

Emerging Markets - a powerhouse for the future?

The launch of **Prisma**, Zurich Life's fund platform, focuses attention on the building of risk rated portfolios for your clients. In constructing a portfolio, diversification across asset classes has become more and more essential to ensure that clients investments are given the best opportunity for growth.

A recent addition to the **Prisma Platform** is the Emerging Market Equity Fund from Aberdeen Asset Management. Emerging market equities have delivered excellent returns over the last decade and we asked Jon Dawson of Aberdeen Asset Management to explain why.

Emerging Market economies (such as Brazil, India, China and Mexico) have been growing at a fast pace in recent years. With the opening of global trade, they have evolved from low cost locations for foreign manufacturers to become valuable producers and markets in their own right. Many are home to leaders in fields as diverse as consumer electronics, semi-conductors, aircraft manufacturing and shipbuilding.

While access to cheap labour and commodities has been fundamental to their success, an emphasis on technology and design is helping many companies penetrate new markets. At Aberdeen Asset Management, we have a well-resourced research capability to unlock opportunities across global emerging markets (GEMs).

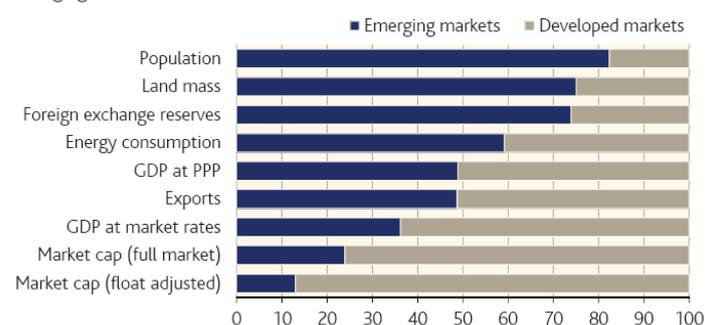
A positive long-term outlook for GEMs

Compared with the more traditional developed market economies, GEMs represent more than two-thirds of the world's population, land-mass and its foreign exchange reserves and one-third of its GDP, yet they account for only 13% of world equity by market capitalisation. While we think that this under-representation will narrow over time, it is clear that the potential for growth is exceptional over the medium to long-term, thereby creating plentiful opportunities for investors.

Key Drivers

1. GEMs are under-represented

Emerging economies as % of total world

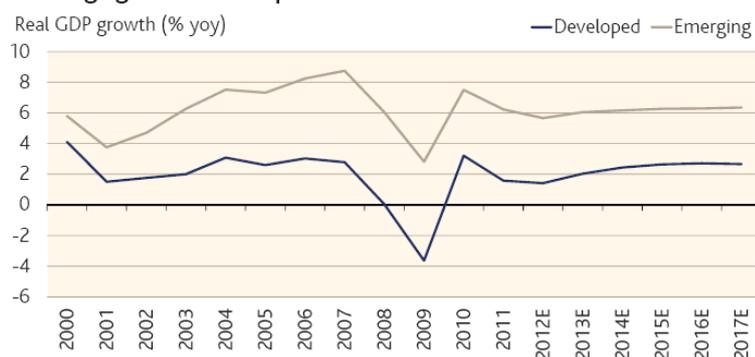


Source: BofA Merrill Lynch Global Equity Strategy, BP, CIA World Factbook, IMF World Economic Outlook, MSCI, Apr 12

Emerging economies - the new powerhouse of the world?

While GEMs were by no means immune to the global recession, they have less debt than developed nations which has helped their recovery. With better external and fiscal balances, emerging economies recovered more strongly than their developed counterparts and this phenomenon continues; we see growth in emerging economies outpacing that in developed economies. Economic reform has also been a great help: the adoption of prudent fiscal and monetary policies by governments has fostered stability and growth.

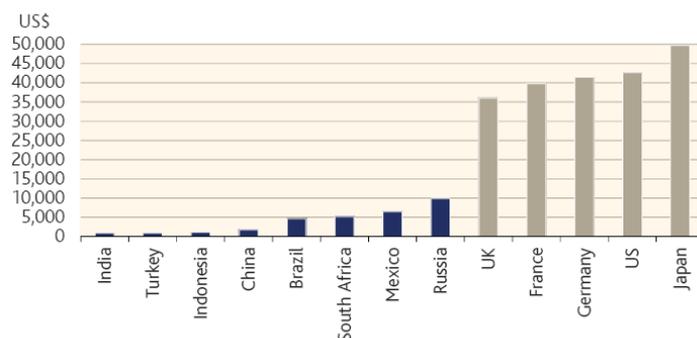
2. Emerging versus Developed GDP



Source: IMF, World Economic Outlook Database, Apr 12

The positive story for GEMs is also supported when we look at levels of wealth, as measured by GDP per head. These are still very low in emerging markets, with the fact that China and India are still playing catch up with the developed world. This will provide an engine for growth for several decades.

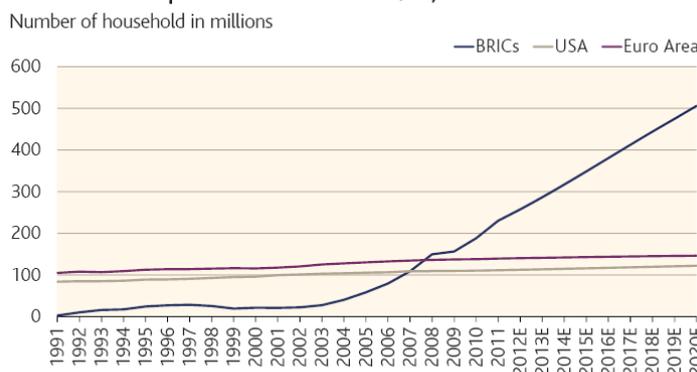
3. GDP Per Capita



Source: IMF, World Economic Outlook Database, Apr 12

In fact, when one looks at the BRIC (Brazil, Russia, India, and China) economies, the number of households with a disposable income of over US\$10,000 has surpassed that in developed economies and is expected to continue its exponential growth over the next few years. Greater job opportunities, low debt levels and rising wages are raising spending among an urban middle class, hungry for success.

4. Household Disposable Income over US\$10,000



Source: Morgan Stanley Research, Apr 12

Aberdeen - our investment approach

Pioneers in GEM market investing; our asset managers are based in the regions where we invest. We have a team approach where decisions are made collectively – we don't believe in 'star' fund managers. Company due diligence and original research are at the core of everything we do. We believe that our success lies in a consistent approach, irrespective of market conditions – in fact we never chase fads or fashions.

We have a long-term outlook the investments we make in the fund and our investment philosophy is simple. We will buy and hold, add on price dips and take profits on price rises. We always keep our portfolios focused and we have a high conviction in our stock choices. We will always meet company management before we invest and we pay little attention to consensus, peer groups or benchmarks. In fact, if we don't like the company, we won't own it!

The long-term economic indicators and investment fundamentals suggest that emerging markets are an asset class that certainly warrant closer inspection. While not suitable for all investors, a percentage allocation to this satellite asset class could add an element of diversification to a client's portfolio and the Prisma Portfolio Builder will allow you to construct a tailored, diversified portfolio for your client.

For more information on how the Emerging Market Equity story could form part of your clients' investment portfolios, just speak to your Zurich Life Broker Consultant.

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