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Chip Off the Old Block: Baby Autonomies

Mighty rivers course through the economies of the developing world, carrying with them the aspirations of the New Men, the heroes of GTI's *emerging middle class* theme. These rivers are irrigated by yet vaster source waters of inland seas and, way down-river, virgin lands are shaped and moulded by these massive econo-systems.

These mighty rivers are the Baby Autonomies, and if we invest in them, we invest alongside their powerful parents, the source waters that gave them life and nourish them still. Neither parent nor offspring care greatly about events in Washington, Brussels or Athens; their futures instead are tied to the urgent and limitless desires of the New Men, whose incomes rise on flood plains of prosperity to match those of the developed world.

And in a world where growth is scarce, this world is where we must now focus our attention. And as investors looking for value, we should be prepared to pay up for growth.



Baby Autonomy

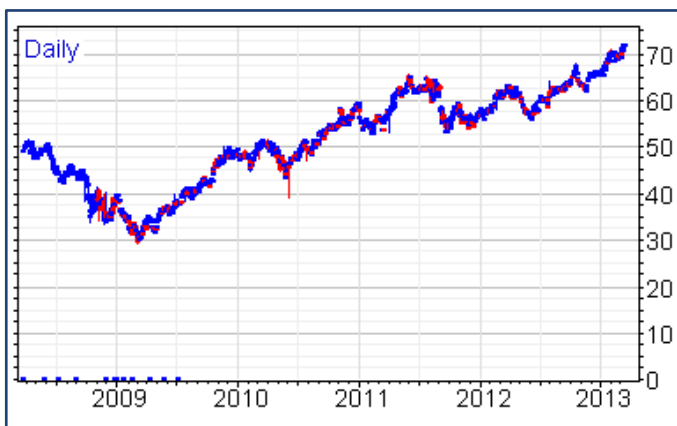
We've written for some time about why global autonomies -globally focused multinational companies- are the safest way for the private investor to access growth in a low-growth world (a world where global GDP is nudging 3%). We called this phenomenon "*Leviathan*", after Thomas Hobbes' literary invention, and maintained that "*Today's Nestlé is Yesterday's Treasury Bond*". So it has proved.

The Leviathans, and Where the Wild Things Are

Hobbes' Leviathan was a biblical sea monster that was a metaphor for perfect government. We've adopted David Fuller's name, "Autonomy"—because this word sums up their great strength: their autonomy to exploit the global opportunities of our *emerging middle* class theme. Of course, the following Autonomies are familiar to GTI readers:



Nestle SA ADR (NSRGY)



Source : Fullermoney

Diageo PLC (DEO)



Source : Fullermoney

Unilever Indonesia (UNVR)



Source : Fullermoney

Procter & Gamble Co (PG)



Source : Fullermoney

Remember that we also wrote about the Baby Autonomies, those muscular children of Leviathan, in *“Where The Wild Things Are”*.



“Where The Wild Things Are” by Maurice Sendak

Baby Autonomies are the children of post World War II globalization. As multinational companies like **Nestlé**, **IBM**, **Gillette** and **Unilever** expanded in the 1960s and 1970s, they established subsidiaries, usually majority controlled, in each operating country. And as developing countries developed their own capital markets, these multinationals were arm-wrestled into listing their Babies on the local stock exchange.

Why “arm-wrestled”?

A stock exchange is normally a means of raising capital from the public and makes demands on listed companies for transparency, adherence to local business culture and tax. So stock market listing is not a natural choice for a cash-rich and secretive MNC, chary of paying too much local tax and answering to shareholders and a complex network of stakeholders in its country of origin.

Yet list they did, and today they can still be found, like plump whales stranded on far foreign shores, ready for investment beachcombers like ourselves. The core names are familiar, but the full titles are a geography lesson in post WWII corporate hegemony.

Readers have asked us to expand on these Wild Things, to highlight the Wildest of them all and to

explain where Baby Autonomy money can best be invested. Some have asked us to start a fund to invest in them. On the following page is an example of a familiar name, a Unilever unit, operating in a high growth country, far afield from its parent.



Here is our report on what we think is the first summary of global Baby Autonomies. The companies, listed below, drawn from the Baby Autonomy universe, are covered in this Shareholders Letter. We would be happy to share our analysis of these or any of the other companies in our database.

Parent	Baby	Parent	Baby
BAT	British American Tobacco Chile British American Tobacco Kenya Ltd. British American Tobacco Uganda Ltd.	Merck	Merck (India) Limited PT Merck Tbk (Indonesia)
Glaxo Group UK	GlaxoSmithKline (India) Pharmaceuticals) Ltd. GlaxoSmithKline Consumer Nigeria Plc GlaxoSmithKline Pakistan Ltd	Nestlé SA	Nestlé India Nestlé Lanka plc Nestlé Malaysia (Berhad) Nestlé Nigeria
Heinken NV	Compañia Cervecerias Unidas S.A. PT Multi Bintang Indonesia Tbk	Unilever	Hindustan Unilever Unilever Ghana Unilever Indonesia Unilever Pakistan Ltd
		Walmart	Walmart de Mexico y Centroamérica (Walmex) Walmart South Africa

Hindustan Unilever (India)



Company Snapshot

Country	India, lower middle income country of 1.21 bn. population growing at +1.4% per year, GDP +6.9% in 2011 ⁽¹⁾
Sector	Consumer Staples – Household and Personal Products
Ownership	Unilever Plc 52%, IIL 21%, Others 27%
Products & brands	Soaps & detergents, personal products, beverages, packaged foods. Key brands - Lifebuoy, Brooke Bond, Lux, Closeup, Ponds, Dove, Surf Excel, Clinic Plus, Rin, Vim, Bru, Lakme
Description	<ul style="list-style-type: none"> • Business segments - Home & personal care, foods, exports, water, Hindustan Unilever Network, beauty & wellness, Leading FMCG company reaching 2/3 Indians • No.1 and strong No.2 in 95% businesses, Direct distribution reach of >2m stores, c70 manufacturing locations • 15,000 employees, 7 brands worth >INR10bn, Owns 17 of 100 most trusted brands in India
Growth drivers	Growth in personal care and foods categories, Cost control, Robust consumption opportunity in India FMCG space
Competitive strengths	Strong brand equity and superior product mix, Strong distribution network, Dominant position in key segments
Company strategy	Managing product pricing, Focus on high margin personal products to improve profitability, Asserting dominant position to increase market share, Strengthening rural distribution
Outlook	Deliver growth and boost margins despite challenging market and inflationary pressure on consumer
Key risks	Volatility in price of raw materials, Devaluation of local currency (Indian Rupee)



Company Financials

(INR mn) FYE 31 March	2009A ⁽²⁾	2010A ⁽³⁾	2011A	2012A	2013E	2014E
Revenue	216,495	182,203	202,854	228,003	269,044	308,593
Growth % y-o-y	17.7%	6.4%	11.3%	12.4%	18.0%	14.7%
Profit after Tax ⁽⁴⁾	25,007	21,027	21,533	25,992	32,645	37,876
Growth % y-o-y	-14.8%	-0.3%	2.4%	20.7%	25.6%	16.0%
Net Margin	11.6%	11.5%	10.6%	11.4%	12.1%	12.3%
Earnings per Share (INR)	11.5	9.6	9.9	12.0	15.1	17.5
PE Ratio ⁽⁵⁾	-	-	-	41.9xx	33.4x	28.8x
Dividend Yield ⁽⁵⁾	3.2%	2.7%	2.3%	1.8%	2.3%	2.2%
Return on Assets (ROA)	-	22.3%	20.9%	23.9%	-	-
Return on Equity (ROE)	142.9%	88.9%	80.1%	81.3%	-	-
Gearing (Debt/Equity)	21.1%	0.4%	0.1%	0.0%	-	-

Sources: (1) World Bank (2) For 15 months ended 31 March 2009, Growth rates based on annualized estimates (3) Growth rates indicate unaudited numbers taken from AR 2009-10 (4) Before exceptional/extraordinary items (5) Based on Close price of INR 503.7 on 15 January 2013, Bloomberg, Historicals from company accounts, P&C Global Wealth Managers estimates and analysis

Unregulated Monopolies: Dominant

It is a truth universally acknowledged that an unregulated monopoly is the best sort of company to invest in. But it's an endangered species; unregulated monopolies have been outlawed in the Developed World.

Luckily for investors, many still exist in the Developing World. Unregulated monopolies control the prices at which they sell their products, perpetuate high profit margins for their products and shrug off unwelcome competition.

In economic jargon, unregulated monopolies are "Price Givers", whereas their suppliers, the army of stakeholders to whom they are the client, tend to be "Price Takers". Setting, or "giving",

prices is economic Nirvana for a business corporation. This privilege gives unregulated monopolies power and money and makes them unpopular with left wing politicians and liberal press alike, who'd much rather someone else exercised that power and that money: themselves, for example.



Loyal Citizens Of The World

But these amoral qualities should make them popular with investors.

If your company distributes essential goods like soap, shampoo, cooking oil or baby milk, and is *dominant* in that business, your business has monopoly characteristics. A dominant brand, and the consumer trust that goes with that dominance, almost guarantees you outsized profits. This is the secret of the likes of Nestlé, Procter & Gamble and Unilever, all over the world.

Nestlé Nigeria Plc



Company Snapshot

Country	Nigeria, middle income country of 170 mn. population growing at +2.5% pa., GDP +6.7% in 2011 ⁽¹⁾
Sector	Fast Moving Consumer Goods
Ownership	Nestlé Ghana 60%, Nestlé CH 4%, retail 37%
Products & brands	Baby foods, beverages, coffee, culinary and dairy. Key brands - Milo, Nescafe, Nutrend, Cerelac, Nido, Golden Morn, Maggi
Description	<ul style="list-style-type: none"> Established in 1961, manufactures, markets and distributes food products, 2 factories and 1 co-packing unit, country's largest food company by market value Revenues grew at +25% in last 3 years, around 1/3rd market share Company expects to double sales in next 3 years, now exporting to other African countries
Growth drivers	Emerging middle class consumption in West Africa, Popularity of malt drinks and cereals, Capacity increases (only 6 of Nestlé's over 50 brands so far launched in Nigeria)
Competitive strengths	Strong brands, Distribution networks, Capital efficiency and cost control
Company strategy	Currently investing in factories, distribution, brands and growth opportunities. Focus on increasing output of its leading brands to increase sales
Outlook	Expects 2012 will be a difficult but successful year, Revenues forecast to grow by +15% in 2012
Key risks	Devaluation of Nigerian Naira, Risks related to insurgency and strike over fuel subsidies in the country



Company Financials

(NGN mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	51,742	65,753	80,108	97,961	112,972	129,918
Growth % y-o-y	17.5%	27.1%	21.8%	22.3%	15.3%	15.0%
Profit after Tax	8,332	9,784	12,602	16,809	16,889	19,488
Growth % y-o-y	53.1%	17.4%	28.8%	33.4%	0.5%	15.4%
Net Margin	16.1%	14.9%	15.7%	17.2%	14.9%	15.0%
Earnings per Share (NGN)	12.61	14.81	19.08	21.21	21.31	24.59
PE ratio ⁽²⁾	-	-	-	-	37.6x	32.6x
Dividend Yield	6.6%	5.2%	3.4%	2.3%	2.5%	2.5%
Return on Assets (ROA)	33.1%	25.6%	23.4%	24.5%	-	-
Return on Equity (ROE)	109.1%	100.0%	99.2%	87.6%	-	-
Gearing (Debt/Equity)	66.2%	159.5%	172.2%	140.2%	-	-

Sources: (1) World Bank (2) Based on close price of NGN 801 on close of 4 February 2013, Bloomberg
Company financials from annual reports and Nestlé Nigeria forecasts, P&C Global Wealth Managers estimates and analysis



Unilever Ghana



Company Snapshot

Country	Ghana, middle income country of 24 mn. population growing at +2.3% per year, GDP +14.4% in 2011 ⁽¹⁾
Sector	Consumer Staples – Household and Personal Products
Ownership	Unilever UK 67%
Products & brands	Food, home care and personal care. Key brands - Blue Band, Lipton Tea, Annapurna, Omo, Sunlight, Pepsodent, Lux, Key, Closeup
Description	<ul style="list-style-type: none"> Manufactures and markets toilet soaps, detergents, personal and consumable food products, Country's leading FMCG company and head to Unilever's West African operations Main segments – Food products (30%-60% market share) and Home & personal care (>50% market share). Dominant market share in toothpaste (90%) and margarines (60%)
Growth drivers	Emerging middle class consumption in West Africa – consumer spending powered by new deep water oil finds, Past restructuring to boost margins,
Competitive strengths	Strong distribution network and brand portfolio, Market leader in key consumer segments, Powerful marketing
Company strategy	Focus on investment in productive assets and distribution network, Increasing access in more affordable segments, More investment in marketing campaigns and right pricing
Outlook	Continued strong growth – Ghana buoyed by oil economy
Key risks	Volatility in price of raw materials, Devaluation of local currency (Ghana Cedi), Political and economic risks of the region, Company's bureaucratic capital allocation policies



Company Financials

(GHS mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	166	168	181	241	288	340
Growth % y-o-y	19.1%	1.4%	7.9%	33.0%	19.6%	18.1%
Profit after Tax	22.2	-2.2	19.1	31.8	34.4	43.1
Growth % y-o-y	100.5%	-	-	66.2%	8.2%	25.5%
Net Margin	13.4%	-1.3%	10.5%	13.2%	11.9%	12.7%
Earnings per Share (GHS)	0.36	-0.04	0.31	0.51	0.55	0.69
PE Ratio	-	-	-	-	16.0x	12.7x
Dividend Yield ⁽²⁾	3.1%	3.4%	5.3%	7.1%	6.3%	7.5%
Return on Assets (ROA)	20.0%	1.0%	15.8%	17.6%	-	-
Return on Equity (ROE)	31.2%	1.7%	28.0%	34.2%	-	-
Gearing (Debt/Equity)	3.6%	0.2%	0.1%	0.0%	-	-

Sources: (1) World Bank (2) Based on close price of GHS 8.78 on 10 January 2013, Bloomberg
Historicals from Bloomberg and company accounts, P&C Global Wealth Managers estimates and analysis



Nestlé Lanka PLC



Company Snapshot

Country	Sri Lanka, middle income country of 21mn. population growing at +1.0% pa., GDP +8.3% in 2011 ⁽¹⁾
Sector	Consumer staples – Food products
Ownership	Nestlé S.A. 91%, Others 9%
Products & brands	Chocolate, confectionery, beverages, cereals, baby products, milk products. Key brands – Nespray, Nestlomalat, Cerelac, Milo, Maggi, Kit Kat, Nescafe, Corn Flakes
Description	<ul style="list-style-type: none"> Operating since 100 years, it manufactures, processes and sales food products, One of the leading food and beverage companies in Sri Lanka 87% revenues from local market, 13% from exports, >1200 employees, world's largest exporter of coconut milk powder 1 factory manufactures 90% of products, Largest private collector of fresh milk in Lanka
Growth drivers	New product launches, Dominant market share in key categories, Emerging middle class consumption in Sri Lanka
Competitive strengths	Strong brands with growing market share, Very old company with local insights
Company strategy	Price management and cost control measures to offset price escalations, Continued investment in production capacity and upgrades, Sourcing raw materials locally for better margins
Outlook	Growth despite challenging environment, LKR10bn investment plan (2010 launch) to double capacity and presence by 2017
Key risks	Volatility in commodity prices, Devaluation of Lankan Rupee, High inflation



Company Financials⁽²⁾

(LKR mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	19,099	19,427	21,423	25,806	28,671	31,433
Growth % y-o-y	17.5%	1.7%	10.3%	20.5%	11.1%	9.6%
Profit after Tax	1,663	1,580	1,901	2,633	2,756	3,161
Growth % y-o-y	19.5%	-5.0%	20.3%	38.5%	4.7%	14.7%
Net Margin	8.7%	8.1%	8.9%	10.2%	9.6%	10.1%
Earnings per Share (LKR)	31.0	29.4	35.4	49.0	51.3	58.8
PE Ratio ⁽³⁾	-	-	-	-	31.0x	27.0x
Dividend Yield	9.6%	7.2%	5.2%	5.4%	3.1%	3.6%
Return on Assets (ROA)	31.7%	30.1%	31.8%	34.0%	-	-
Return on Equity (ROE)	102.3%	89.3%	87.7%	89.5%	-	-
Gearing (Debt/Equity)	0.0%	3.6%	3.9%	16.3%	-	-

Sources: (1) World Bank (2) Estimates for 2012E and 2013E from research report by C T Smith Stockbrokers, 2 Nov 12 (3) Based on Close price LKR 1,591 on 15 January 2013, Bloomberg
Historicals from company accounts, P&C Global Wealth Managers estimates and analysis



Nestlé Malaysia (Berhad)



Company Snapshot

Country	Malaysia, upper middle income country of 29 bn. population growing at +1.6% pa, GDP +5.1% in 2011 ⁽¹⁾
Sector	Consumer staples – Food products
Ownership	Nestlé SA 73%
Products & brands	Coffee, beverages, prepared foods, dairy, cereals, chocolates, confectionery. Key brands – Milo, Maggi, Nescafe, Nestea, Nescafe, Ki Kat, Crunch, Bliss, Drumstick, Cerelac, Nutren
Description	<ul style="list-style-type: none"> Commenced operations in 1912, Investment holding company for subsidiaries that manufacture and market food products, Biggest halal producer in Nestlé world Segments (% sales) – Food & beverages (83%), Nutrition & Nestlé Professional (17%), 7 factories, 5,731 employees Malaysian subsidiaries (100% owned) – Nestlé Products, Nestlé Manufacturing, Nestlé Asean, Nestlé Foods
Growth drivers	Emerging middle class consumption in Malaysia and export markets, High growth in confectionery, liquid drinks, chilled dairy segments, New product launches
Competitive strengths	>50% market share in key categories, Strong bargaining power as bulk purchaser, Large distribution network
Company strategy	Investing in capacity expansion, Protect profitability via cost efficiency program, Innovative packaging to drive sales, Management of product price points
Outlook	Expect growth despite challenging environment, Possible margin compression from increased costs, Expansion in key export markets- ASEAN, Ivory Coast, Thailand
Key risks	Volatility in price of raw materials, Impact of global financial and political instability



Company Financials

(RM mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	3,877	3,744	4,026	4,701	5,124	5,534
Growth % y-o-y	13.5%	-3.4%	7.5%	16.8%	9.0%	8.0%
Profit after Tax	341	352	391	456	512	553
Growth % y-o-y	16.7%	3.2%	11.3%	16.6%	12.3%	8.0%
Net Margin	8.8%	9.4%	9.7%	9.7%	10.0%	10.0%
Earnings per Share (RM)	1.45	1.50	1.67	1.95	2.19	2.36
PE Ratio ⁽²⁾	-	-	-	-	27.8x	25.8x
Dividend Yield	5.4%	4.5%	3.8%	3.2%	3.5%	3.5%
Return on Assets (ROA)	20.9%	20.9%	22.4%	24.1%	-	-
Return on Equity (ROE)	59.1%	65.0%	66.3%	72.8%	-	-
Gearing (Debt/Equity)	21.1%	67.8%	67.4%	53.4%	-	-

Sources: (1) World Bank (2) Based on close price of RM 60.8 on 16 January 2013, Bloomberg
Company historicals from annual reports, P&C Global Wealth Managers estimates and analysis

By the same token, the biggest risk to your business is abuse of consumer trust by failing to maintain product quality or social responsibility. Imagine how long a monopoly water utility selling poisoned water would stay in business. And consider that Nestlé is still criticised today for the taint of the baby milk scandal that started in 1977.

Baby Autonomies are attractive on their own merits, just because many are unregulated monopolies. And even if they are not actually monopolistic, they are able by virtue of the size of their parents to pursue a policy of aggressive market share growth, a policy that has been proven in more competitive arenas: Walmart provides two examples.



Walmart South Africa (Massmart)



Company Snapshot

Country	South Africa & other sub-Saharan countries, combined pop. of 379m growing at +2% per year, regional GDP >+5% in 2011 ⁽¹⁾
Sector	Consumer cyclical – Retail
Ownership	Wal-Mart Stores USA 53% ⁽²⁾
Products & brands	Food, household items, apparel, sports, entertainment, electronics, building, home improvement, gardening materials. Store brands – Game, Dionwired, Makro, Builders warehouse, Express builders, Jumbo, Shield
Description	<ul style="list-style-type: none"> Majority stake acquired by Wal-Mart in 2011, Massmart operates 9 high volume retail and wholesale chains in Africa 4 operating divisions - Massdiscounters, Masswarehouse, Massbuild and Masscash, 1 buying group, >330 stores, >30,000 employees Operates in 12 African countries including South Africa, Mozambique, Botswana, Namibia, Ghana, Nigeria, Second largest distributor of consumer goods in Africa
Growth drivers	New store openings, Strategic acquisitions and greenfield opportunities, Emerging middle class consumption in Africa
Competitive strengths	High market share, Large assortment of brands across all price points, Strong buying network and coverage
Company strategy	Investment in organic and inorganic growth opportunities, Strengthening supply chain capability, Introducing private labels
Outlook	Single digit growth in 2012, Aggressive growth strategy to increase market share
Key risks	High commodity costs, Devaluation of South African Rand, Political and economic uncertainty in the region



Company Financials

(ZAR mn.) FYE 26 June	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	38,958	43,129	47,451	52,950	57,716	62,333
Growth % y-o-y	11.9%	10.7%	10.0%	11.6%	9.0%	8.0%
Profit after Tax	1,257	1,211	1,130	839	1,443	1,558
Growth % y-o-y	19.7%	-3.6%	-6.7%	-25.8%	72.0%	8.0%
Net Margin	3.2%	2.8%	2.4%	1.6%	2.5%	2.5%
Earnings per Share (ZAR)	6.31	6.07	5.63	4.12	6.65	7.18
PE Ratio ⁽³⁾	-	-	-	-	27.2x	25.2x
Dividend Yield ⁽⁴⁾	6.3%	4.8%	3.2%	2.9%	2.1%	2.1%
Return on Assets (ROA)	11.0%	9.9%	8.4%	5.3%	-	-
Return on Equity (ROE)	50.0%	41.3%	34.4%	22.6%	-	-
Gearing (Debt/Equity)	11.0%	5.8%	12.8%	35.4%	-	-

Sources: (1) World Bank, Indexamundi (2) Through Wal-Mart subsidiary Main Street 830 (Pty) Ltd (3) Based on close price of ZAR 181.0 on 15 January 2013, Bloomberg (4) Assumes 60% Dividend Payout Ratio in line with trend
Company annual reports, P&C Global Wealth Managers estimates and analysis



Walmart de Mexico y Centroamérica (Walmex)



Company Snapshot

Country	Mexico & Central America, combined population of 152m. growing at +1% per year, regional GDP c+4% in 2011 ⁽¹⁾
Sector	Consumer cyclical – Retail
Ownership	Wal-Mart Stores USA 65%
Products & brands	Food, household items, apparel, restaurant chain, banking services. Business formats – Wal-Mart stores, Sam's club, Pali, Superama, Suburbia, Vips, Banco Walmart, Aurrera
Description	<ul style="list-style-type: none"> Initially founded in 1958, Wal-Mart Mexico and Central America retails food, clothing and other merchandise through various formats – Discount stores, hypermarkets, clubs, supermarkets, apparel, restaurant and banks Present across 493 cities of Mexico & Central America, 25 distribution centers, >2850 stores, >245,000 associates 87% revenues from Mexico, 13% from Central America (Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala)
Growth drivers	New store openings, Emerging middle class consumption in the region
Competitive strengths	Market leadership, Large assortment of brands, Present across diverse formats and price points, Efficient logistics and distribution
Company strategy	Investment in modernizing stores and capacity expansion, Reorganizing business formats, Multichannel sales strategy
Outlook	Continue expansion program in the region through new store openings and distribution centers
Key risks	Increasing raw material and energy costs, Facing corruption allegations, Devaluation of Mexican peso, Political uncertainty



Company Financials

(MXN mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	244,029	269,397	334,511	379,021	416,923	454,446
Growth % y-o-y	11.1%	10.4%	24.2%	13.3%	10.0%	9.0%
Profit after Tax	14,673	16,806	19,550	22,254	25,015	27,267
Growth % y-o-y	5.1%	14.5%	16.3%	13.8%	12.4%	9.0%
Net Margin	6.0%	6.2%	5.8%	5.9%	6.0%	6.0%
Earnings per Share (MXN)	0.87	1.00	1.10	1.25	1.41	1.54
PE Ratio ⁽²⁾	-	-	-	-	29.4x	26.9x
Dividend Yield ⁽³⁾	1.6%	1.0%	0.9%	1.5%	1.0%	1.1%
Return on Assets (ROA)	13.0%	13.4%	11.9%	10.6%	-	-
Return on Equity (ROE)	20.9%	21.4%	19.0%	17.4%	-	-
Gearing (Debt/Equity)	0.0%	0.0%	0.2%	0.0%	-	-

Sources: (1) World Bank, Indexamundi (2) Based on close price of MXN 41.4 on 15 January 2013, Bloomberg
Company annual reports, P&C Global Wealth Managers estimates and analysis

(3) Assumes 60% Dividend Payout Ratio in line with trend

As a middle class develops, lifestyle and healthcare products are particularly sought after, as families purchase brands already proven in the developed world.



Merck (India) Limited



Company Snapshot

Country	India, lower middle income country of 1.21 bn. population growing at +1.4% per year, GDP +6.9% in 2011 ⁽¹⁾
Sector	Consumer non-cyclical – Pharmaceuticals & chemicals
Ownership	Merck KGaA Germany 51.8%
Products & brands	Medicines, vaccines, multi-vitamins, chemical pigments, active ingredients for skin care products. Key brands – Nasivion, SevenSeas, Maxepa, ElectroBion, Evion, Livogen
Description	<ul style="list-style-type: none"> Set up in 1967, manufactures and markets medicines and chemicals Business segments (% sales) – Pharmaceuticals (vitamins, formulations, consumer health care) 70%, Chemicals (bulk pharma compounds, specialty pigments, cosmetics) 30% >1250 employees, Exports (10% sales) to Sri Lanka, Nepal, Myanmar, African and middle-eastern countries
Growth drivers	Strong performance of key brands, New product launches, Emerging healthcare market and middle class income in India,
Competitive strengths	Market leadership in several categories, Strong brand portfolio
Company strategy	Focus on Merck Serono (formulations) business to promote growth, Tapping potential of rural market, women's health market, Investment in production facilities
Outlook	Improved performance despite impact of current economic environment
Key risks	Uncertain political and economic environment, Increase in input costs, Devaluation of Indian Rupee, Regulatory restrictions of the pharmaceuticals industry



Company Financials

(INR mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	3,895	4,731	5,091	5,576	5,966	6,324
Growth % y-o-y	23.7%	21.5%	7.6%	9.5%	7.0%	6.0%
Profit after Tax	630	655	632	637	716	759
Growth % y-o-y	-8.4%	3.9%	-3.5%	0.8%	12.4%	6.0%
Net Margin	16.2%	13.8%	12.4%	11.4%	12.0%	12.0%
Earnings per Share (INR)	37.4	39.0	38.1	38.4	43.1	45.7
PE Ratio ⁽²⁾	-	-	-	-	15.4x	14.6x
Dividend Yield ⁽³⁾	57.9%	34.7%	132.4%	0.0%	-	-
Return on Assets (ROA)	22.5%	11.6%	12.7%	13.8%	-	-
Return on Equity (ROE)	14.4%	14.3%	15.5%	16.8%	-	-
Gearing (Debt/Equity)	0.0%	0.0%	0.0%	0.0%	-	-

Sources: (1) World Bank (2) Based on close price of INR 665.8 on 16 January 2013, Bloomberg Company annual reports, P&C Global Wealth Managers estimates and analysis



PT Merck Tbk (Indonesia)



Company Snapshot

Country	Indonesia, a lower middle income country of 237 mn. population growing at +1% per year, GDP +6.5% in 2011 ⁽¹⁾
Sector	Consumer non-cyclical - Pharmaceuticals
Ownership	Merck GmbH Germany 74%
Products & brands	Prescription drugs, consumer health products, pigments for printing and cosmetics. Key brands – Neurobion, Concor, Sangobion, Glucophage, Seven Seas orange syrup
Description	<ul style="list-style-type: none"> Established in 1970, manufactures and markets pharmaceutical products, laboratory reagents, pigments, specialty chemicals in Indonesia Business segment (% sales): Merck Serono (prescription drugs) 45%, Consumer health care 20%, Chemicals 35% Leading pharmaceuticals and chemicals business in Indonesia, >850 employees
Growth drivers	Strong performance and increasing market share of brands in Serono and chemicals divisions, Emerging Indonesian middle class
Competitive strengths	Market leader of therapeutic products for a range of conditions, Strong brand portfolio
Company strategy	Investing in production and warehousing facilities, Increased promotion to strengthen key brands
Outlook	Continued operational improvement under the current strategy to boost growth and profitability
Key risks	Volatility in raw material prices, Rising inflation, Fierce competition, Local currency devaluation



Company Financials

(IDR mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	637,134	751,403	795,689	918,532	1,010,385	1,101,320
Growth % y-o-y	16.4%	17.9%	5.9%	15.4%	10.0%	9.0%
Profit after Tax	98,620	146,700	118,794	231,159	202,077	220,264
Growth % y-o-y	10.2%	48.8%	-19.0%	94.6%	-12.6%	9.0%
Net Margin	15.5%	19.5%	14.9%	25.2%	20.0%	20.0%
Earnings/ Share (IDR)	4,403	6,549	5,303	10,320	9,021	9,833
PE Ratio ⁽²⁾	-	-	-	-	16.8x	15.5x
Dividend Yield	15.1%	1.7%	8.3%	6.2%	-	-
Return on Assets (ROA)	27.9%	36.3%	27.3%	45.4%	-	-
Return on Equity (ROE)	32.5%	43.1%	33.1%	53.9%	-	-
Gearing (Debt/Equity)	15.0%	23.0%	20.0%	18.0%	-	-

Sources: (1) World Bank (2) Based on Close price IDR 152,000 on 18 December 2012, Bloomberg Company accounts, P&C Global Wealth Managers estimates and analysis

GlaxoSmithKline Consumer Nigeria Plc



Company Snapshot

Country	Nigeria, middle income country of 170 mn. population growing at +2.5% pa., GDP +6.7% in 2011 ⁽¹⁾
Sector	Consumer non-cyclical – Pharmaceuticals & healthcare
Ownership	GlaxoSmithKline plc UK 80% ⁽²⁾
Products & brands	Nutritional health drinks, oral healthcare, wellness products, medicines, vaccines - Lucozade, Ribena, Panadol, Horiicks, Calpol, Sensodyne, Zantac, Ampiclox, Augmentin
Description	<ul style="list-style-type: none"> • Incorporated in 1971, manufactures, markets and distributes healthcare brands. One of Africa's largest consumer companies • Segment revenues – Consumer healthcare products (70%), Pharmaceuticals (30%) • Minor exports to other African countries (e.g. Ghana), 2 manufacturing facilities
Growth drivers	Emerging middle class consumption in West Africa, New product launches, Strong performance of healthcare segment
Competitive strengths	Brand leadership in many categories, Strong product portfolio, Wide distribution network
Company strategy	Investment in manufacturing operations, Cost management to boost profitability, More dialogue with government on fake medicines
Outlook	Committed to double digit revenue growth rate in 2012, Planned launch of several brands
Key risks	Devaluation of Nigerian Naira, Counterfeit medicines, Risks related to insurgency and strike over fuel subsidies in the country



Company Financials

(NGN mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	12,545	14,952	16,864	21,526	24,755	28,221
Growth % y-o-y	26.5%	19.2%	12.8%	27.6%	15.0%	14.0%
Profit after Tax	1,277	1,702	1,977	2,302	2,723	3,245
Growth % y-o-y	52.6%	33.3%	16.2%	16.4%	18.3%	19.2%
Net Margin	10.2%	11.4%	11.7%	10.7%	11.0%	11.5%
Earnings per Share (NGR)	1.33	1.78	2.07	2.41	2.85	3.39
PE Ratio ⁽³⁾	-	-	-	-	16.4x	13.8x
Dividend Yield ⁽⁴⁾	4.1%	3.3%	4.5%	5.0%	3.0%	3.6%
Return on Assets (ROA)	13.9%	15.7%	15.0%	14.3%	-	-
Return on Equity (ROE)	25.4%	28.3%	27.4%	27.3%	-	-
Gearing (Debt/Equity)	60.9%	70.3%	65.5%	83.6%	-	-

Sources: (1) World Bank (2) GSK Group UK has agreed to raise its stake in GSK Consumer Nigeria from 46.4% to 80%. (3) Based on close price of NGN 46.7 on 16 January 2013, Bloomberg

(4) Assumes 50% Dividend payout Ratio in line with historical trend
Annual reports, P&C Global Wealth Managers estimates and analysis

Even the bad old habits of the developed world, frowned upon in the West, are growth and high margin industries in “Emergia”.



British American Tobacco Uganda Ltd.



Company Snapshot

Country	Uganda, low income country of 35 mn. population growing at +3% pa, GDP +6.7% in 2011 ⁽¹⁾
Sector	Consumer staples – Tobacco
Ownership	British American Tobacco plc 90%
Products & brands	Cigarettes, Key brands – Sportsman, Benson & Hedges, Embassy, Rex
Description	<ul style="list-style-type: none"> • Commenced operations in 1927, Leading tobacco growing, processing and marketing company in Uganda • Export contribute c40% to revenues, 120 employees • Significant contributor to government revenue
Growth drivers	Growth in volumes of flagship brand, Sportsman, Improving product mix
Competitive strengths	Strong brand portfolio and market position
Company strategy	Productivity savings and minimizing operational costs to boost profitability, Increased engagement with government on controlling illicit trading in cigarettes, Focus on investing in distribution network
Outlook	Well poised to take advantage of domestic growth,
Key risks	Increase in excise tax, Illicit trading in cigarettes, Devaluation of Uganda Shilling, Lower exports from oversupply of tobacco globally, Inflation



Company Financials

(Shs mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	185,86	6 163,662	212,25	223,73	0 237,154	249,01
Growth % y-o-y	0.7%	-11.9%	29.7%	5.4%	6.0%	5.0%
Profit after Tax	3,244	8,014	11,177	22,081	23,715	24,901
Growth % y-o-y	-47.2%	147.0%	39.5%	97.6%	7.4%	5.0%
Net Margin	1.7%	4.9%	5.3%	9.9%	10.0%	10.0%
Earnings per Share (RM)	66	163	228	450	483	507
PE Ratio ⁽²⁾	-	-	-	-	4.7x	4.5x
Dividend Yield ⁽³⁾	0.0%	-	-	23.0%	16.9%	17.7%
Return on Assets (ROA)	3.2%	5.7%	7.1%	13.3%	-	-
Return on Equity (ROE)	-	-173.6%	93.0%	115.6%	-	-
Gearing (Debt/Equity)	-	-582.4%	-	-	-	-

Sources: (1) World Bank (2) Based on close price of Shs 2,290 on 15 January 2013, Bloomberg (3) Assuming 80% Dividend Payout Ratio
Company annual reports (in Uganda Shilling), P&C Global Wealth Managers estimates and analysis



British American Tobacco Chile



Company Snapshot

Country	Chile, an upper middle income country of 17mn. population growing at +1% pa., GDP +6% in 2011 ⁽¹⁾
Sector	Consumer staples – Tobacco
Ownership	British American Tobacco plc 98%
Products & brands	Cigarettes, Key brands – Kent, Lucky Strike, Viceroy, Pall Mall, Belmont, Hilton, Derby
Description	<ul style="list-style-type: none"> Established in 1909, it produces, packages and sells cigarettes, Market share of c93%, >1000 employees 1 cigarette factory in Casablanca, 1 plant of snuff in San Fernando, Produces c19bn cigarettes- 14bn for domestic use, 5bn for exports (Columbia, Peru, Paraguay, etc.) 100% subsidiaries – BAT Chile SA, Inversiones CCT, Industrial Chiletobacos
Growth drivers	Strong performance of brand Kent, Lucky Strike, Controlling market share of key brands, Teenage cigarette use in Chile is one of the highest in the world, Growth in export markets
Competitive strengths	Dominant player in the market since long, Very strong brand equity
Company strategy	Price management of brands to counter increased taxes, Increased involvement with government on legislation over taxation and illicit cigarette trade
Outlook	Expect stable performance, volumes may grow
Key risks	Chile has one of the highest affection taxes on tobacco, High illegal cigarette trade, Political instability



Company Financials⁽²⁾

(CLP mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	167,123	163,645	192,670	196,103	207,869	218,263
Growth % y-o-y	15.5%	-2.1%	17.7%	1.8%	6.0%	5.0%
Profit after Tax	47,125	36,794	48,276	43,030	45,731	48,018
Growth % y-o-y	13.9%	-21.9%	31.2%	-10.9%	6.3%	5.0%
Net Margin	28.2%	22.5%	25.1%	21.9%	22.0%	22.0%
Earnings per Share (CLP)	673	543	690	615	653	686
Return on Assets (ROA)	27.0%	21.0%	23.7%	18.3%	-	-
Return on Equity (ROE)	80.1%	75.4%	128.5%	121.8%	-	-
Gearing (Debt/Equity)	0.2%	32.6%	68.0%	110.8%	-	-

Sources: (1) World Bank (2) All figures in Chilean Peso (CLP)
Company accounts, Bloomberg, P&C Global Wealth Managers estimates and analysis



British American Tobacco Kenya Ltd.



Company Snapshot

Country	Kenya, a low middle income country of 42mn. population growing at +2.7% pa., GDP +4.5% in 2011 ⁽¹⁾
Sector	Consumer staples – Tobacco
Ownership	British American Tobacco plc 60%
Products & brands	Cigarettes and Cutrag, Key brands – Dunhill, Embassy, Sweet Menthol, Sportsman, Safari, Rooster
Description	<ul style="list-style-type: none"> Established in 1907, it produces, packages and sells cigarettes and semi-processed tobacco, Serves 17 markets in East & Central Africa Produces 36bn cigarettes- 6.5bn for domestic use, Exports markets- Egypt, Zambia, Somalia, Uganda, Mauritius 1 factory and 1 threshing plant
Growth drivers	Huge investment in capacity expansion, Growth in export markets
Competitive strengths	Market leader with 80% share, Strong brand portfolio, Exposure to diverse markets
Company strategy	Increased investment in marketing and production capacity, Dialogue with government on taxation and illicit cigarette trade, Focus on South Sudan for future growth
Outlook	Growth despite economic and political challenges, Focus on expanding productivity, profitability and market share
Key risks	High inflation, Unstable excise tax regime, Exposure to commodity price shocks, Illicit trading in cigarettes, Unfavorable legislation



Company Financials

(KES mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	17,436	18,720	22,700	28,800	33,120	37,094
Growth % y-o-y	10.6%	7.4%	21.3%	26.9%	15.0%	12.0%
Profit after Tax	1,700	1,478	1,767	3,098	3,312	3,709
Growth % y-o-y	22.7%	-13.1%	19.6%	75.3%	6.9%	12.0%
Net Margin	9.7%	7.9%	7.8%	10.8%	10.0%	10.0%
Earnings per Share (KES)	17.0	14.8	17.7	31.0	33	37
PE Ratio ⁽²⁾	-	-	-	-	16.3x	14.6x
Dividend Yield ⁽²⁾	6.5%	5.7%	6.7%	12.4%	5.6%	6.5%
Return on Assets (ROA)	17.4%	14.2%	16.3%	24.9%	-	-
Return on Equity (ROE)	35.5%	30.9%	36.1%	53.8%	-	-
Gearing (Debt/Equity)	0.0%	42.2%	29.7%	16.3%	-	-

Sources: (1) World Bank (2) Based on the close price of KES 540 on 15 January 2013, Bloomberg
Company accounts, Bloomberg, P&C Global Wealth Managers estimates and analysis, All figures in Kenyan Shilling (KES)

Let's be clear. We're going to focus on those sectors where economies of scale are greatest, where there is direct exposure to the GTI *Emerging Middle Class* consumer and where the benefits of being part of a powerful global group are most pronounced. This occurs most of all in the consumer goods, consumer staples, fast food, brewing and luxury goods sectors. It is also true, but less so, in the cement, industrial and manufacturing sectors, which are the traditional emerging markets play.

We're going to focus on sectors close to the consumer and leave capital-intensive cement, industrials and resources for another time, another place.

Sending Baby Out to Work

Parent multinationals account for around two thirds of world trade, and around half of that trade takes place within the same multinational.

Yes, multinationals trading with themselves, or inter-group, account for one third of world trade.

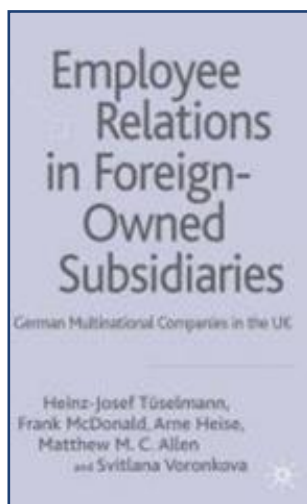
Global trade's defining document, *the General Agreement on Tariffs and Trade (GATT)* was signed back in 1947 to establish the post WWII trading order. Its primary aim was to defend the interests of corporations, then limping, sorely wounded, from the smoke of war, against *Big Government*. It did so by imposing restraints on government disruptions to trade. That was 60 years ago. Nowadays, the 6 stone weaklings are the governments, indebted and injured, whilst the 600 pound gorillas are the Autonomies.



Today's Post GATT World

Baby Autonomies operate like the sales arms of their powerful parents, but, rather oddly, with the parental roles reversed. *Mum and Dad stay home alone, and Baby goes out to work.* The Aged Parents look after all Research and Development, manufacturing, innovation, management, product

launches, tax, operating manuals, reporting structures, accounting....all the necessary nitty gritty of running a multinational the size of a small country.



The Rules Already Written

Baby's job is to sell well-established products overseas. Of course, some manufacturing and processing gets done in the local market to adapt products to local conditions, but always under the watchful eye of Mum and Dad. No cigarettes behind the bicycle shed for junior.

A good example is **Nestlé**, a company that has had only one loss-making year since its foundation in 1866. It has just opened its first R&D centre in India and is doubling its R&D centres in China, from 2 to 4. Trust **Nestlé** to know what it's doing.

For Baby, the job is easier than it might be for a start-up. First of all, the wheel has already been invented. Selling a product like soap or babymilk, proven over

decades in the teeth of ferocious competition in the decadent and materialistic West, into a virgin market growing at 15% per annum is nowhere near as hard as launching a new washing powder or shampoo range into a mature market growing at 5%.

Mum from Mumbai spends only USD 1 a year on **Nestlé** products, compared to USD 3 in Nigeria, USD 40 a year in Brazil and USD 100 in Switzerland. A third of **Nestlé's** sales in India sell for under 20c a unit; this number is set to explode.



Burps and Babies

Nestlé has 30 Billion Dollar Brands. Only 8 are distributed in India. All **Nestlé** has to do is to wait for Indian per capita wealth to reach the level at which consumers can afford a particular **Nestlé** category and then...wheel it out.

With only 8 billion dollar categories, **Nestlé India's** market value is over USD 8bn. Why shouldn't a 30 billion dollar a year category **Nestlé India** be worth over USD30 bn, 4 or 5 times the current share price?

We think it will be, one day. Take a look:



Nestlé India



Company Snapshot

Country	India, lower middle income country of 1.21 bn. population growing at +1.4% per year, GDP +6.9% in 2011 ⁽¹⁾
Sector	Fast Moving Consumer Goods
Ownership	Nestlé SA 34%, Maggi Enterprises 28%, FII 11%
Products & brands	Milk products, beverages, prepared dishes, confectionery. Key brands – Maggi, Nescafe, Kit Kat, Munch, Polo, Lactogen, Cerelac, Milkmaid, Nestea
Description	<ul style="list-style-type: none"> Commenced operations in 1912, manufactures, markets and distributes food products, Largest processed foods company in India, >50% market share in baby foods and noodles markets Segments (% sales) - milk products and nutrition (44%), beverages (14%), prepared dishes and cooking aids (28%), chocolates and confectionery (14%) Products sold through >3.5mn outlets, 8 factories and 4 head offices, large number of co-packers, >6000 employees
Growth drivers	Emerging middle class consumption in India, Improved product/channel mix, Expanding sales network
Competitive strengths	Market leadership in key categories, Strong distribution network, Differentiated products and competitive price points
Company strategy	Investing to enhance production and distribution capacity, Product, portfolio and channel optimization to improve profitability, improve supply chain
Outlook	Cautious on near term demand trends, Price management and cost control key to protecting margins
Key risks	Uncertain political and economic environment, Volatility of commodity prices, Aggressive competition



Company Financials⁽²⁾

(INR mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Net Sales	43,242	51,294	62,547	74,908	84,610	99,723
Growth % y-o-y	23.4%	18.6%	21.9%	19.8%	13.0%	17.9%
Profit after Tax	5,341	6,550	8,187	9,615	10,999	12,964
Growth % y-o-y	29.1%	22.6%	25.0%	17.5%	14.4%	17.9%
Net Margin	12.4%	12.8%	13.1%	12.8%	13.0%	13.0%
Earnings per Share (INR)	55.39	67.93	84.91	99.73	114.08	134.46
PE Ratio ⁽³⁾	-	-	-	-	42.4x	36.0x
Dividend Yield	3.0%	1.9%	1.3%	1.2%	2.0%	2.0%
Return on Assets (ROA)	34.4%	35.1%	35.6%	27.6%	23.4%	24.5%
Return on Equity (ROE)	119.8%	124.2%	114.0%	90.3%	72.9%	66.4%
Gearing (Debt/Equity)	0.2%	0.1%	1.0%	76.2%	55.7%	35.6%

Sources: (1) World Bank (2) Forecasts from research report by JP Morgan, 31 August 2012 (3) Based on close price of INR 4,839.2 on 16 January 2013, Bloomberg Company historicals from annual reports, P&C Global Wealth Managers estimates and analysis

Fond and Doting Parents

How do Mum 'n' Dad view the prospects for their offspring? Like every parent, they don't really want them to leave home. Here is a case in point:



Unilever Pakistan Ltd.



Company Snapshot

Country	Pakistan, lower middle income country of 180 mn. population growing at +1.8% pa., GDP +2.4% in 2011 ⁽¹⁾
Sector	Consumer Staples – Household and Personal Products
Ownership	Unilever Plc 75%
Products & brands	Soaps, detergents, margarine, beverages, food products, personal care products. Key brands – Fair & Lovely, Pond's, Lux, Lifebuoy, Surf Excel, Lipton, Blue Band, Walls, Dove
Description	<ul style="list-style-type: none"> Formed in 1948, manufactures and markets food & food ingredients, home & personal care products Segments (% of sales) – Home & personal care, HPC (56%), Beverages (29%), Ice cream (12%), Spreads (3%), Double digit growth across all segments
Growth drivers	Rapid growth in high margin HPC segment, Emerging per capita consumption in Pakistan, Dominant market share in key categories
Competitive strengths	Strong brands in HPC segment, Products spread across all price points, Wide distribution network
Company strategy	Increased investment in distribution, Introducing packaging to boost rural consumption, Working capital management to increase profitability
Outlook	Growth opportunities despite challenging environment, Sees potential to strengthen market leadership
Key risks	Political uncertainty, Cannibalization from parent owned separate listed foods company, Volatility in commodity prices, Smuggling and counterfeiting of popular brands



Company Financials

(PKR mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	30,957	38,188	44,672	51,876	59,657	68,009
Growth % y-o-y	32.7%	23.4%	17.0%	16.1%	15.0%	14.0%
Profit after Tax	1,984	3,056	3,273	4,094	4,773	5,441
Growth % y-o-y	17.6%	54.0%	7.1%	25.1%	16.6%	14.0%
Net Margin	6.4%	8.0%	7.3%	7.9%	8.0%	8.0%
Earnings per Share (PKR)	149	230	246	308	359	409
PE Ratio ⁽²⁾	-	-	-	-	27.9x	24.4x
Dividend Yield	6.8%	10.0%	5.6%	5.5%	5.0%	5.0%
Return on Assets (ROA)	20.4%	26.8%	26.3%	27.8%	-	-
Return on Equity (ROE)	94.6%	111.0%	95.5%	105.9%	-	-
Gearing (Debt/Equity)	149.4%	33.3%	8.9%	7.1%	-	-

Sources: (1) World Bank (2) Based on Close price PKR 10,000 on 16 January 2013, Bloomberg Historicals from company accounts, P&C Global Wealth Managers estimates and analysis

Our Dominant Consumer advisers, Arisaig Partners of Singapore, had this to say about how parent autonomies view their Babies:

*At the end of November, Unilever Plc announced its intention to privatise its listed subsidiary Unilever Pakistan. This is disappointing news for us given that we have spent the best part of 9 years building our 6% stake. Having already made a 3x return on the amount we have invested over this period, we were expecting to make a great deal more over the coming years given the company's tremendous potential for revenue growth and margin expansion (of which we are sure the parent is well aware). The offer price is close to the current market value, which we believe significantly undervalues the business. We are ruminating on how to resist this move or at least elicit a higher price. It is worth noting that privatisation attempts in Pakistan have not always been successful. This development naturally raises the question as to whether our MNC subsidiary holdings in India might go down the same route. The risk here would appear to be much lower since stronger legislation exists in India to deter privatisation. Whereas in Pakistan a de-listing resolution must be approved by three quarters of shareholders (since it owns 75% of its subsidiary, **Unilever** had already cleared this hurdle), the threshold for approval in India is 90%, which is significantly higher than any of the stakes held by the parents of our MNC subsidiaries. Furthermore, controlling shareholders cannot easily reach the requisite 90% holding. In order to get there, they would require the approval of two thirds of the minority shareholders at a price agreed through a process of reverse book building. In 2012 alone, two MNCs, **Ricoh** and **Saint Gobain**, have seen their attempts at de-listing fail, as they did not reach the 90% threshold. In earlier years, others such as **AstraZeneca**, **British Oxygen** and **Goodyear** have also failed to de-list.*

*Coincidentally, within days of the news from Pakistan, **GSK Plc** made a voluntary open offer to raise its stake in **GSK Consumer Healthcare India** from 43% to 75% at a 28% premium to the then share price. The strategy director at the parent subsequently confirmed to us that there is no intention to go for a full privatisation knowing, no doubt, the technical difficulties of attempting such a course of action. We won't be tendering any of our shares, but are pleased to see that our stake is about to become even more valuable in terms of its scarcity.*



GlaxoSmithKine (India) Pharmaceuticals Ltd.



Company Snapshot

Country	India, lower middle income country of 1.21 bn. population growing at +1.4% per year, GDP +6.9% in 2011 ⁽¹⁾
Sector	Consumer non-cyclical - Pharmaceuticals
Ownership	Glaxo Group UK 36%, Eskaylab 7%, Burroughs Wellcome 4%
Products & brands	Medicines, vaccines. Key brands – Ceftum, Calpol, Zobactin, Harvix, Varilrix, Rotarix, Zinetac, Betnesol
Description	<ul style="list-style-type: none"> Established in 1912, Manufactures and markets medicines across therapeutic areas as anti-infectives, dermatology, gynaecology, diabetes, oncology, cardiovascular and respiratory diseases, Also offers a range of vaccines Has 5 products in top 50 brands, Vaccines division ranked first in fast-growing vaccines market in India >5000 employees, Key export markets for bulk drugs, formulations – Japan, France, Indonesia, Germany, U.K.
Growth drivers	Emerging healthcare market and middle class income in India, Strong performance of the vaccines business and mass market products, Growth in exports
Competitive strengths	Market leadership in several categories - dermatology, anti-helmentics, hormones, Strong brand portfolio
Company strategy	Expand presence in speciality business to widen footprint, Strengthening position in cardiovascular, diabetes, cosmetic dermatology segments, Tapping growth in rural markets
Outlook	Uncertain about government's new pharmaceutical policy, Growth to continue in key segments
Key risks	Uncertain political and economic environment, Increase in raw material prices, Devaluation of Indian Rupee



Company Financials

(INR mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	17,512	19,128	21,551	23,917	26,070	28,155
Growth % y-o-y	2.2%	9.2%	12.7%	11.0%	9.0%	8.0%
Profit after Tax ⁽²⁾	4,484	5,049	5,814	6,314	7,039	7,602
Growth % y-o-y	13.0%	12.6%	15.2%	8.6%	11.5%	8.0%
Net Margin	25.6%	26.4%	27.0%	26.4%	27.0%	27.0%
Earnings per Share (INR)	52.9	59.6	68.6	74.5	83.1	89.7
PE Ratio ⁽³⁾	-	-	-	-	26.5x	24.5x
Dividend Yield ⁽⁴⁾	3.5%	1.9%	1.7%	2.3%	2.3%	2.4%
Return on Assets (ROA)	21.0%	21.3%	22.2%	21.7%	-	-
Return on Equity (ROE)	30.9%	30.6%	31.5%	32.8%	-	-
Gearing (Debt/Equity)	0.4%	0.3%	0.3%	0.3%	-	-

Sources: (1) World Bank (2) Before exceptionals (3) Based on close price of INR 2,198.5 on 16 January 2013, Bloomberg (4) Assumes 60% Dividend Payout Ratio in line with historical trend. Company annual reports, P&C Global Wealth Managers estimates and analysis



GlaxoSmithKline Pakistan Limited



Company Snapshot

Country	Pakistan, lower middle income country of 180 mn. population growing at +1.8% pa., GDP +2.4% in 2011 ⁽¹⁾
Sector	Consumer non-cyclical – Pharmaceuticals & healthcare
Ownership	GlaxoSmithKline plc UK 83%
Products & brands	Medicines, vaccines, oral care, nutritional care products. Key brands – Augmentin, Seretide, Amoxil, Velosef, Zantac, Panadol, Horlicks, Aquafresh, ENO
Description	<ul style="list-style-type: none"> Formed in 2001 with the merger of Pakistan-based SmithKline and French, Beecham and Glaxo Wellcome, Largest pharmaceuticals company in Pakistan Segments (% of sales) – Pharmaceuticals (89%), Consumer Healthcare (11%), Small exports to Afghanistan and Sri Lanka, 4 manufacturing sites Ranked No.1 in prescription and volumes, Has 6 of the top 20 prescription products in Pakistan
Growth drivers	Double digit growth in many product categories, Diversifying into new product categories, Emerging per capita consumption in Pakistan
Competitive strengths	Strong brand equity, Dominant market share in key categories, Balanced product mix
Company strategy	Investment in leading consumer healthcare brands, Explore potential for export markets
Outlook	Growth to continue despite economic challenges, Sees need for a less restrictive pricing policy to offset cost inflation
Key risks	Political and economic uncertainty, Volatility in commodity prices, Devaluation of Pakistani Rupee



Company Financials

(PKR mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	13,403	16,754	18,916	21,750	24,360	27,040
Growth % y-o-y	26.3%	25.0%	12.9%	15.0%	12.0%	11.0%
Profit after Tax	1,955	934	1,057	1,141	1,340	1,487
Growth % y-o-y	17.0%	-52.2%	13.2%	7.9%	17.4%	11.0%
Net Margin	14.6%	5.6%	5.6%	5.2%	5.5%	5.5%
Earnings per Share (PKR)	11.45	5.47	4.42	4.77	5.60	6.22
PE Ratio ⁽²⁾	-	-	-	-	12.5x	11.2x
Dividend Yield ⁽³⁾	12.5%	4.6%	4.5%	6.0%	6.4%	7.1%
Return on Assets (ROA)	18.8%	8.6%	8.2%	7.5%	-	-
Return on Equity (ROE)	23.7%	9.9%	9.9%	10.4%	-	-
Gearing (Debt/Equity)	0.0%	0.0%	0.0%	0.0%	-	-

Sources: (1) World Bank (2) Based on Close price PKR 69.9 on 16 January 2013, Bloomberg (3) Assumes 80% Dividend Payout Ratio based on historical trend
Company accounts, P&C Global Wealth Managers estimates and analysis

Questions should rightly be asked about the risks of Unilever Plc attempting to privatise its 85% owned listed subsidiary in Indonesia in which we own a 0.4% stake.



Unilever Indonesia



Company Snapshot

Country	Indonesia, a lower middle income country of 237 mn. population growing at +1% per year, GDP +6.5% in 2011 ⁽¹⁾
Sector	Consumer Staples – Household and Personal Products
Ownership	Unilever NV 55%, Unilever Plc 30%, Public 15%
Products & brands	Soaps, detergents, margarine, cosmetics, beverages, dairy products. Key brands – Axe, Bango, Blue Band, Citra, Clear, Lifebuoy, Lux, Pepsodent, Pond's, Sariwangi, Sunlight
Description	<ul style="list-style-type: none"> Business segments - Home & personal care (73% sales), Foods & Beverages (27% sales), Dominant market share in key categories Formed in 1933, 43 product brands, 8 owned factories, >6000 employees, wide reach through 429 distributors and >350,000 outlets Subsidiaries – PT Anugrah Lever (100%), PT Technopia Lever (51%)
Growth drivers	Growth in professional foods division, Cost control, Emerging Indonesian middle class, Growth by acquisition
Competitive strengths	New product launches from Unilever stable, Expanding market share in key brands, Very strong distribution network
Company strategy	Strengthening manufacturing and distribution capacity, Product pricing and cost management to protect margins, Focused marketing, Supply chain optimization
Outlook	Challenging market and continued inflationary pressure on consumer, significant opportunities in mass market segment
Key risks	Volatility in commodity prices, Rising inflation, Aggressive competition, Local currency devaluation



Company Financials

(IDR Bn) FYE 31 Dec.	2008A	2009A	2010A	2011E	2012E	2013E
Revenue	15,578	18,247	19,690	23,469	27,224	31,580
Growth % y-o-y	24.2%	17.1%	7.9%	19.2%	16.0%	16.0%
Profit after Tax	2,407	3,044	3,387	4,163	4,900	5,684
Growth % y-o-y	22.5%	26.5%	11.3%	22.9%	17.7%	16.0%
Net Margin	15.5%	16.7%	17.2%	17.7%	18.0%	18.0%
Earnings per Share (IDR)	315	399	444	546	642	745
PE Ratio ⁽²⁾	-	-	-	-	33.1x	28.5x
Dividend Yield	3.4%	2.9%	2.5%	3.1%	3.0%	3.0%
Return on Assets (ROA)	40.7%	43.5%	41.9%	43.4%	-	-
Return on Equity (ROE)	83.1%	89.5%	87.4%	107.8%	-	-
Gearing (Debt/Equity)	-	-	115.0%	185.0%	-	-

Sources: (1) World Bank (2) Based on Close price IDR 21,250 on 15 January 2013, Bloomberg
Historicals from company accounts, P&C Global Wealth Managers estimates and analysis

Operating in the country since 1933 and listed in Jakarta since 1982 – and, with a market capitalisation of USD21bn, now the fourth largest company on the local bourse and as such very much viewed as a local company – we believe that this is most unlikely, even if it was affordable. Given the increasingly nationalistic bent of regulation in the country and the fact that other foreign companies (such as the retailer Dairy Farm) are actually increasing the free float of their locally listed subsidiaries, any

*attempt to de-list would run very much against the tide. Moreover, in Indonesia there appear to be no clear rules governing what percentage of ownership must be reached in order to trigger a general offer. This means that “taking out” all the minorities would be an arduous and impractical process. One reassuring aspect of the developments at **GSK India** and **Unilever Pakistan** is that insiders clearly concur with us that buying these companies at current (or*

*indeed higher) valuations is attractive. **GSK**’s offer for its India business would imply a forward year PER of 33x. Indeed, the last time **Nestlé SA** raised its stake in its India business, which was in September 2010, the transaction took place at an even higher multiple. Of course, both **Nestlé** and **GSK**’s assessment of “value” works, like it does for us, on the basis of a much longer-term horizon than next year’s earnings.*

Risks, Royalties and Raids

So what are the risks of investing in Autonomy Babies?

The biggest risk is the arbitrary skimming of royalty payments, a revenue-based “levy” paid to parent companies in return for their support. Royalties, effectively a sales tax, reduce profits to shareholders. **Unilever Indonesia** just announced an increase in royalties paid to its parent from 3.5% to 5% of revenues. Its shares fell by 20% almost immediately (where we mopped up some more shares for our clients).

Unilever Indonesia (UNVR)



Source : Fullermoney

Is 5% of sales a “fair” price to pay for perpetual access to **Nestlé**’s product line or **Unilever**’s global Know-How or **Amazon**’s supply chain infrastructure? Insofar as it replaces the costs of R&D and harnesses the resources of a strong global giant to a dominant local business, it is undoubtedly a huge benefit. But it is nonetheless a cost.

Others say a bigger risk is a raid on their tax revenues by government.

Today's Western governments—6 stone weaklings, all of them—need to raise all the tax revenues they can find. Their ability to “raid” the treasuries of autonomy companies has historically been reduced by the competitive effects of globalisation. Autonomies, have been able, as far as the law allows, to collect taxable profits in relatively low tax jurisdictions.

Nowhere has this weakness been so highlighted than in the recent imbroglio between the UK government and the UK Babies of US autonomies **Starbucks**, **Amazon** and **Google**.



Hate Figures for the Left

Those who have followed the recent war of words over the small amount of tax paid in the UK by autonomies will know how awkward the UK government has appeared in its recent tax raids on Baby Autonomies. Onlookers have been treated to a kangaroo court parliamentary committee, a high

handed attempt at moral censure and a Vox Pop-led boycott of Latte Macchiatos.

The autonomous power that makes the Babies good investments is an active irritant to tax-hungry Western governments, proof, if it were needed, of the Babies' superiority as an investment. Unable to attack them on legal grounds, the parliamentary committee set up to coax tax out of the Autonomies is reduced to moral pleading, knowing that actual withdrawal from the UK of these autonomies increases the UK's soaring unemployment and leaves the high street, now reeling from the effects of e-retailing, even more derelict than before.

Starbucks surprised everyone by saying it has yet to make a profit in the UK, and conferred on itself some moral high ground after making a voluntary “gift” to the UK government of GBP 20mn (why it chose GBP 20mn is opaque to rational analysis). However at a time when austerity and low tax receipts are a bugbear for governments, it would be far more constructive for those governments to negotiate a more uniform tax regime across countries. It's difficult to blame companies for maximising their profits quite legally even if such actions may appear to constitute tax avoidance.



“Mine's a Low Tax Latte”

Just the same, we can expect the pillorying of autonomies to become even more emotionally charged.

In some GTI developing countries where there is a small middle class, individual companies can be *the* major source of tax revenues to the government.

Reform is the key to improving governments' tax revenues –just take the example of our GTI Baby Autonomy **East Africa Breweries** (Diageo is its parent). Responsible for somewhere north of 15% of Africa's total beer market, and it accounts for somewhere south of 10% of Kenya's total direct and indirect tax revenues.

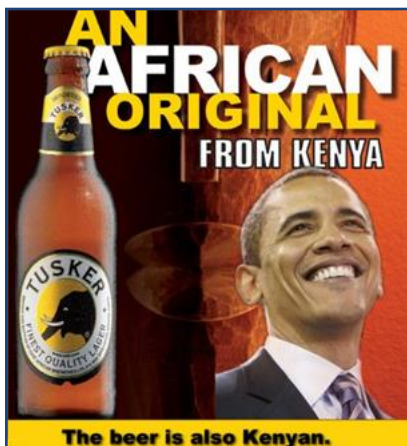
East African Breweries Ltd (EABL)



Source : Fullermoney

Normally, governments should not wish to kill the goose that lays golden tax eggs, but there’s always the risk that bureaucrats overestimate end demand when raising duties on beer and, in so doing, overtax the consumer. But because there is a natural tendency to under-estimate the “acceleration” effect of growing consumer power, this has not been a problem in the past.

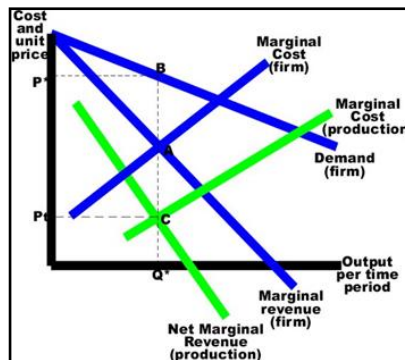
Nowhere is this more so than in affordable consumer items that cross the line between “discretionary” and “staple”, like beer in a hot country like Kenya.



Elephant Party or Donkey Party? Tusker Beer price increases have

“stuck” with the Kenyan consumer when, in the past, Kenyan tax hikes have provoked them. Obama –fighting to make tax increases stick at home– should learn from them.

Finally, there is Transfer Pricing (TP) risk. Transfer pricing involves transactions between related or unrelated parts of the same group and can seem complex (as this chart proves!).



Transfer pricing is not, in itself, illegal or even abusive. What is illegal or abusive, it is often argued, is transfer *MIS*pricing, also known as transfer pricing manipulation or abusive transfer pricing. This happens as a result

of trade between unrelated or apparently unrelated parties and may involve “re-invoicing”. The obvious point is that TP theoretically allows global autonomies to optimize taxable revenues wherever they wish (always subject to whatever tax principles are adopted.....and *their* numbers are growing). Some estimates of annual tax lost to the West are as high as USD 500 billion per annum. It’s a hot potato.

Right or wrong, transfer pricing risk means that our Babies may be asked by their parents to transfer profits to another part of the empire. (When I asked Nestlé Côte d’Ivoire’s finance department in 1997 what profits they would be declaring in 1998, I was told by the Finance Department, “*Cela dépend des décisions prises à Vevey, et de la démarche des affaires en Pologne!*”, That is, “*That depends on decisions taken in Head Office in Vevey and the business in Poland!*”

We think the attractions of Autonomy Babies and the support given by their powerful parents

vastly outweighs the above risks. In a world that increasingly demands transparency and good

ESG (Environmental, Social and Governance) credentials, this risk is likely to reduce over time.

It is All Beer and Skittles

Finally, we'd like to highlight one sector where the advantages of being a Baby Autonomy are particularly great: Brewers.

Compared to consumer staples, brewing is a capital intensive and local business. You need plant, you need machinery, you need warehouses and storage, you need transport, you need technology, you need glamour.



Beer drinking, in a globalized world, is a local and chauvinistic activity. Being a predominately male activity, habits tend to be conservative. Germans prefer yellow beer, British prefer brown beer, Americans prefer cold beer, Kenyans prefer beer in brown bottles with an elephant on the side. This means that a strong local player answering local needs but backed by a well-financed global parent can command an extra layer of protection or "moat" round his business. This can give a Baby Autonomy Brewer a stranglehold on a national beer market in a way

denied, for example, to a Baby Autonomy soap or shampoo seller. When mighty South African Breweries tried to invade the turf of local Kenyan East African Breweries a few years back, SAB failed to recognize the conservative habits of beer-drinking Kenyans (brown bottles, not shiny cans, drink cool, not cold).

Our readers know that our favourite favourite GTI brewers are Ambev in Brazil and Asian Pacific Breweries. The latter was just taken over by Heineken –and we tripled our money. There are many other Baby Beers to be pulled and good times to be had such as the two Heineken companies that follow.

Good Health!

Comp de Bebidas da Amereicas (ABV)



Source : Fullermoney

Asia Pacific Breweries Ltd (APB)



Source : Fullermoney



Compañía Cervecerías Unidas S.A.



Company Snapshot

Country	Chile, an upper middle income country of 17mn. population growing at +1% pa., GDP +6% in 2011 ⁽¹⁾
Sector	Consumer non-cyclical – Beverages & brewers
Ownership	Heineken N.V. 33%, Quifenco S.A. 33%, ADR's 12%, minority 22% ⁽²⁾
Products & brands	Beer, soft drinks, rum, wine, cider, isotonic and energy drinks, nectars, mineral water, sweet snacks. Key brands – Heineken, Cristal, Escudo, Royal Guard, Salta, Palermo, Bilz, Pap
Description	<ul style="list-style-type: none"> Established in 1902, diversified beverages company operating in Chile and Argentina, No.1 brewer in Chile, No.2 in Argentina, 5,750 employees, >260,000 customers CCU and its subsidiaries- Produce and sell proprietary brands, distribute licensed and imported brands, export to 86 countries, Revenues - Chile 68%, Argentina 24%, Exports 8% Produces >18mn hectoliters of beverages, Licensing agreements with Heineken, Anheuser-Busch, Pepsico, Schweppes, Guinness Brewing, Nestlé amongst others
Growth drivers	Emerging consumption in Chile, Volume growth of popular brands- Escudo, Heineken, Growth in export markets
Competitive strengths	Leading beer player in Chile (80% market share), Several popular brands, Products positioned in all price segments
Company strategy	Increase presence in premium segment of Chilean beer market, Cost control and price point management
Outlook	Growth despite macroeconomic challenges
Key risks	Devaluation of Chilean peso and Argentine peso, Political instability in Chile, Volatility in raw material prices



Company Financials⁽³⁾

(CLP mn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	710,189	766,544	838,258	969,551	1,032,762	1,122,477
Growth % y-o-y	14.3%	7.9%	9.4%	15.7%	6.5%	8.7%
Profit after Tax	90,414	128,037	110,700	122,752	130,267	135,363
Growth % y-o-y	-4.2%	41.6%	-13.5%	10.9%	6.1%	3.9%
Net Margin	12.7%	16.7%	13.2%	12.7%	12.6%	12.1%
Earnings/ Share (CLP)	284	402	348	385	409	425
PE Ratio ⁽⁴⁾	-	-	-	-	18.2x	17.5x
Dividend Yield ⁽⁵⁾	4.3%	5.1%	3.0%	2.8%	2.7%	2.9%
Return on Assets (ROA)	9.1%	11.7%	9.8%	10.0%	-	-
Return on Equity (ROE)	20.5%	28.3%	22.9%	22.8%	-	-
Gearing (Debt/Equity)	55.4%	50.4%	46.1%	43.4%	-	-

Sources: (1) World Bank (2) Quifenco S.A and Heineken Chile Ltd. Have a 50/50 equity participation in Inversiones y Rentas S.A., which in turn holds 66.1% in CCU. (3) Estimates from website <http://www.4-traders.com/> (4) Based on close price of CLP 7,455.3 on Santiago stock exchange on 15 January 2013, Bloomberg (5) Forecasts assume 50% Dividend Payout Ratio
Company accounts, Bloomberg, P&C Global Wealth Managers estimates and analysis



PT Multi Bintang Indonesia Tbk



Company Snapshot

Country	Indonesia, a lower middle income country of 237 mn. population growing at +1% per year, GDP +6.5% in 2011 ⁽¹⁾
Sector	Consumer non-cyclical – Beverage and brewers
Ownership	Heineken N.V. 40.6%
Products & brands	Beer, soft drinks. Key brands – Bir Bintang, Heineken, Guinness, Green Sands, Bintang Zero, Recharge
Description	<ul style="list-style-type: none"> Established in 1929, Leading beer manufacturer in Indonesia, Also manufactures and distributes non-alcoholic beverages Asia Pacific Breweries Ltd., a JV between Heineken and Fraser & Neave, holds 75% stake in company PT Multi Bintang Indonesia Niaga, a fully owned subsidiary, focuses on sales and marketing in select Indonesian cities.
Growth drivers	Volume growth of key brands (Bintang, Heineken) and higher pricing, Cost control, Emerging Indonesian middle class
Competitive strengths	Diversified brands portfolio, Strong distribution network, Leading market share of several brands
Company strategy	Focused marketing to increase coverage and market share, Investment in upgrading breweries, supply chain and inventory management, Engage with authorities on regulation on industry
Outlook	Seeks to benefit from positive outlook for the Indonesian economy, Regulatory challenges to continue
Key risks	Volatility in commodity prices, Local currency devaluation, Increase in excise tax on alcoholic beverages



Company Financials

(IDR bn) FYE 31 Dec.	2008A	2009A	2010A	2011A	2012E	2013E
Revenue	1,326	1,616	1,790	1,859	1,952	2,049
Growth % y-o-y	35.5%	21.9%	10.8%	3.8%	5.0%	5.0%
Profit after Tax	222	341	443	507	537	564
Growth % y-o-y	163.3%	53.1%	30.1%	14.5%	5.8%	5.0%
Net Margin	16.8%	21.1%	24.7%	27.3%	27.5%	27.5%
Earnings per Share (IDR)	10,554	16,164	21,028	24,081	25,473	26,747
PE Ratio ⁽²⁾	-	-	-	-	29.1x	27.7x
Dividend Yield ⁽³⁾	25.4%	9.1%	7.7%	6.7%	3.4%	3.6%
Return on Assets (ROA)	28.5%	35.2%	41.6%	43.0%	-	-
Return on Equity (ROE)	82.0%	151.5%	153.6%	101.3%	-	-
Gearing (Debt/Equity)	0.0%	0.0%	0.0%	0.0%	-	-

Sources: (1) World Bank (2) Based on Close price IDR 714,700 on 10 January 2013, Bloomberg (3) Assuming 100% Dividend Payout Ratio in line with historical trend
Historicals from company accounts, P&C Global Wealth Managers estimates and analysis

Our Current Asset Allocation for GTI

This is what we are writing to clients. Careful readers will see that little has changed for us. Our optimism since late 2008 –a minority view then- has been rewarded; global equity accounts like the one below are up about +15% in 2012:

EXECUTIVE SUMMARY Q4 2012:

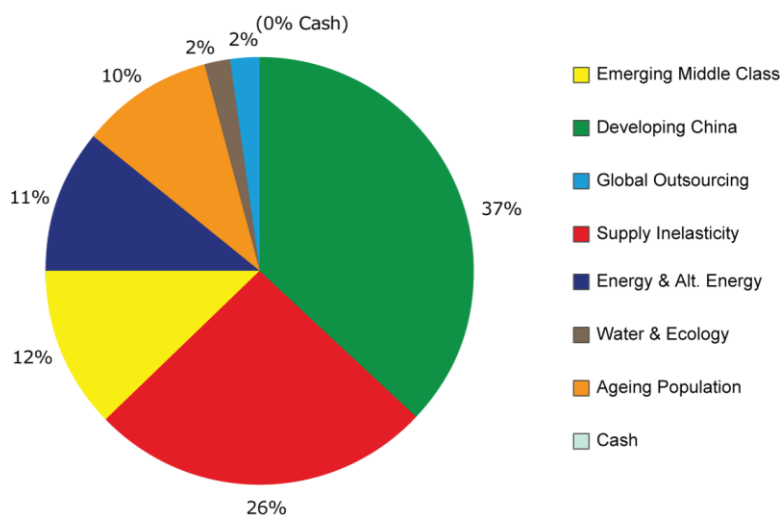
In 2012 the account (invested entirely in global equities) was up by 15% in USD. Our “Road Map” for stock markets –bullish from late Q408- was severely challenged by the extraordinary events in Europe, but quality global equities remain the safest major asset class for conservative and long term private clients.

1. **Our call that March 9th 2009 was the start of a multi-year global equity bull was severely challenged by 2011’s crisis in Europe.** The 20% bear market in Europe in the summer was painful, but we were protected by the 3-stroke quality of our shares: sustainable earnings, dominant positions, household names.
2. **Equities are part of a global beauty competition for the marginal dollar. They still shine in comparison with the other 4 major liquid asset classes.**
 - i. **Cash** yields nothing and is *certain* to lose money after future inflation has taken its bite. The ECB has moved towards Anglo-Saxon Quant Easing (“Money Printing”) after replacing M Trichet with Signor Draghi. The Fed’s Mr Bernanke has guaranteed Zero Interest Rates till 2015.
 - ii. **Bonds** (many coupons of 2-4% in the Developed World are below current inflation rates) are *certain* to lose money in real terms in the long term. The 30 year bond bull market is being kept alive by fear, an unstable factor. When 10 year yields approach 5%, we shall look with fresh eyes on government bonds.
 - iii. **Gold** shines in a fiat-currency world plagued by sovereign debt crises, and few investors have more than 5% in gold. There is still room for gold to run but if we are right, gold’s Safe Haven status may be diminished and a rise of 6x over 10 years is a big move. Gold shares are now cheap versus gold.
 - iv. **Hedge Funds**, post Madoff, have issues of transparency, fees, capital protection and manager skills. Many follow markets down like sheep but only limp along behind the bull. The argument for “hedged” risk assets is where the *fear* of short-term volatility outweighs *desire* for long-term returns. This we believe is the wrong way to invest for long term returns.
 - v. **Equities** still yield more than 10x short-term cash and nearly 2x 10 year government bonds. Our equity selection has for some years been restricted to 2 areas: Dividend Aristocrats (eg Colgate, P&G, Diageo, Unilever, Nestlé, BAT, Vodafone) and GTI growth stocks. We avoid financials (some Asian names and global life insurers excepted), property, construction, chemicals, industrial, speculative and cyclical shares. We hold some gold shares too.
3. **Aggregate economic activity, despite downgrades from 3.5% to 3.0%, justifies higher equities, as long as upward revisions are on the cards.** 35% of the globe (Emergia) is growing at +5.5% and 65% (Sclerotica) is growing at +1.5%. Blended growth near +3% should produce equity returns of +6-10% pa as long as oil does not spike (equities thrive when unemployment is high but falling and inflation is low; profit margins expand and this bolsters profits).
4. **The earnings season has seen lowering of earnings expectations, but they remain positive.** Developed world companies have outstanding balance sheets and China is recovering, which is an important factor.
5. **What could go wrong?** Supply disruptions (Iran?) causing oil price rises or earnings disappointments.
6. **What we did in Q4 2012.** No major changes. Equity valuations are still reasonable. Earnings increases for autonomies have kept pace with price rises. European stocks yield 5%.
7. **The account remains invested for the “Curate’s Egg” world (good in “Emergia”, slowly picking up in “Sclerotica”).** We are optimistic for both emerging consumer growth stocks and dominant dividend aristocrats in 2013.
8. **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 –where possible- dominance in their areas. Dominant leaders are hard to dislodge. In a world where so many governments -and banking “institutions”- have suffered reputation loss, we believe this to be a sound investment approach for multi-generational family money like yours.

Our end year asset allocation for GTI is:

Asset Allocation by Global Theme

Developing China	37%
Supply Inelasticity	26%
Emerging Middle Class	12%
Energy & Alt. Energy	11%
Ageing Population	10%
Water & Ecology	2%
Global Outsourcing	2%
Cash	0%



10% is invested in specialist third party funds (90% is invested in stocks like the ones we describe in this letter).

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	GTI Rating	Ticker (ADR)	GTI Theme	Date rec'd	Price then	Recent Price	Perf	Historic Yield
Royal Dutch Shell	BUY	RDS/A:US	Energy&Alt Energy	Nov-08	USD 47.00	66.17	40.8%	5.2%
Pfizer	BUY	PFE:US	Ageing Population	Dec-08	USD 16.90	28.19	66.8%	3.4%
Roche	BUY	RHHBY:US	Ageing Population	Jan-09	USD 36.20	56.00	54.7%	3.6%
Newmont Mining	BUY	NEM:US	Natural Resources	Feb-09	USD 35.00	39.25	12.1%	4.3%
Rio Tinto	BUY	RIO:US	Natural Resources	Mar-09	USD 28.75	51.14	77.9%	3.7%
Infosys Technologies	BUY	INFY:US	Global Outsourcing	May-09	USD 32.40	55.06	69.9%	1.0%
PotashCorp	BUY	POT:US	Natural Resources	Mar-10	USD 36.83	40.18	9.1%	2.8%
Diageo	BUY	DEO:US	Emerging Mid Class	May-10	USD 60.00	120.00	100.0%	1.9%
Unilever	BUY	UL:US	Emerging Mid Class	May-10	USD 27.19	40.89	50.4%	3.2%
Tesco	BUY	TSCDY:US	Emerging Mid Class	Mar-11	USD 18.18	17.08	-6.1%	4.0%
Nestlé	BUY	NSRGY:US	Emerging Mid Class	Sep-11	USD 54.82	70.86	29.3%	3.1%
Vodafone	BUY	VOD:US	Emerging Mid Class	Sep-11	USD 24.45	27.71	13.3%	5.5%
Reckitt Benckiser	BUY	RBGPY:US	Emerging Mid Class	Oct-11	USD 10.22	13.91	36.1%	3.5%

GTI Hot Dogs:

GTI Int'l Growth Hldg	GTI Rating	Ticker (local mkt)	GTI Theme	Date rec'd	Price then	Recent Price	Perf	Historic Yield
Colgate Palmolive India	BUY	CLGT:IN/ India	Emerging Mid Class	Apr-09	INR 455.00	1,316.00	189.2%	2.1%
Godrej Consumer	BUY	GCPL:IN/ India	Emerging Mid Class	Apr-09	INR 142.00	807.70	468.8%	0.6%
Wumart	BUY	8277:HK/ HK	Developing China	Jul-09	HKD 9.50	14.42	51.8%	1.7%
Want Want China	BUY	151:HK	Emerging Mid Class	Jul-09	HKD 4.50	11.58	157.3%	1.9%
Nestlé India	BUY	NEST:IN	Emerging Mid Class	Sep-09	INR 2,214	4,750	114.5%	1.0%
Sonatel	BUY	SNTS:BC/ W Afr SE	Emerging Mid Class	Dec-09	CFA 12,000	16,000	33.3%	8.2%
Unilever Indonesia	BUY	UNVR:IJ / Jakarta	Emerging Mid Class	Dec-09	IDR 11,000	22,900	108.2%	2.6%
East African Breweries	BUY	EABL:KN	Emerging Mid Class	Mar-10	KES 155	303	95.5%	2.6%
Britannia Industries	BUY	BRIT:IN	Emerging Mid Class	Mar-10	INR 316.00	535.00	69.3%	1.6%
Jollibee Foods Corp	BUY	JFC:PM	Emerging Mid Class	Jun-10	PHP 61.00	125.00	104.9%	1.0%
AMBEV	BUY	ABV:US	Emerging Mid Class	Aug-10	USD 22.00	45.34	106.1%	2.1%
Agco	BUY	AGCO:US	Supply Inelasticity	Sep-10	USD 40.00	53.97	34.9%	0.8%
Gazprom	BUY	OGZPY:US	Energy&Alt Energy	Nov-10	USD 11.25	8.98	-20.2%	6.2%
Gruppo Bimbo	BUY	BIMBOA:MM	Emerging Mid Class	Nov-10	MXN 24.00	35.50	47.9%	0.4%
Lojas Renner	BUY	LREN3:BZ	Emerging Mid Class	Mar-11	BRL 51.61	75.30	45.9%	1.9%
Convenience Retail Asia	BUY	831:HK	Developing China	Oct-11	HKD 3.35	5.55	65.7%	2.7%
Alicorp	BUY	ALICORC1:PE	Emerging Mid Class	Oct-11	PEN 6.05	9.60	58.7%	2.0%

Gold Basket

IAMGOLD	BUY	IAG:US	Natural Resources	May-10	USD 17.58	6.55	-62.7%	3.8%
Fresnillo	BUY	FNLPF:US	Natural Resources	May-10	USD 12.70	22.62	78.1%	2.7%
Eldorado Gold	BUY	EGO:US	Natural Resources	May-10	USD 16.65	9.51	-42.9%	1.5%

A quick tour of our GTI advisers.

We're shocked how the investing community can veer in Apple's case from "Genius Bar" to "Barred from Genius" a few weeks later. It shows that this is not an area for the private client, or at least, not our private clients. GTI's good friend and technology adviser Charles Elliott, a former Goldman partner and tech vet over several decades in Japan, Asia and the West, writes one of the best summaries of technology as an investment sector we have seen (nowadays Charles manages his own money in a private fund). We apologize for repeating it at length:

Invest in Technology through plausible long-term earnings models

*Technology companies can have phenomenal growth rates when successful, so a fund focused on both Emerging Markets, and Technology sold into those markets, should own stocks with ultra-high growth rates. Consumers in emerging markets are very rapid adopters of new technologies: several hundred million Chinese are now Broadband users; the Chinese own more than two times more Mobile Phones than Credit cards, making this a likely market for 'm-commerce' (payments made direct from the mobile phone). There is a problem in applying this simple formula, however. Very few of the conventional large, well-known Technology companies actually are growing at rates much exceeding 6%, the growth of nominal Global GDP - we can only name four (**Amazon, Apple, Google & Samsung**) with growth forecast at 15% or more, only one of these with growth exceeding 20% (**Apple**). The really interesting growth in Technology is in the small and mid-cap companies. Thin trading liquidity and heavy share price drops after profit warnings make most investors wary of this sector. As a result, we find Price/Earnings ratios tend to be undemanding where market capitalisations are below \$1bn.*

A cynical or cautious investor will note that, in Technology, cheap stocks are hardly ever "cheap" - the low multiple often reflects the risk of earnings disappointment. We feel this is usually accurate. The key issue in Technology investing is to get long-term earnings estimates right - we contend this is easier with a small and little-known company at the start of its growth, especially if neglected after a bad stumble, than a well-known global major, covered by numerous stock analysts. The key example we use here, as at least part of the story is now

well-known, is 'ARM Vs Intel'. When Personal Computers (PCs) first started to look like mass-market items, selling more than 2mn units per year, there were two Microprocessor standards; CISC (Complex Instruction Set Computing) and RISC (the 'R' stood for Reduced). The latter used far less power and therefore economised on Computer Memory (RAM), so it initially seemed the logical choice. Intel was one of just a handful of major microprocessor companies to back CISC, ARM was one of many backing RISC. Just at that time (the early 1980s), the major Japanese electronics companies were making a fortune from the Video Tape Recorder; looking for a way to move into the new growth market of Computing, they invested much of their surplus cash into Memory production. As a result, there was an oversupply of Memory - prices crashed, which fortuitously played into the hands of CISC and Intel, who triumphed. Almost all RISC makers quit the market, leaving ARM as last man standing.

Over 10 years later, the mobile phone took off. It needed a battery which wouldn't drain too quickly, meaning ARM alone had the right processor. Its revenue growth was high but very volatile, suffering a very bad stumble in the early 2000s as Smartphone production passed the 100mn unit level around 5 years later than had been forecast. ARM, having doggedly stuck to its model and built its accumulated experience, is finally seeing more ARM-licensed processors sold in one year alone than Intel has sold in its lifetime. ARM's share price at its 2008 low was 76p. EPS for 2012 should be close to 15p, reaching an estimated 30p by 2015, so the 2008 share price low gave a P/E of 5.1X on 2012, 2.5X on 2015. This was hardly expensive. Why did Intel lose market share? Very few (if any) established technology companies have yet managed to shrink the amount of code in their products: complex code is electricity-hungry. Programmers like to write more, clever, new code, providing new functions, not to précis the old stuff. The key to understanding ARM's prospects was to grasp they had the relevant technology once computing went mobile; we would extrapolate that the key to understanding future technology successes is to have a good vision of how big the addressable market could be, the barriers to entry facing future competitors, and the quality/relevance of the company's intellectual property.

We use several guidelines to see whether companies might be **ARMs** or **Intels**. First, if a company is small but has an accumulated experience in a Technology which should be relevant in next-generation products, it will focus heavily on this and stand a greater chance of success. A company with a vested interest in current-generation product is badly placed for the next generation. Second, an Emerging Growth company needs a 'visionary' CEO with a view on whether billions of people need his product. Third, we assess whether the published earnings estimates of the analysts will continuously be beaten, with the company's CFO astonished to report 50% growth whilst guiding analysts to only 20% for the next year. Typically, analysts play it safe by modelling a deceleration -even for the best growth stories. So this can be a good 'shortcut' to identifying whether earnings estimates are too low (but this should not be used without a fundamental understanding of the technology's potential) **Fourth (GTI's highlights), if a new technology product is used in Emerging Markets as well as Developed Markets, the addressable market comprises over 5 Billion potential users, rather than 1 billion.** Finally, if this is an essential component (such as a license for an important Smartphone function), and manufacturers (e.g. of Smartphones) in an Emerging Market can make a lot of profit by using it, it will have a better chance of success. Politicians in Emerging Markets like to protect domestic industries, even if these are small and globally uncompetitive, but they do not usually ban the import of essential technologies required to support them.

Valuation

Our valuation methods follow on from getting earnings forecasts which look different to all published numbers. If a share still looks expensive despite a model showing a strong earnings beat, we avoid it. We have a strong bias to favour shares where valuation is undemanding if earnings estimates are only met, and very cheap if they can be beaten by a lot. It helps if the company has disappointed investors for one-off reasons in the past, so there is little sell-side coverage or investor interest.

One particular Emerging Technology to highlight.

After all this background, in which areas do we think

earnings estimates can be continuously upgraded? Obviously, we see potential for this across all our four investment themes, but there is one particularly striking 'new iteration' we would highlight this month.

For many years, computing has been providing increasing amounts of data that can be used for analysing business, which in turn makes advertising, marketing and product design far better-targeted. In the early 1990s, as PCs had become ubiquitous, companies embarked on a massive surge of investment in PC-based client/server systems for Enterprise Resource Planning (ERP), which organised and effectively automated their business processes. ERP software became a 'must have' for all enterprises, providing the boom which eventually turned **Oracle** and **SAP** into the sector giants they are today. Their share prices quickly began to anticipate huge future earnings growth, but there were also several 'knock-on' beneficiary companies, whose software helped provide more intelligent analytics around the ERP output data. Such functionality became so essential that the key companies all got acquired (**Oracle** bought **Hyperion**, **SAP** bought **Business Objects**, and **IBM** bought **Cognos**). Indeed, the software analytics category is still enjoying a major boom period today, but not untypically for companies which get absorbed into larger organisations, their product innovation, service quality and keenness of pricing have begun to suffer.

This is now providing an opportunity for smaller, more nimble analytical software companies to win market share, and we think the trend will gather pace as they will respond better to the next-generation challenge of 'Big Data'. The term is often misused, but the basic idea is that data growth has accelerated with the Internet and, even more recently, with the popularity of Social Media websites (Facebook, Twitter and others) which churn out terabytes of potentially useful but unstructured data every day. **The telling statistic is that 90% of all the data in the world today has been created in the last two years alone.** Very smart and efficient algorithms will be needed to filter the useful bits and make sense of it. Tracking down the new winners in this category, and investing in them, looks a good resolution for 2013.

Prejudice Corner

Casino Businesses, Punter Businesses and Social Utility: A Modern Morality Tale

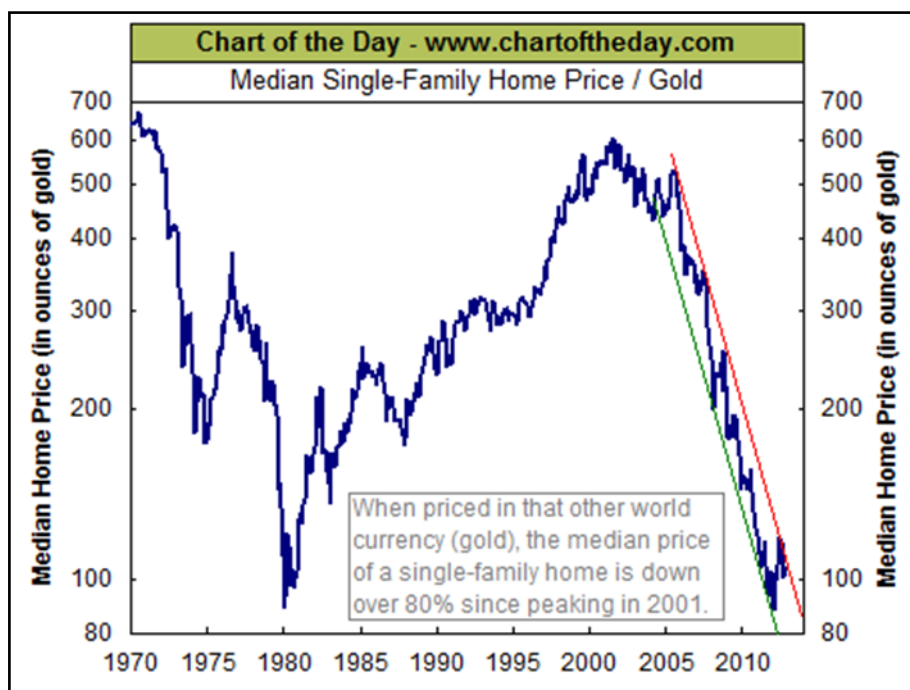
ONCE UPON A TIME... the world got into one Great, Big Mess and wise men said that "Casino Banking" was to blame. Casino banks -run by greedy investment bankers using shareholders' money to make outsized profits and losses (both, inexplicably, considered heinous) were a Bad Thing. High street banks, cosy village post offices by comparison, deployed honest depositors' money to eke out honest profits, and were therefore a Good Thing. The two types of banking - casino and post office- should be kept apart to prevent the blue-rinsed post-mistress being corrupted by the reptilian morality of the gaudy croupier.

Things got personal. Leading churchmen and members of the House of Lords, mostly those who failed to spot the Great, Big Mess in the first place, said that investment banks had no "social utility". (Other activities lacking social utility like haute couture, celebrity culture and book-making, were considered all right, as they were extremely popular with voters and quite a few church goers besides). But "casino banks" ...the very words dripped shame, ordure and disgust.

That is the Fairy Tale so far, and, like all Fairy Tales, it is sheer invention. *The great, big mess was created not because investment banks behaved like casinos, but because they behaved like punters.* As investors we should do the opposite. Back casinos. Avoid post offices. Don't "punt".

Casinos tend to be profitable, well organized businesses that spin off shed-loads of cash. Businesses like **Unilever**, **Nestlé** and **Diageo**. Governments know full well that unregulated monopolies are investment Nirvana for investors; consequently, casinos are regulated or outlawed altogether. Post offices, on the other hand, are slow, bureaucratic businesses with low rates of return run by government employees. Consequently, they are kept alive by subsidy or edict. Punters and investors should remember that casinos are rigged. Casinos set the rules -via the odds they give their customers- to ensure they remain profitable. Post offices, however, are forced into unprofitable activities by the need for social utility. Wise men are happy for businesses to be financially *useless* if they are socially *useful*, a view that helped create the Great, Big Mess in the first place since it allowed banks to lend to borrowers in Alabama who hadn't the foggiest chance of ever paying them back.

Chart of The Quarter US Housing: Where The Great, Big Mess Started (and is now bottoming out)



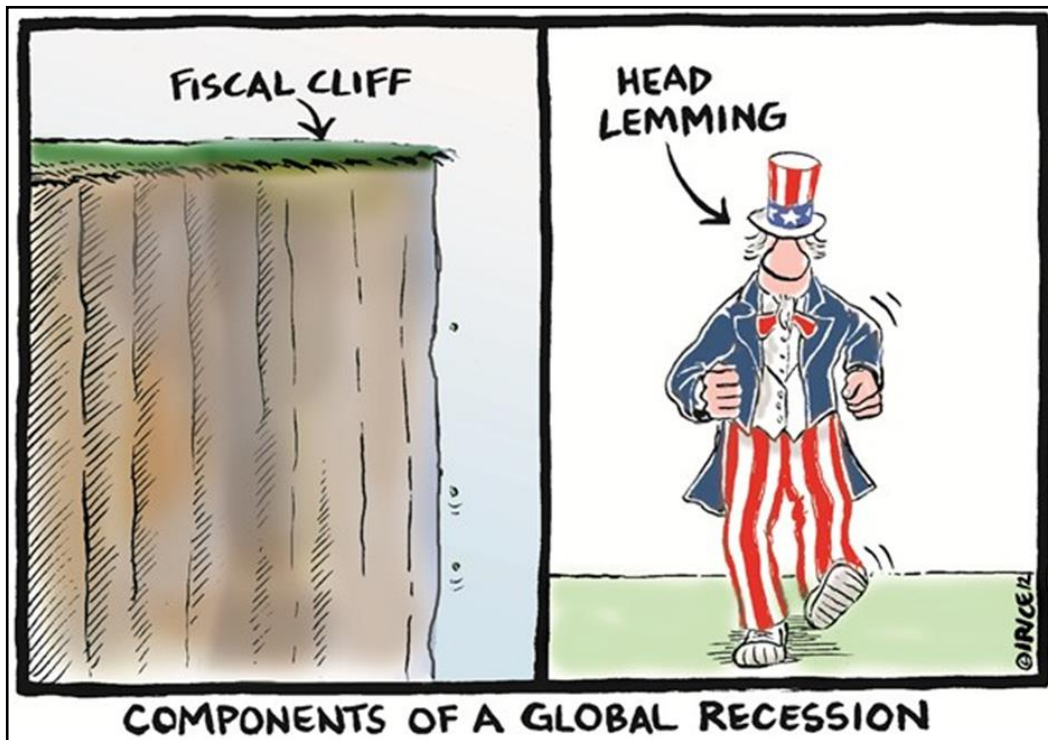
So casino *businesses* should be better investments than post office *businesses*. Our major investments, **Nestle**, **Unilever**, **P&G**, **Diageo** and **Kraft**, are casino businesses. Almost all mining and biotechnology companies and a great many industrial businesses and banks are punter businesses. Casino businesses' brand dominance ensures that punters pay dearly for their soap, baby milk, beer or staples, and, in case they feel the pinch at home, they can change the rules by moving profits abroad or getting governments to compete for their tax dollars.

It's safer to keep your money in post offices than to invest in them. Whatever you do, don't invest like a government. That would just be plain gambling.

Quote of The Quarter

"History does nothing; it does not possess immense riches, it does not fight battles. It is men, real, living, who do all this". Karl Marx

And One More Thing.....



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

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 shares 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 30 years in the international investment business, half of it working together



Iain Little

Iain is British and has spent over 30 years in private banking as a global strategist and portfolio manager. He's held senior positions with Kleinwort, Benson in Hong Kong and London and with Pictet et Cie, the largest Swiss private bank in Geneva, London and Tokyo.

Iain is 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.

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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

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