

Understanding the Challenges of Fundamental Analysis in Emerging Markets

Presented By:
James Donald, CFA
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Agenda

- I. Background
- II. Where Are We Now?
- III. Outlook
- IV. Conclusion

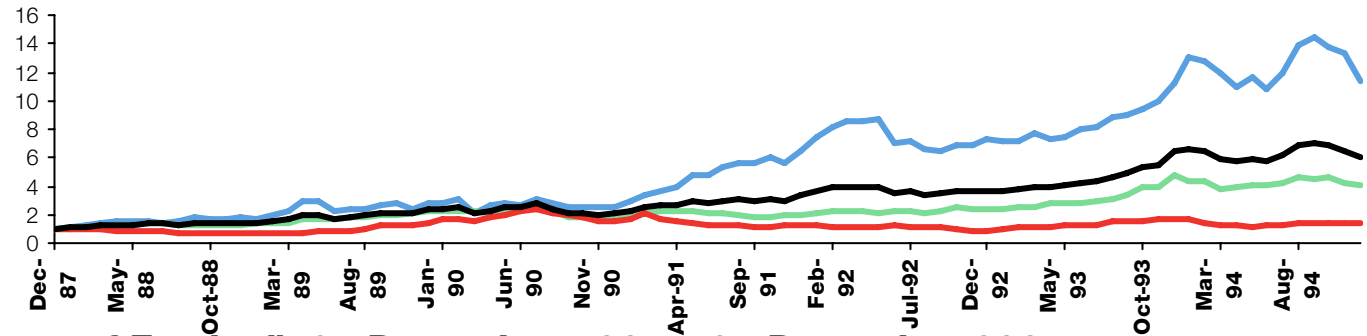
Introduction

- '87 – '94 “Years of Great Plenty”
- '94 – '01 “Years of Famine”
- '01 – ? Recovery

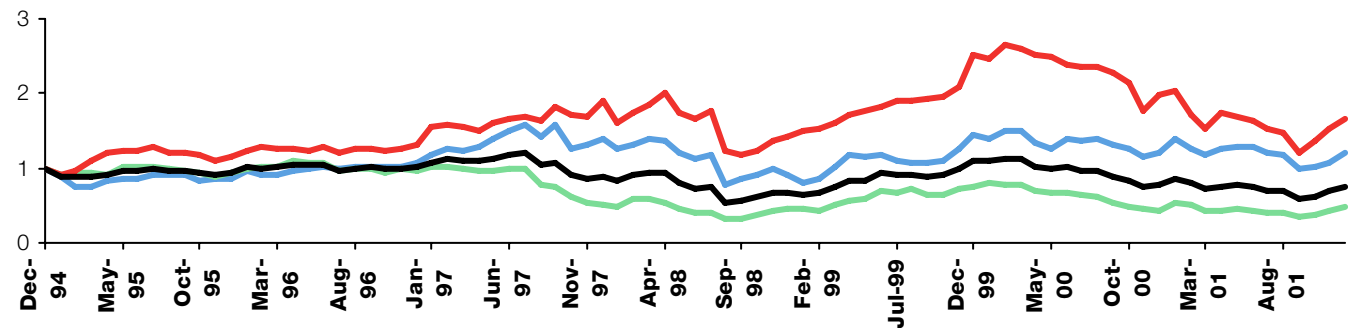
MSCI Emerging Markets Performance by Region

“Years of Great Plenty”: 31 December 1987 – 31 December 1994

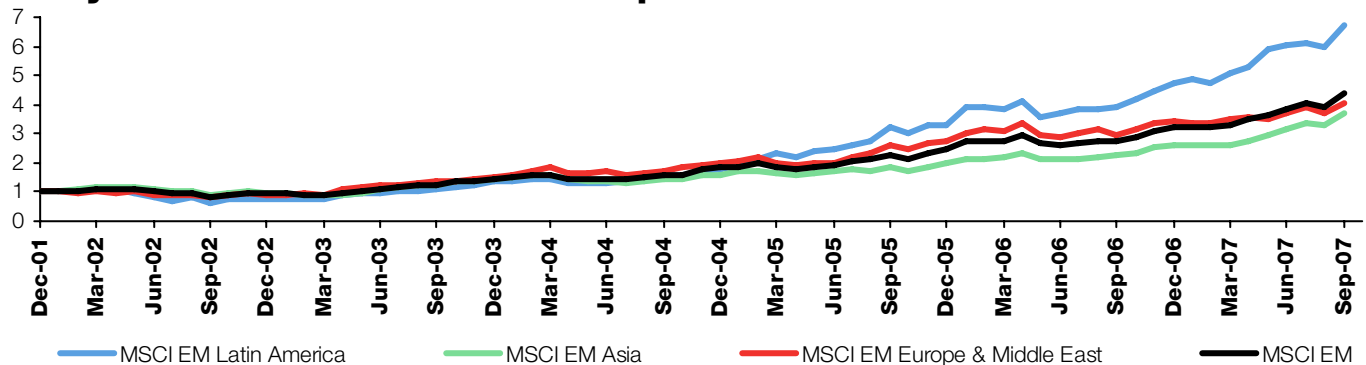
(\$USD)



“Years of Famine”: 31 December 1994 – 31 December 2001



Recovery: 31 December 2001 – 30 September 2007



Source: MSCI, Lazard Asset Management

The performance quoted represents past performance.
Past performance does not guarantee future results.

Currency Pegs Have Dwindled Significantly

1997 Examples	
Peg*	Managed Currency (crawling,quasi)**
Argentina	Brazil Israel Russia
Hong Kong	Chile Korea Thailand
	China Malaysia Turkey
	Hungary Philippines Venezuela
	Indonesia Poland
2006 Examples	
Peg*	Managed Currency (crawling,quasi)**
Hong Kong	China
Venezuela	Malaysia

* The country's exchange rate is fixed versus another currency, a position which the Central Bank is committed to defend.

** The exchange rate is tightly controlled

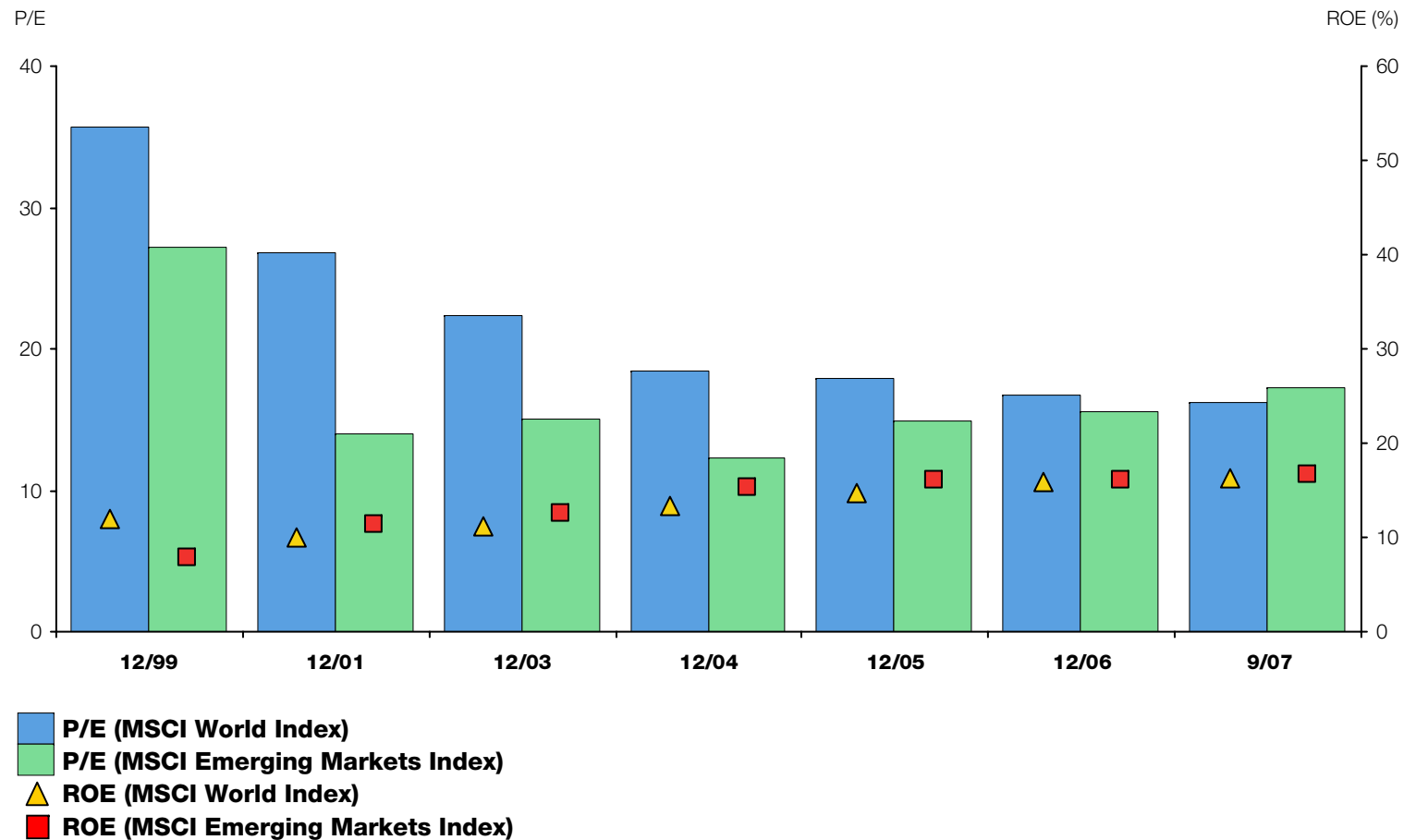
Where Are We Now?

- Valuation
- Profitability
- Historical Context

Attractive Valuations and Financial Productivity

The relative attractiveness of Emerging Markets equities has diminished.

MSCI World Index vs. MSCI Emerging Markets Index



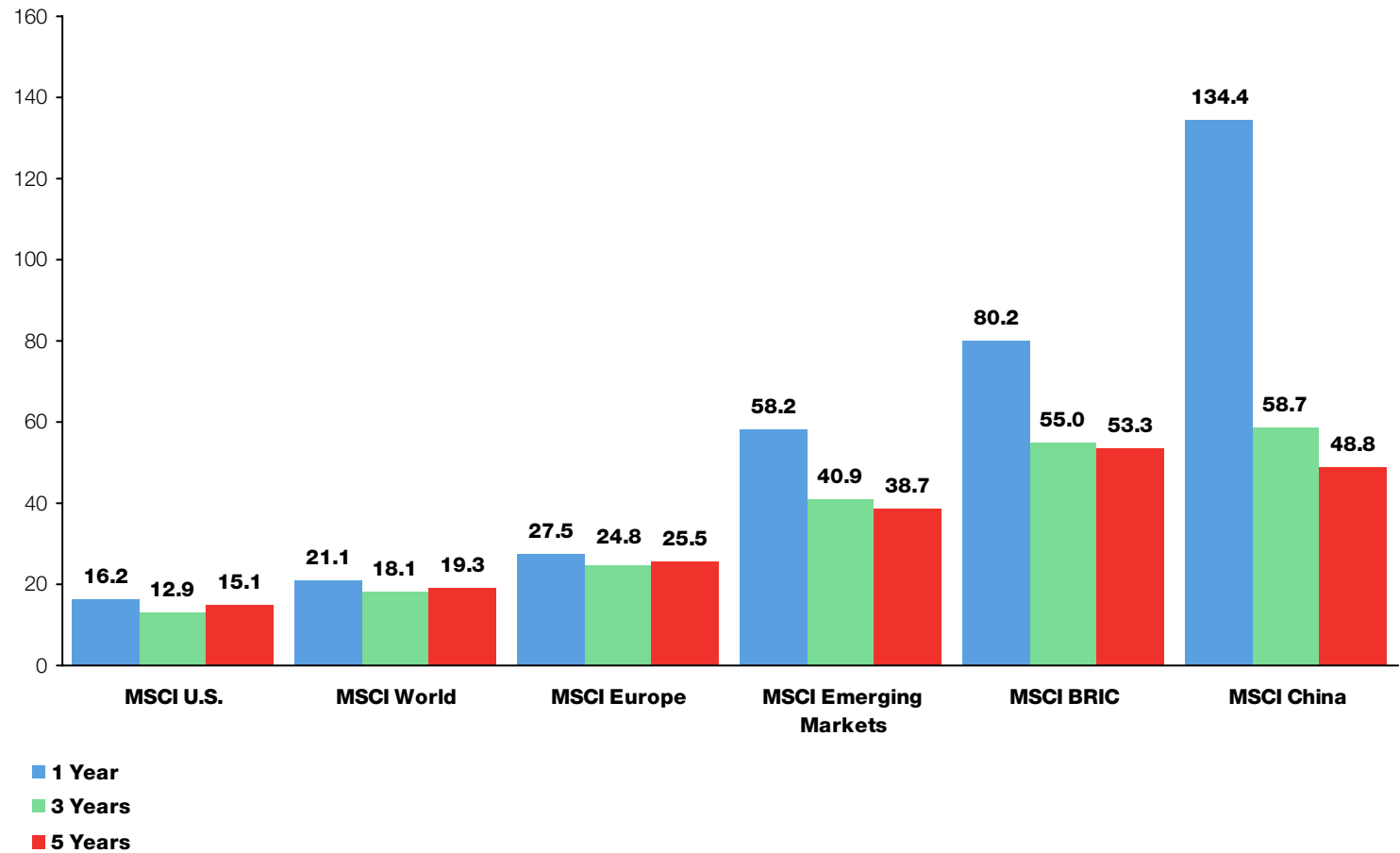
As of 30 September, 2007

Source: MSCI

Characteristics shown are calculated on a trailing 1-year basis.

Equity Market Performance

Annualized periods (%) ended 30 September 2007



Source: MSCI
The performance quoted represents past performance.
Past performance does not guarantee future results.

Geographic Diversification

MSCI Emerging
Markets Index:
30 September 2002
vs. 30 September 2007

	30 September 2002	30 September 2007
Argentina	0.3	0.6
Brazil	5.3	11.9
Chile	1.6	1.4
Colombia	0.1	0.3
Mexico	8.2	4.9
Peru	0.5	0.7
Venezuela	0.1	--
Total Latin America	16.1	19.8
China	7.0	16.2
India	4.6	6.9
Indonesia	1.2	1.5
Malaysia	6.1	2.4
Pakistan	0.2	0.2
Philippines	0.7	0.5
South Korea	23.2	15.5
Taiwan	13.0	11.4
Thailand	1.7	1.4
Total Asia	57.7	56.0
Czech Republic	0.5	0.7
Egypt	0.2	0.8
Hungary	1.2	0.9
Israel	3.5	2.2
Jordan	0.2	0.1
Morocco	0.3	0.3
Poland	1.2	1.7
Russia	4.9	9.0
Turkey	1.2	1.7
South Africa	13.0	6.8
Total Europe/Middle East/Africa	26.2	24.2

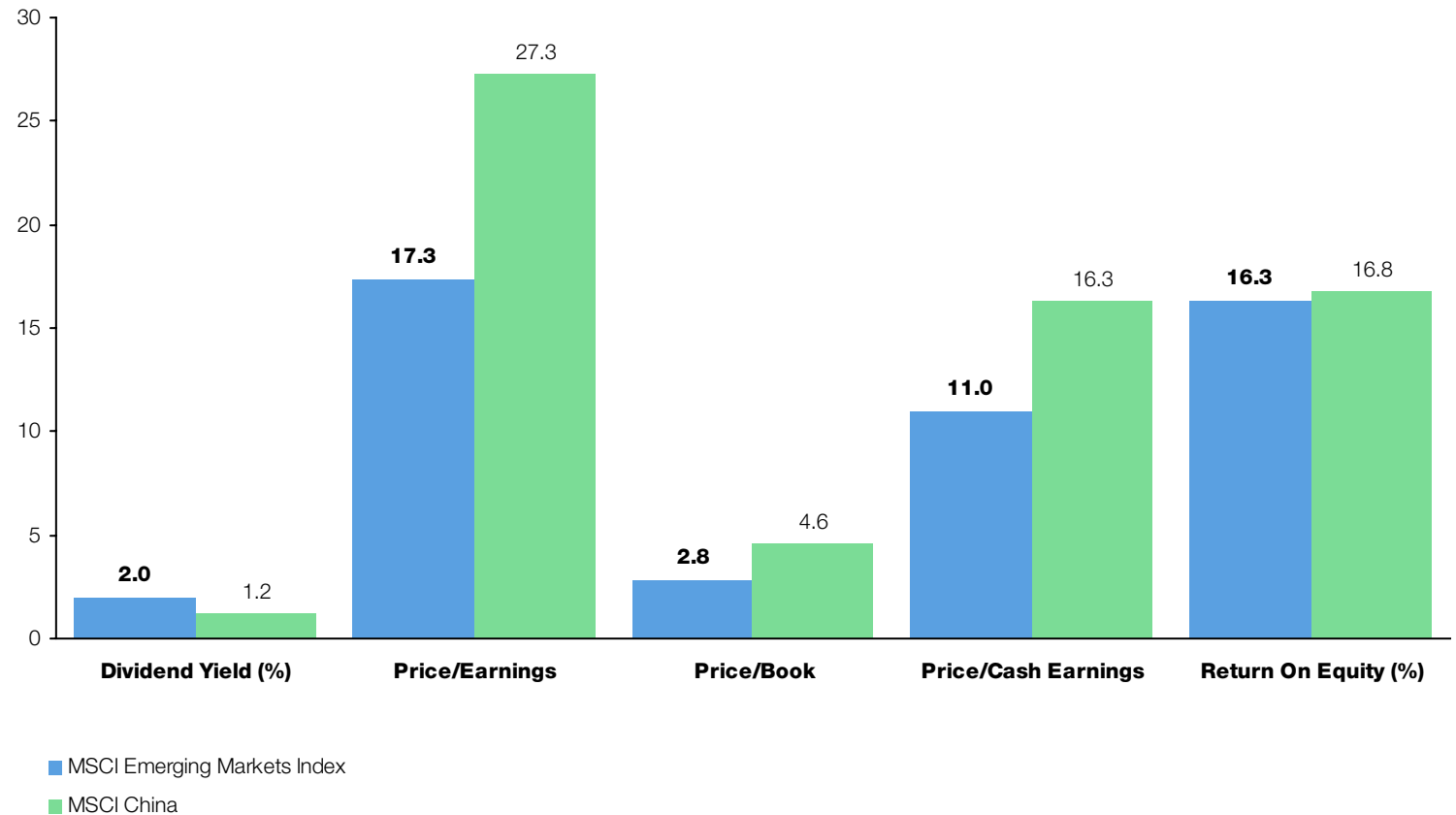
As of 30 September 2007

Allocations and security selection are subject to change.

Selective Opportunities

Market Characteristics

MSCI Emerging Markets Index vs. MSCI China

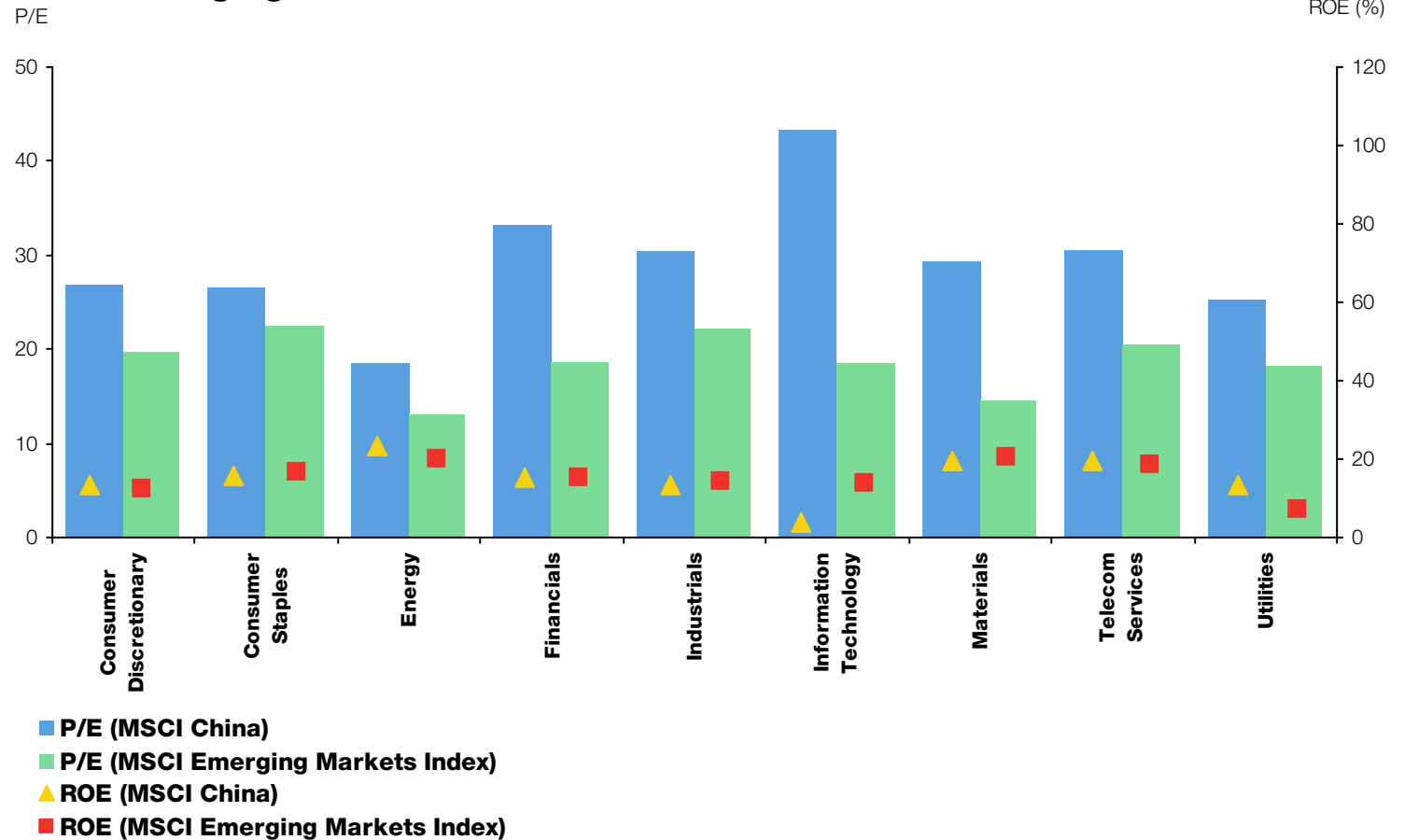


As of 30 September 2007
Source: FactSet, MSCI

Performance quoted represents past performance. Past performance does not guarantee future results.

Sector Valuations

MSCI Emerging Markets Index vs. MSCI China



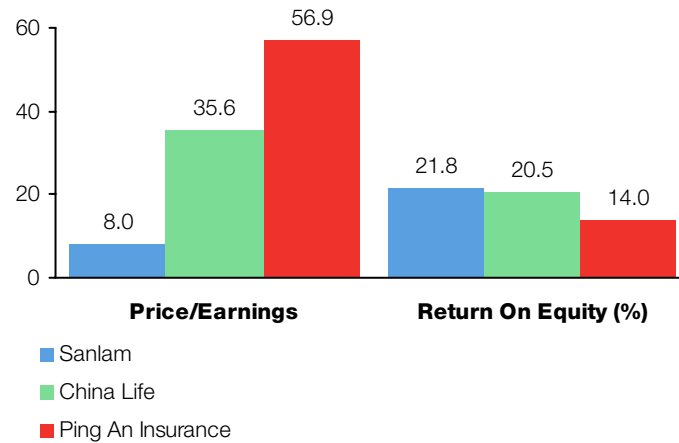
As of 30 September 2007
Source: MSCI

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Performance quoted represents past performance. Past performance does not guarantee future results.

Selective Opportunities

Market Characteristics by Sector

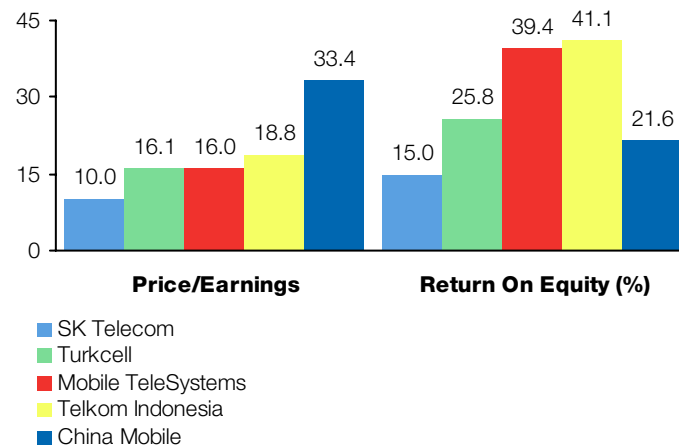
Insurance



Technology



Telecom



As of 30 September 2007
Source: FactSet, MSCI

Utilities



The information provided should not be considered a recommendation or solicitation to purchase or see any particular security.

Outlook

- Potential for outperformance
- Risks
- “Wild Card(s)”

Potential for Emerging Markets Outperformance Over the Long Term

Valuations

- Emerging markets stocks no longer at discounts to developed markets
- Similar levels of financial productivity as developed markets*
- Earnings in Emerging Markets equities are growing faster than in industrial countries

OECD monetary conditions

- Decreasing liquidity around the world

Other factors

- Outperformance has encouraged dedicated allocations to the asset class
- Some signs of mania across the asset class

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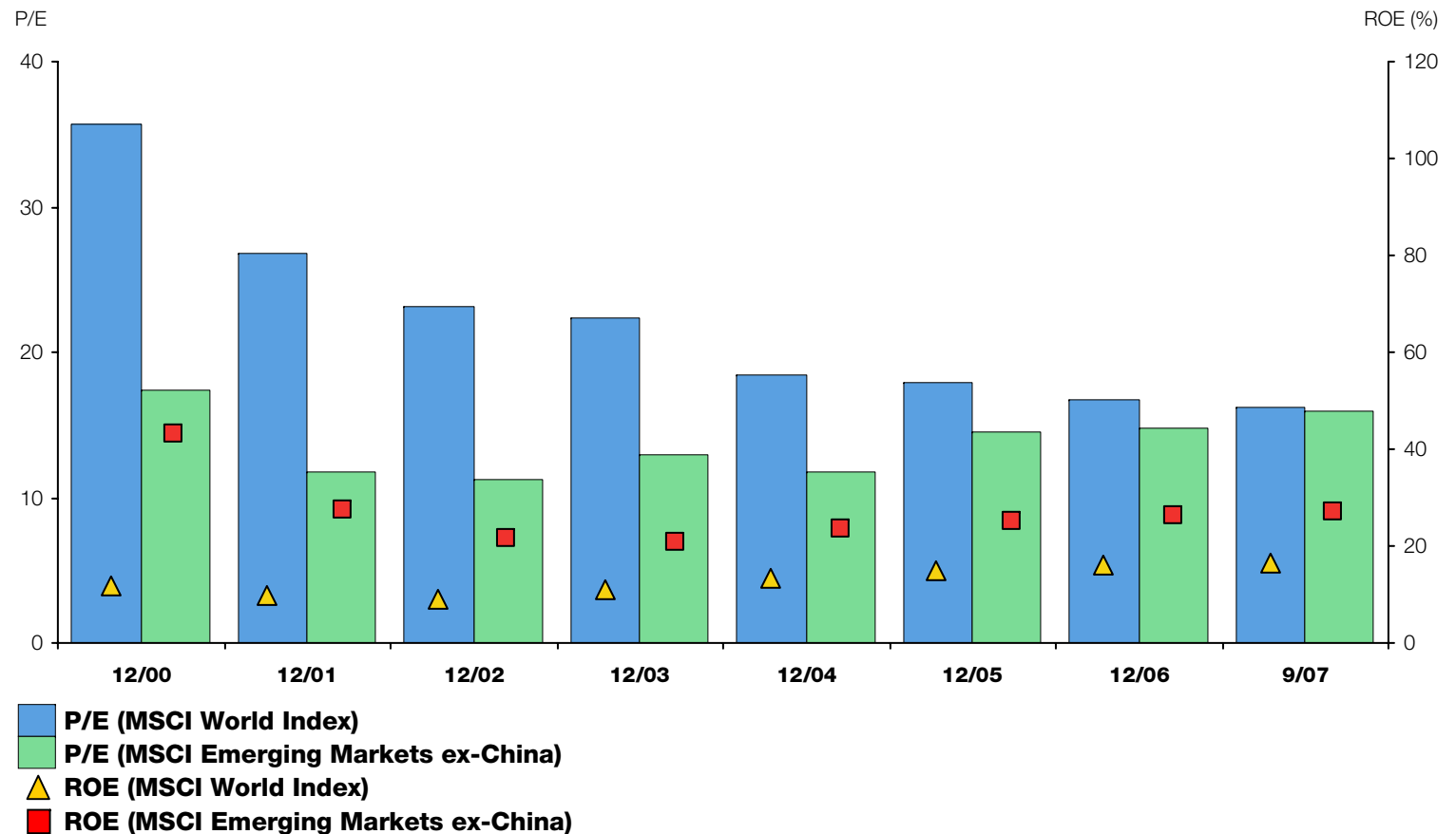
Source: Factset

* Based on ROE of the MSCI Emerging Markets Index vs. the MSCI EAFE Index.

Attractive Valuations and Financial Productivity

The relative attractiveness of Emerging Markets equities appears to have diminished.

MSCI World Index vs. MSCI Emerging Markets ex-China



As of 30 September, 2007

Source: Lazard Asset Management, MSCI

Characteristics shown are calculated on a trailing 1-year basis.

The information provided herein is a representative account of the MSCI Emerging Markets Index excluding China investments.

Lazard Asset Management does not have a model account that excludes China investments, therefore this information has been extracted and created for illustrative and comparative purposes only. The data presented in this graph is for conceptual purposes only and is not intended to represent actual performance. Results are not typical. Past performance is not indicative of future results.

Potential Risks

- Geopolitics
- Commodity prices
- Global capital markets and economy
- Trade friction

As of 30 September 2007

Conclusion

- Constructive outlook medium and long term
- Valuation discounts no longer exist
- Faster earnings growth in Emerging Markets
- Some short term caution warranted

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