GTI GLOBAL THEMATIC INVESTORS

QTLY LETTER TO SHAREHOLDERS IN THE P&C GLOBAL THEMATIC INVESTORS FUND — SEPTEMBER 2011

CONTENTS

Never Mind the Quality, Feel the Width

In the "*Alice in Wonderland"* world of modern financial markets, where *miscreants* (governments and their "sovereign" obligations) are more highly rated than the *jurors* (global business corporations and their shares), it's vital to think about the meaning of quality and "quality control" in portfolio management.

<u>Shock Horror Confession Scandal!</u> **Except for a silly joke at the end, this letter doesn't contain the word "GREECE". And there are no Euro-acronyms like EFSF, ESM, EAMS, EIB or EU. There's no ranting about European banks, political leadership in the west, gold-buggery or dodgy economic forecasts. Above all, there's no Doctor-Doom-I-Told-You-So-I'm-A-Guru Ego-Wrecking-Ball analysis. It's just about how well our GTI companies are doing, nothing more. If you hanker after Euro-Scares, we can give you the names of 75 media outlets. If you crave acronyms, unsubstantiated extreme opinion *and* entertainment posing as serious analysis, we recommend CNBC, BBC and CNN. If you then want it delivered by bubbling banshee babes in cocktail dresses, CNBC may be all you need. *Worthless Guarantee / Regulatory Health Warning: Some of these media are <u>guaranteed</u> to cost you money either by following their advice or just by subscribing.***

***"The information contained herein,
While not guaranteed by us, has been obtained
From sources which have not in the past proved
Particularly reliable."***

iain.little@pandc.ch : bruce.albrecht@pandc.ch

Human beings are strange. In our lives we pride ourselves on our pursuit of *high* quality. (By the way, it's not at all uncommon – thought it's certainly perverse- to lust after *low* quality). We define ourselves by the quality of our houses, the quality of the clothes we wear, the quality of our friends and the quality of the coffee we drink. Even the quality of our dogs.

We all know we're judged on our own qualities by others. Molière's *Le Bourgeois Gentilhomme* sets upon an absurd quest to become "a man of quality" ("Un Homme de Qualité"). Jay Gatsby projects quality by throwing magnificent parties in a palace of a house to find Daisy and realize his dreams. My son regularly receives letters from his Dad on surrounding himself with friends with desirable "qualities".

Like mirrors, we reflect the qualities –good and bad- of those around us. All club members (for aspiration) and house-buyers (for security) know the importance of quality.

How strange then, that in matters financial, we seem to cling to quite another set of rules, loosely described as "speculative".

How many times in what sometimes feels like a rather-to-long career have I heard about a "wonder" stock which lacks sales, earnings, customers or even assets? If I question the quality of the stock, there is the sucking of teeth and an apology. *"Yes, I know, it's no blue-chip but it's got great* *__(delete where not applicable)__* *geology / gold resource / new widget / blue-sky opportunity / cool technology / corporate communications staff"*. Never mind the quality, feel the width.

OK, this phenomenon owes more to the irrational and renegade elements of the human psyche than to the purely rational. Often popularized as "greed", the speculative impulse is also fired by a subtle and sometimes fatal blend of conceit, over-confidence and wilful self-destruction. (Of course, no client of mine has ever been prey to these errant impulses. *We are* always rational.)

But anyone who has invested in equity markets will know that one factor alone is responsible for good performance: **growth**. Growth *is* quality. *Reliable* growth is quality. An accountant might say *reliable quantity of growth* is quality. Yes, quality in equity markets *is* reliable quantity.

Quality (read: quantity) is delivered in equities by 3 business characteristics (the 3 "**__M__s**"):

1. **__M__arkets** that grow fast (snacks in China, staple foods in India)
2. **__M__argins** that are stable / expanding (stability => consistent, high cash flow)
3. **__M__astery** or Dominance (ability to defend margins and sales)

Size Sometimes Matters, But It Always Matters What You Do With It

We run different equity portfolios along a spectrum of "size".

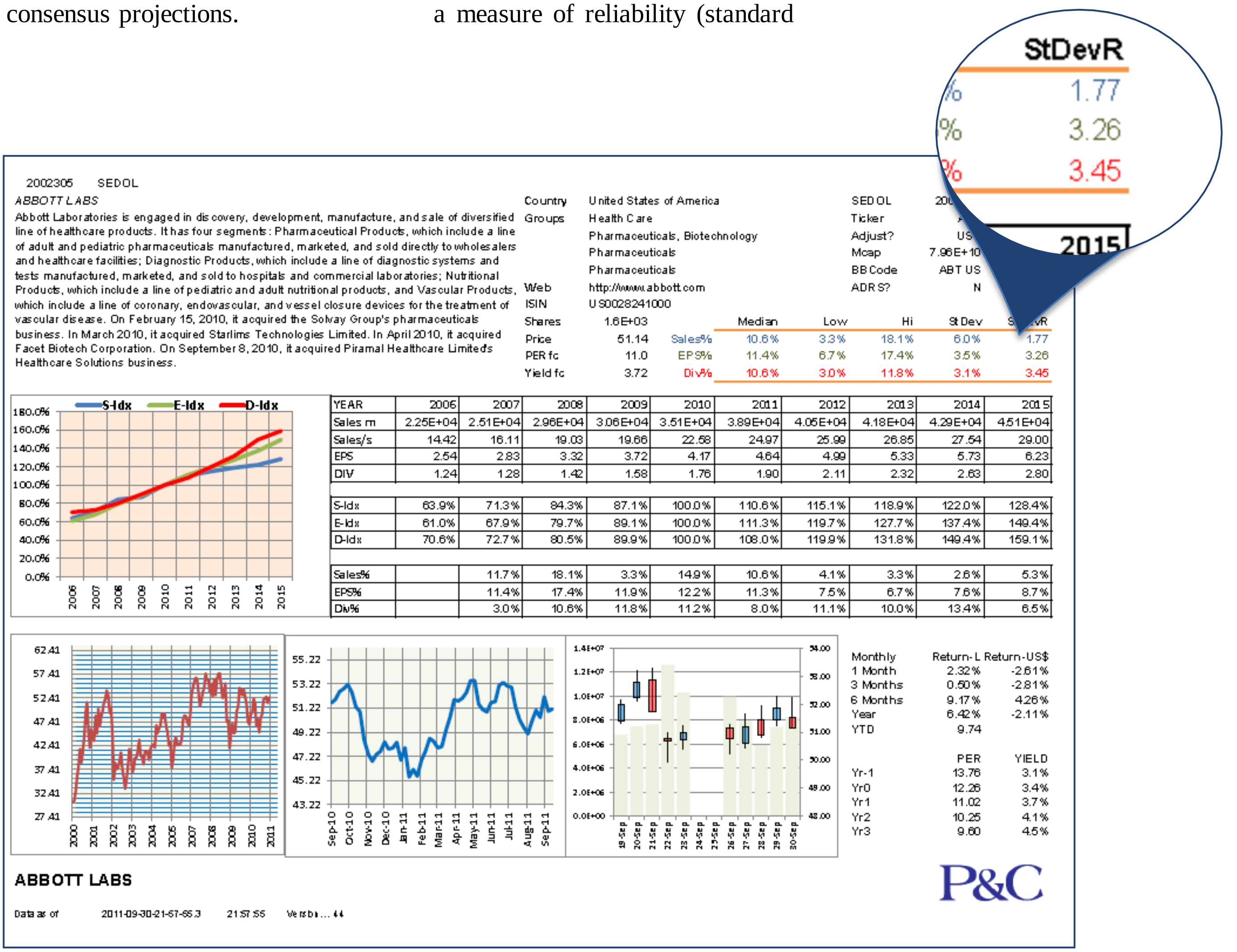
At one end of the spectrum, we have the "widows-and-orphans" types of portfolio (large cap, global high yielding "dividend aristocrats"). Not a bank in their midst…..**Vodafone, Procter & Gamble, Unilever, Nestle, Kraft, Tesco** etc).

Big, muscular, self-confident, bruiser companies that we screen for reliability of sales, earnings and dividends using 10 year historic and 3 year forward consensus projections.

Reliability is important.

Mathematically, 2 companies with identical 10 year growth rates will score the same if a simple average of 10 year sales growth is used. But, because of market "*efficiency*", the market usually places a higher rating (premium) on the company with greater reliability of growth. Over time its stock performance tends to be superior. So, mathematically, we need to divide a measure of reliability (standard deviation) into the median sales or earnings rate to arrive at a growth number, *adjusted for reliability*.

We use a median (not mean) measure of growth. The median works better as it avoids individual outliers caused by exogenous events (eg BP's oil spill) which can horribly distort the average. Here's an example (our reliability score is on the far right).



2002305 SEDOL

ABBOTT LABS

Abbott Laboratories is engaged in discovery, development, manufacture, and sale of diversified line of healthcare products. It has four segments: Pharmaceutical Products, which include a line of adult and pediatric pharmaceuticals manufactured, marketed, and sold directly to wholesalers and healthcare facilities; Diagnostic Products, which include a line of diagnostic systems and tests manufactured, marketed, and sold to hospitals and commercial laboratories; Nutritional Products, which include a line of pediatric and adult nutritional products, and Vascular Products, which include a line of coronary, endovascular, and vessel closure devices for the treatment of vascular disease. On February 15, 2010, it acquired the Solvay Group's pharmaceuticals business. In March 2010, it acquired Starlims Technologies Limited. In April 2010, it acquired Facet Biotech Corporation. On September 8, 2010, it acquired Piramal Healthcare Limited's Healthcare Solutions business.

Country	United States of America
Groups	Health Care
	Pharmaceuticals, Biotechnology
	Pharmaceuticals
	Pharmaceuticals
Web	http://www.abbott.com
ISIN	US0028241000

SEDOL	200
Ticker	A
Adjust?	US
Mcap	7.96E+10
BB Code	ABT US
ADRS?	N

			Median	Low	Hi	St Dev	StDevR
Shares	1.6E+03						
Price	51.14	Sales%	10.6%	3.3%	18.1%	6.0%	1.77
PER fc	11.0	EPS%	11.4%	6.7%	17.4%	3.5%	3.26
Yield fc	3.72	Div%	10.6%	3.0%	11.8%	3.1%	3.45

YEAR	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales m	2.25E+04	2.51E+04	2.96E+04	3.06E+04	3.51E+04	3.89E+04	4.05E+04	4.18E+04	4.29E+04	4.51E+04
Sales/s	14.42	16.11	19.03	19.66	22.58	24.97	25.99	26.85	27.54	29.00
EPS	2.54	2.83	3.32	3.72	4.17	4.64	4.99	5.33	5.73	6.23
DIV	1.24	1.28	1.42	1.58	1.76	1.90	2.11	2.32	2.63	2.80
S-Idx	63.9%	71.3%	84.3%	87.1%	100.0%	110.6%	115.1%	118.9%	122.0%	128.4%
E-Idx	61.0%	67.9%	79.7%	89.1%	100.0%	111.3%	119.7%	127.7%	137.4%	149.4%
D-Idx	70.6%	72.7%	80.5%	89.9%	100.0%	108.0%	119.9%	131.8%	149.4%	159.1%
Sales%		11.7%	18.1%	3.3%	14.9%	10.6%	4.1%	3.3%	2.6%	5.3%
EPS%		11.4%	17.4%	11.9%	12.2%	11.3%	7.5%	6.7%	7.6%	8.7%
Div%		3.0%	10.6%	11.8%	11.2%	8.0%	11.1%	10.0%	13.4%	6.5%

Monthly	Return-L	Return-US$
1 Month	2.32%	-2.61%
3 Months	0.50%	-2.81%
6 Months	9.17%	4.26%
Year	6.42%	-2.11%
YTD	9.74	

	PER	YIELD
Yr-1	13.76	3.1%
Yr0	12.26	3.4%
Yr1	11.02	3.7%
Yr2	10.25	4.1%
Yr3	9.60	4.5%

ABBOTT LABS

Data as of 2011-09-30-21-57-55.3 21:57:55 Versbi... 44

At the other end of the size spectrum we offer the "go-go-get-'em" sort of portfolio, packed with the growth stocks of tomorrow.

The GTI programme is exactly this sort of portfolio…..**Wumart, Asia Pacific Breweries, Ambev, Want Want China, Lojas Renner,** even in some accounts (*whispered sheepishly*) **OCBC NISP Indonesia**, our only bank.

Please note that in terms of "quality" both sets of company have got heaps of "mojo". The smaller set of Asian and Latin American companies score better than the bruisers in terms of reliability-adjusted growth but –justifiably- trade at a higher rating (16x 2-year-out earnings versus 12x 2-year out earnings for the bruisers). Both sets, however, are unquestionably "quality"**.**

Isn't 16x expensive? Consumer stocks tend to trade at higher ratings; remember that **Walmart** –a good model for **Wumart** etc- listed on the US stock market in 1971 at 19x earnings and in the following 40 years returned over +21% per annum (excluding dividends).

Of Mice, Men, Race-Horses and Cocker Spaniels

Now here's where it gets strange.

To the end of August, the difference in performance between the two ends of the size spectrum was nearly 16%, with fully invested equity portfolios filled with dividend aristocrats up by +6%, and the others, populated by the growth stocks of tomorrow, down by -10%.

This differential says a lot about investors' reaction to 2011's multiple Black Swans (tsunami, Arab Spring, Euro bust-up, double-dip, USA downgrade etc). It hasn't been a hill of beans in this crazy ol' world and it has certainly sorted mice from men.

But we think it's vastly overdone. Never in my career have we seen such a contrast between excellent company performance and rotten share price performance.

Most of our companies have been performing like race-horses but their share prices have been slouching like ageing cocker spaniels.

The vast majority of the portfolio's yoy sales increase to 1H 2011 is in the +20-25% range, with a roughly equivalent increase in earnings. This 20% may be a temporary ceiling; we're now going through a "soft patch". But it'll still be well into double digits; the stocks follow "quality" business models and are helped along by the power or, yes, "quality" of their themes.

Before we get started on GTI's major investment positions, just remember that most of these GTI stocks sell simple FMCG products: food, clothes, booze, drink, noodles or shampoo to the emerging middle classes of Asia or Latin America. So they have all suffered from the dreaded cost-push inflation that has dogged the developing world. So *good* results in 2011 mean we can look forward to *great* results in a normal year when commodity prices are not on a tear. The good news, according to Arisaig Partners, is that such companies tend to preserve their margins; over the past 6 months, Arisaig say, the average net margin declined by only about 0.6%.

As the song goes, *"Let's start at the very beginning"* "A" is for **Ambev**.

Emerging Middle Class: Big Beer

Ambev's profits in Q2 were solid. Good pricing –possible when a beer company commands 70% of the thirsty Brazilian market- and tighter SG&A led to 110 bps of EBITDA margin expansion. The flip side of being such a dominant beer company is that volume growth was weak. But net income was +9% above our estimate, mainly due to a lower tax rate. Net net, this wasn't a *great* quarter for ABV, but it was certainly a *good* one. Management is focused on getting its price increases to stick and controlling costs amid a slower volume environment than expected. We think Ambev has high earnings certainty. By the way, earnings "certainty" is another word for earnings "quality".

Net sales grew +6.2% driven mainly by price increases across all regions, with Net Revenue/hl growing +7.1% in the period.

Costs increased by +9.3% mainly due to raw materials and packaging costs as well as lower fixed cost dilution, which were partly offset in the quarter by gains in currency hedges. SG&A costs (excluding depreciation and amortization) increased by "only" +1.6%.

Normalized EBITDA reached R$ 2.6bn in Q2. That spells organic growth of +9.0%, while margins continued to expand (+110bps) reaching 44.5% in the period. Anyone who knows anything about brewers will tell you that 44.5% is enormous. Cash generated from operations in Q2 was R$ 2.6bn, a +1.4% increase year on year. Normalized Earnings per share (EPS) grew +20.1%.

Cia de Bebidas das Americas (ABV:US)

Source : Fullermoney

Emerging Middle Class theme: Small Beer

Last quarter's featured stock, Heineken's niche Asian brewer, **Asia Pacific Breweries (APB)**, announced nine-month net profits *before* exceptional items up +18% and attributable net profit *after* exceptional items up +36%.

Group revenue for the nine months was up +20%.

More to the point, the business is well-positioned for the long-term growth markets of Asia. The CEO said, *"Improvements in group profits and revenue were mainly due to stronger demand for our brands in Vietnam, Papua New Guinea and New Caledonia."*

APB, to our surprise, is not pulling out of the competitive Chinese beer market. Instead (and this is a typical Heineken approach) it has decided to expand its regional network and forge ahead with a premium brand strategy in China. APB commissioned its 50%-owned greenfield brewery in Guangzhou in May and also extended its presence in the South Pacific by acquiring a 97.7% interest in Solomon Breweries in June.

Asia Pacific Breweries Limited (APB:SP)

Source : Fullermoney

Global Outsourcing theme: Moving Stuff Around

Our Global Outsourcing theme has many parts to it. One part is the expected explosion in inter-regional (not only inter-national) trade, particularly in the Asia-Pacific region. Swiss company **Kuehne + Nagel** (K+N) leads this field globally and is now focusing on *the interior* of mainland China and India. The company has had a strong presence in these two countries for decades, mainly in the business of shipping goods in and out of them.

Our GTI world is changing. *K+N has recently expanded into domestic distribution -- transporting goods from one part of the country to another -- as it banks on rising local consumption and domestic demand.*

Its domestic distribution started in India about six months ago and in China four months ago. Within China, there will be 20 trade routes by the end of this year. This is timely. In recent years, China's government has been focusing its development efforts on the western parts of the country, which have lagged behind the eastern coastal cities in terms of development -- and K+N is following suit.

"We are following the 'go west' strategy of the Chinese government," K+N's Asian head recently said. *"This means opening offices in the west and north-west parts of China to serve customers like manufacturing companies."* K+N group recently reported a +11% rise in net profit for 1H but remember that K+N had to cope with the extraordinary strength of the CHF, up by nearly a third against the EUR, so these results were very creditable.

The company is planning to double revenues to CHF 30-40bn in 2014. Asia, now 30% of its earnings, will be its growth driver. Who'd want to bet against that?

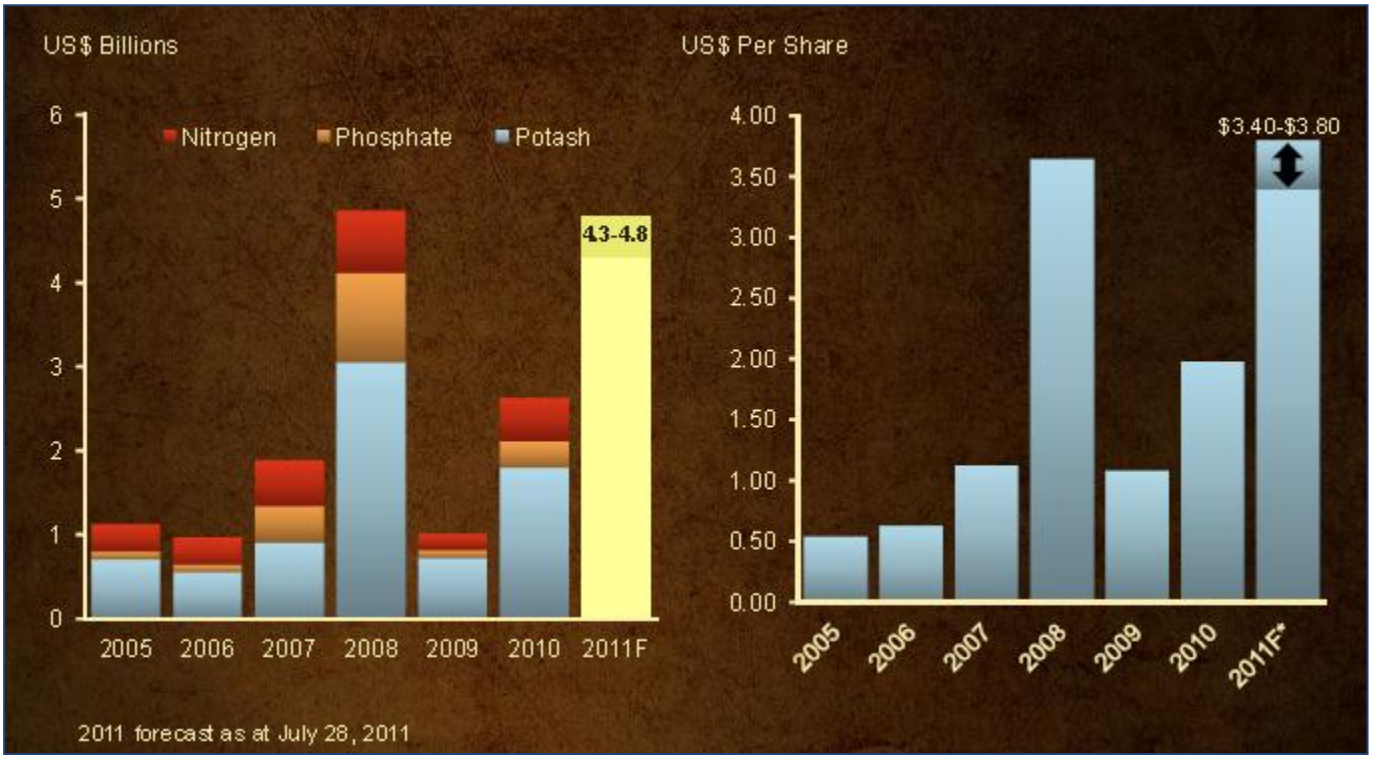
Kuehne + Nagel International AG (KNIN:VX)

Source : Fullermoney

Supply Inelasticity: Keep Growing

Potash Corp (3% of the fund and our largest play on growing Chinese, Indian and developing world demand for better food, surely a certainty in the next few years) is on a roll, with record earnings for the company's long history. Small wonder.

Potash Corp: Gross Margin and EPS



Source : PotashCorp

Increased meat consumption in China, with its dependence on foodstuffs like corn (and hence fertilizer) is responsible. China's extraordinary demand for corn (corn is the basis for sweeteners, starch, alcohol, including biofuels, as well as feed for livestock) was shown in July when it ordered 21mn bushels of US corn in one hit, more than the US government thought it would buy in one year.

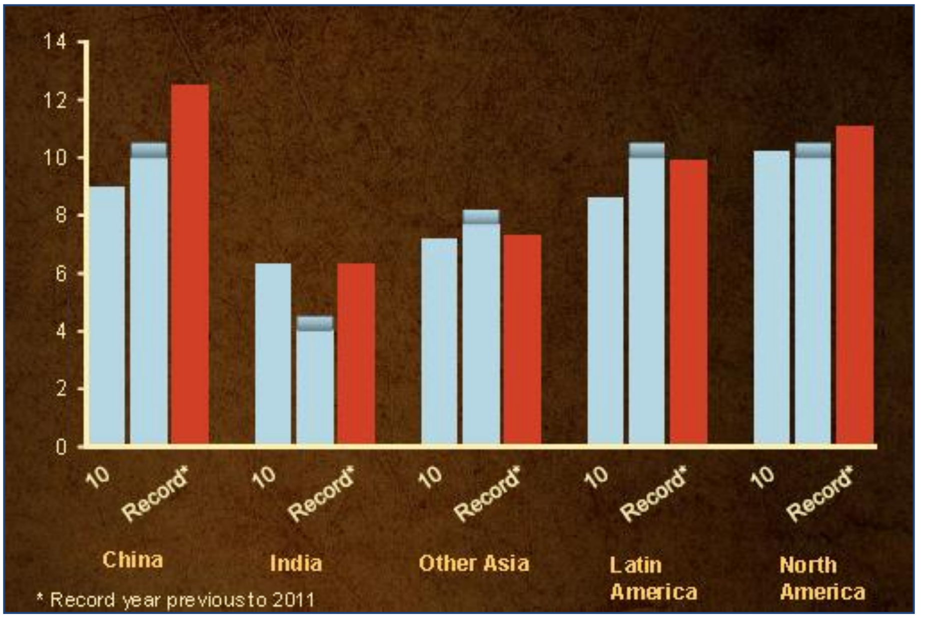
China is secretive about its strategic food stockpiles, so the world can only guess at its size. With the Chinese government pushing its farmers to adopt Western growing methods (including more fertilizer) more corn and fertilizer are needed. China is set to become the largest foreign buyer of US corn within 5-10 years.

According to a Wells Fargo economist, doubling of per capita meat consumption in China to match US levels *would require China to use an extra 24 billion bushels of corn, about twice what the USA produces in a year*. *"There's not enough grain in the world for them to do that. But just moving in the direction is staggering to consider", he said.*

The demand for fertilizers is growing strongly and is now flirting with the 2007 highs and the records for the company.

Potash Corp: Shipments to Selected Markets

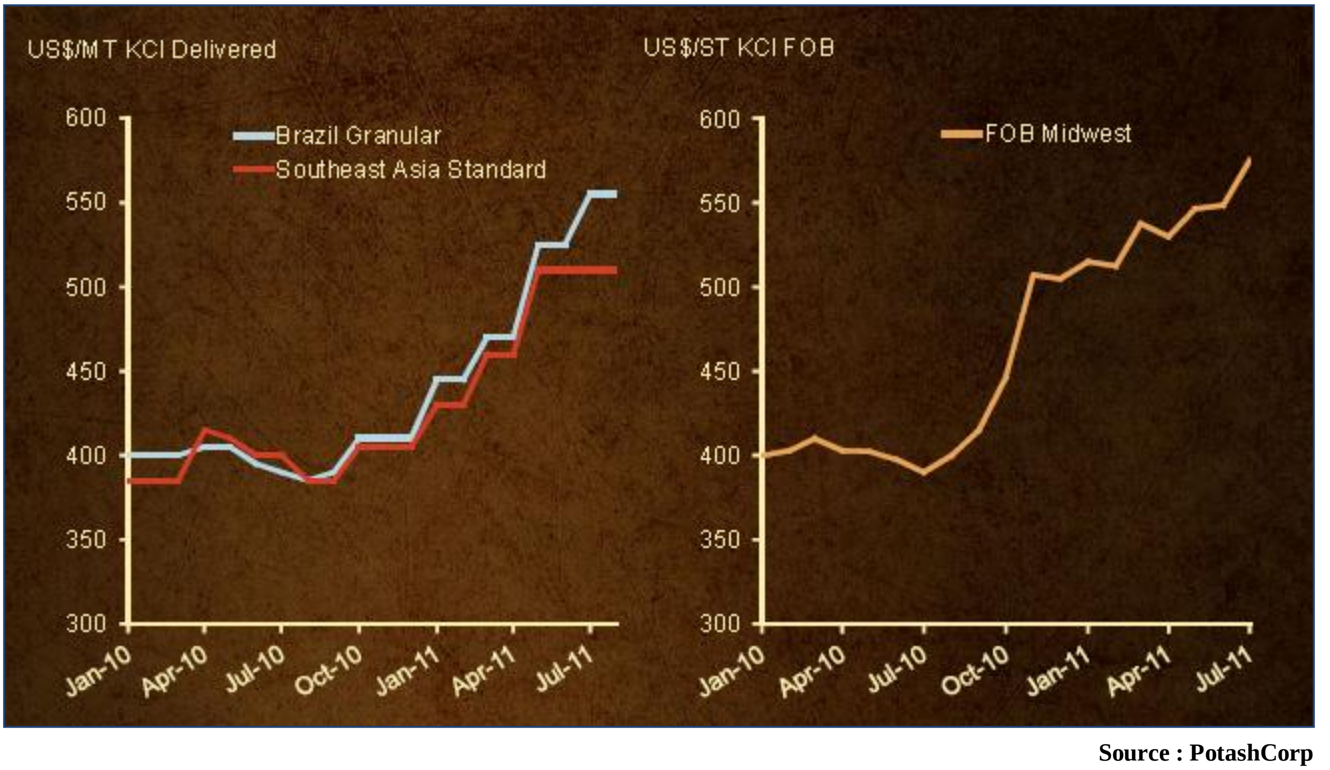
(Million Tonnes KCl)



Source : PotashCorp

With strong market conditions expected to continue for all three nutrients in 2H, Potash has raised 2011 earnings guidance. Potash's CEO reported: *"...the world's grain supply remains under pressure. Even with farmers increasing planted acres, it will take exceptional yields to meet current demand — let alone provide any surplus to begin rebuilding global inventories. In simple terms, the world's food supply has little margin for error......Just as rising consumption has put pressure on grain supply, the increase in potash demand is expected to test the world's production limits for the foreseeable future, and these conditions are supporting higher prices for potash."*

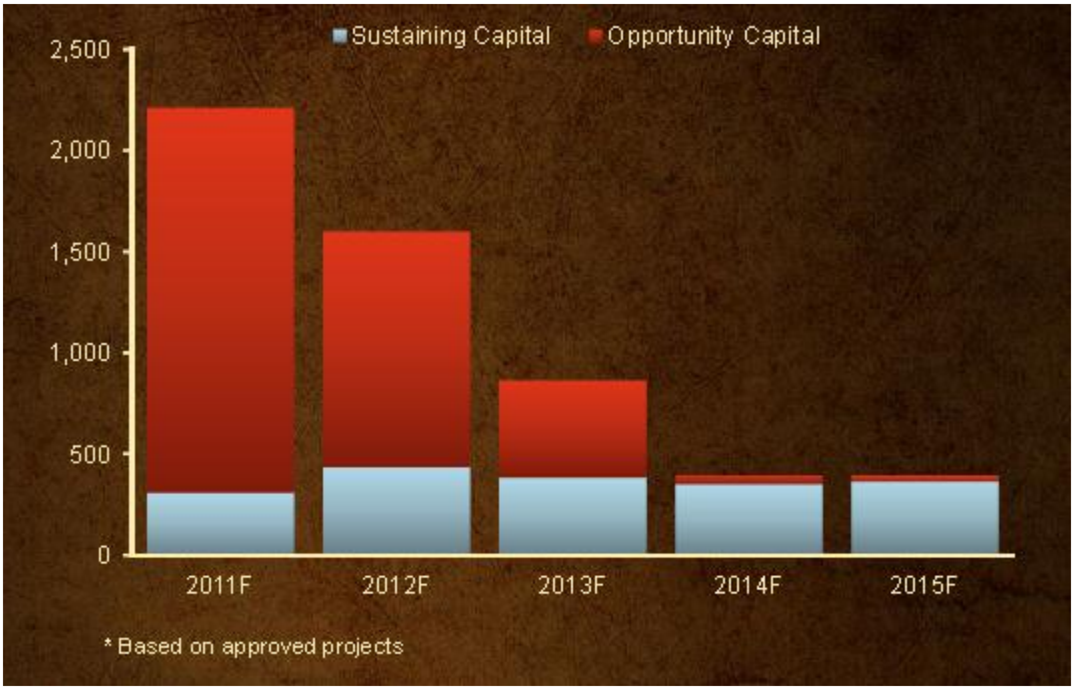
Potash Corp: Spot Market Potash Prices



Source : PotashCorp

The exciting thing for Potash shareholders is that Potash has already "tooled up" for this increased demand -66% of next decade's capital spending is behind it- and sits atop arguably the largest reserves of any resource company in the world. Profits should impress in the years ahead.

Potash Corp: Capital Spending Forecast (UB$ Millions)



Source : PotashCorp

Potash Corporation of Saskatchewan Inc. (POT:US)

Source : Fullermoney

Ageing Population / Developing China: Stamp of Quality

Last quarter's GTI Letter ("*Collectibles: Find a New Stamping Ground"*) featured 2 stocks that, please forgive the pun, have been tearing along.

Stanley Gibbons, stamp collector by appointment to HM the Queen, has expanded its network to five continents, with 13 distributors covering 17 countries and expanded its Jersey operation. It is opening an office in Hong Kong next month to cope with the Chinese demand (1/3 of stamps traded in the world are traded in China). Its internet strategy is on track (we met the CEO in June in London). Its share price has sailed through the crisis with nary a hiccough. The business is doing well. H1 sales were up +25% and adjusted earnings up +11%.

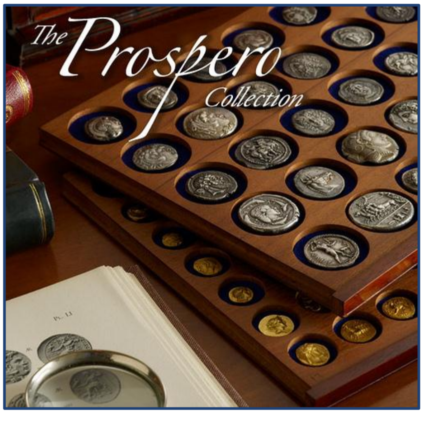
Stanley Gibbons Group PLC (SGI:LN)

Source : Fullermoney

Noble Investments, coin trader, expects its financial performance for the year ending in August to *"significantly exceed market expectations"*. The second half – note that the first half saw profits up +40%- was much stronger than the Board expected, driven by new collectors and investors – *perhaps frustrated by share markets?*- looking for alternative asset classes.

The group's Hong Kong auction and fair in August, the outlook for the Chinese market and its new website are all generating additional enquiries and sales.

Noble is auctioning the multi-million pound Prospero Collection of 600 coins from ancient Greece, including a silver dekadrachme coin issued in Alexander the Great's time.



Noble Investments UK PLC (NBL:LN)

Source : Fullermoney

Emerging Middle Class / Developing China: Feed (and Wash) the World

Though GTI's focus is on the growth companies of tomorrow, it is hard to deny that Dividend Aristocrats are also on a growth surge:

Unilever's CEO Polman expects to see 75% of sales (55% now and the highest percentage of any major FMCG group) coming from emerging markets by 2020.

The bad news is that *"Europe and the US will be, for the next 10 years, low growth territories, I'm afraid"*.

"So we are by any standards the emerging market company.....we are growing by 10% or more now consistently in the emerging markets and that's a very healthy growth. We can continue to grow at a 4 to 6% range overall. It's a healthy growth," Polman said in Istanbul, Turkey, where GDP grew at +11% in Q1.

Unilever raised prices sharply in Q2 to offset higher commodity costs, beating forecasts with a +7.1% increase in quarterly underlying sales. This means that 75% of Unilever's business will be growing at +10-15%, and 25% at +1-3%, giving Unilever a projected long term blended sales growth of +8-10% over the next 10 years.

Unilever Indonesia –another big GTI holding- has announced it will be spending EUR 300-350mn in capex over the next few years. It will not need to ask its parent to write a cheque. It will use its gigantic internal cash flow. Unilever Indonesia's 1H net income was up +16.9%.

Incidentally, **Unilever Nigeria**, in which our fund has a small holding via the Arisaig Africa Fund, reported H1 revenues up +16.8%, and net profits +63.6%, the direct result of Unilever passing through input cost increases successfully, despite the stock market's concern.

How many major companies in the west can look forward to the future with such confidence?

Unilever PLC (UL:US)

Source : Fullermoney

Here are other examples of American and European companies looking for quality of growth beyond their own back gardens:

- Coke is investing USD4bn in China as food brands scramble to expand in its fast-growing consumer market. This will raise Coca-Cola's total investment in China between 2009 and 2014 to USD7 bn.
- Coca-Cola's sales volume in China for the first half of 2011 was double that of 5 years ago and has opened 5 new facilities in China in 2009-10 and has another 3 planned for this year.
- Coke will introduce smaller bottle sizes to increase affordability and to get new consumers familiar with its brands. (Its Sprite brand is China's top-selling soft drink.)
- Coke said its volume in China spiked by +21% in 2Q
- Coke is also creating new brands in China, and some are already sold throughout Asia. Locally-developed "Minute Maid Pulpy" orange drink is Coke's first billion dollar brand created in a developing nation (already sold in more than 30 countries).
- With 40 factories and 48,000 workers in China already, Coke sales are up +24% yoy. Yet Coke consumption is only 32 bottles per capita in China (in the U.S., consumption is *500 bottles per capita)*.
- Pepsi has said it will invest USD3bn in China over 3 years.
- Nestle is buying 60% of GTI's Chinese candy maker Hsu Fu Chi for USD 1.7bn. (Nestle is investing locally in just about every business line (from milk products to foods to, yes, even pet foods; the latest is CHF 40mn to double "wet pet food" production at its Purina PetCare factory in Russia.) Don't forget that *consumers also come on four legs*.
- Nestle also bought a controlling stake in Chinese food processor Yinlu Foods Group.
- Restaurant chains such as McDonald's and Yum Brands and KFC also are expanding fast, as is our GTI holding, **Jollibee Foods**. **Tingyi** is investing USD 1bn and **Uni-President China** USD 2bn over the next 3 years

C'mon On, Guys, Let's Start Our Own City

Russian investment firm Renaissance Partners is building itself a new city. It'll be built over 6,400 acres in the Democratic Republic of Congo (DRC) and the idea is to benefit from Africa's urbanization and its Emerging Middle Class. They've secured land outside Lubumbashi, the country's second-largest city (by the way, undaunted, Renaissance is considering similar projects in Ghana, Nigeria, Senegal and Rwanda). *"The West has peaked in terms of economic growth and the new markets are in Africa,"* Renaissance said. *"And the main drivers of this growth in Africa are going to be cities."*

The project will be more than double the size of Tatu City, the USD 5bn centre that Renaissance is building from scratch outside the Kenyan capital of Nairobi. In Nairobi, where the population has been increasing about +4% pa over the last decade, 1 in 4 lack access to piped water and about 40% use open-pit toilets. Tatu City, a 2,500-acre site about 9m north of Nairobi, will eventually have 62,000 residents and include a stadium, technology park, hospital, shops, office towers and playgrounds, and even the Nairobi Stock Exchange.

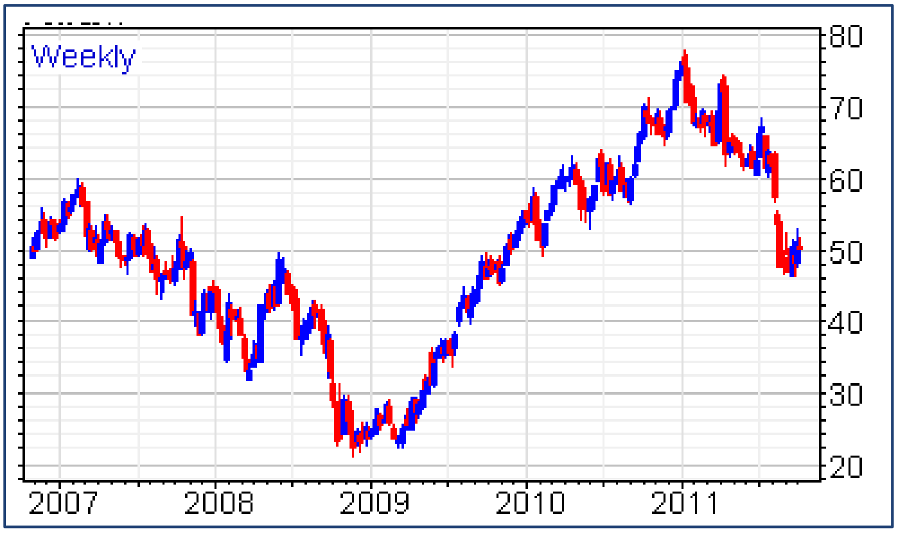
"In 1980, you had 400 million people on the continent. Last year they went through the 1 billion barrier. And in another 30 years, that doubles to 2 billion. Imagine the combined energy."

Quite.

Global Outsourcing: Saving Costs

Infosys expects sales growth of +15-20% in the current fiscal year to end-March 2012, the head of its outsourcing arm said. *"We have been growing at about +20%,"* CEO Swami Swaminathan said. . Although the share price has been hit this year, recently announced 2Q results have exceeded expectations. Even if results come in at the low end of the

Infosys Limited (INFY:US)



Source : Fullermoney

+15- 20% range, many companies in the west would kill for that kind of growth.

Developing China: Pile 'Em High and Sell 'Em Cheap

Chinese retailer **Lianhua Supermarket Holdings** which runs over 5,230 stores in China, recorded net profits for 1H up +20% yoy, with operating profits up +22.4%. The group is focusing management attention, as we have hoped, on greater operational efficiency, widespread use of loyalty cards, and centralised purchasing, the keys to profitability as a retailer (the Tesco model).

Lianhua Supermarket Holdings Co Ltd (980:HK)

Source : Fullermoney

Lianhua opened 206 stores during 1H and same-store sales increased by +8.6% yoy. Within this +8.6%, the hypermarket business grew the fastest, by +9.6% and supermarkets were up a slower +7.2%. The retailer's convenience stores saw same-store sales increase a much slower +5.7%. But remember that convenience stores tend to see accelerations when the demands of two-income, middle-class households require women to shop faster, smarter and nearer to home, so, please forgive the pun, that's growth "in store".

Middle-class households will increase by 250mn (yes that's 250mn *households*, not 250mn people) in the next 20 years. The ratio of people to hypermarket outlets in China is at 1:415,000 (versus 1:81,000 in the USA and 1:44,000 in the UK).

The "S"-curve of Chinese consumption looms above Lianhua and **Wumart's** heads like the Guylin towers.

By the way, **Wumart Stores**, now the biggest position in our fund, the dominant supermarket in Beijing (Lianhua is dominant in Shanghai), increased net profits for H1 by +20.13%.

Wumart Stores Inc (1025:HK)

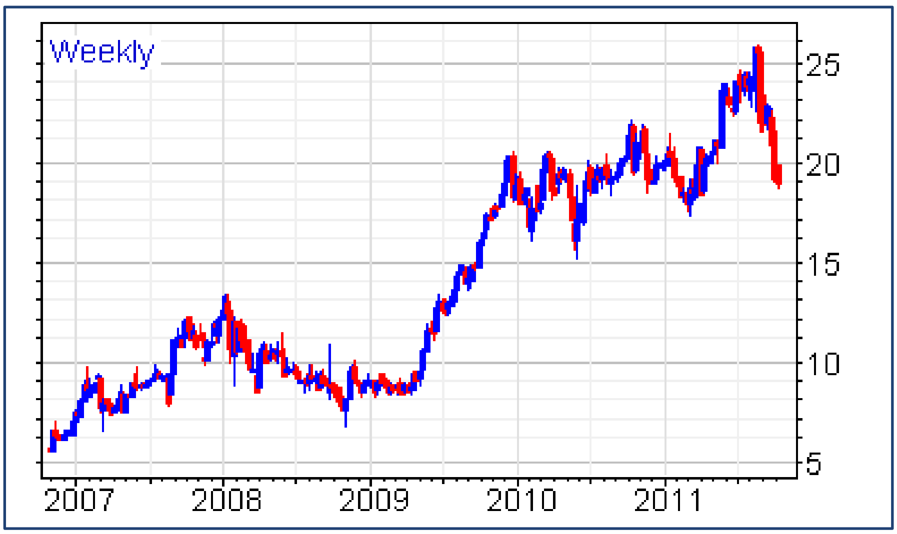
Source : Fullermoney

Developing China: Ready–To-Eat Noodles + Ready–To-Drink Tea = Ready–To-Boom

The strain on margins of higher commodity prices was most apparent for our food and beverage stocks in China. But in all cases, sales growth was stratospheric, even if there was a hit to profits in the short term. In general, price increases managed to "stick". That means that once the commodity price increases have abated, profits are ready to boom once again.

Tingyi, China's biggest packaged food company (a 56% market share in China's noodles market and also strong in ready-to-drink tea) said cost pressure will continue in 2H. Its gross margins –some 26%- are near the lowest in a decade. Net income was up a "mere" +9% for 1H. Sales were up +28%.

Tingyi Cayman Islands Holding Corp (322:HK)



Source : Fullermoney

Tingyi, like its smaller rival, **Want Want China**, is contending with higher costs of raw materials such as sugar and plastic packaging. China's consumer prices accelerated to +6.5% in July, the fastest pace in three years.

Want Want china Holdings Ltd (151:HK)

Source : Fullermoney

So Want Want reported slightly disappointing net profits up only +3.6% in 1H. But the more important clue is in their sales growth, +27.6%. It is interesting to see how food sales growth is breaking out. As China undergoes its shift to a more middle-class society, convenience food sales have grown 35% in the last year, with sales of rice crackers up 18% and dairy products up 29% in the same period.

iain.little@pandc.ch : bruce.albrecht@pandc.ch

Uni-President China Holdings Limited (220:HK)

Source : Fullermoney

Uni-President China (instant noodles and beverages) grew sales by +43% but saw profits drop by -41%. Uni-President increased prices for noodles, but not for beverages, where competition is fiercer.

Vitasoy International Holdings Ltd (345:HK)

Source : Fullermoney

Vitasoy, HK's leading carbonated drinks company, now has 26% of sales coming from China and said it hopes to double its China business in the next 2 years. They need more capacity to do so (China sales grew at "only" +17% in 2010 and so Vitasoy are building a new plant in Guangdong to meet demand. Sales are growing overall at a moderately sedate +11% but this should rise towards +15% as the new capacity comes on stream. Guangdong has a population of 90mn, so is 13x the size of HK. Growth and profitability in Vitasoy will mushroom.

Emerging Middle Class: Passionista Fashionista

Our Brazilian apparel store, Lojas Renner (Motto: "Enchantment is our Fulfilment"), saw Q1 sales +19% (Same Store Sales are clipping along at +10%) and net profits +25%. Lojas Renner has just bought home furnishings chain Camicado, where EBITDA margins are 3%,. Renner's are 18%. Plenty of room to grow there.

Our friends at Arisaig have just done a fascinating study of the leaders in the "fast fashion" retailing industry, Inditex ("Zara") and H&M, whose keys are clever out-sourcing in manufacture, constant product refreshment and speed-to-market product introduction. Inditex can start a product design and bring it onto the shelves *in an amazing 15 days*.

Renner in Brazil is following the developed world and is planning to reduce its supply chain from the current 6 weeks to 4. This will enhance profitability further. Renner is growing at +20% pa and is now on a PER of about 15x.

Lojia Renner SA (LREN3:BZ)

Source : Fullermoney

Our Current Asset Allocation for GTI

"Now this is not the end. It is not even the beginning of the end. but it is, perhaps, the end of the beginning". Winston Churchill, after the Battle of El Alamein.

To listen to the howls of the media, equity market investment is as likely to attract a following as the opening of a Manhattan branch for Al Queda, or an Israeli settlement in El Alamein.

Like most investors, we've been shocked by the events of 2011, though Black Swans are by their nature not predictable. We have also been surprised by the stock market's poor reception of the mere possibility of lower growth in Europe and America, a factor which applies very little to our GTI markets, as we have explained above.

But the world still has growth; not boom-time growth, but nonetheless growth (about 3.5%-4.0%). Company results have exceeded forecasts and *company balance sheets are as strong as they have been for 60 years at a time when sovereign bond issuer solvency (bonds are trading near their highs) are as bad as they have been in 60 years.*

So why this summer's equity market swoon?

Across the summer, equity markets have had to deal with 2 major *immediate* problems (European banks and commodity prices), both of which are negative for growth in the short term and therefore put pressure on stock market ratings. Lower "ratings" means that investors "rate" companies less highly and so pay a lower earnings multiple for companies' shares- We hazard a prediction that pressure from both these factors is now in the early stages of receding:

1. **European banks** are not lending freely to each other; *their shares have fallen by 40% since August*. Indeed, global banking shares have fallen by over 60% over 4 years. Minus 60% (it is minus 80% for European banks) is some bear market. But, more importantly, is has been the Main Mood Music for the global bear market that has gripped most equity markets since 2008. Though we haven't held any first world banks for some years now, we note that Warren Buffett bought a large chunk of Bank of America in August (few have remarked that Buffett was selling the same shares only back in late 2010). There are tentative early signs that this banking malaise may be nearing an end. *<u>If you wish to follow only one index as an early warning for better global equity markets, it is the Eurostoxx banks Index.</u>*

Euro Stoxx Bank Index

Source : Fullermoney

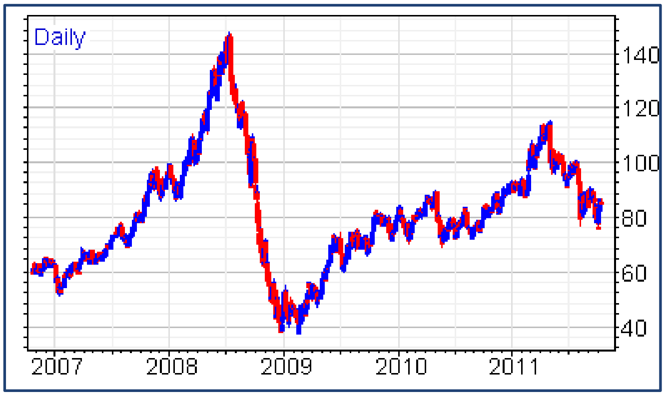
Global 1200 Financial Index

Source : Fullermoney

iain.little@pandc.ch : bruce.albrecht@pandc.ch

2. **Commodity price pressure**, including a stubbornly high oil price. Expensive energy has united with expensive food costs for the 85% of the world that lives in developing countries at a time of forecasts of growth slowdown in the West. To make matters worse, China and India have been trying to slow down their economies by tightening monetary policies. The trend of higher prices for these important commodities seems now to be abating and we expect the Chinese and Indian actions to reverse their repressive monetary policy once it clearly does.

Crude Oil NYME



Source : Fullermoney

Rough Rice CBOT

Source : Fullermoney

Soybean CBT

Source : Fullermoney

With regard to tactics, we have maintained our equity positions. In effect, these are in 2 sectors alone:

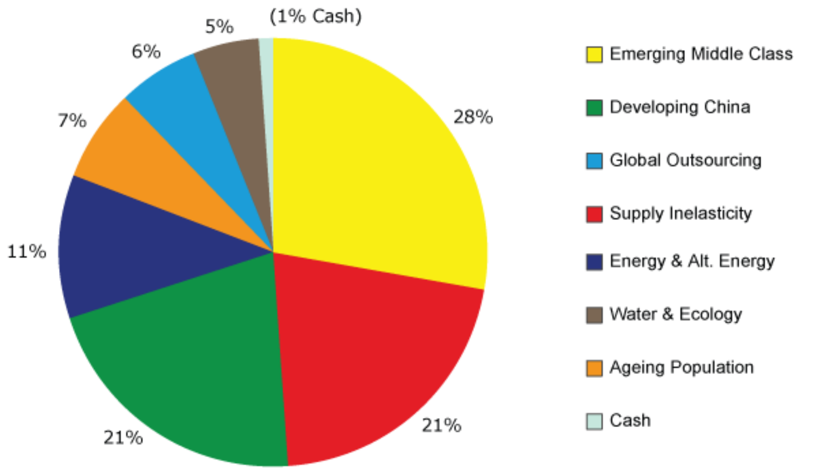
- Growth consumer companies, particularly in Asia, Latin America
- Dividend Aristocrats (high yielding, strong balance sheets, multi-nationals)

We have continued to add to our stock positions and reduced funds accordingly. We are not a fund of funds any more.

Our monthly fund fact sheets report the important facts, so we won't go into too much detail here. +40.9% in EUR in 2009, +27.1% in EUR in 2010 but down in 2011 (now down in USD as well)

Our end September asset allocation for GTI is:

Asset Allocation by Global Theme	
Emerging Middle Class	28%
Supply Inelasticity	21%
Developing China	21%
Energy & Alt. Energy	11%
Global Outsourcing	7%
Water & Ecology	6%
Ageing Population	5%
Cash	1%



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 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	67.08	**42.7%**	5.0%
Iberdrola	IBE:SM	Energy&Alt Energy	Dec-08	EUR 5.75	5.35	**-7.0%**	0.6%
Pfizer	PFE:US	Ageing Population	Dec-08	USD 16.90	18.89	**11.8%**	4.1%
Roche	RHHBY:US	Ageing Population	Jan-09	USD 36.20	41.10	**13.5%**	4.3%
Newmont Mining	NEM:US	Natural Resources	Feb-09	USD 35.00	63.56	**81.6%**	1.2%
Rio Tinto	RTP:US	Natural Resources	Mar-09	USD 28.75	52.86	**83.9%**	2.2%
Infosys Technologies	INFY:US	Global Outsourcing	May-09	USD 32.40	56.90	**75.6%**	2.3%
Veolia Environnement	VE:US	Water & Ecology	Jun-09	USD 28.50	15.93	**-44.1%**	10.9%
PotashCorp	POT:US	Natural Resources	Mar-10	USD 36.83	48.70	**32.2%**	0.4%
Diageo	DEO:US	Emerging Mid Class	May-10	USD 60.00	81.31	**35.5%**	3.2%
Unilever	UL:US	Emerging Mid Class	May-10	USD 27.19	32.18	**18.4%**	3.8%
Tesco	TSCDY:US	Emerging Mid Class	Mar-11	USD 18.18	19.23	**5.8%**	3.5%
Nestle	NESN:VX	Emerging Mid Class	Sep-11	CHF 50.10	51.25	**2.3%**	3.6%
Vodafone	VOD:LN	Emerging Mid Class	Sep-11	GBP 166.25	170.50	**2.6%**	5.7%

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	999.40	**119.6%**	2.0%
Godrej Consumer	GCPL:IN/ India	Emerging Mid Class	Apr-09	INR 142.00	400.30	**181.9%**	1.1%
Wumart	1025:HK/ HK	Developing China	Jul-09	HKD 9.50	16.24	**70.9%**	1.5%
Want Want China	151:HK	Emerging Mid Class	Jul-09	HKD 4.50	6.89	**53.1%**	2.2%
Nestlé India	NEST:IN	Emerging Mid Class	Sep-09	INR 2,214	4,217	**90.5%**	1.2%
Hsu Fu Chi	HFCI:SP/ S'pore	Developing China	Nov-09	SGD 2.01	4.15	**106.5%**	3.5%
Sonatel	SNTS:BC/ W Afr SE	Emerging Mid Class	Dec-09	CFA 120,000	125,000	**4.2%**	10.0%
Unilever Indonesia	UNVR:IJ / Jakarta	Emerging Mid Class	Dec-09	IDR 11,000	16,000	**45.5%**	2.8%
Lianhua Supermarkets	980:HK	Developing China	Mar-10	HKD 13.03	11.74	**-9.9%**	1.9%
East African Breweries	EABL:KN	Emerging Mid Class	Mar-10	KES 155.00	158.00	**1.9%**	5.5%
Britannia Industries	BRIT:IN	Emerging Mid Class	Mar-10	INR 316.00	450.00	**42.4%**	1.4%
Jollibee Foods Corp	JFC:PM	Emerging Mid Class	Jun-10	PHP 61.00	88.90	**45.7%**	1.5%
AMBEV	ABV:US	Emerging Mid Class	Aug-10	USD 22.00	32.89	**49.5%**	4.5%
Agco	AGCO:US	Supply Inelasticity	Sep-10	USD 40.00	39.25	**-1.9%**	0.0%
Gazprom	OGZPY:US	Energy&Alt Energy	Nov-10	USD 11.25	10.36	**-7.9%**	2.6%
Gruppo Bimbo	BIMBOA:MM	Emerging Mid Class	Nov-10	MXN 24.00	27.35	**14.0%**	2.0%
Lojas Renner	LREN3:BZ	Emerging Mid Class	Mar-11	MXN 51.61	53.17	**3.0%**	4.4%
Aeon Co	LREN3:BZ	Emerging Mid Class	Sep-11	MYR 6.90	7.00	**1.4%**	2.3%

Gold Basket							
IAMGOLD	IAG:US	Natural Resources	May-10	USD 17.58	19.78	**12.5%**	0.9%
Fresnillo	FNLPF:US	Natural Resources	May-10	USD 12.70	25.85	**103.5%**	2.4%
Eldorado Gold	EGO:US	Natural Resources	May-10	USD 16.65	17.40	**4.5%**	0.4%

A Word from one of our GTI advisers

This comes from a wily London based global equity hedge fund manager some of our clients invest with:

"Like in 2008, stocks have gone from cheap to very cheap. What we do not know is if they are going to become extraordinarily cheap. Many of our holdings are now at a discount to cash so one is buying the business for nothing. This does not usually last long......Whilst over the past year the fund's investments in private equity / pre-IPO investments has helped performance substantially we now believe the major opportunity lies in the public equity markets. As such we are selling out of the private companies where we can and refocusing on the numerous cheap stocks that are available in the public equity markets."

The same manager rang a similar bell in late 2008 / early 2009.

Quote of The Month

"I want to warn people from Nigeria who might be watching our show, if you get any emails from Washington asking for money, it's a scam. Don't fall for it".

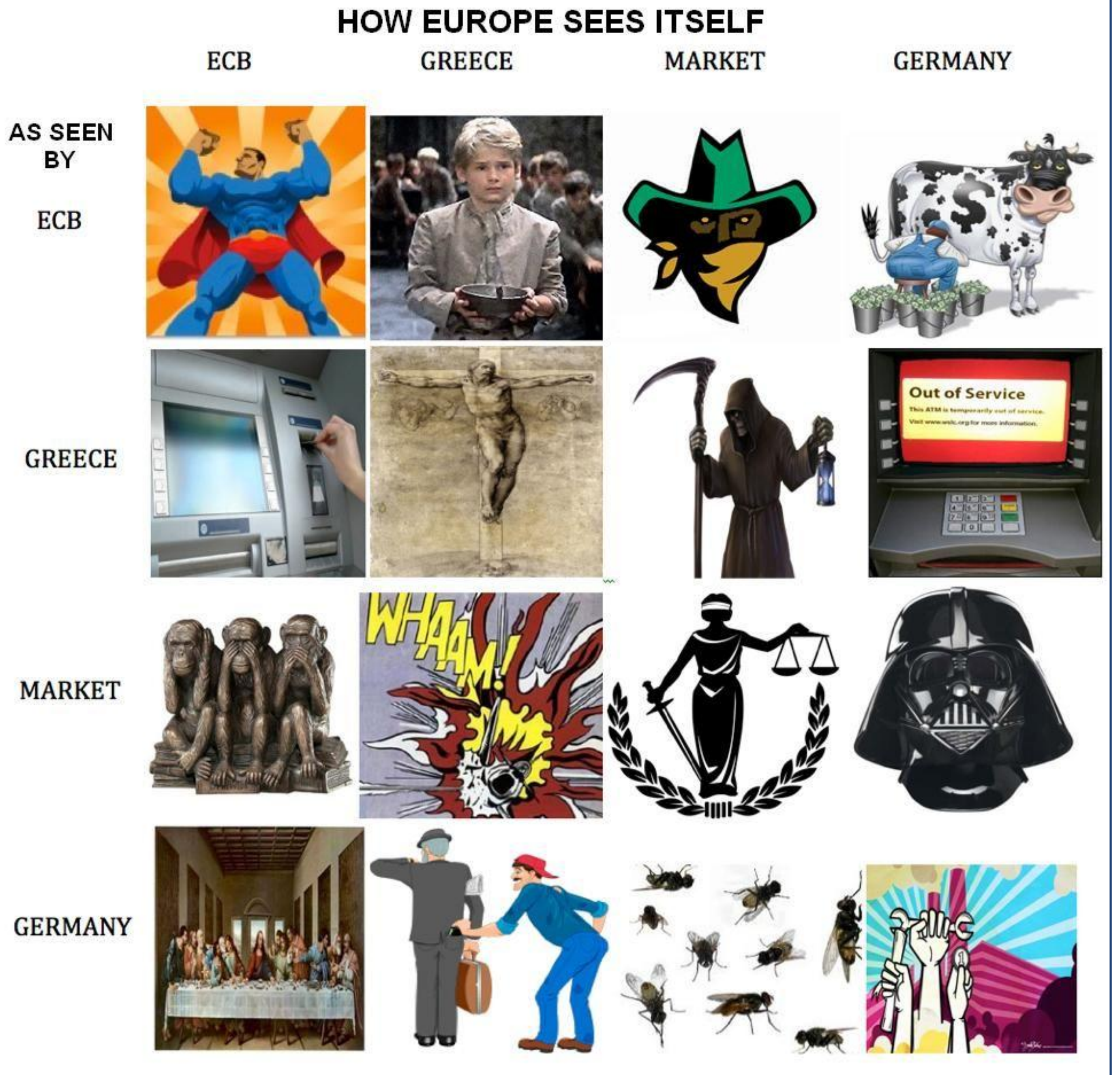
Jay Leno

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.

And One More Thing.....



Good investing and don't panic, unless, you panic early!

Iain and Bruce

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