
The Compelling Case for Emerging Markets

An Everest Capital White Paper

- Emerging market equities are poised to double over the next 3-5 years based on conservative assumptions
- Emerging markets are trading at all-time low valuations
- Surprisingly, emerging market performance is not dependent on commodity prices
- Emerging markets may account for 100% of global growth in 2009

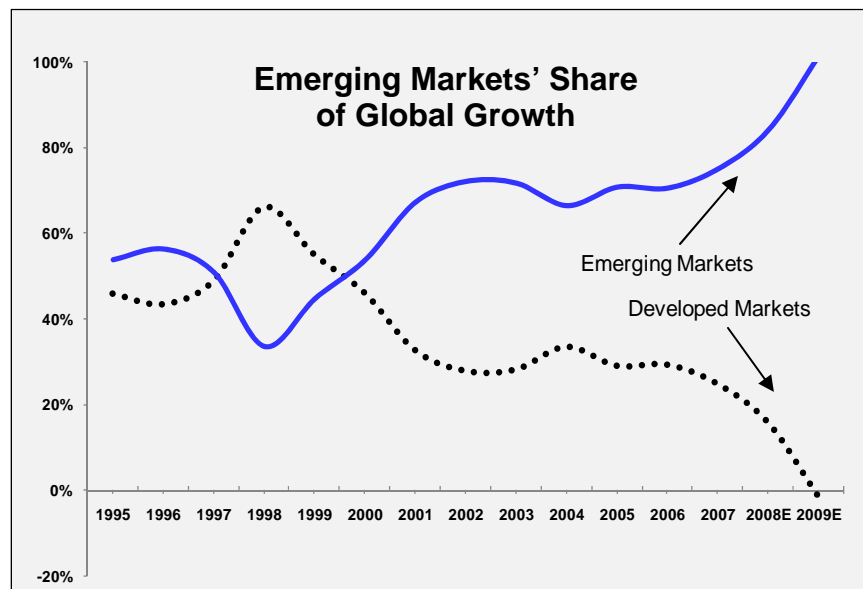


Table of Contents

Executive Summary	3
Top-Down Macro Perspective	5
- Domestic Demand Driving GDP Growth	6
- Intra-Emerging Markets Trade Growing In Importance	8
- Emerging Countries Now Posting Current Account Surpluses	9
- Emerging Countries Now Foreign Creditors With Large Reserves	10
- Reforms, Improved Corporate Behavior, and Prudent and Proactive Fiscal and Monetary Policies	12
- Commodities: Friend or Foe?	14
Bottom-Up Fundamental Perspective	16
- Improved Corporate Fundamentals: <i>Emerging Markets Inc.</i>	17
- Absolute Valuations Are At Very Low Levels	19
- Current Valuations Offer An Attractive Entry Point	21
- Stress-Testing Our Valuation Assumptions	22
- How to Best Take Advantage of Improving Fundamentals	23
Risks	26
Conclusion	27
Appendix: Population and Demographics	28

EXECUTIVE SUMMARY

Highlights:

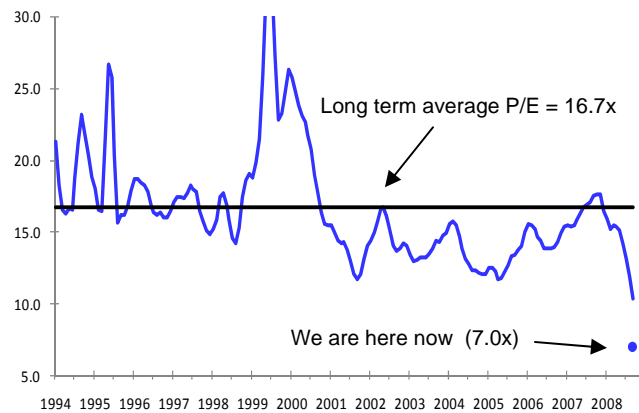
- Emerging market equities are poised to double over the next 3-5 years.
- Emerging market economies will generally prove resilient during this economic slowdown, and may account for up to 100% of world economic growth in 2009 as developed markets slow to zero.
- Investors who capitalize on these opportunities will outperform those investing in developed market equities and emerging market debt over the mid- to long-term.
- Valuations are at or near historical lows by almost every measure and remain very compelling even when earnings and profitability are stress-tested against prior crisis scenarios.
- Corporate balance sheet strength supports a bullish view from a bottom-up perspective; corporations will fare far better than in prior crises.

In February 2004, Everest Capital authored a white paper entitled "The Continuing Case for Emerging Markets" which highlighted our positive outlook for emerging market equities. We revisited that thesis a year later in the follow-up document, "The Continuing Case for Emerging Markets, Revisited" in which we reiterated the firm's favorable view of the asset class.

Fast forward 45 months, and much has changed.

The sell-off in global financial markets in 2008 has created an attractive long-term entry point for emerging markets. We believe the long-term

Emerging Markets Are Trading at All-Time Low Valuations



Note: Data reflects the 3 month rolling average of the trailing 12 month P/E
Source: MSCI, Bloomberg, Morgan Stanley, Everest Capital

economic decoupling of developing countries will lead to a re-rating of the asset class as global risk aversion abates and markets differentiate based on investment fundamentals.

Markets are experiencing a severe global financial crisis that affects nearly every corner of the world. Investors have reacted to the financial crisis with fear and trepidation, sending stock markets down to levels not seen in years: in the first ten months of 2008 alone, the MSCI All Country World Index declined -40%, while the MSCI Emerging Markets Index was down more than -50%.

However, while we expect that emerging market economies will slow in response to the financial crisis and subsequent global economic slowdown, we believe these economies will prove resilient and, most importantly, broadly dispel concerns of a return to the boom-bust cycle of the 1990s.

We remain positive in our outlook for emerging markets. The sell-off in emerging market equities, bonds and currencies reflect heightened risk aversion that was sparked by global concerns rather than emerging market fundamentals. When the current turmoil subsides, we believe that emerging markets will fare better than developed markets and will outperform over the long term for the following reasons:

The fundamental strength of emerging market economies enables these countries to better withstand global headwinds

- Domestic demand is now more important than exports for GDP growth, helping to partially insulate emerging economies from the slowdown in demand from developed markets.
- The majority of exports are now destined for other emerging market countries, making emerging economies less reliant on the health of developed nations.
- High foreign exchange reserves and lower foreign debt levels act as firewalls against the global slowdown; reserves have grown six-fold to over \$4 trillion over the last ten years.

Corporate financial strength reflects improved management practices

- Over the past ten years, emerging market companies have produced higher profits with lower leverage, highlighting prudent corporate practices; profits expanded annually by double digits during the past ten years.
- Stronger corporate balance sheets have enabled companies to focus on growth opportunities, in contrast to prior crises when companies were focused on financial health.
- Firms' returns on equity have steadily increased over the past decade, doubling to 17%, while debt-to-equity ratios plummeted to one-quarter those in 1998.

Valuations are at historically low levels

- Emerging market P/Es are at 7.0x trailing earnings, a discount of almost 60% to average long term levels.
- Low market valuations have been caused by indiscriminate investor selling and a search for liquidity regardless of fundamentals; investor outflows in 2008 already equal one-third of the

total inflows into emerging market equity funds over the prior five years.

- Further stress-testing of earnings growth and profitability expectations still suggests compelling investment opportunities; even with significantly reduced forecasts, equities are valued at nearly a 40% discount to their long-term average P/E.

Everest Capital believes that emerging markets offer investment opportunities that have not been available in years, if not decades. Prudent fiscal and monetary policies have improved emerging market countries' ability to withstand global macro shocks, reducing historical economic vulnerability and contributing to the resilience that we expect to support a revaluation of equities.

Risks nevertheless exist

There are risks to our case for emerging markets. Clearly there are times when cyclical forces, which represent short-term swings around the primary secular trend, dominate. We have been in such a phase over the past few quarters. With the financial crisis still in progress, patience and rigorous analysis are required. There will be winners and losers, and even the winners may take some time to emerge. Those countries and companies that took advantage of booming times and invested prudently are expected to not only survive but prosper, while those that consumed the gains generated over the past economic cycle are likely to suffer most.

In the following pages, we will highlight the various factors that make the top-down macro perspective attractive, discuss the bottom-up fundamentals that reinforce our view that emerging market equities offer significant upside potential, and conclude with an analysis of the compelling investment opportunity offered by the asset class.

We believe that investors who capitalize on the opportunities of investing in emerging market equities will likely outperform those investing in developed market equities and emerging market debt over the mid- to long-term.

Top-Down Macro Perspective

From a macro-economic perspective, emerging markets are structurally stronger and have more diversified economies than at any time in history.

We believe emerging market countries' more robust footing will support them in weathering the current financial storm and lay the groundwork for a sustained rebound when global headwinds subside.

In highlighting the key top-down drivers, we discuss the major factors that have a bearing on the overall performance of emerging markets, and which of these have changed since past emerging markets crises:

- Growing domestic demand
- Increasing intra-emerging markets trade
- Large fiscal and current account surpluses
- Robust levels of foreign exchange reserves
- Net foreign creditor status

We also discuss the relationship between commodities and emerging markets and whether a clear correlation between the two exists. Our analysis may surprise you.

Domestic Demand Driving GDP Growth

Domestic demand is now more important than exports to emerging markets' GDP growth, helping to partially insulate emerging markets from the slowdown in demand from developed markets

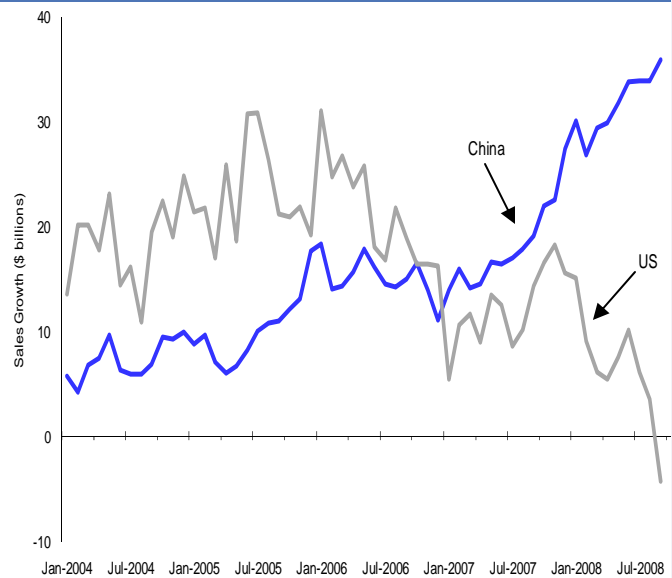
Driven by both local consumer demand and government infrastructure spending, domestic demand is now a more important contributor than exports to economic growth in the developing world. Since 2004, when the contribution of domestic demand to GDP growth equaled that of net exports, emerging market growth has been primarily driven by an increase in domestic demand. From early 2006, the contribution to real GDP growth for emerging markets (ex-China) consisted entirely of domestic demand.

Although this has helped reduce the importance of direct trade with the US for the developing world, we would expect to see a negative effect on economic growth in emerging markets from tighter global credit conditions and a global economic slowdown brought on by industrialized nations. However, the increasing importance of domestic demand will help support growth in developing nations. For example, consumer spending in the seven largest emerging market countries and the GCC now equals half of US consumer spending.

Additionally, the growth in emerging markets' domestic demand is in stark contrast to the declining trend in the US. A comparison of retail sales in China versus the US highlights these trends well. Prior to 2007, the growth of domestic retail sales in the US had been higher than that of China. It has since fallen in dollar terms to basically zero 18 months later, while that of China reached a cumulative \$45 billion over the last 12 months. In short, marginal Chinese domestic spending is growing much more rapidly than US spending on a monthly basis. Retail sales in China continued its rapid growth in September, remaining surprisingly strong, rising 23.2%, while US advance retail sales declined, falling -1.2% during the month.

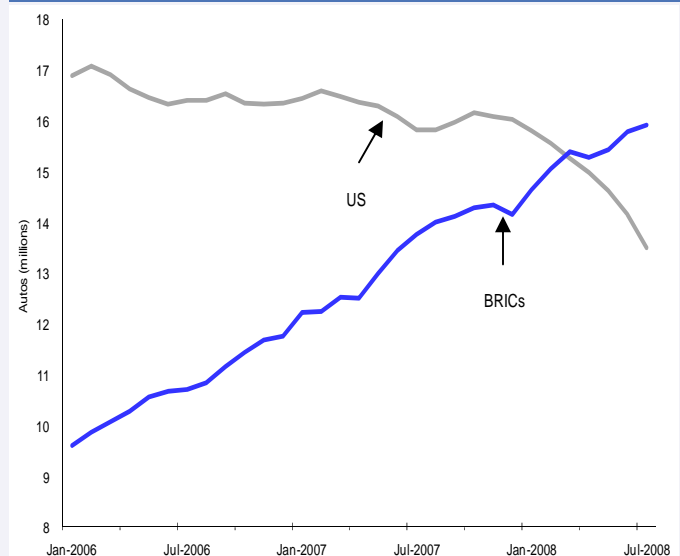
The growth has been startling in other industries as well. For example, auto sales in the BRIC nations

Retail Sales Growth in China vs. the US (year on year change)



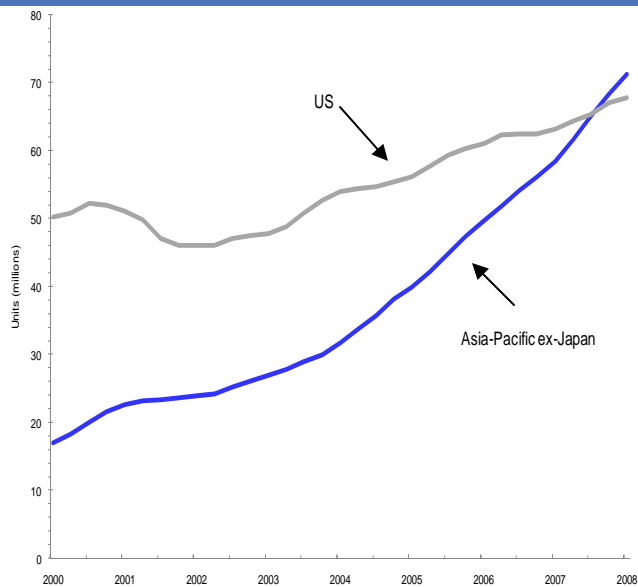
Source: Morgan Stanley, Everest Capital

Auto Unit Sales in BRICs 18% Higher than in the US (seasonally-adjusted, 3 month moving average)



Note: Auto data includes vehicles and light trucks
Source: Morgan Stanley, Haver Analytics, Everest Capital

Total PC Shipments in Asia-Pacific ex-Japan Are Larger than the US



Source: IDC, Morgan Stanley, Everest Capital

(Brazil, Russia, India and China) are now 18% greater than those in the US, increasing from only half the size less than two years ago. PC shipments in Asia Pacific ex-Japan now exceed those in the US, having been less than a third the size about ten years ago. Although we expect sales to slow or even decline in the coming months, these trends highlight the growing importance of emerging markets' domestic demand.

In addition to growing in absolute terms, the secular story for emerging markets has also resulted in a more rapid pace of economic growth relative to developed markets. Morgan Stanley has estimated that global growth will decline to 2.6% in 2009, from 3.8% in 2008 and 5.0% in 2007. And of that 2.6% estimated world growth in 2009, 100% will come from emerging markets. With industrialized countries expected to generate cumulatively no growth in 2009, emerging countries are expected to grow at 5.3%.

Intra-Emerging Markets Trade Growing In Importance

The majority of emerging market exports are now to other emerging market countries, making emerging economies less reliant on the health of developed nations

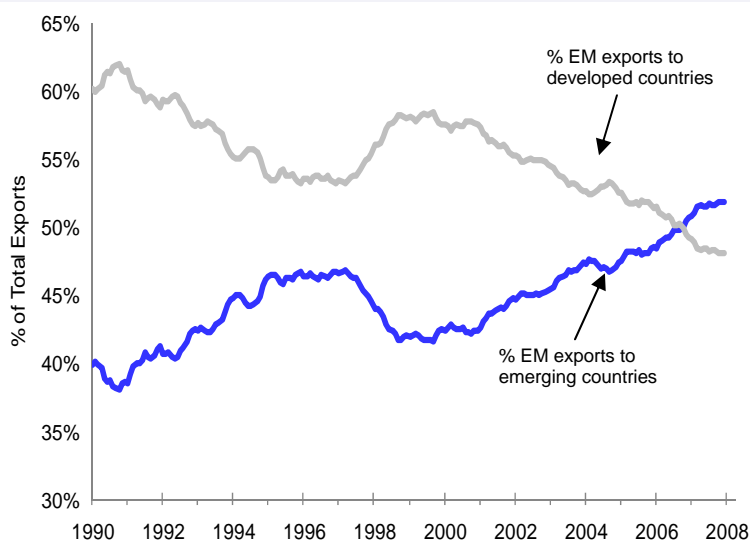
As developing economies have been moving from a hub-and-spoke trading model to more of a direct point-to-point system, intra-emerging market trade has become a more important driver than trade to developed markets. The following crisscross graph clearly illustrates the dramatic changes that have occurred in emerging markets over the past decade. We believe that the structural shifts we are seeing in emerging markets from a top-down basis will allow those countries to better weather the current economic headwinds and fuel the next leg of growth.

Emerging market trade is a mixture of two models, both of them more commonly associated with the airline sector. The first is a hub-and-spoke model, which historically dominated emerging markets; emerging

Over the course of the last 20 years, however, emerging market countries increasingly traded directly with other emerging market countries; by the mid-1990s, close to 47% of total exports occurred intra-emerging markets. We term this the point-to-point trading model.

Despite setbacks due to the Asian, Brazilian and Russian crises towards the end of the 1990s, intra-emerging markets trade has continued to grow steadily in importance. As you can see in the graph to the left, by early 2007, intra-emerging markets exports (blue line) equaled those to developed markets (grey line) and as of the second quarter 2008, intra-emerging markets exports stood at 52% vs. 48% to developed markets.

Emerging Market Exports to Emerging Markets Higher than to Developed Markets



Source: UBS, Everest Capital

market countries would trade with a small number of key developed market destinations, typically the US, Europe and Japan. The latter were the hubs and emerging market countries the spokes.

The transition from primarily a hub-and-spoke model to one that is now both hub-and-spoke and point-to-point highlights a significant and historically important change in the drivers of emerging market trade accounts.

This rapid pace of domestic growth from emerging market countries does not mean that the emerging markets are fully decoupled from the rest of the world and that they will not be affected by the global downturn; rather, the growing importance of point-to-point intra-emerging markets trade will allow emerging economies to partially insulate themselves from this downturn and prove themselves more resilient by declining less and bouncing back faster than developed markets.

Emerging Countries Now Posting Current Account Surpluses

Emerging markets' much stronger external trade accounts will act as buffers to a global economic slowdown

The investment case for emerging markets is predicated on their ability to generate economic and earnings growth in excess of developed market peers, typically on a risk-adjusted basis. The following chart highlights several important facts regarding the state of emerging market trade and again shows a crisscross pattern that illustrates the changing relationship between emerging and developed markets.

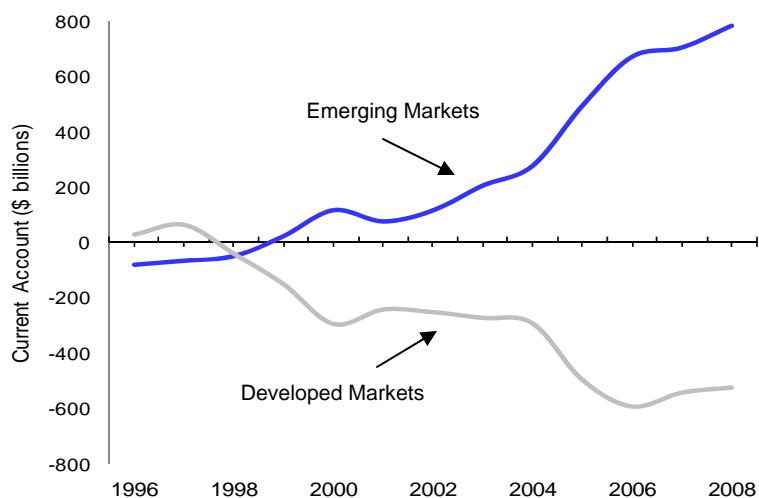
Not only has intra-emerging markets trade grown in importance and accounted for a greater share of total exports, but the total amount of exports has also grown, resulting in an increasing trade surplus. Over the relatively short time frame shown in the chart below, emerging market current accounts have risen to a projected surplus of \$785 billion by year-end 2008 from a deficit of -\$79 billion in 1996.

pared to a -\$149 billion deficit by developed markets.

While that is a staggering difference in itself, what is more amazing is the change in fortunes of developing markets to developed markets. In the three years from 1996 to 1999, the difference between emerging market current accounts and those of developed markets grew from -\$110 billion to \$174 billion, a \$284 billion swing!

During that period, emerging markets rose from a deficit of -\$79 billion to a surplus of \$25 billion, while developed markets' current accounts fell \$180 billion from a surplus of \$31 billion to -\$149 billion. From 1999 onwards, emerging markets have consistently posted current account surpluses whereas developed markets have remained in deficit.

Emerging Markets Generating Current Account Surpluses vs. Developed Markets Deficits



Source: Merrill Lynch, Everest Capital

Prior to 1999, emerging market countries were running current account deficits which resulted in greater vulnerability and provided governments with a dearth of monetary and fiscal options in times of financial market stress. In 1999, emerging market countries posted a combined current account surplus of \$25 billion, com-

pared to the late 1990s, the situation in today's environment is drastically different for emerging markets. While we expect the current account surplus to deteriorate given the global slowdown and recessionary pressures, emerging markets are able to face this challenging period with robust external accounts. This gives them the option of taking fiscal stimulus measures to offset the effects of a developed markets slowdown.

Emerging Countries Now Foreign Creditors With Large Reserves

Foreign exchange reserves and net foreign creditor status act as firewalls against a global slowdown

As a result of more prudent fiscal and monetary policies after the crises of the 1990s, together with higher trade gains and a build-up of foreign exchange gains, many emerging market countries are now net foreign creditors. The importance of this change cannot be understated.

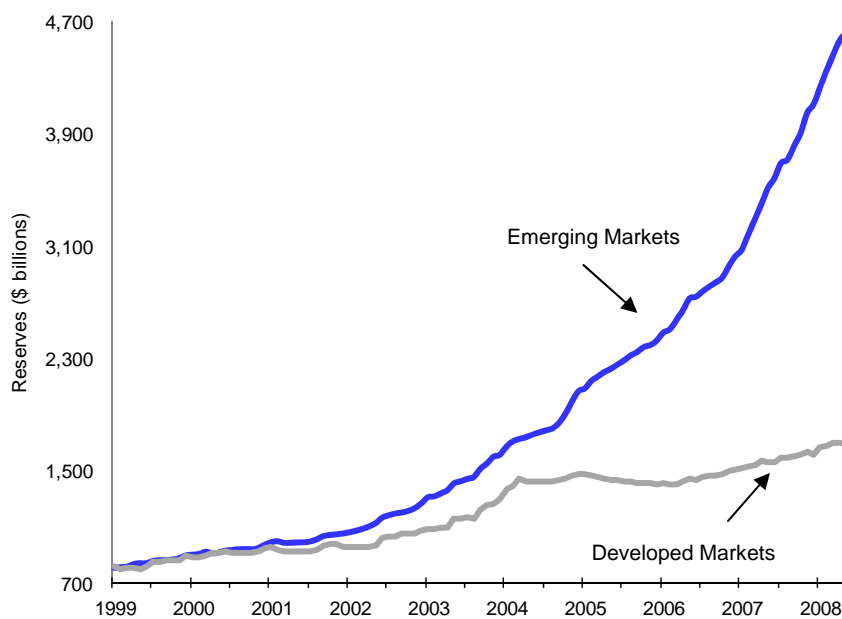
Much like individual households which accumulate reserves during periods of abundance to tap into in times of need, many emerging market countries now have a greater reserve of wealth with which to buffer financial market headwinds. Several countries have already dipped into their pools of savings in order to reduce the high volatility in their floating currency markets and maintain acceptable levels of current account surpluses. These countries cannot avoid being negatively affected by the credit squeeze, but with more substantial reserves, they have more tools with which to sustain economic strength, providing liquidity to the

markets and helping to keep businesses afloat.

Increasingly large foreign exchange reserves have helped emerging markets become net foreign creditors. These reserves have risen nearly six-fold from \$800 billion in 1999 to \$4.6 trillion in May 2008. At the same time, reserves for developed countries barely doubled, growing from about the same level to just \$1.7 trillion by mid-2008.

Historically, in a country such as Brazil, a financial crisis would typically result in a fiscal and economic crisis given its net foreign debtor status. Its currency would weaken, causing its dollar-denominated debt to become harder to repay; this would strain the fiscal accounts and the worsening debt situation would create greater challenges for the government. However, as a net foreign *creditor* (i.e. owning larger dollar assets than owing debt), any weakness in the currency actu-

Emerging Markets Foreign Reserves Have Grown Six-fold Since 1999 vs. Barely Doubling for Developed Markets

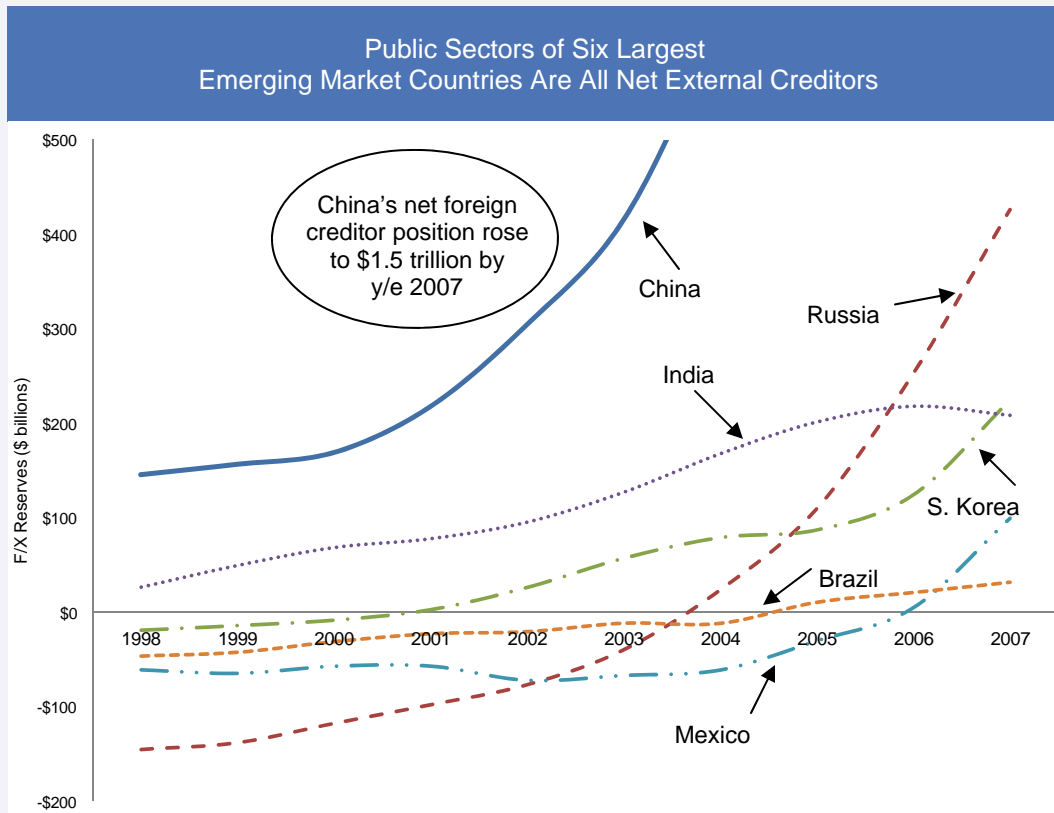


Source: Merrill Lynch, Everest Capital

ally results in better fiscal accounts. Nowadays, financial crises do not immediately lead to fiscal crises for many emerging market countries.

The chart below shows that the public sectors in the six largest emerging market countries are now all net external creditors. This swing to net creditor status has given policymakers a flexibility that was simply not present ten years ago.

China and other emerging market countries now have the financial reserves needed to provide counter-cyclical fiscal stimulus to sustain or increase domestic demand. Additionally, central bankers will also have more flexibility to employ proactive monetary policies which may inject or constrain liquidity as needed over the coming years.



Source: Morgan Stanley, Haver Analytics, Everest Capital

Reforms, Improved Corporate Behavior, and Prudent and Proactive Fiscal and Monetary Policies

Prudent fiscal and monetary policies have improved emerging market countries' ability to withstand global macro shocks, reducing historical economic vulnerability and contributing to their expected resilience

We believe that strong fundamentals underpinning the sustainability of the recent growth cycle in emerging countries are, in part, due to the successful implementation of structural reforms by policymakers and corporate managements. These reforms addressed structural inefficiencies and bolstered investor confidence following the abandonment of fixed exchange rate policies in the late 1990s.

Following the crises in the mid-to-late 1990s, many emerging market countries instituted prudent fiscal and monetary policies that have helped structurally reshape their domestic economies and enable them to withstand macroeconomic pressures.

Positive reform momentum has also continued throughout the millennium, with several Eastern European countries admitted into the European Union, Taiwan reducing/removing capital market restrictions and engaging more directly with China, and Brazil adhering to developed market corporate governance practices.

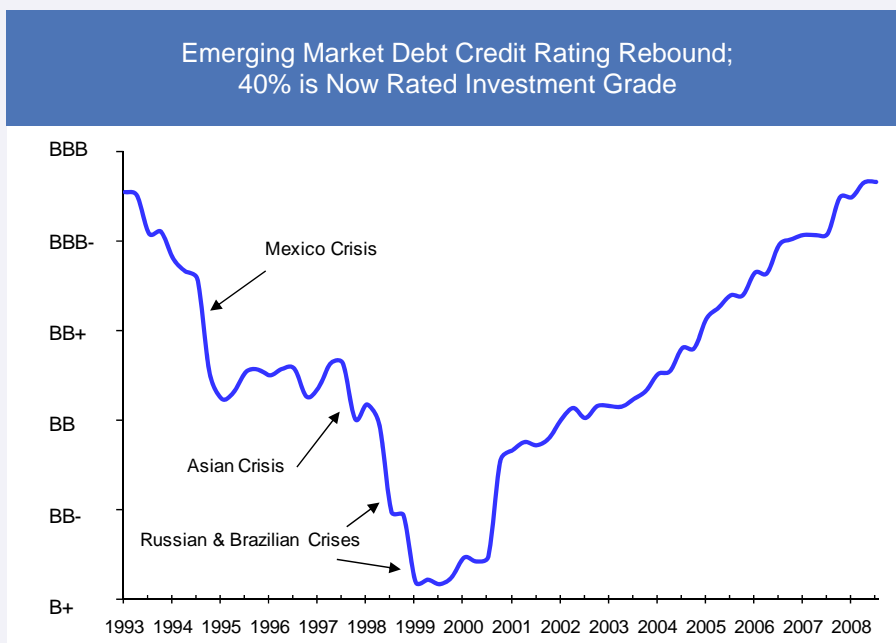
As the chart below strikingly shows, throughout the 1990s, as developing countries faced crisis after crisis, their credit ratings fell from investment grade to as low as single B+, reflecting poor monetary and fiscal policies, lack of reserves, current account deficits, weak corporate governance, as well as numerous other issues.

The chart is a tale of two halves: a classic V shape as deteriorating ratings subsequently bottomed in 1999 and 2000, then improved year after year.

Rating agency concerns notwithstanding, the right half of this chart is an official recognition of the vast improvements and policy changes that emerging country governments have enacted in response to the challenges of the late 1990s.

Given the negative global environment countries face going into 2009, we anticipate that the ratings of some countries with less solid economic footing may be downgraded. While we believe this may well be warranted, individual downgrades will indicate individual setbacks, and they should not contribute to a reversal of the positive long-term secular trend for emerging countries overall. However, ratings dispersion among individual countries makes it critical to also perform bottom-up research and not rely purely on top-down macro analysis.

When we first produced this chart in 2004, improved fundamentals were already being reflected in S&P ratings as they rebounded back to pre-Asia crisis levels



Source: JPMorgan, Standard and Poor's, Everest Capital

and a solid BB rating. Four years later, the trend has continued its upward momentum with only minor hiccups, and now the credit rating of the JPMorgan EMBI is above where it was before the Mexican crisis in 1994. Indeed, in April and May 2008, Standard and Poor's and Fitch raised Brazil's long-term foreign currency rating from BB+ to the investment grade rating of BBB-.

According to Merrill Lynch, a full 40% of emerging market debt is now rated as investment grade compared to only 3% just ten years ago, reflecting the vast improvement emerging markets have experienced from a top-down perspective and a reflection of their governments' ability to implement more sound monetary and fiscal policies.

On a forward-looking basis, two of the tools available to emerging markets include the ability of governments and central bankers to:

Lower interest rates

Emerging market central banks raised rates aggressively in 2007-2008 to address inflation caused by higher food and energy prices. Given the sharp decline in commodity prices and the expected economic slowdown, we anticipate a marked decline in inflation going forward. Coupled with high reserves and monetary policy discipline, we believe central banks have room to make monetary policy decisions that will sustain growth or mitigate any slowdown.

Implement counter-cyclical fiscal policies

We also expect to see higher infrastructure spending by countries with the fiscal flexibility to do so, to support their economies and help counter recessionary pressures brought on by developed markets. Given the depth and length of the financial crisis, we would expect infrastructure spending plans to be curtailed from the \$2.2 trillion that Merrill Lynch estimated would be spent annually over the next three years. Even if the amount was reduced or if these programs were delayed, the need for them does not disappear due to

rapid population growth and urbanization.

Years of under-investment in areas such as power, transportation and water have created a massive backlog of infrastructure projects which still need to be completed. Governments taking such Keynesian moves would stimulate the economy, causing additional investment and production and resulting in increased income and consumer spending. China, for example, which is projected to have more than 200 cities with populations exceeding one million people by 2025, up from just 23 in 2005, announced in early November 2008 a two-year infrastructure investment and stimulus package of up to 4 trillion yuan (\$586 billion). In addition to spending billions of dollars on highways, railroads and airports, the government hopes that this stimulus package will also encourage increased consumer consumption.

For additional information on emerging market population trends and demographics, please see the accompanying Appendix.

Commodities: Friend or Foe?

The relationship between commodities and broad emerging markets is more a reflection of both benefiting from global growth than of a clear correlation between the two

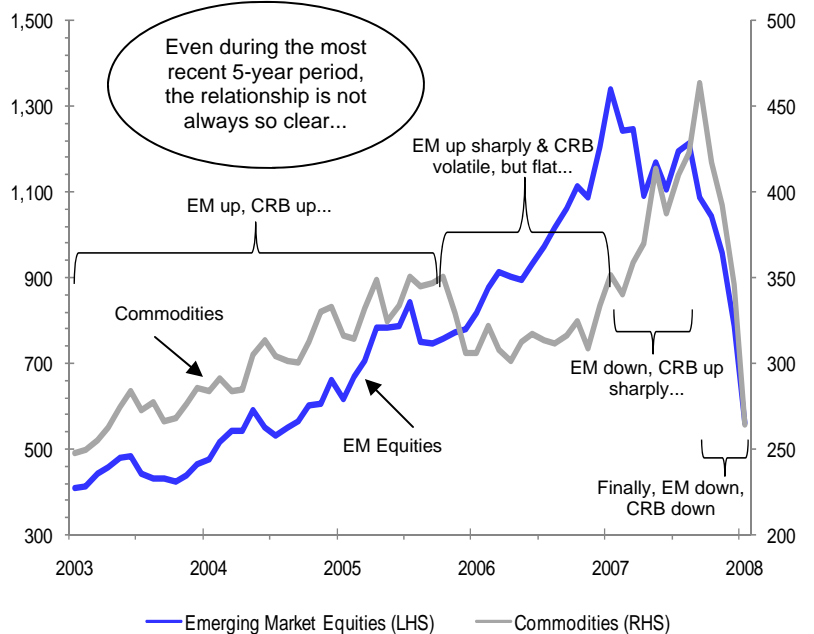
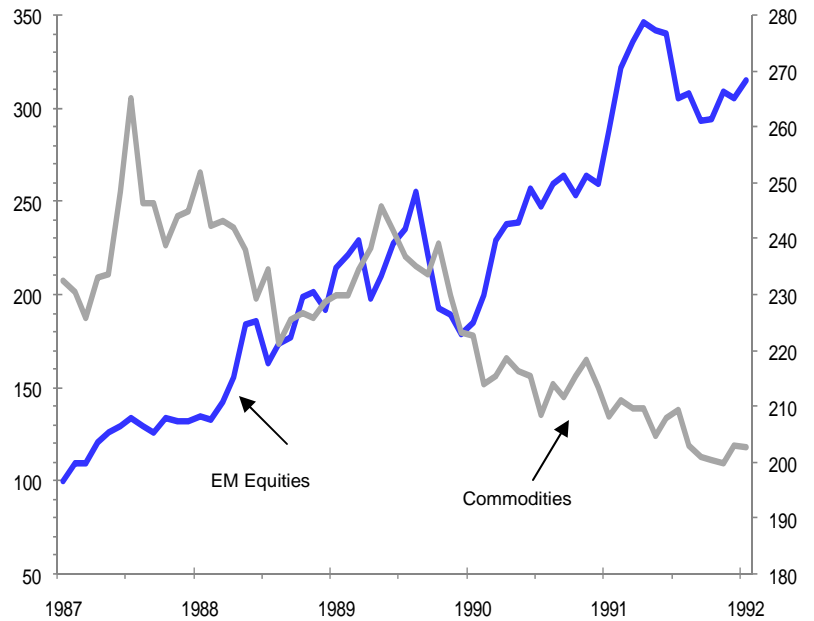
It is often claimed that there is a causal relationship between the rising price of commodities and the upward trend in emerging markets. Proponents say that emerging market performance is dependent on higher commodity prices, and emerging countries broadly benefit from higher commodity prices.

At Everest Capital, we do not believe that this causal relationship necessarily exists. Unless the world experiences highly depressed commodity price levels over a substantial period of time, we expect emerging market equities to outperform over the mid- to long-term regardless of the direction of commodity prices.

The one key driver of performance both emerging markets and commodities share is economic growth. Beyond that, however, each has distinct drivers that have led to periods of divergent performance. The following charts highlight two different five-year periods that illustrate a starkly different investment opportunity.

The effect of commodity prices on exports and economic growth varies from country to country. While commodity exports as a percentage of GDP for all emerging markets are nearly 15%, the figures vary greatly on a country-by-country basis. For example, commodity exports as a percentage of GDP for the five most export-intensive countries in emerging markets average nearly 30% while the five least export-intensive countries average less than 5%.

Tale of Two Periods: Emerging Market Equities and Commodities Do Not Necessarily Trade in Tandem



Emerging Market Equities refers to MSCI Emerging Market Index
Commodities refers to Reuters/Jefferies CRB Index

Source: MSCI, Reuters/Jefferies, Bloomberg, Everest Capital

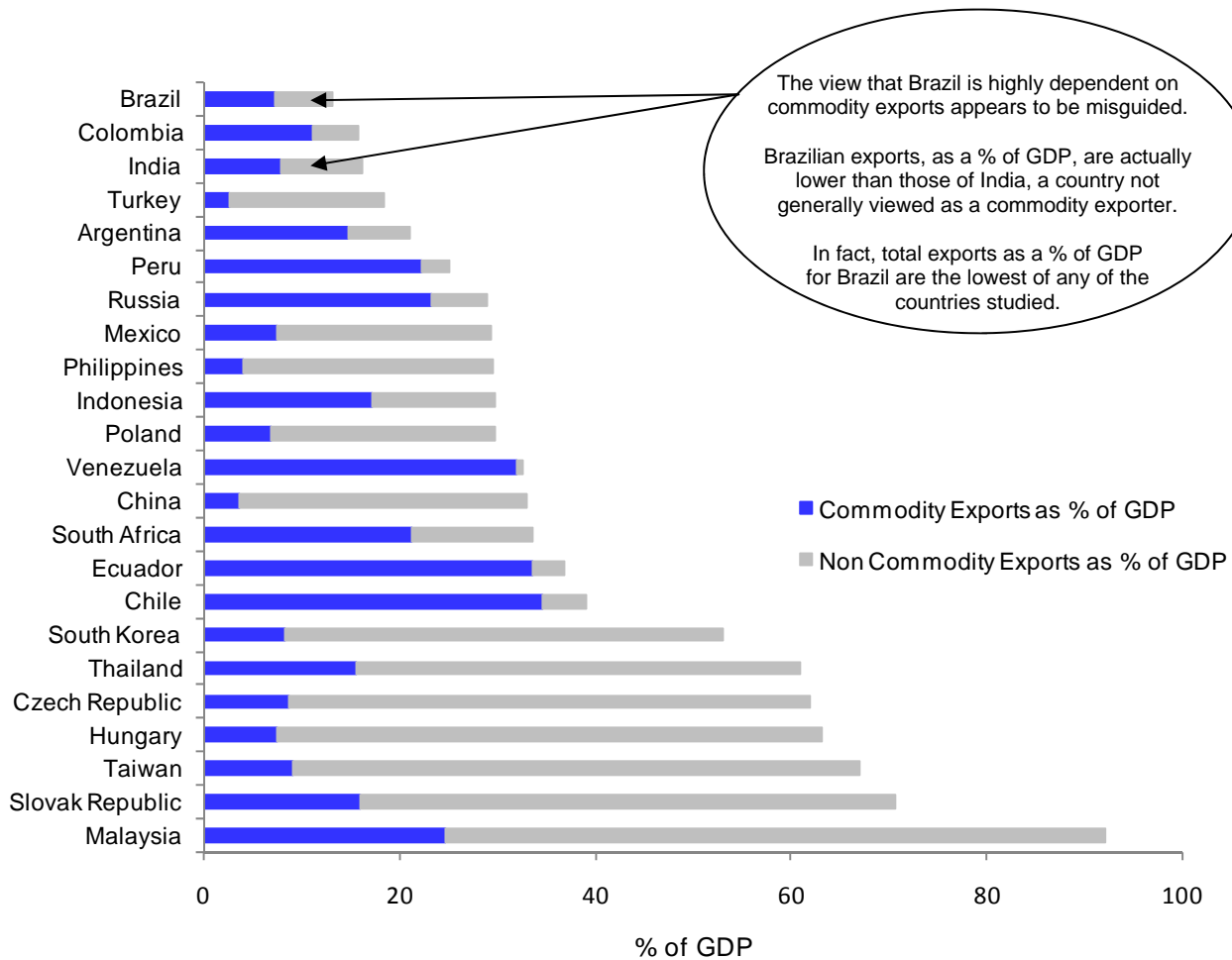
One country worth highlighting is Brazil. We believe that the misconception of the importance of exports to Brazilian economic growth is one of the most pronounced.

Commodity exports as a percentage of GDP are only 7.2%, near the bottom end of the 22 developing country sample used for this analysis.

With total exports as a percentage of GDP at only 13.1%, Brazil ranked the lowest across all emerging markets, and highlights the importance of domestic demand as the driver of GDP growth.

Additionally, record commodity prices in 2007 and 2008 hurt emerging market performance as food and energy price increases pushed inflation higher and forced most central banks to raise rates to combat inflation pressures. This explains the period on the second chart on the prior page when emerging market equities declined while commodity prices continued to skyrocket.

Commodity Exports as % of GDP Surprisingly Low for Commodity-Rich Countries



Source: JPMorgan, Everest Capital

Bottom-Up Fundamental Perspective

The structural improvements so far discussed refer to changes at the macro level. While the top-down perspective might look appealing, that does not necessarily translate to finding attractive individual investment opportunities.

In rising markets, there is a tendency for all participants to be lifted with the momentum as “a rising tide lifts all boats”. In a declining market such as the one we are facing in 2008, momentum also pulls down all equities, some for legitimate reasons and some irrationally and indiscriminately.

After establishing a top-down macro perspective, it is necessary to perform rigorous analysis on individual countries and companies.

In this section, we will focus on how:

- Overall, corporate health has improved, fueled by increased profitability and decreased use of leverage;
- Companies are trading at historically low price-to-earnings and price-to-book ratios; and
- Even after stress-testing, emerging market valuations look compelling; however,
- In-depth fundamental analysis must be performed to separate the winners from the losers.

Improved Corporate Fundamentals: *Emerging Markets Inc.*

Improved corporate health has been fueled by increased profitability with less leverage

In order to ensure that the positive macro improvements discussed earlier are also reflected at the corporate level, it is critical to perform bottom-up fundamental analysis.

We have found in our analysis that:

- Over the past ten years, emerging market companies have produced higher profits with lower leverage, highlighting prudent corporate practices.
- Stronger corporate balance sheets have enabled companies to focus on growth opportunities, in contrast to prior crises where they were focused on financial health.
- Firms' returns on equity have steadily increased over the past decade while debt-to-equity ratios have declined.

As an interim step before analyzing individual corporate entities, we aggregated the financial statements of companies in the MSCI Emerging Markets Index and analyzed their performance as we would an individual company. We dubbed this hypothetical "company" *Emerging Markets Inc.* We believe this is a useful exercise as it allows us to reconcile our views on the asset class and analyze the opportunity as if it were a single stock.

Our analysis shows that *Emerging Markets Inc.* continues to post strong earnings growth, at a five-year annualized growth rate (from 2003-2008) of 24.1%, driven by higher revenue and slight margin expansion. This strong performance builds on the results of the previous five-year period we originally analyzed in 2004. In the period 1998-2003, earnings grew at an annualized pace of just over 20%.

We believe that *Emerging Markets Inc.* is in a stronger financial condition than it was just five years ago and markedly better than in 1998.

Strong Financial Performance Highlights Better Corporate Practices

Emerging Markets Inc. Aggregate Financials (US\$ billions)

	<u>2003</u>	<u>2008e</u>	<u>5-Yr CAGR</u>
Revenue	493.3	1,313.5	21.6%
EBITDA	114.0	275.2	19.3%
Net Income	48.9	144.2	24.1%
Net Debt	129.4	155.9	
Net Debt-to-EBITDA Ratio	1.14	0.57	

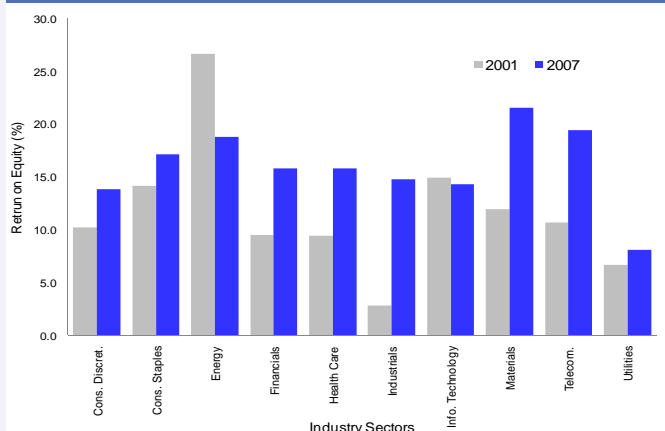
Note: *Emerging Markets Inc.* comprises the aggregated financial statements for 85% of the market cap of the MSCI Emerging Markets Index (ex-Financials)
Source: UBS, Everest Capital

Analyzing the three crises of 1994-1995, 1997-1999 and 2001-2002, we applied similar effects on long-term EPS growth and leverage ratios to *Emerging Markets Inc.* Assuming a similar average decline in EPS of approximately 35%, which we think may prove overly aggressive, the five-year annualized growth for *Emerging Markets Inc.* would still remain in double digits at 10% and the net debt-to-EBITDA ratio would only rise to less than 1x. This relatively strong balance sheet position is still below 2003 levels and well below the levels experienced in 1998. We further stress-tested our assumptions to determine how they affect valuations; the results can be found in the section, “Stress-Testing Our Valuation Assumptions”, later in this paper.

In addition, while simultaneously and significantly reducing their net debt-to-equity ratios, emerging market companies were able to double their profitability, in terms of ROE, over the last ten years. The importance of this crisscross bears reiterating: emerging market companies were able to continue to grow revenues and profits over the last ten years while deleveraging their balance sheets.

Entering the current period of slower global growth, *Emerging Markets Inc.* is in a stronger financial position, with higher ROEs and lower leverage, than many

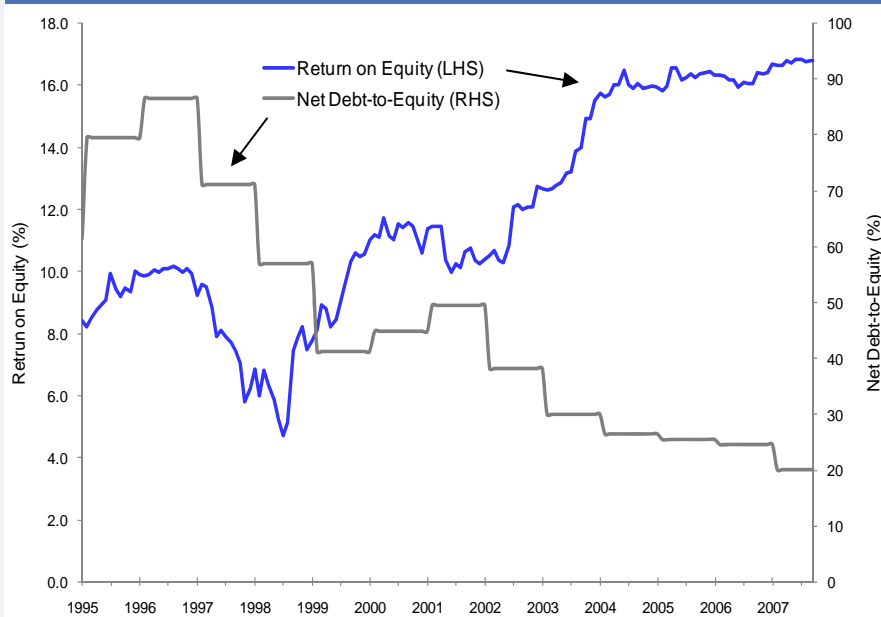
Broad-based Sector Improvement for Emerging Market Companies (2001 to 2007)



Source: MSCI, FacSet, Morgan Stanley, Everest Capital

developed market corporations and financial institutions. This strong balance also suggests that these companies are in a better position to focus on growth opportunities rather than on balance sheet weakness and also may be able to sustain relatively higher ROEs by possibly increasing leverage.

Emerging Market Companies Doubled Profitability While Reducing Leverage



Source: MSCI, Morgan Stanley, Everest Capital

Notwithstanding what was said in the previous section on commodities, it is true that the ROEs in some developing market companies have improved because of the direct effect of higher commodity prices and the high commodity exposure of emerging markets in general. However, it is worth noting that the improvement in ROEs has been broad-based, with eight of the ten MSCI sectors showing higher ROEs in 2007 versus 2001. In fact, the two sectors that actually displayed a deterioration of ROE over this period were Information Technology and, most surprisingly, Energy.

Absolute Valuations Are At Very Low Levels

Emerging market equities have been significantly oversold

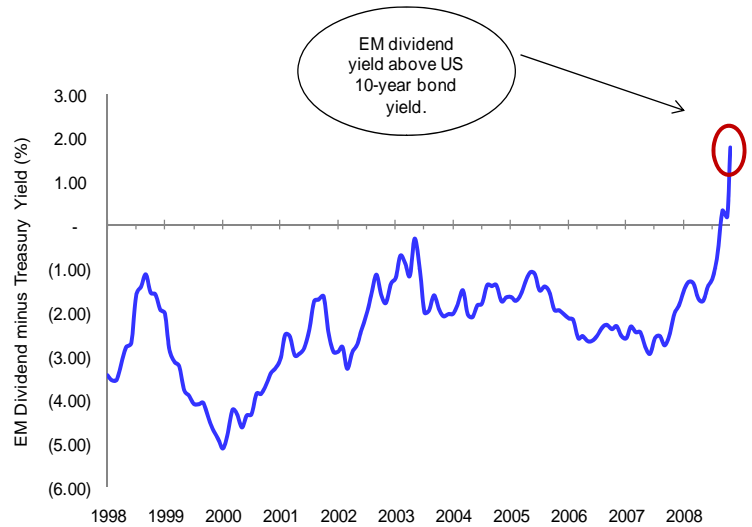
Clearly, the recent market sell-offs do not reflect the sharply improved fundamentals from a bottom-up perspective, nor do they take into account the attractive long-term secular growth story.

Even with earnings growth at 24.1% over the past five years and a significantly stronger balance sheet, *Emerging Markets Inc.* is trading at only a single digit P/E ratio.

Given the fundamentals presented in the preceding pages, the conclusions of the following charts are astonishing: emerging markets are currently trading at their lowest valuations in history and at almost a 60% discount to their long-term average P/E.

From a price-to-book perspective, equities are significantly undervalued. From a ratio of over 3.0 in October 2007, companies are now valued at close to 1.0 just 12 months later.

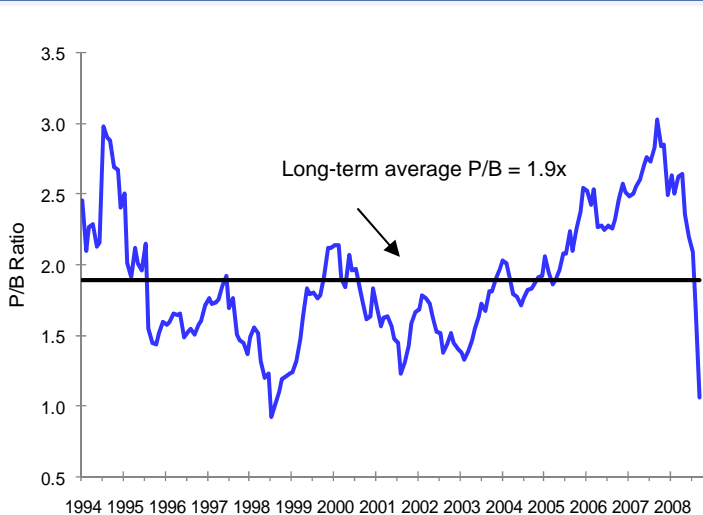
Emerging Markets Dividend Yield vs. US Treasury 10-year Bond Yield



Source: MSCI, Bloomberg, Everest Capital

The last time valuations were as low as this was in August 1998 in the midst of the Russian crisis. However, ROEs at that time were in the mid-7%*s*, whereas in October 2008 they were in the high 16%*s*, at all-time highs.

Lowest P/B Since 1998 Despite a Doubling of ROE over the Past 5 and 10 Years



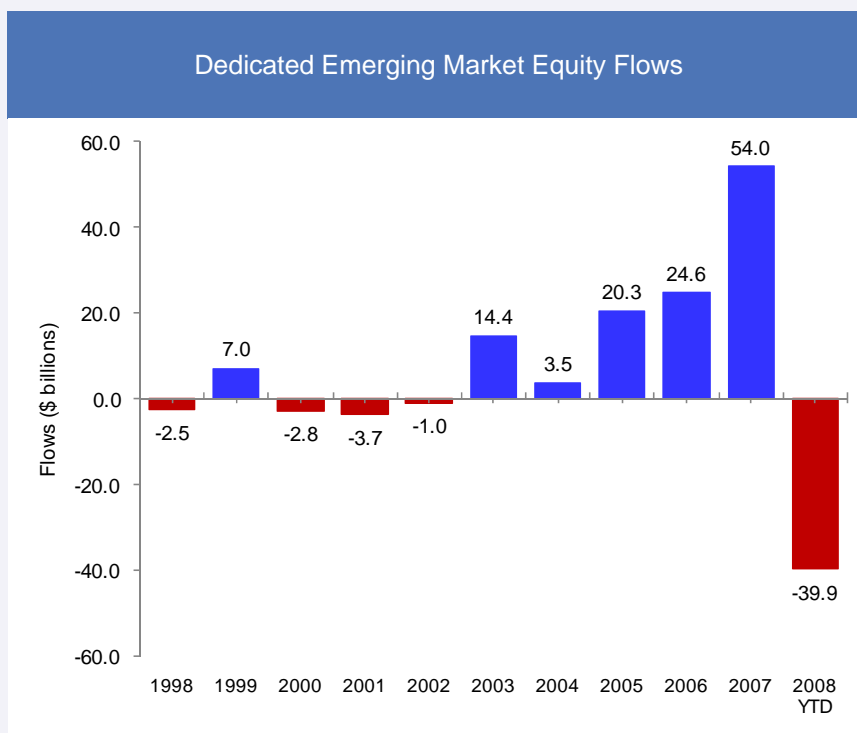
Source: MSCI, Bloomberg, Everest Capital

Given the low levels at which emerging market equities are being valued, we compared their dividend yields versus the yields of 10-year US Treasury bonds.

Remarkably, for the first time ever, emerging market equity dividend yields were higher than those of 10-year Treasury bonds.

We believe that the sell-off in emerging markets is much less associated with fundamental issues or legitimate long-term concerns than with redemptions and forced liquidations.

Through mid-October, year-to-date 2008 outflows from dedicated emerging market equity funds totaled nearly \$40 billion, equal to over one-third of the total cumulative inflows over the prior five-year period. We believe that the level of redemptions during this current financial crisis exceeds what an expectation of weaker fundamentals would warrant and does not reflect efficient capital allocation.



Note: 2008 YTD is through October 15 2008
 Source: Merrill Lynch, Everest Capital

Current Valuations Offer An Attractive Entry Point

Emerging market equities are poised to double in the next 3-5 years

Similar to the process we followed in analyzing corporate fundamentals and the profitability of *Emerging Markets Inc.*, we created a scenario to determine the upside potential for emerging market equities, proxied by the MSCI Emerging Markets Index.

We started by first projecting earnings over the next five years. For 2009, we estimated a decline of 35% in earnings for emerging markets, consistent with the EPS downgrades experienced in the three crises of 1994-1995, 1997-1999 and 2001-2002. We then assumed a return to a conservative long-term earnings growth of 15% for the following four years (recall that *Emerging Markets Inc.* has increased earnings at greater than 20% over the last ten years).

Next, we applied trailing P/E multiples to our earnings estimates for five years to project potential upside for emerging market equities. We applied a 12x

trailing P/E multiple for two reasons: 1) this multiple is approximately the average of the two previous valuation troughs (as can be seen on the next page), and 2) this is the multiple after applying a 25% discount to the long-term (15-year) average P/E multiple of 16.7x. To be conservative, we have not built in any significant upside re-rating from the trough earnings levels of 10.8x.

Finally, we multiplied the five-year earnings expectations with the P/E multiple to determine an expected future level of emerging market equities.

Emerging market equities would double over the next five years with limited re-rating of multiples.

If we had assumed a re-rating of 12-month trailing P/E multiples back to their long-term average within the next three years, emerging market equities could double even sooner, within three years.

Upside Potential of 100% Within Five Years
Based On Bottom-Up Driven EPS Calculations With Conservative Assumptions

	EPS Estimates (\$)					
	<u>2008 Peak*</u>	<u>2009**</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Everest Capital estimates	79.5	51.7	59.4	68.3	78.6	90.4
Consensus Estimate for 2009 *** (Well above Everest Capital estimate)		90.4				
At 12x Trailing P/E (Slightly greater than 25% discount to long-term average)						12x
MSCI Emerging Markets Index: 2013 estimate						1,085
MSCI Emerging Markets Index: 2008 (Nov. 14)						490
We expect the MSCI index to increase						122%

* Peak in trailing earnings occurred in July 2008

** Everest Capital assumes a 35% decline in earnings from peak to trough by year-end 2009

*** I/B/E/S aggregate bottom-up estimate, by coincidence the same as our 2013 eps estimate in this illustration

Stress-Testing Our Valuation Assumptions

Emerging market equity valuations remain compelling even after assuming sharply reduced earnings and profitability

In the previous section we highlighted valuations on both a trailing and forward-looking basis; in both cases, they appear highly attractive. Given the severity of the economic downturn we have experienced, to date, we also stress-tested those valuations to include expectations that earnings estimates will decline further in 2009 and that the return on equity will return to its long-term average.

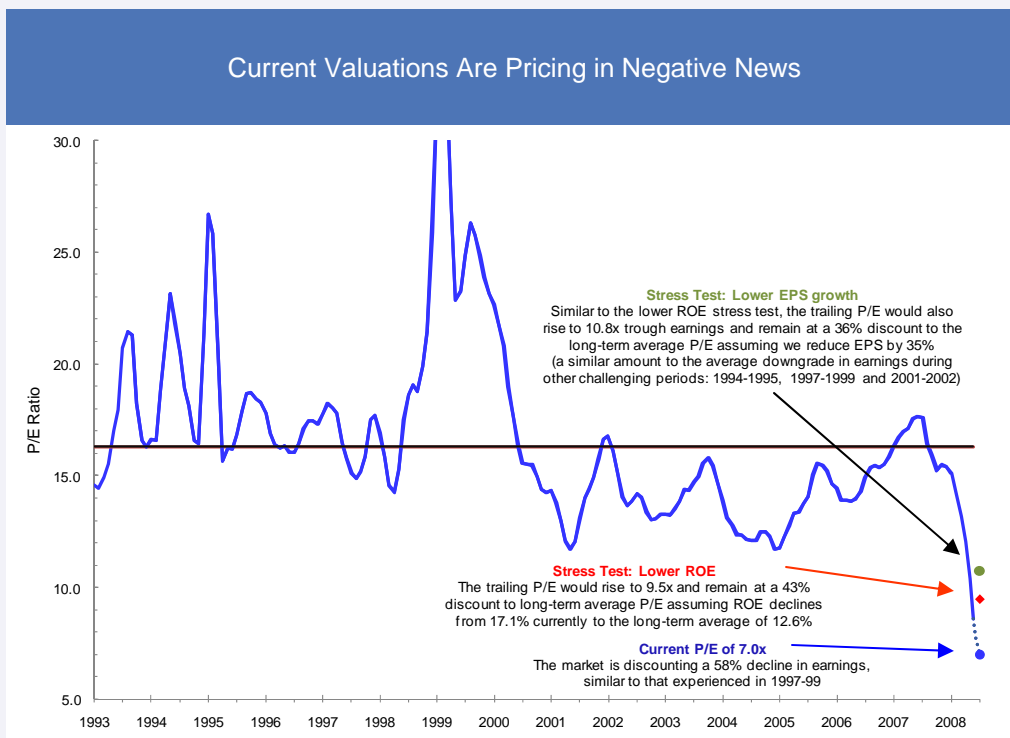
Valuation stress-test: *Lower ROEs*

- After reducing the ROE from the current level of nearly 17% to the long-term average of 12%, and using the conservative trailing twelve-month book value of emerging markets, the trailing P/E ratio for the asset class would increase to 9.5x, a still compelling 43% discount to the long-term average of 16.7x.

Valuation stress-test: *Lower EPS growth*

- We reduced 2009 EPS estimates by 35%, similar to the EPS downgrades experienced in 1994-1995, 1997-1999 and 2001-2002. As a result, the P/E ratio rose to 10.8x, a discount of 36% to the long-term average. Investors are already pricing in a decline in EPS of nearly 60%, as much as that which occurred in the 1997-99 emerging markets crisis (a period that included the Asian, Russian and Brazil crises, as well as the failure of Long-Term Capital Management). Given the positive changes that have occurred in the past five to ten years, we believe a more realistic worst-case scenario would be closer to a 35% decline in EPS.

Whether we sharply reduce profitability due to the slowdown in global growth or reduce earnings expectations by 35%, we believe that current levels make an attractive long-term entry point.



Source: MSCI, Bloomberg, Morgan Stanley, Everest Capital

How to Best Take Advantage of Improving Fundamentals: Multi-Asset Class Investing

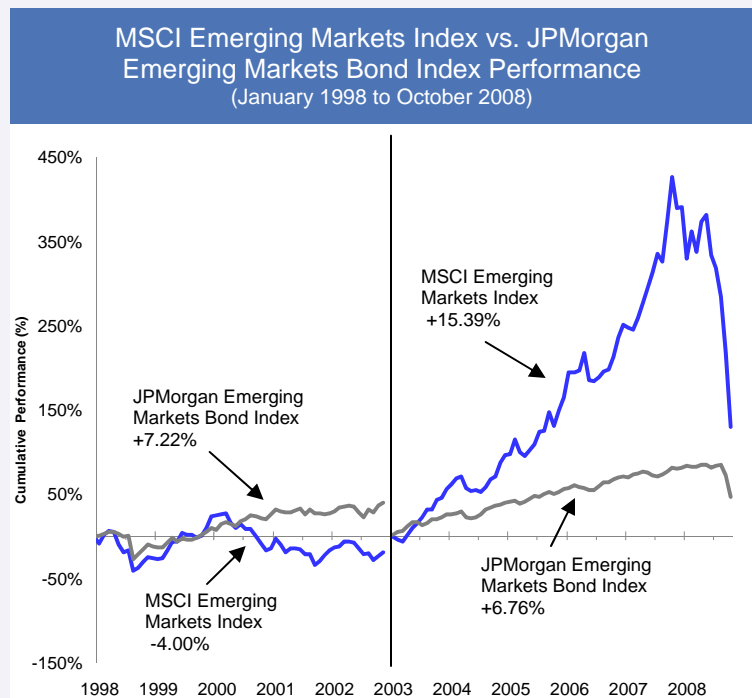
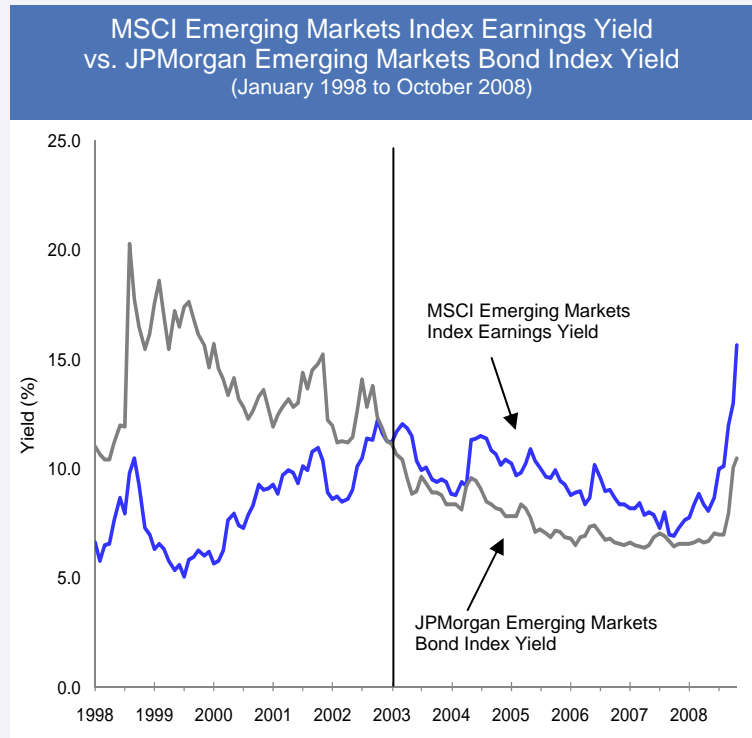
We believe that emerging market equities are poised to outperform emerging market bonds over the coming cycle

When we published our first white paper on emerging markets in early 2004, we stressed that we expected emerging market equities to outperform emerging market debt and developed market equities. That has been the case for the past five years (through October 2008). Emerging market equities returned an annualized 15.9% versus 8.5% for developed market equities and 7.5% for emerging market debt during that period. We expect that emerging market equities will continue to provide the best opportunity for the foreseeable future. But this relationship has not always been the case.

The top graph plots the yield of the JPMorgan Emerging Market Bond Index against the earnings yield for the MSCI Emerging Markets Index. Since 2003, the blue line (equity yields) was higher than the grey line (bond yields), whereas prior to that, the relationship was reversed. While both equity and bond yields have increased over the past few months, the spread between the two has widened sharply, suggesting that equities are increasingly more attractive.

The bottom graph points to where the best opportunities in emerging markets have been over the past ten years. Bonds were more attractive prior to 2003 (solid vertical line) and successful multi-asset class emerging markets portfolios would have reflected that relative valuation opportunity. However, since 2003, when the bond yield sank below the earnings yield, equities have been a more attractive investment than bonds.

This relationship is depicted very clearly in the performance chart and shows how annualized returns for equities outperformed bonds since 2003, having underperformed for the prior five years.



Source: MSCI, JPMorgan, Bloomberg, Everest Capital

How to Best Take Advantage of Improving Fundamentals: Rigorous Analysis Crucial

Selecting winners and losers requires fundamental analysis at the country and company level

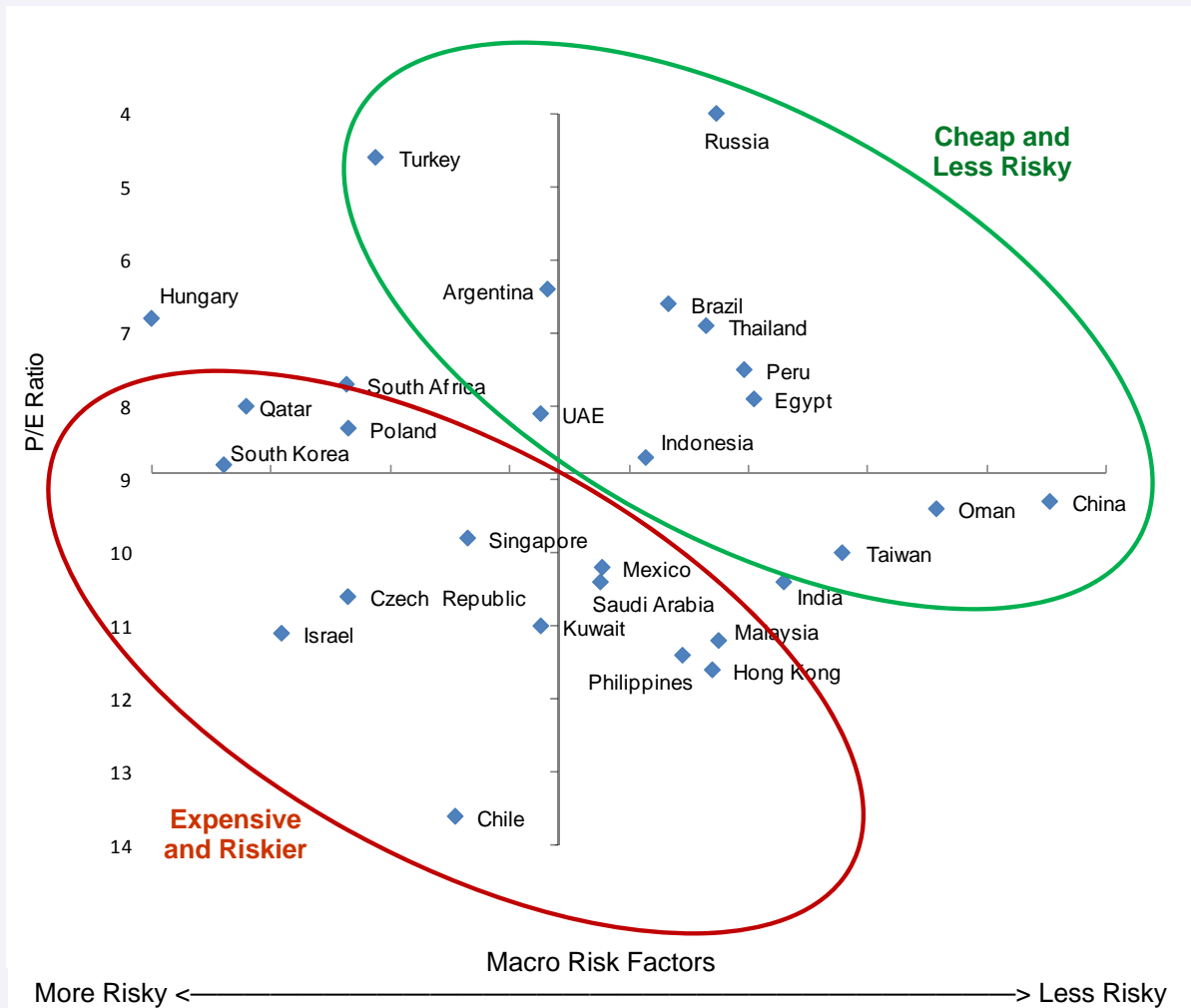
As global financial market turmoil subsides and investor capital again looks for the most attractive risk-adjusted return opportunities, we would expect to see a greater differential in country-by-country returns in emerging markets. Regional and country-specific differences exist, and individual equities offer vastly different risk-return profiles which affect their attractiveness to investors.

To illustrate that all opportunities are not woven from the same cloth, we plotted 28 countries using P/E ratios on the vertical axis versus a mix of fundamental macro-economic risk factors on the horizontal axis

(these risk parameters, compiled by UBS, are a combination of fiscal, monetary and external factors).

The top right quadrant indicates countries with relatively low P/E ratios and relatively low macro risk factors (less expensive and less risky) whereas those in the bottom left are more expensive and riskier. The intersection of the four quadrants marks the average P/E ratio and riskiness rating.

In our opinion, we believe that investing in emerging markets remains compelling and will result in superior returns for investors. Yet, while we are positive on the



Note: P/Es as of October 31 2008
Source: UBS, Everest Capital

prospects for emerging markets going forward, the obvious conclusion one can make from this chart is that not all countries, or the companies that comprise them, offer the same risk-return parameters. Those in the green circle (top right) appear to offer better investment opportunities than those in the red (lower left).

As an example of the opportunities highlighted by the chart, Hungary and Brazil are both trading at similar valuation multiples while their expected risk parameters are markedly different. This would suggest, on the surface at least, that Brazil is a more attractive investment opportunity versus Hungary from a top-down perspective. In order to further support or negate that hypothesis, we would then perform rigorous fundamental research on individual Brazilian companies.

Risks

Clearly there are risks to our favorable case for emerging markets. Some of these include:

An implosion of the global financial system causing a systemic collapse in credit availability and long-term deterioration in economic growth trends

The crisis in credit and financial markets will undoubtedly cause developed economies to operate well below potential for some time. As stock market declines have demonstrated in 2008, investors have also not supported the notion that emerging markets have substantially decoupled from developed markets and would be able to insulate themselves from the credit-induced slowdown in the US and Europe. While it is clear that growth in China and across Asia is slowing, one must note that it is slowing from very rapid rates that developed countries have not experienced in decades. With growth in the developed markets falling to zero and even contracting in the short term, we believe that emerging economies' domestic demand and intra-emerging market trade will act to cushion the slowdown and will support their continued (albeit lower) GDP growth.

Monetary tightening by the US and within emerging markets

Increasing rates and removing liquidity when economies are already under extreme pressure seems unlikely, although protecting their currencies may be the focus of some central banks. Headline inflation pressures look set to abate as the weakening global economy keeps commodity prices weak compared to recent elevated levels, allowing governments the flexibility to loosen their monetary purse-strings above and beyond their extraordinary and unprecedented intervention in the second half of 2008.

Change in government policies globally towards increased protectionism

Particularly in times of economic contraction and higher unemployment, there is a tendency to promote populist agendas to protect workers at home. With countries facing a protracted economic downturn, higher tariffs, increased subsidies and other protectionist actions may become more popular.

Heightened geo-political risks (e.g. Russia, China, Iran)

It is not unlikely that there will be some level of damaging geo-political action occurring over the next few years, whether it be another incursion by Russia into a neighboring state or a military confrontation in the Middle East. What we do believe is unlikely is some act that causes not just market declines, but whose consequences are highly negative, potentially destabilizing and involve a wide array of nations.

We believe that in addition to what has been written herein, other secular changes will help to spur a re-rating of the asset class and help offset these risks. They include:

- improved corporate governance
- the emergence of sovereign wealth funds
- the change in emerging countries' domestic investor base
- pension fund reform
- the continued importance of China to the global economy

Conclusion

With today's global market turmoil, it is easy to invest close to home and reject positive fundamentals in other asset classes and regions. Emerging markets continue to benefit from positive secular and cyclical drivers, and the strength of their economies is in stark contrast to the historical view of just a decade ago.

Investors, however, have reacted by pulling 35% of the past five years of emerging market investments out of dedicated emerging markets funds so far in 2008. While increased global risks support a cautious stance, we believe investor portfolios would benefit from emerging market exposure, and ignoring or underweighting this region is detrimental to an investor's ability to outperform over the long term.

Key factors that support our positive view of emerging markets include:

Improved economic fundamentals provide a strong platform from which emerging markets will be able to weather the current global market turmoil, and they will support the next leg of long-term growth.

Companies continue to produce stronger fundamentals by increasing revenues and net income while deleveraging their balance sheets.

The current sell-off in emerging markets reflects fear, forced liquidations and a search for liquidity at any cost, rather than fundamentals.

Equity valuations have hit all-time lows, providing attractive opportunities for long-term returns.

Beyond their attractiveness as an asset class, emerging markets are not homogenous, and additional profits can be made by successfully investing in the best-performing countries.

As outlined in this report, there are risks to our bullish outlook. Some of these scenarios may occur to some

degree but it is unlikely that enough will occur simultaneously to cause a further freefall in emerging market prices. The current sell-off and all-time low valuations do not reflect the improved top-down and bottom-up fundamentals of emerging markets, and current levels provide a very attractive investment entry point.

We believe that investors who capitalize on the current opportunities in emerging market equities will likely outperform those investing in developed market equities and emerging market debt over the mid- to long-term.

Appendix

Population and Demographics

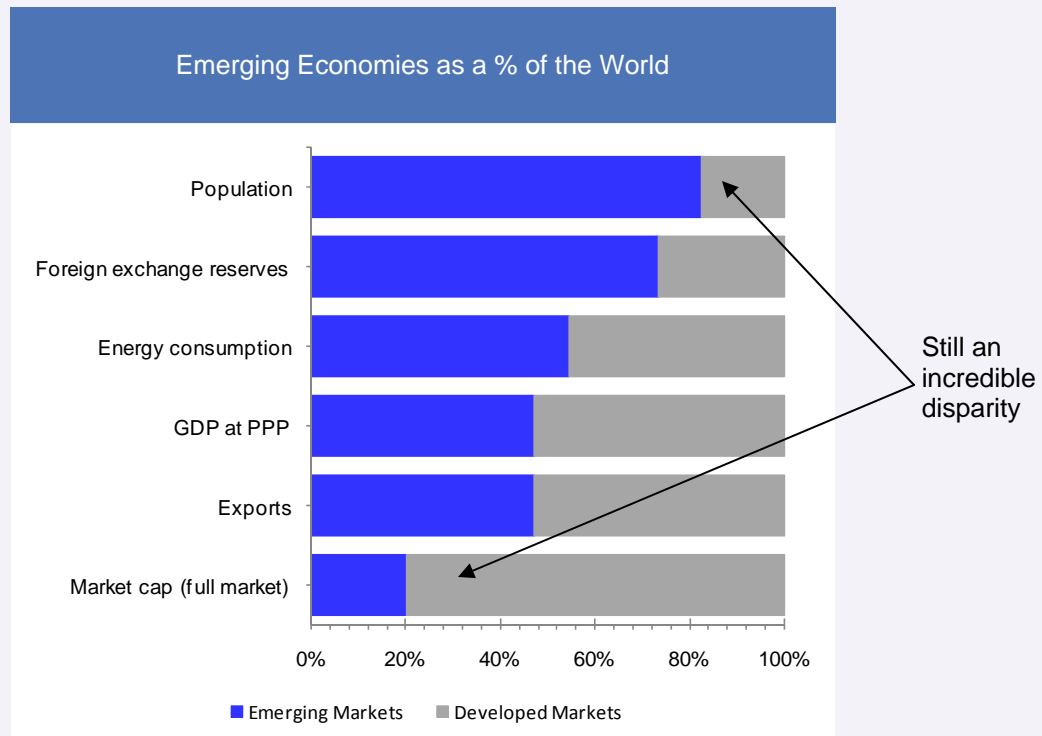
To put the emerging markets discussion in context, we thought it would be useful to provide some benchmark data. We believe that the key top-down themes driving the long-term outperformance of emerging markets remain firmly intact, and as the chart below illustrates, the secular opportunities inherent in emerging markets continue to be significant:

- Emerging markets, while home to 83% of the world's population, generate 47% of global GDP and yet account for just 20% of the world's market capitalization.
- Meanwhile, at 73% of the world's total, emerging market foreign exchange reserves account for approximately three times that of developed markets.

We believe that continued positive fundamentals will lead to a re-rating of emerging market equities whose percentage of global market capitalization will increase to a level more consistent with emerging markets' contribution to global GDP.

Emerging market labor growth continues to outpace that of developed markets and not only supports continued lower-cost global outsourcing trends but is also critical to increasing domestic demand. In addition, the urbanization of emerging market populations is also requiring a substantial build-out of basic infrastructure (such as power, water, roads) that further supports the growth story.

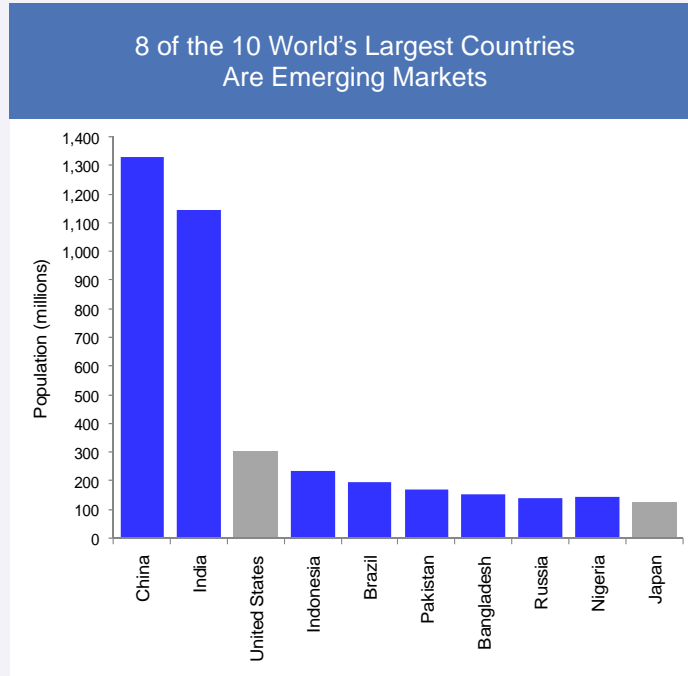
- The labor force in emerging market countries has expanded four-fold over the last 50 years and is now more than 3½ times the size of the developed market labor force.
- In the 20 years from 2005 to 2025, the emerging market labor force will increase by the size of the entire developed market labor force.
- Of the 22 cities projected to have populations exceeding ten million by 2015, 18 are located in emerging markets; emerging market cities are



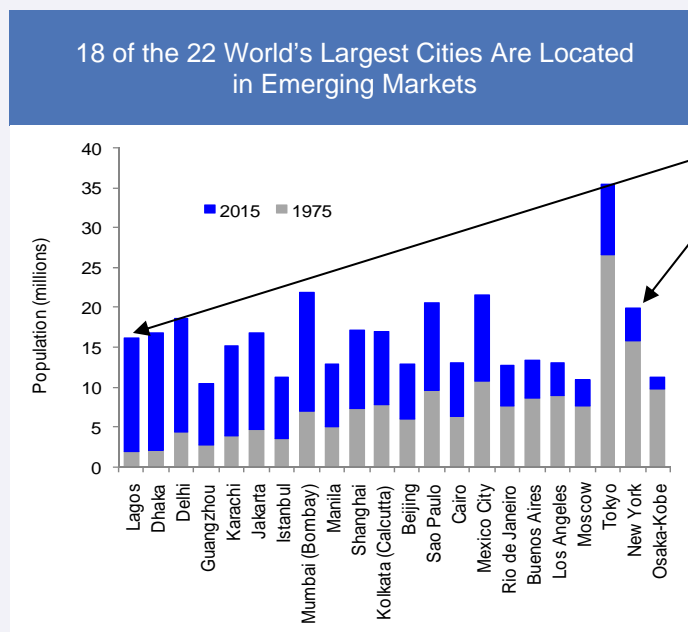
Source: Merrill Lynch, Everest Capital

projected to grow by 20% compared to 3% for the developed market cities within the 10-year period from 2005 to 2015.

- Of the top ten most populous countries in the world, all but two (the US and Japan) are emerging markets.



Source: US Census Bureau, Everest Capital




Source: Morgan Stanley, United Nations, Everest Capital

The population of Lagos is expected to grow eight-fold from 1975 to 16 million people by 2015, compared to New York, which is expected to grow just 25% over the same 30 year period

Notes





This report shall not constitute an offer of interests in any Everest Capital funds which may only be made pursuant to applicable Confidential Explanatory Memoranda and related subscription agreements. This report is not intended for public use or distribution. Not all products and services are available in all locations, and not all investments are suitable for all investors.

All expressions of opinion included herein are subject to change without notice and are not intended to be a guarantee of future events.

The opinions and data in this report have been obtained from sources believed to be reliable; Everest Capital does not warrant the accuracy or completeness of such, and accepts no liability for any direct or consequential losses arising from its use.

© Copyright 2008, Everest Capital Limited. The marks EVEREST CAPITAL and the Everest Capital logos, including THE GLOBAL ALTERNATIVE, are either registered service marks, or service marks, of Everest Capital Limited that are protected under the laws of the United States, the United Kingdom and jurisdictions throughout the world.



Everest Capital Limited
65 Front Street, 6th Floor
Hamilton HM 12
Bermuda
Tel: +1-441-292-2200
info@evcap.bm

Everest Capital Inc.
2601 South Bayshore Drive
Suite 1700
Miami, Florida 33133
USA
Tel: +1-305-666-1700
info@evcap.com

Everest Capital Pte Ltd.
61 Robinson Road
#11-01A Robinson Centre
Singapore 068893
Tel: +65-6238-8000
info@evcap.com.sg

Everest Capital S.A.
Route de Genève 7
CH-1291 Commugny/Geneva
Switzerland
Tel: +41-22-789-4000
info@evcap.ch