes –Living together Asset light/asset heavy organisms. Example Coke/CCE-ROE 30%/9%, ROA 16%/ 2%, leveraged symbiont.	Bundled Misfits Mature cash cow business and cash hungry growth business packaged together. Market has difficulty ascribing value to either. Examples: TNT, Marsh & McLennan

All slides courtesy of Mundane Asset Management

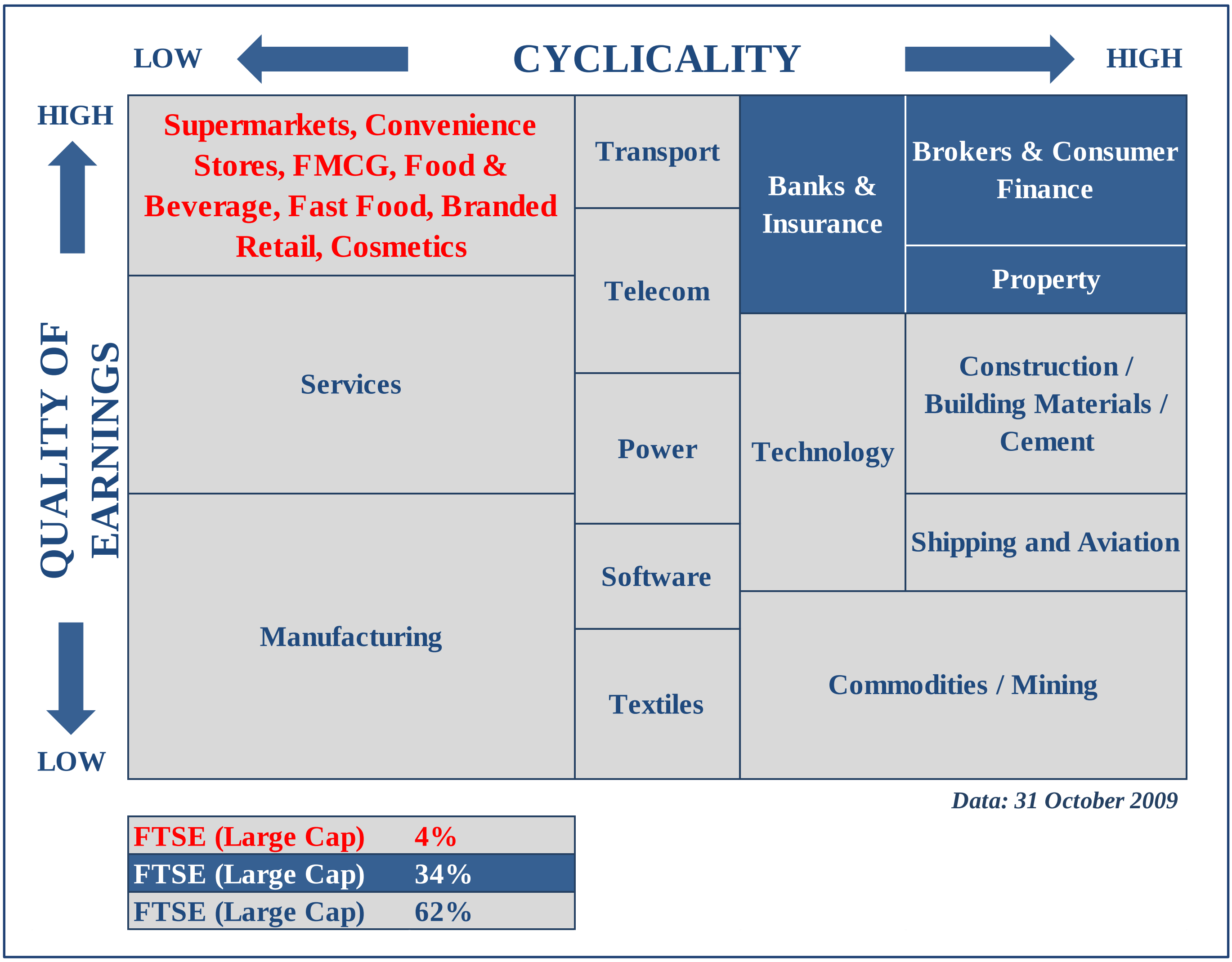
How's that? When Dominance Doesn't Matter

Some business sectors are simply less well suited to maintaining dominance.

Let's take mining (part of GTI's *"Supply Inelasticity"* theme).

Mining, as a business, lies at the least attractive end –the bottom right - of the "good" businesses spectrum, so it's a good test for our thesis. Mining and commodities businesses both suffer from cyclicality and low quality earnings.

Sectors



Source : Arisaig Partners

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Morgan Stanley, in their October 1996 research *"Global Investing: The Competitive Edge"* explain that dominance in mining companies comes from 6 key factors:

- Superior orebodies
- Management Expertise
- Scale
- Cost control, technology
- Size / reputation
- Reserve / production growth

Now let's compare this to what Morgan Stanley consider key for dominance in the consumer sector (top left of previous table):

- Brand Equity
- Financial Strength
- International distribution
- Global Management Capability

As investors, let's think about these factors in terms of predictability, of return, time to market, capital intensity, and risk; it could well be that "leadership" matters less in mining than in FMCG.

Most of Mining's factors can be created quickly or derived from a "lucky hit". A lucky mining "find" in Outer Mongolia (leave aside the political risks of mining in Outer Mongolia) can catapult a small, thinly financed junior miner ***immediately*** into the same capitalization league as a well-capitalized senior with multiple resources.

Brands: Legalized Monopolies

Barriers to entry are much lower in mining than in consumer goods, where it takes generations to establish a brand like Coke, Nestlé, Pampers, Kit Kat, or Gillette. Brands are legal monopolies. (Morgan Stanley estimates that it would take 20+ years for a similarly financed company to re-create a Coca-Cola with its vast global reach and distribution platform, but "only" 10 to re-create a Unilever, presumably because of the cultural revolution taking place in Unilever over the last few years. But 10 years is still a long time.....

Survival risk is also mitigated by the fact that leading companies (Procter & Gamble versus Unilever versus Colgate) usually tiptoe around each other in different product categories or geographies, though the obvious attractions of the Growth Markets will challenge this policy in future.

Here's how consultants Interbrand see 2010's top 30 brand leaders:

Rank	Previous Rank	Brand	Country of Origin	Sector	Brand Value ($m)	Change in Brand Value
1	1	Coca Cola	United States	Beverages	70,452	2%
2	2	IBM	United States	Business Services	64,727	7%
3	3	Microsoft	United States	Computer Software	60,895	7%
4	7	Google	United States	Internet Services	43,557	36%
5	4	G E	United States	Diversified	42,808	-10%
6	6	Macdonalds	United States	Restaurants	33,578	4%
7	9	Intel	United States	Electronics	32,015	4%
8	5	Nokia	Finland	Electronics	29,495	-15%
9	10	Disney	United States	Media	28,731	1%
10	11	HP	United States	Electronics	26,867	12%

Source : Interbrand

It's interesting to observe that of the Top 10 brands in the world, 7 could be called technology companies rather than FMCG companies. (And 9 are American). Is it possible that a new technology brand leadership is being created that will be as powerful as the consumer staple giants brand leadership of the past? Leaders, after all, do change. Ask Mr Mubarak.

When it all goes Pear-Shaped…Sometimes Plums Recover

But what happens when things go wrong in leading businesses? And they do go wrong. J&J –a global pharma leader with 92 brands - has had huge problems. Listen to this recent doomsday report about J&J from Geoffrey James of CBS BNet:

> **J&J**.....has gotten caught distributing medicine that's gotten moldy, has bits of metal in it, or was made in facilities that government inspectors found to be unsanitary. They've been forced to recall so many products.....There's been a steady erosion of J&J's market share in favour of generics, partly because people no longer believe that a product with the J&J label on it (or one of its 92 product brands) is of higher quality. That's very bad news for a company whose market strategy assumes that people will pay more for a branded product.

J&J's management seems helpless to fix the company's manufacturing problems. But that's not surprising, because J&J is a perfect example of a company where top management didn't just drink the brand marketing kool-aid, but poured it down their gullets, with a kool-aid chaser.

J&J has 92 (count 'em, 92) consumer product brands.....According to their latest 10K report to the SEC, J&J spent **USD 19.8 bn on "selling, marketing and administrative" expenses with yearly revenues of about USD 62 bn. (By contrast, Apple spent USD 5.5 bn in "selling, marketing and administrative" to make USD 65 bn.)**

Why does J&J have so many brands? The answer lies in the belief (commonly taught in business schools) that branding is the most strategic thing a consumer product company can do..... Executives who buy into that way of thinking don't understand branding. The reason that people will pay more for a branded medicine is because they're worried that the generic products won't be up to snuff. And that's because, in the past, generic products have been generally sub-standard while branded products have been higher quality.

In other words, the reason that branded products command a higher price is because the product is (or was) better, not because it's branded. And once the branded product is perceived as being sub-par, the branding game is over. At that point, your lousy product is creating your lousy brand, and there's no amount of brand marketing that's going to change that.

Unfortunately, most companies can only focus on one thing at time. As has been shown repeatedly, focusing on brand means giving other parts of the company (like R&D and manufacturing) short shrift. **GM** before the bailout was a perfect example, with its 12 brands, most of which consisted of products that were average at best.

And that's clearly what's happened at J&J. The company is wasting all its energy on branding while its products go to hell in a handbasket.

Smart companies are doing just the opposite. **Rubbermaid Newell**, for example, recently pared down its brands to a manageable number and shifted resources from brand marketing into sales. And **GM**, of course, is doing much better (and running more lean) now that they dumped some of their brands.

What's sad about this is that there are thousands of companies that have gotten infected with the brand marketing bug and where brand marketing has become the panacea that's going to grow them to the next level. It's sad, and it's stupid, and it's so predictable

The difference is that leaders can fix problems but lesser names can find it tougher. Leaders have muscle. Leaders have cash flow. **GM** and **Rubbermaid Newell** are fixing themselves. I don't know anyone alive who has ever suggested that GM management is better quality than J&J management. J&J will get out of their hole. The challenges are great but they're all soluble. J&J has got the money. It can re-focus its 92 brands. It can raise cash flow by de-emphasising some brands. It can apply better quality and operational controls. It can pour J&J balm on customer relationships. It can make good on its "brand promises". It can move forward.

Two case studies follow. Nokia, the dominant producer of mobile phone handsets, has missed the call of the smartphone technology. But J&J's market leadership can help it to bounce back from its obsession with the branding game.

NoTech, NoFuture, NoKia

Nokia is still ***the*** dominant mobile phone company in the world, with a 28% market share. 28% is current dominance, even if it's former technology.

Nokia used to bestride the world like a Colossus, with about half of all handsets sold. But the new smart phone technology has passed them by like a missed call and, in the words of GTI advisers, Aviate Securities, *"Google and Apple are laughing all the way to a duopoly"*.

The CEO of Nokia –even more picturesquely- described himself in an internal memo as standing on a burning platform surrounded by a blazing fire of competition, a desperate man choosing between the fire and the icy waters. Maybe nice Bill Gates will send a life-boat.

The 1st October 1908 was a fateful day for dominant horseshoe manufacturers, when Henry Ford produced his first Model T Ford. Dominance matters little if a company's management is asleep at the wheel, or the reins.

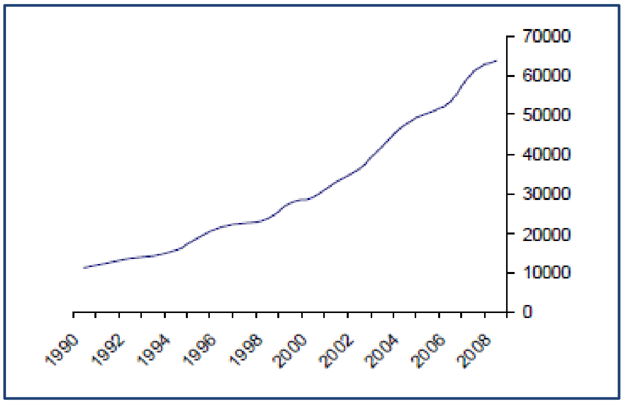
Nokia (NOK1V)

Source : Fullermoney

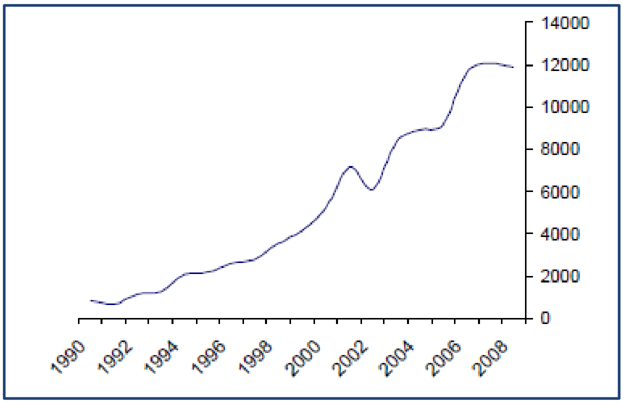
Case Study of Dominance: Not just a Sticking Plaster

So it's a brave man who would bet against J&J's management depth, product quality, fearsome cash flow –USD 15bn every year - and fortress balance sheet (USD 19bn in cash, growing by USD 5bn a year). Who would want to bet against 27 years of consecutive earnings increases and 48 years of consecutive dividend increases? See the Return on Equity generated as a result.

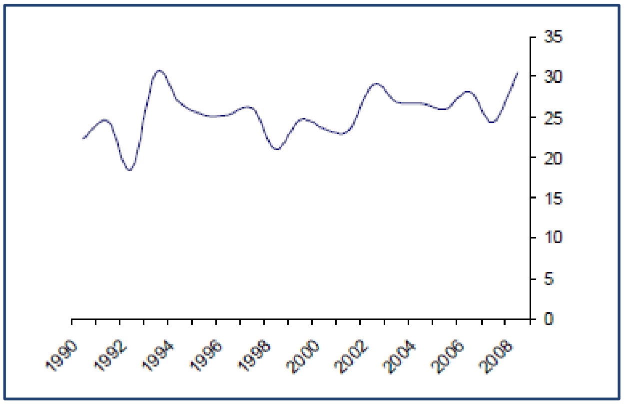
J & J Sales



J & J FCF US (m)

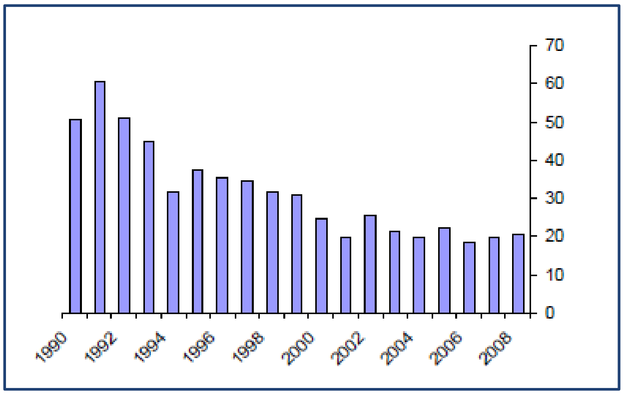


J & J ROE (%)

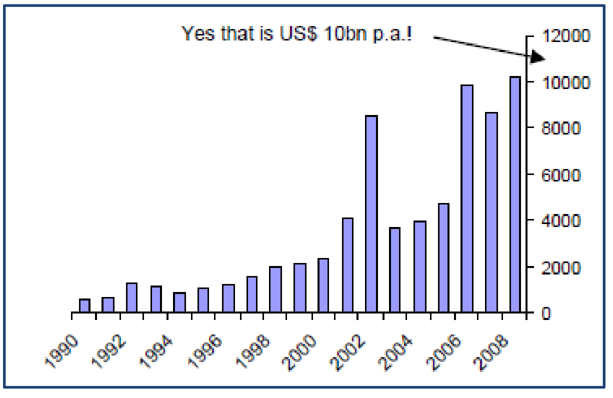


Consequently, J&J can shell out huge rewards to its shareholders in good times (the past few decades) and cut back on them to defend its business when it is under pressure (such as now). But if a junior mining company slips on a banana skin, it's usually curtains.

J & J CAPEX/OCF (%)



J & J Share buybacks & cash dividends US$ (m)



Yes, J&J has gone about as wrong as a global leader can go, but its leadership is the reason for its longevity and still a reason to consider it as an investment. GTI and its advisers are watching it closely: As of today, GTI doesn't hold J&J but holds its generic competitors, **Teva** (Israel) and **Kalbe Pharma** (Indonesia) as well as mainstream Big Pharma giants **Novartis** and **Roche.**

All Charts courtesy of Arisaig Partners

Investing in Leaders

Well, does it work? Does investing in dominant and leading companies produce better results? We think it does enough of the time. It has become another discipline in our management of money. We thank Arisaig Partners for these numbers, and point out 2 important points:

1. They're all "ex dividend" (i.e. they do not include dividends). *With* dividends, performance would have been +2-3% per annum higher in every case
2. They start in 1980, by which time the US was the most developed consumer market in the world and presumed in some quarters "ex growth" (no one says this is true of Indonesia today).

% Return 1980 – 2010 (30 years)	Total Return ex div	Annualised return ex div
S&P 500	**+690%**	**+7.5%**
Heinz	**+1,586%**	**+10.5%**
Kellogg	**+1,605%**	**+10.5%**
Kimberly-Clark	**+1,665%**	**+10.6%**
General Mills	**+1,915%**	**+11.6%**
Procter & Gamble	**+2,357%**	**+11.9%**
Coca-Cola	**+3,049%**	**+12.6%**
J&J	**+3,408%**	**+13.1%**
Colgate-Palmolive	**+3,586%**	**+13.5%**
Pepsico	**+3,833%**	**+13.8%**
McDonalds	**+4,989%**	**+14.9%**
Wal-Mart	**+32,609%**	**+22.6%**

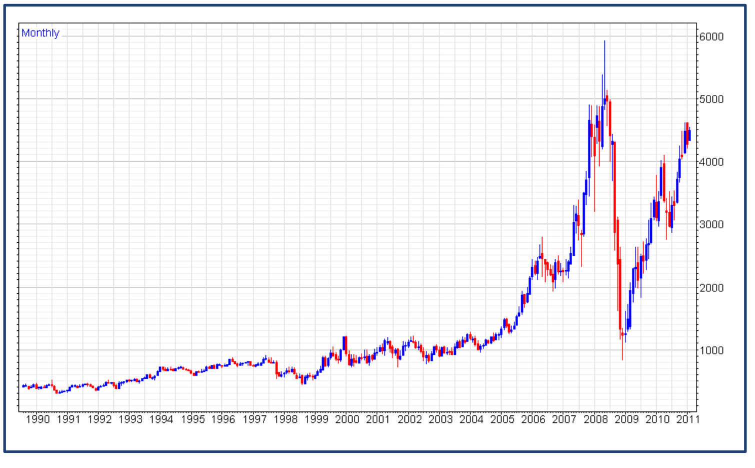
The 30 year returns have outperformed the S&P500 by 50% a year on average.

We find it interesting that, according to our advisers there, MNCs out-performed strong local champions in 2010. We suspect that leadership globally can also make it easier to achieve leadership locally. (We are sure we will see many global leaders swallow up local leaders in the next few years).

On the following pages, look at how many of the charts of other leaders that GTI holds are trading above their 2008 crisis highs:

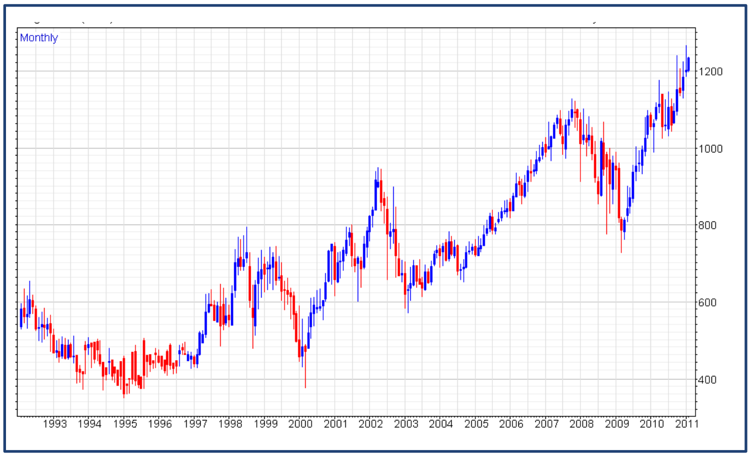
Leading Shanghai supermarket chain and *"Developing China"* theme play <u>Lianhua Supermarkets:</u>

GTI's *"Supply Inelasticity"* theme mining leader <u>Rio Tinto:</u>



"Ageing Population" theme leader, <u>Infosys:</u>

World no 1 in spirits and *"Emerging Middle Class"* theme leader, Diageo:



***"Emerging Middle Class"* theme's Unilever Indonesia:**

GTI's *"Supply Inelasticity"* theme mining leader BHP Billiton:

All charts courtesy of Fullermoney

Quality Pays Off

So whenever GTI buys a stock, we ask ourselves whether this is a leader or a dominant company (psst......we do have several (near) monopolies in our portfolio as well). Don't tell Big Brother.

Some say that valuations on quality stocks are too high.

They're right. Many leading consumer champions now trade more expensively than they did in 2008. But not all. The major MNC leaders now trade as cheaply as we can remember in our long careers.

But there's an important point here. High quality (our "plums and apples" jibe at the beginning) should trade more expensively than low quality. 48 years of dividend increases has to be worth more than a patchy or non-existent dividend record from a junior miner. When one favours Ferrari over Ford, Gucci over Grunge, "Ritz" over rats, doesn't one expect to pay more for it? Why should it be any different in investment than in real life? Buffett makes the same point in our "Bruce's Hamburger Stall" section at the end.

Investing can make your eyes play tricks on you—get the wind of dominance at your back and see ahead to high returns.

Global Thematic Investors

Quarterly Review

This is a straight copy/paste of what we wrote to our managed clients last month. It sums up our views:

Our "Road Map" for stock markets –bullish from late Q408 - remains. However, we are now well into the volatile, second stage of an equity bull market. From now on it will be the performance of economies and individual stocks that will count, as the rising tide of liquidity will not lift <u>all</u> boats any more.

1. **Our call that March 9th 2009 was the start of a multi-year global equity bull is on track**. But 2009's deserted equity investment stadium now has quite a few cheer-leaders and a rowdier investor crowd, most of whom realize the world did not end in 2008, and all of whom claim they said so at the time.

2. **Most of our global equity themes worked well**, except for *Ageing Population, Water & Ecology,* some parts of *Emerging Middle Class* (SS Africa and Middle East) and *Restructuring Japan* (even Japan saw a Yen-strength enhanced rise in Q4 and gave us a great opportunity to reduce it as a specific theme).

3. **Equities are part of a global beauty competition for the marginal dollar. They still shine in comparison with the other 4 asset classes.**
    i. ***Cash*** yields remain derisory in all major markets, though they have almost certainly bottomed. Some developed world interest rates are near 350 year lows and in most parts of the Developed World, the Zero Interest Rate Policy ("ZIRP") looks likely to linger, even if QE2?3?4? doesn't.
    ii. ***Bonds*** (yielding 2-4% in the Developed World) have had the buyers-shock that we predicted. Even mighty PIMCO, largest bond manager in the world, now writes defensively about its sector. Avoid bonds, except as "Double Dip" safe-harbours or until GBP 10 year yields approach 5% (now 3.7%).
    iii. ***Gold*** shines in a fiat-currency world. But gold has too many apostles to merit a big overweight, particularly as an end to the gold bull market (we are emphatically not predicting this) will expose holders to a multi-decade bear market, like in 1980-2001. The crush at the exit could be very unpleasant.
    iv. ***Hedge Funds*** have issues of transparency, fees, capital protection and manager skills. If equities are attractive, this argues for a lower exposure to risk assets that are "hedged". Not for the first time in our investment careers, the *"Death of Long Only"* soothsayers are dressed like fashion victims.
    v. ***Equities*** yield more than 10x cash. We still foresee an investor love affair with "Dividend Aristocrats" (high yielding Blue Chips e.g. Diageo, Unilever, Nestlé, P&G, Veolia and Vodafone). Baby Boomers need *safer cash returns than bonds issued by dubious creditor countries.* Equities earn the cigar.

4. **Aggregate economic activity is sufficient to justify higher equity prices;** 35% of the developing world has +7% real growth, while the other 65% (USA, UK etc.) has +2-3%, and this is now picking up, lethargically. Blended growth of 4-5% is enough for equities to advance by +5-10% per annum. "Developed Winter plus Developing Summer still equals Global Spring" but there are now some green shoots to brighten the Developed Winter.

5. **M&A activity will reflect growing corporate confidence.** Developed world companies are still beating earnings forecasts and Corporate America –cashed up with over USD 2 trillion and with similar annual cash flow - has a stronger balance sheet than at any point since 1956; another reason to own equities.

6. **Our biggest fear** is for a take-off in soft commodity, food and inflation prices. Equities will survive this far better than bonds, but it will still hurt sentiment.

7. **What we did in Q410.** We added to equities.

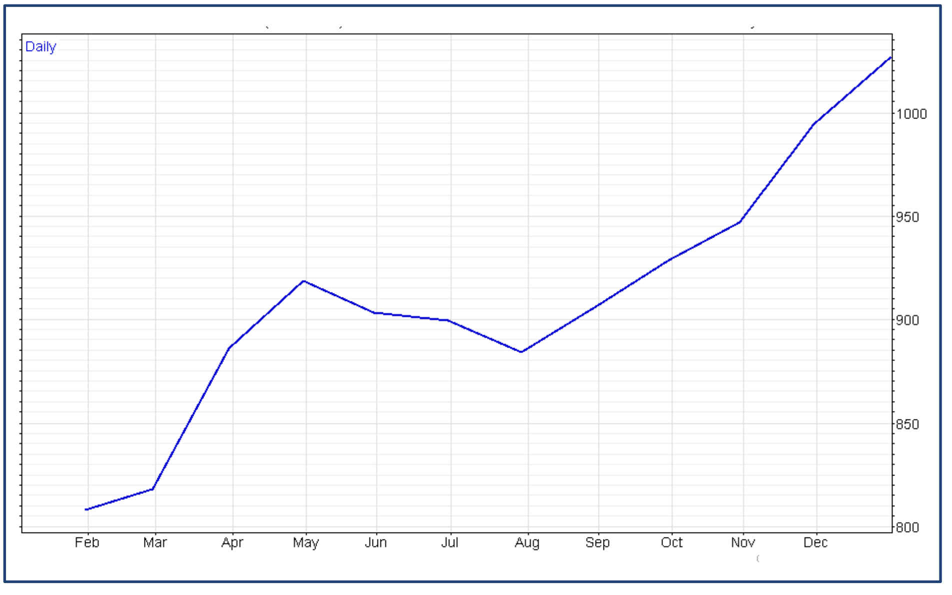
8. **Your account is invested for the "Curate's Egg" world (good in "Emergia", picking up in the duller, developed world).** We are at our maximum in equities.

9. **Appropriate long term investments for this time in the cycle**. The account is invested in long term, well managed, long only securities with excellent corporate governance and dominance in their areas. Dominant leaders are hard to dislodge. In a world where so many governments - and banking "institutions" - have suffered perhaps permanent reputation loss, we believe this to be the soundest investment approach for long term money.

Our Performance Data and Current Asset Allocation for GTI

Our monthly fund fact sheets report the important facts, but the bottom line is +40.9% in EUR in 2009 and +27.1% in EUR in 2010.

P&C Global Thematic Investors Fund (PCGLTHM)



Source : Fullermoney

Some ill-mannered clients have suggested that we had a down year in 2008, but our memories for some reason are dim on this point. What we can say is that we are now in spitting distance of the all-time highs. Overcoming the High Water Mark remains our goal, if only for reasons of pride.

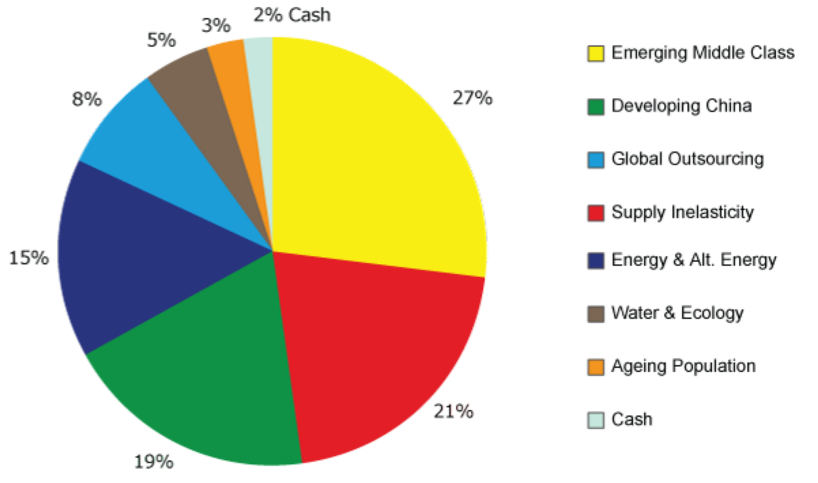
We took advantage of recent strength to eliminate the *"Restructuring Japan"* theme, which, more than any other theme, has held us back in recent years. Iain pleads guilty. Although we suspect Japan will be a good market this year, we must remain true to our belief in long term themes. We doubt that a combination of official inertia and disastrous demographics will be helpful to Japan in the next 10 years. But we continue to hold Japanese stocks as part of other themes. For example, we recently bought **Nichii Gakkan**, the leading nursing care company in Japan and thus part of GTI's "*Ageing Population"* theme.

Recently, we've added various *"Energy & Alternative Energy"* stocks: **Devon Energy**, **Gazprom**, **Trina Solar** and **JA Solar**. The latter 2 are smaller solar panel and solar cell businesses in China, sitting on low PERs and with excellent business outlooks. Solar has been, well, in eclipse in recent quarters. We think the tide is turning with the recent oil price advances. We bought some more **Bunge** ("*Supply Inelasticity*" / Food Processing), **Wumart** and **Eratat Lifestyle** *("Developing China"* theme), **Unilever Indonesia** and **Grupo Bimbo** in Mexico (*"Emerging Middle Class"* theme), and **Teva** ("*Ageing Population"* / leading generic drug co).

Our end December asset allocation for GTI was:

Asset Allocation by Global Theme

Emerging Middle Class	27%
Supply Inelasticity	21%
Developing China	19%
Energy & Alt. Energy	15%
Global Outsourcing	8%
Water & Ecology	5%
Ageing Population	3%
Cash	2%



And our Top Ten stocks (all of them - without exception - leaders or dominant in their fields):

1. **Hsu Fu Chi**
2. **Wumart**
3. **Lianhua Supermkts**
4. **PotashCorp**
5. **Shell**
6. **Rio Tinto**
7. **BHP Billiton**
8. **Impala Plat**
9. **AmBev**
10. **Gazprom**

GTI's Hamburger and Hot Dog 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 the Buffett 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*".

Ours Buffett-inspired GTI Hamburger list started with Royal Dutch back in the dark days of November 2008. We've added so many names now that we can truly start a hamburger stand. To get on our Hamburger stand, you've got to be a major blue chip international stock with an established global franchise and a consistent track record of maintaining dividends. Preferably, your dividend yield is twice or three times the cash deposit yield in your own country. In either case, we expect to double our money in 5-7 years. To qualify as a "Hot Dog", you've got to be an exciting growth stock, such as the Dominant Consumer Franchises we write about, where we can foresee the stock price doubling in 3-5 years.

All our stocks are held –directly or indirectly - in our GTI investment programme.

GTI's Stocks of the Month

Gazprom is the leading gas producer in Russia and supplies 25% of Europe's gas.

Gazprom (OGZPY:US)

Source : Fullermoney

Mexican Grupo Bimbo is the leading bakery in the world and just bought Sara Lee's US bakery business:

Grupo Bimbo (BIMBOA:MM)

Source : Fullermoney

GTI Hamburgers:

GTI Int'l Core Hldg	Ticker (ADR)	GTI Theme	Date rec'd	Price then	Recent Price	Perf	Historic Yield
Royal Dutch Shell	RDS/A:US	Energy&Alt Energy	Nov-08	USD 47.00	69.75	**48.4%**	4.8%
Iberdrola	IBE:SM	Energy&Alt Energy	Dec-08	EUR 5.75	6.48	**12.7%**	3.0%
Pfizer	PFE:US	Ageing Population	Dec-08	USD 16.90	19.28	**14.1%**	3.8%
Roche	RHHBY:US	Ageing Population	Jan-09	USD 36.20	36.37	**0.5%**	3.8%
Newmont Mining	NEM:US	Natural Resources	Feb-09	USD 35.00	57.97	**65.6%**	0.9%
Rio Tinto* (adj 1-4 issue)	RTP:US	Natural Resources	Mar-09	USD 28.75	73.45	**155.5%**	1.2%
Standard Chartered	STAN:LN	Emerging Mid Class	Apr-09	GBP 11.12	16.89	**51.9%**	2.8%
Infosys Technologies	INFY:US	Global Outsourcing	May-09	USD 32.40	68.67	**111.9%**	1.8%
Veolia Environnement	VE:US	Water & Ecology	Jun-09	USD 28.50	32.69	**14.7%**	4.4%
PotashCorp	POT:US	Natural Resources	Mar-10	USD 110.50	185.53	**67.9%**	0.2%
Diageo	DEO:US	Emerging Mid Class	May-10	USD 60.00	77.31	**28.9%**	3.1%
Unilever	UL:US	Emerging Mid Class	May-10	USD 27.19	29.00	**6.7%**	3.9%

GTI Hot Dogs:

GTIInt'l Growth Hldg	Ticker (local mkt)	GTI Theme	Date rec'd	Price then	Recent Price	Perf	Historic Yield
Colgate Palmolive India	CLGT:IN/ India	Emerging Mid Class	Apr-09	INR 455.00	824.85	**81.3%**	2.4%
Godrej Consumer	GCPL:IN/ India	Emerging Mid Class	Apr-09	INR 142.00	350.65	**146.9%**	1.2%
Wumart	8277:HK/ HK	Developing China	Jul-09	HKD 9.50	15.90	**67.4%**	1.3%
Want Want China	151:HK	Emerging Mid Class	Jul-09	HKD 4.50	6.19	**37.6%**	3.0%
Nestlé India	NEST:IN	Emerging Mid Class	Sep-09	INR 2,214	3,448	**55.7%**	1.4%
Tao Heung	573:HK	Developing China	Sep-09	HKD 2.75	2.90	**5.5%**	4.3%
Hsu Fu Chi	HFCI:SP/ S'pore	Developing China	Nov-09	SGD 2.01	3.65	**81.6%**	1.5%
Sonatel	SNTS:BC/ W Afr SE	Emerging Mid Class	Dec-09	CFA 120,000	160,000	**33.3%**	7.6%
Unilever Indonesia	UNVR:IJ / Jakarta	Emerging Mid Class	Dec-09	IDR 11,000	14,950	**35.9%**	2.7%
Lianhua Supermarkets	980:HK	Developing China	Mar-10	HKD 26.05	34.95	**34.2%**	1.0%
East African Breweries	EABL:KN	Emerging Mid Class	Mar-10	KES 155	190	**22.6%**	4.6%
Britannia Industries	BRIT:IN	Emerging Mid Class	Mar-10	INR 316	362	**14.5%**	1.4%
Jollibee Foods Corp	JFC:PM	Emerging Mid Class	Jun-10	PHP 61.00	80.00	**31.1%**	2.8%
AMBEV	ABV:US	Emerging Mid Class	Aug-10	USD 22.00	27	**23.7%**	3.7%
Agco	AGCO:US	Supply Inelasticity	Sep-10	USD 40.00	55.94	**39.9%**	0.0%
Gazprom	OGZPY:US	Energy&Alt Energy	Nov-10	USD 22.50	27.27	**21.2%**	1.1%
Gruppo Bimbo	BIMBOA:MM	Emerging Mid Class	Nov-10	MXN 96.00	97.25	**1.3%**	0.5%

Gold Basket							
IAMGOLD	IAG:US	Natural Resources	May-10	USD 17.58	21.55	**22.6%**	0.4%
Fresnillo	FNLPF:US	Natural Resources	May-10	USD 12.70	24.50	**92.9%**	1.2%
Eldorado Gold	EGO:US	Natural Resources	May-10	USD 16.65	16.89	**1.4%**	0.6%

A quick tour of our GTI advisers

One of GTI's emerging markets advisers, Douglas Polunin of Polunin Capital Partners in London, a superb investment boutique, has a well-argued view that is somewhat at odds with our own, so we publish it:

*"Our strategy has been (and remains) to concentrate on low beta countries and sectors but to invest in operationally leveraged companies which can significantly outperform their sectors. We are either not positioned or significantly underweight in most of the sectors, countries or indeed stocks which have been driving up emerging markets equities since 2002. Our decision is subconscious or "reverse engineered", in the sense that these sectors (by virtue of their extraordinary returns over the last 10 years) have become overvalued on our Replacement Cost model, some mining and resource companies grotesquely so. By contrast we are being led into countries which are ahead of the curve in terms of monetary policy (i.e. China) or where inflationary pressures are subdued (Taiwan, Korea etc.). At the sector level this translates into industries that have suffered from lack of pricing power because of the commodity boom or because of subdued demand for their output and are therefore valued accordingly (Chemicals, Transportation, Property Developers, Technology Hardware etc.). Calling a change of performance leadership in markets is not easy. Our timing record is patchy at best (usually much too early but we believe we can continue to generate returns from our stock picking until our big picture view becomes reality (*__Ed; Douglas believes that inflation will become a dominant theme)__*. We believe that there is a low probability that the leading sectors of the current emerging markets re-rating will remain so for another 10 years. History does not favor this view and, more fundamentally, valuations argue against a continuing revaluation of the leading sectors of the last decade. Our portfolio is firmly anchored in a different view."*

We agree with Douglas that inflation will become a major theme. However, history also shows that companies who have the sustainable competitive advantage to defend their margins, do so through an inflationary time. From 1973 to 1980, average EBITDA profit margins of the 19 dominant consumer companies fell by only 1% to 2%. The real damage was done by depressed consumer sentiment (declining real wages) and negative top line growth. We think it is very unlikely that we will now have a decade of declining top line growth in "Emergia". But time will tell and Douglas is certainly right about the higher valuations in the sector.

Quote of The Month

"The world currently lives off 1.3 worlds in terms of use of resources.....When you add 3bn people and increased standard of living, that figure rises to three Earths if you live like the US or the UK. That is just not going to work. We need to change things."

Paul Polman, CEO Unilever

Statistic of the Month: "Early Days For Asia"

1. **In 1820 Asia accounted for 56% of world output**
2. **In 1900 Asia accounted for 32% of world output**
3. **In 2005 Asia accounted for 36% of world output**

And One More Thing.....

A sweet little *"Ageing Population"* theme story:

A married couple was travelling by car from Walton Ky. to Jacksonville Fl. Being Seniors, after almost eleven hours on the road and too tired to continue, they decided to get a room. However, they only planned to sleep for four hours and then get back on the road. When they checked out four hours later, the desk clerk handed them a bill for $350.00.

The man explodes and demands to know why the charge is so high. He told the clerk although it's a nice hotel; the rooms certainly aren't worth $350.00 for four hours. Then the clerk tells him that $350.00 is the 'standard rate'. He insisted on speaking to the Manager.

The Manager appears, listens to him, and then explains that the hotel has an Olympic-sized pool and a huge conference centre that were available for us to use. 'But we didn't use them," the husband said. "Well, they are here, and you could have," explained the Manager.

The Manager went on to explain that the couple could also have taken in one of the shows for which the hotel is famous. "We have the best entertainers from New York, Hollywood , and Las Vegas perform here," the Manager says.

"But we didn't go to any of those shows," the husband said.

"Well, we have them, and you could have," the Manager replied.

No matter what amenity the Manager mentioned, the husband replied, "But we didn't use it!"

The Manager is unmoved, and eventually the husband gave up and agreed to pay. As he didn't have the check book he asked his wife to write the check. She did and gave it to the Manager.

The Manager is surprised when he looks at the check. "But ma'am, this is only made out for $50.00."

"That's correct. I charged you $300.00 for sleeping with me," she replied.

"But I didn't!" exclaims the Manager.

"Well, too bad, I was here, and you could have."

Don't mess with senior citizens. They didn't get there by being stupid!

Good Investing.

Iain and Bruce

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.

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 over 25 years in private banking as a global strategist and portfolio manager. He's held senior 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 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.

Iain.little@pandc.ch

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 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

Bruce.Albrecht@pandc.ch