

India, China and Indonesia 'best bets for 2009', says F&C's Mahtani



India, China and Indonesia are F&C's three key country calls in the emerging markets universe for 2009, according to Sam Mahtani fund manager at F&C's emerging market equities team.

After a dispiriting 2008, Mahtani expects equities in these three countries will regain strength during the year, benefiting from lower oil and commodity prices along with positive trends in domestic growth and fiscal stimulus.

"Although growth will undoubtedly slow in these three countries, as the global economy worsens, domestic trends remain supportive.

Furthermore, inflation has dropped, on the back of falling food and oil prices, giving domestic policymakers the opportunity to push through significant cuts in interest rates which will help improve the demand outlook on a twelve month view" Mahtani explains.

He believes that the aggressive fiscal stimulus pledged by the Chinese government last November, has helped to improve sentiment. "The rapid slowdown is now evident in all areas of the Chinese economy but the action of the authorities, such as their pledge to inject \$586bn into the economy, proves their commitment to ensuring structural growth does not come under further threat."

Mahtani explains monetary stimulus has been equally forthcoming from the Indian authorities, whilst the Indonesian government is looking at introducing new policy measures to assist long-term growth such as new infrastructure projects. Although exports across the regions have dropped off, countries like India are less affected than other Asian economies "Exports are not too much of a concern for India, because they only represent 12% of its GDP. In addition, economic data in India and China will stabilise from the fourth quarter of 2009 due to the low base affect of poor economic data in the same period in 2008".

Mahtani considers that stocks in the three countries are attractively valued taking into account the weak global economic backdrop.

He concluded: "The current valuation in these three markets discounts the macro slowdown to a large extent. Both China and India are trading at around 8.5x forward 2009 PE, which is significantly lower than twelve months ago." Some of the key high conviction ideas that he is backing in his emerging market portfolios include BHEL, the largest producer of power plants in India and CNOOC, an oil and gas company in China which, he believes, has one of the most attractive production growth profiles in the world.

Strong growth opportunities for climate change-related stocks

As the world media closely follows the first days in office of President Obama, investors are focusing their attention on the sectors which are likely to benefit the most from his promised stimulus package. With climate change high on the agenda of the new government, Terry Coles, co-manager of the F&C Global Climate Opportunities Fund, believes the long-term fundamentals for companies offering solutions to fight or adapt to the changing climate remain very strong. However he is cautious about the short-term opportunities in some sectors such as solar and wind energy.

"We have already seen an Obama-rally in the renewable sector, with a lot of solar and wind stocks having already moved up anything between 45 and 100% from their lows, all driven by speculation about where the new President is going to focus its stimulus package" he explained. "We are definitely keeping an eye on the sector but at present we are not heavily invested in solar. Despite the fact that solar stocks are a lot cheaper than in the past, we feel that the risk, especially given the recent rally, is more on the downside over the short-term, as people get over the euphoria about the new presidency." However, he added, the long-term fundamentals for investing in solar and wind companies remain very strong.

The F&C Global Climate Opportunities fund invests in companies that are leading the way in developing new technologies, processes and support services to address the issues resulting from climate change. At present, Coles is finding very attractive opportunities in stocks that are benefiting from both the economic slowdown and the increased awareness of climate change, such as companies providing teleconferencing technology.

A favourite stock is Norwegian company Tandberg that designs, develops and manufactures videoconferencing systems and management software.

"We like this company because of the long-term climate change aspects, as more companies become aware of environmental issues," he explained. "Also, as the price of carbon keeps going up, the cost of travel will also increase, forcing companies to seek out more efficient solutions to reduce corporate travel. At present, with travel budgets being slashed throughout all industries, videoconferencing products offer a cost-cutting opportunity for business globally."

Brazil – How much are the planet's lungs worth?

Momentum for forest-rich countries to earn carbon credits from avoided emissions is gathering pace, according to F&C's latest *reo* report on environmental, social and governance (ESG) issues, released this week. The report highlights that there is increased awareness amongst policy makers in Brazil and other countries about the urgency to take action to save the Amazon, the lungs of the planet.

Back in December last year, during the Poznan negotiations on a post-Kyoto agreement, F&C actively called for credible financial mechanisms to facilitate "avoided deforestation". Karina Litvack, Head of Governance & Sustainable Investment at F&C, said: "This global initiative is a vital complement to individual efforts in which F&C has participated to drive down CO2 emissions. Back in 2005, we encouraged companies sourcing soy for food or transport fuels to ensure their suppliers safeguarded valuable forests through effective industry initiatives". The initiative, she explained, occurred in the wake of McDonalds' and some commodity giants' call for a moratorium on sourcing soy linked directly to destruction of the Amazon, as well as the launch of a Roundtable on Responsible Soy Association to address illegal and unsustainable logging. Since then, other companies such as Brasil Ecodiesel and Petrobras have joined the roundtable.

"Several Brazilian utilities have recently endorsed a new code of practice that aims to promote high sustainability standards", commented Litvack. However, although F&C considers it a positive step, it also stresses that the code lacks clear guidance on managing local community displacement and human rights training for security forces. "We encouraged hydroelectricity providers Tractebel Energia SA and AES Tiete to consult early with local communities and indigenous peoples on projects, particularly if relocation and compensation may be necessary", added Litvack.

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