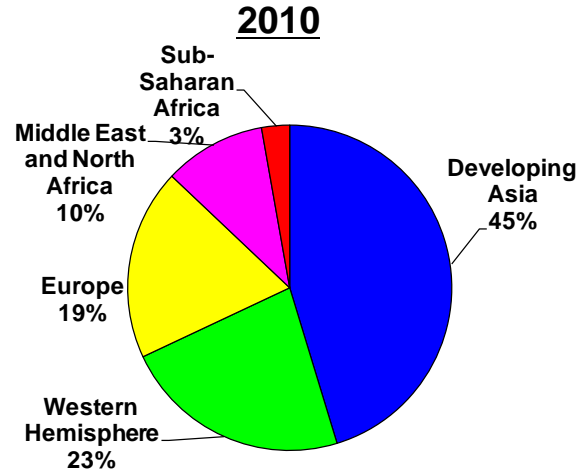
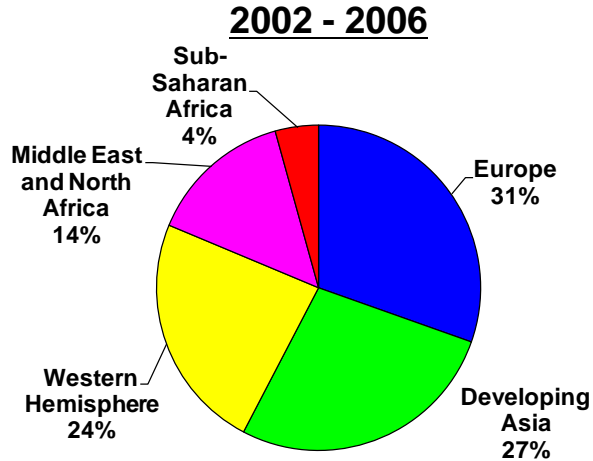


Investing in Asia

Tuesday, May 3, 2011

8:00 AM - 9:15 AM

Capital raised: Developing Asia attracts the greatest funding after the crisis



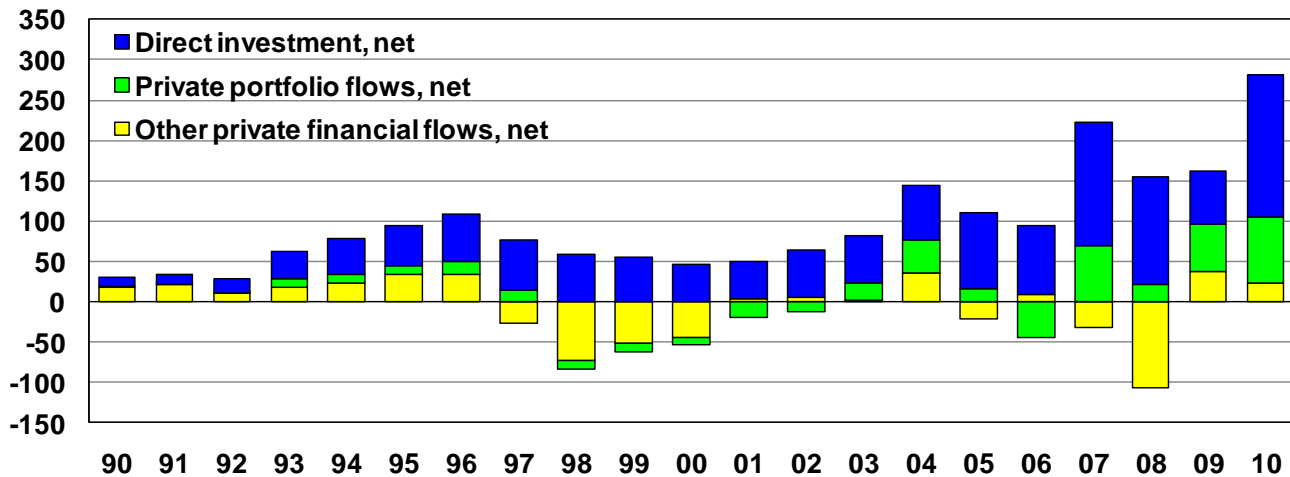
Too much liquidity, again?

Foreign investments in developing Asia



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US\$ billions



Source: IMF WEO database 2011.

Growth rate of value-added, 2010

Top 10 performers among ADB's developing members



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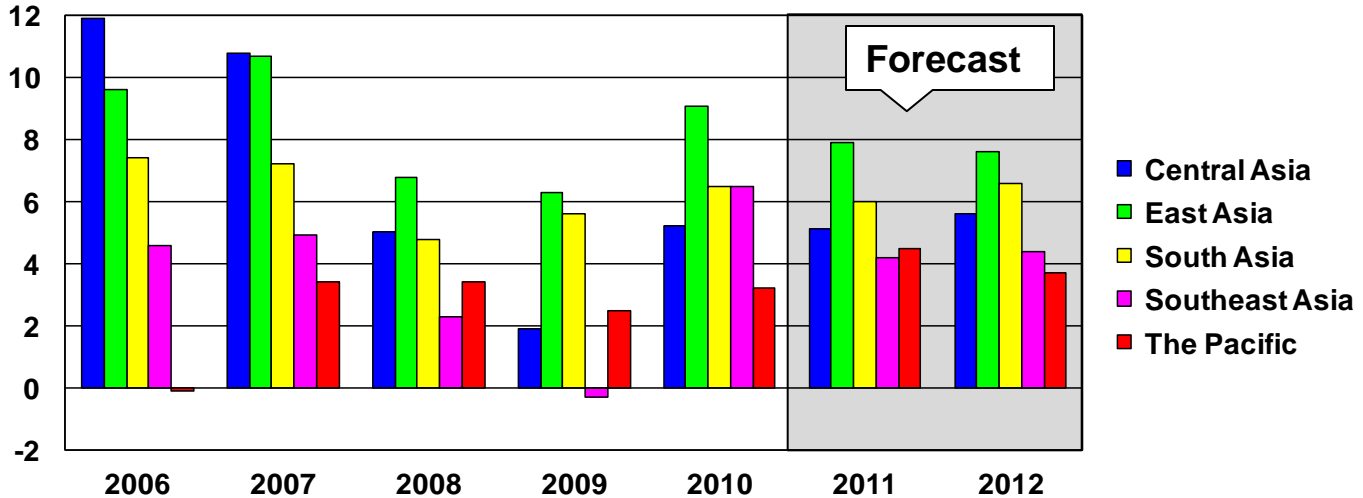
Industry			Services		
Country	Growth rate (%)	Sector share, 2009 (%)	Country	Growth rate (%)	Sector share, 2009 (%)
Singapore	25.1	30.4	Uzbekistan	11.6	31.7
Taiwan	24.2	32.1	Timor-Leste	11.6	56.1
Timor-Leste	21.6	13.1	Afghanistan	11.0	47.6
Laos	18.0	25.0	Singapore	10.1	69.5
Thailand	12.8	46.6	India	9.6	57.5
China	12.2	58.7	China	9.5	32.6
Philippines	12.1	32.1	Bhutan	9.1	37.4
Cambodia	11.6	26.8	Papua New Guinea	8.5	28.8
South Korea	11.1	37.9	Indonesia	8.4	44.7
Georgia	9.7	26.0	Sri Lanka	7.6	59.3

Source: Asian Development Bank Outlook 2011.

Growth rate of real per capita GDP in developing Asia



Percent



Rise of middle class in developing Asia

1990 vs. 2008



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	Population (%)			Aggregate annual income/expenditures (US\$ billions)		
	1990	2008	Difference	1990	2008	Difference
Poor (<\$2/person/day)	69%	17%	-52%	765	315	-450
Middle (\$2-\$20/person/day)	31%	82%	51%	1,102	4,924	3,822
Rich (>\$20/person/day)	0%	1%	1%	86	551	465

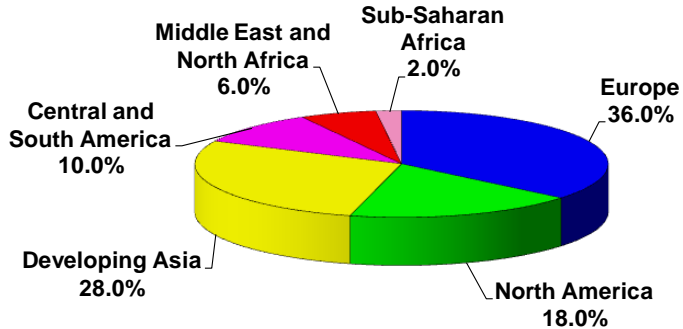
Sources: Asian Development Bank, World Development Indicators, PovcalNet Database, UNU-WIDER.

Share of different world regions in global middle class, 2009

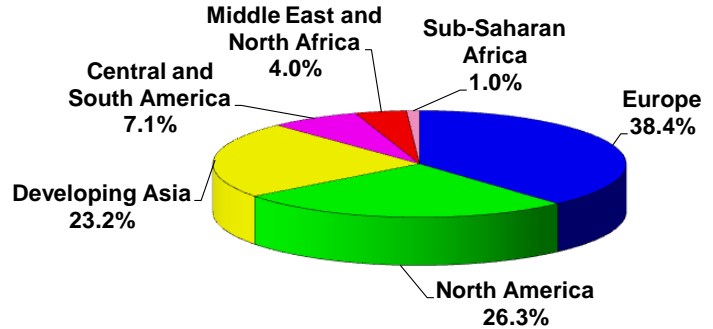


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Population



Consumption



Source: Homi Kharas, "The Emerging Middle Class in Developing Countries," OECD working papers.

Attitudes toward luxury brands

A survey of China's middle class, 2006



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Attitudes were overwhelmingly positive:

- Owners of luxury brands were regarded as being successful and having good taste.
- Very few regarded owners of luxury brands as “superficial.”
- Many longed to buy luxury goods, even if they could not afford them at present.

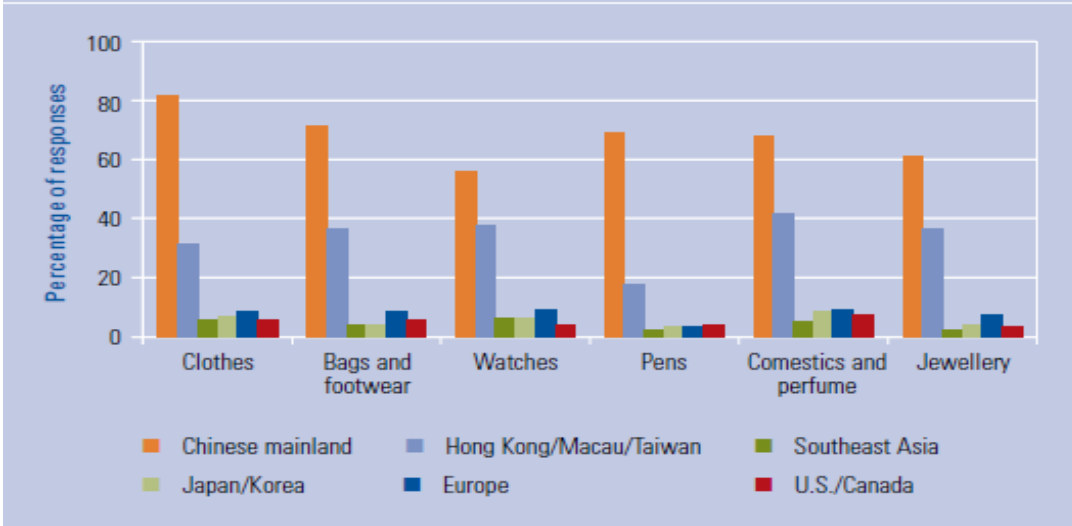
Most luxuries were domestically purchased

A survey of China's middle class, 2006



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Figure 7: Location of luxury purchases in past year



Sources: KPMG, TNS.

Asset Portfolios and Debt Patterns, China

% of households in each income group owning each asset type



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Income per person per day	Bank savings	Corporate bonds	Life insurance	Stocks	Investments trusts	Foreign currency deposits	Futures/options
\$2-\$4	50.0	5.0	10.0	10.0	0.0	0.0	0.0
\$4-\$10	82.0	6.4	19.2	17.1	1.0	0.5	0.7
\$10-\$20	89.7	11.7	33.1	31.1	3.1	0.9	2.9
>\$20	94.6	16.8	41.9	46.7	6.0	9.6	3.6

Income per person per day	Domestic government bonds	Foreign government bonds	Private pensions	Company pensions	Cash savings	No financial assets	No debt at all
\$2-\$4	0.0	0.0	0.0	35.0	35.0	35.0	100.0
\$4-\$10	5.2	1.0	8.5	42.4	46.9	11.1	90.0
\$10-\$20	12.3	0.9	11.4	53.6	49.9	6.6	87.7
>\$20	7.2	3.6	9.0	57.5	53.3	3.0	93.4

Sources: Asian Development Bank, Charles Horioka of Osaka University.

Asset Portfolios and Debt Patterns, India

% of households in each income group owning each asset type

Income per person per day	Bank savings	Corporate bonds	Life insurance	Stocks	Investments trusts	Foreign currency deposits	Futures/options
\$2-\$4	37.6	2.6	57.1	2.0	1.8	0.2	0.2
\$4-\$10	42.1	6.3	72.8	6.7	6.5	0.5	2.6
\$10-\$20	50.7	16.4	71.2	15.1	16.4	1.4	1.4
>\$20	21.4	10.7	64.3	7.1	10.7	0.0	0.0

Income per person per day	Domestic government bonds	Foreign government bonds	Private pensions	Company pensions	Cash savings	No financial assets	No debt at all
\$2-\$4	1.8	0.8	0.8	1.2	42.7	29.4	89.9
\$4-\$10	8.1	1.6	1.6	3.0	60.9	15.8	87.1
\$10-\$20	11.0	6.9	0.0	4.1	54.8	16.4	87.0
>\$20	14.3	0.0	0.0	7.1	46.4	25.0	95.9

Economic impacts of Japan's recent earthquake

Comparison with the aftermath of 1995 Kobe quake

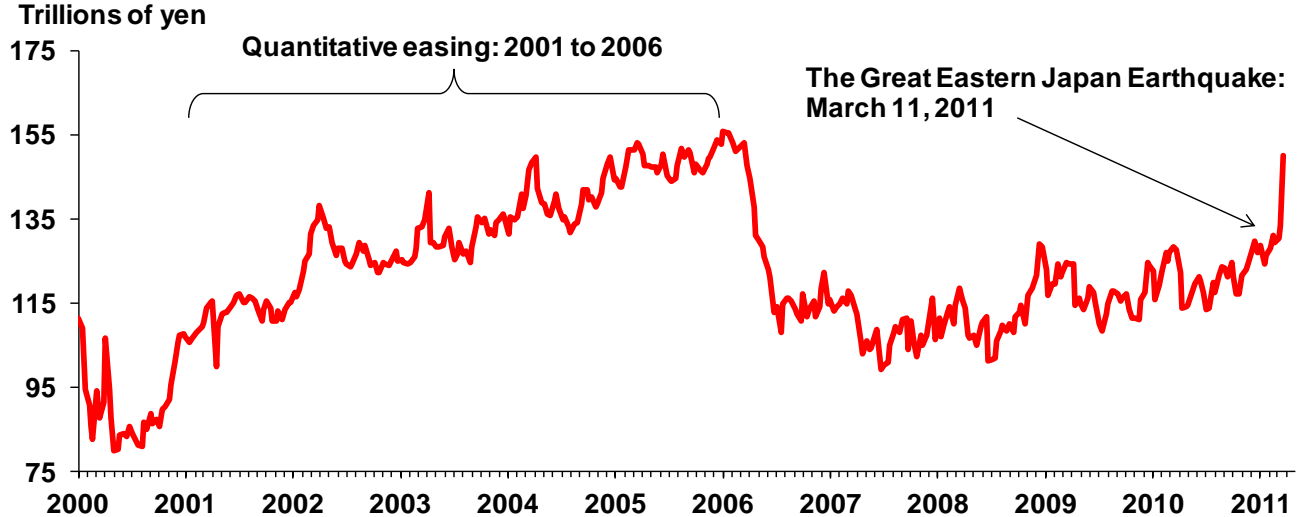


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	2011 Tohoku quake	1995 Kobe quake
Damage	US\$195-305 billion (3.6-5.7% of GDP)	US\$100 billion (~ 2% of GDP)
Death toll	13,895 (13,864 missing)	6,434
Cost to private insurance	US\$14-33 billion	US\$783 million
National budget for reconstruction	\$12 billion from current budget. Much more in FY 2011.	\$38 billion over 2 fiscal years
Ten-year government bond yield	1.29% in February, 2011 1.25% in March, 2011	4.2% in 1994 3.5% in 1995 1.7% in 1999

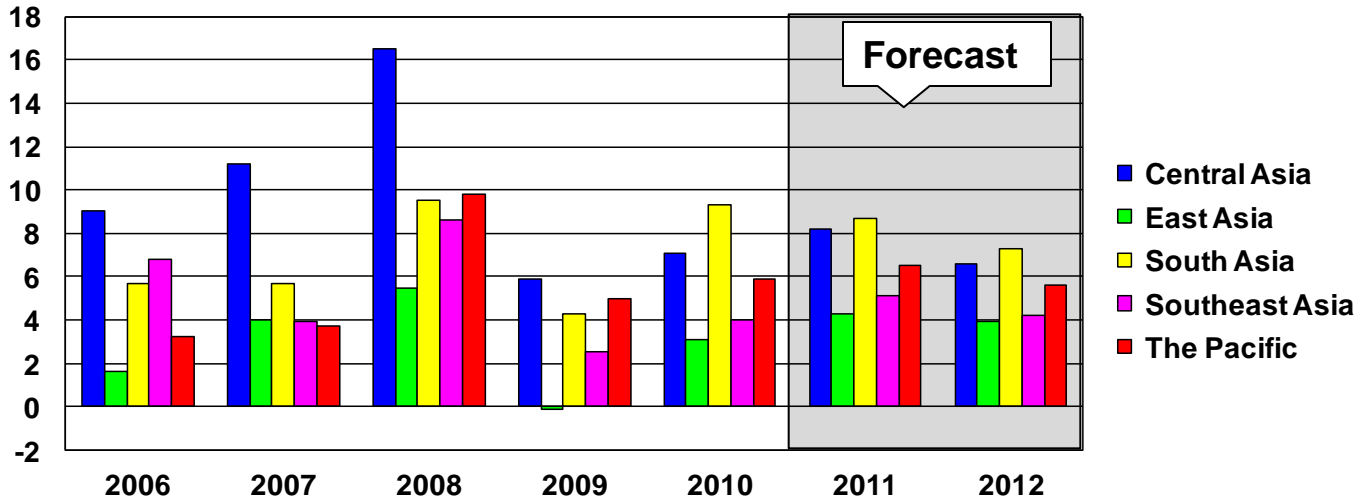
Sources: Bloomberg, National Police Agency of Japan, U.S. Congressional Research Service, World Bank.

Bank of Japan injected liquidity into the economy after the earthquake



Inflation in developing Asia

Percent



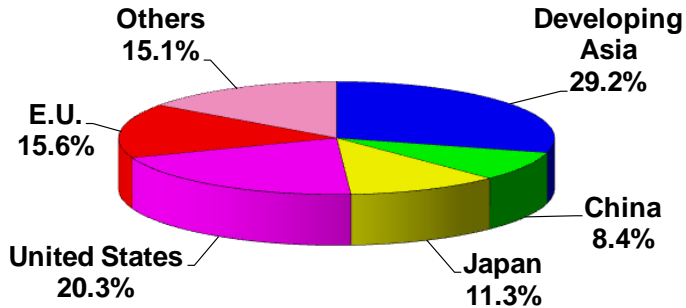
Expanding south-south trade

Exports from developing Asia, 2000-2009

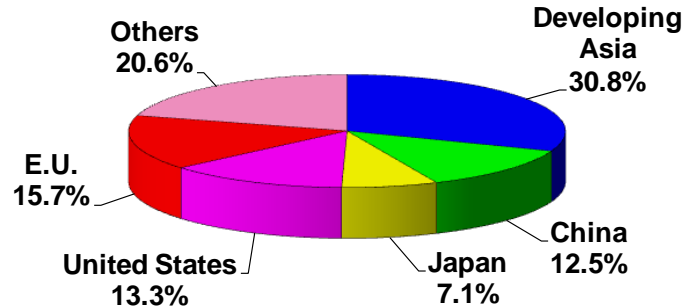


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2000



2009

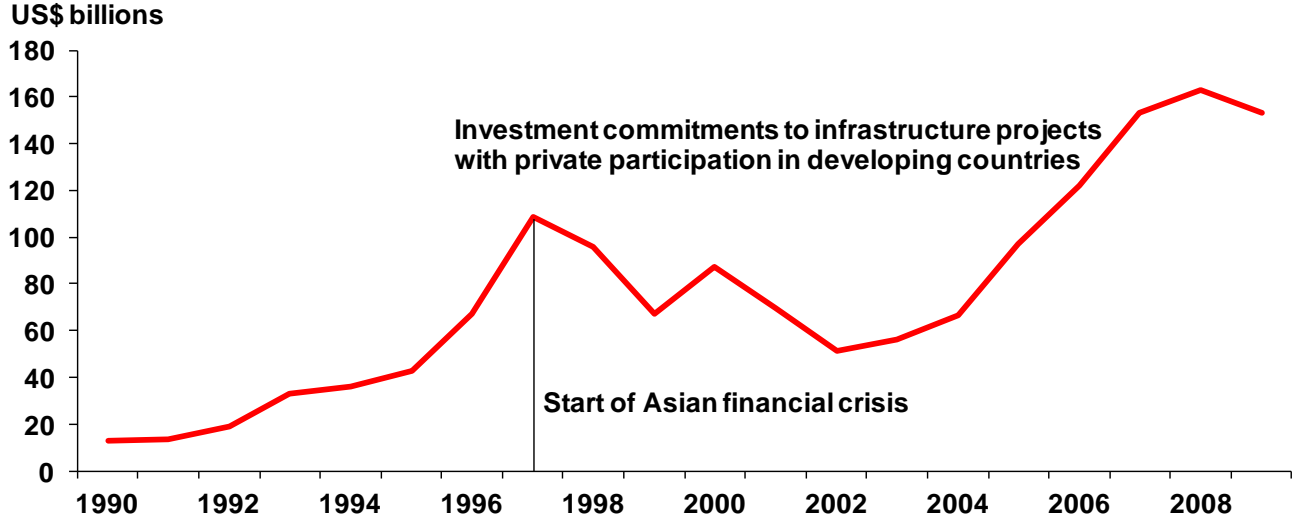


Source: Asian Development Bank Outlook 2011.

Asian infrastructure spending has more than recovered from the 1997-98 crisis



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Source: World Bank; PPI Project Database.

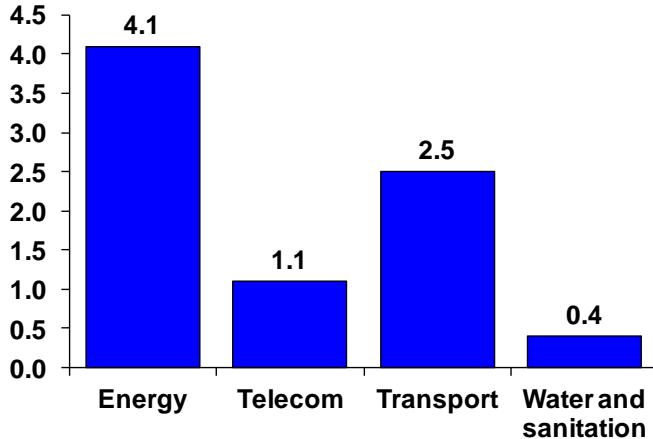
Investment needs for Asia's infrastructure projects

by sector

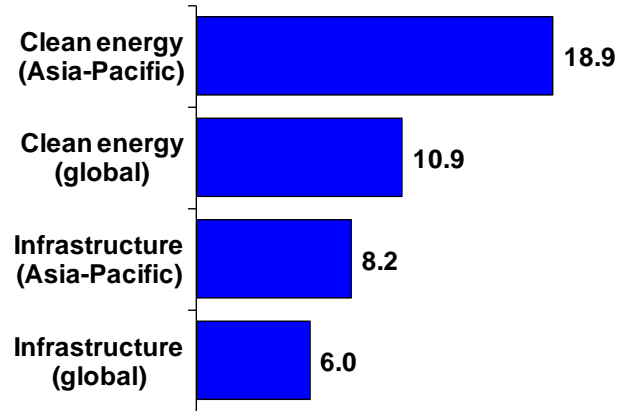


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Investment needs for Asia's identified and pipeline infrastructure projects, 2010-20, US\$ trillions



Annual growth rate in investment spending, 2008-18, %



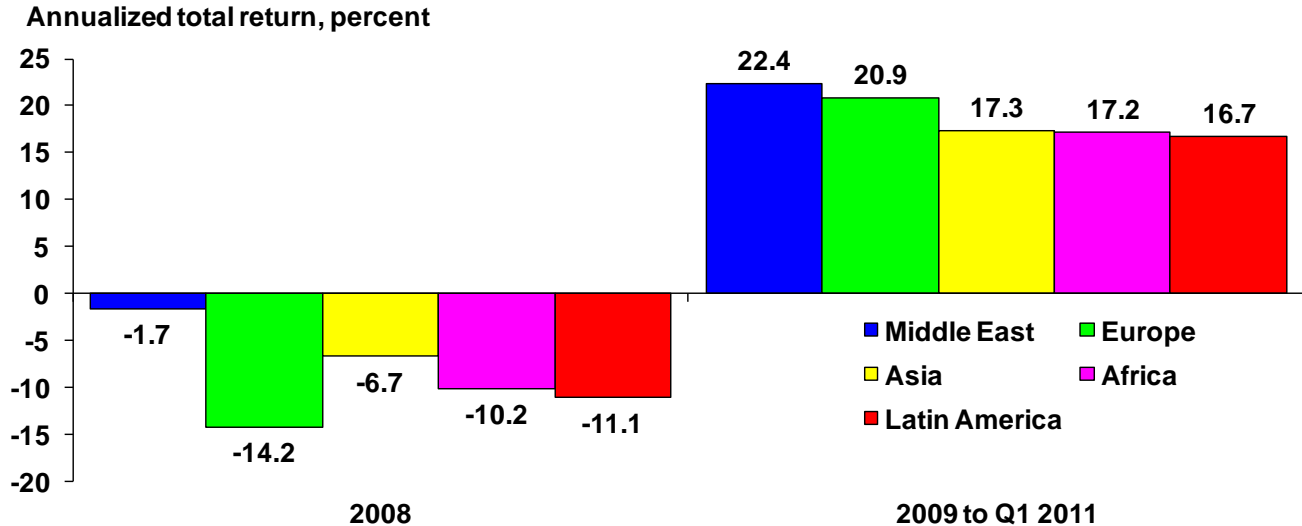
Source: Asian Development Bank; World Bank Private Participation in Infrastructure (PPI) Database.

Performance of emerging bond markets

Total return of JPMorgan EMBI Global indexes



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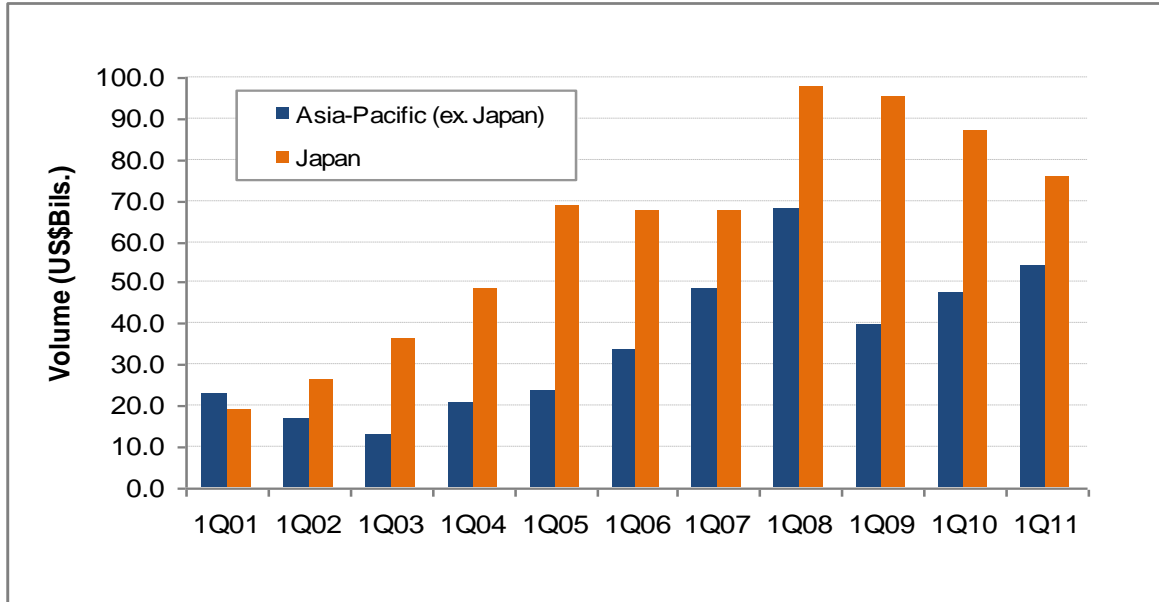
Sources: DataStream, Milken Institute.



Asia markets

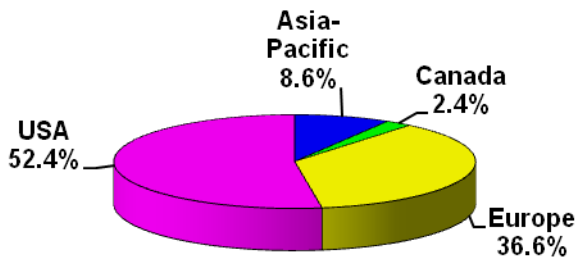
- **Oil consumption steadily increasing**
- **Continued oil crisis impact is uncertain**
- **U.S. dollar is seen as more vulnerable**
- **Global imbalance in inflation differentials**
- **Sovereign debt worries focused on the U.S.**
- **Valuations/liquidity vs. risk appetite**
- **Fund outflows possibly ebbing**
- **Energy and food prices important factors**

Asia-Pacific 1Q11 syndicated loan volume steps up steadily

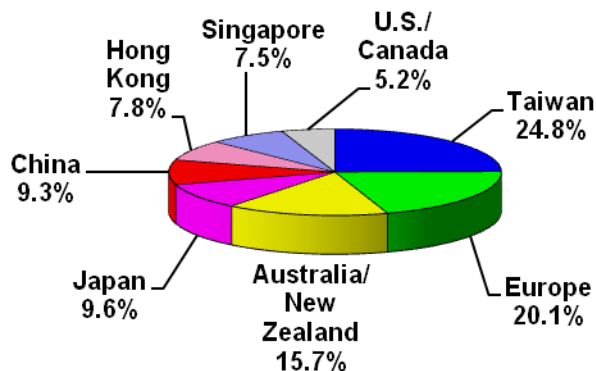


Investment-grade lending landscape 1Q11

How US investment-grade market share differs...



From Asia-Pacific arranging share





Asia fund outflows and currencies

Year-to-date Asia market performance in local currency and USD terms

	Local index gain/(loss)	Currency gain/(loss)	USD index gain/(loss)
China 'A'	6.8	0.3	7.2
Malaysia	-0.1	1.6	1.6
HK HSI	2.9	-0.2	2.7
Indonesia	-3.3	2.5	-1.0
Korea	-2.7	0.5	-1.1
Singapore	-2.7	1.2	-1.7
Taiwan	-2.5	-0.8	-3.3
Thailand	-1.4	-1.0	-2.0
Philippines	-7.2	0.6	-6.4
India	-10.1	-0.7	-10.8
MSAXJ	-1.9	0.2	-1.7

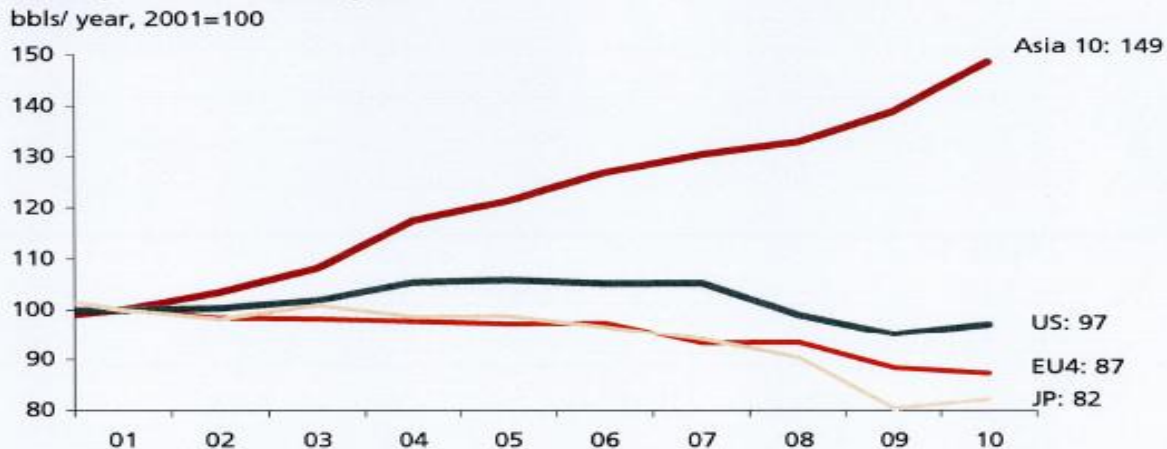
Source: Datastream, DBS. Updated as of March 8.

Asia currency forecasts

	Actual		Forecast, eop			Return (%)	
	4Q10	current	2Q11	3Q11	4Q11	full yr	Current to y/e
JPY	81	82	81	80	79	3%	4%
EUR	1.34	1.40	1.42	1.46	1.50	12%	7%
IDR	9,010	8,792	8,800	8,750	8,700	4%	1%
MYR	3.08	3.03	2.92	2.87	2.82	9%	7%
PHP	43.6	43.3	42.0	41.0	40.0	9%	8%
SGD	1.28	1.27	1.23	1.21	1.19	8%	6%
THB	30.1	30.5	29.1	28.8	28.5	5%	7%
CNY	6.59	6.57	6.46	6.38	6.30	5%	4%
HKD	7.77	7.79	7.75	7.75	7.75	0%	0%
TWD	29.2	29.4	28.0	27.5	27.0	8%	9%
KRW	1121	1115	1020	1000	980	14%	14%
INR	44.7	45.0	43.5	43.0	42.5	5%	6%

Source: DBS

Global petroleum consumption



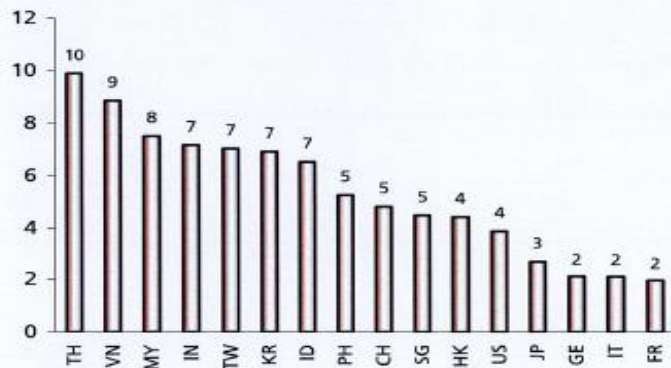
Source: US-EIA through 2009. DBS estimates for 2010 based on GDP growth deflated by average efficiency gains 2000-2009.



Vulnerability

Oil consumption as % of GDP

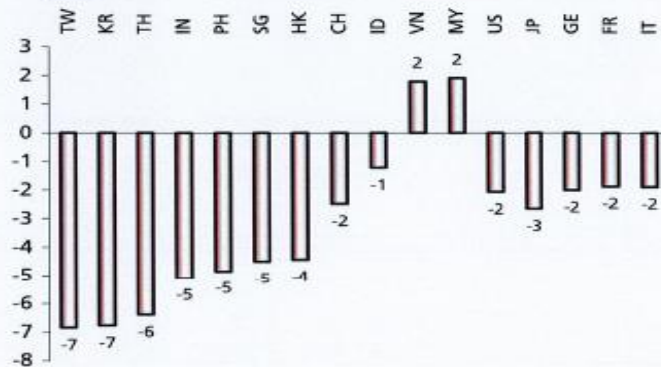
avg, 2008-10



source: US - EIA

Oil net exports as % of GDP

avg, 2008-10

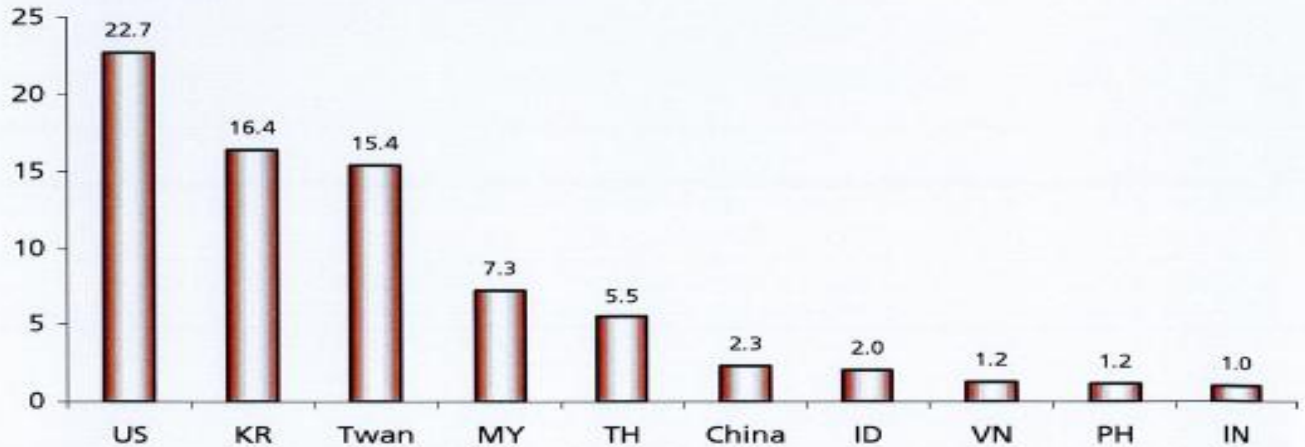


source: US - EIA



Oil consumption per capita

barrels per year, per person, avg 2008-2010



China economy

CN - nominal exchange rate

CNY per USD



CN – policy rate

%, 1-yr lending rate



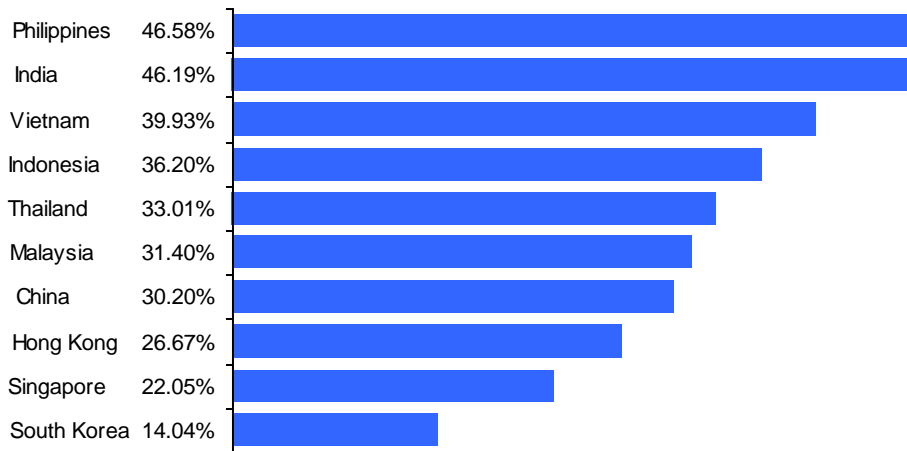
Sources for charts and tables are CEIC, Bloomberg and DBS Research (forecasts and data transformations)

Food factor

Share of food prices in selected Asian countries' inflation measures



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Source: Asian Development Bank, Wall Street Journal.

Asia Mezzanine Market Is Not Well Developed

- **Asian capital markets have not evolved to reliably provide mezzanine/subordinated debt financing especially for longer tenors (>2 yrs). This creates an opportunity for mezzanine investors.**

Private Equity Funds

- *Typically pursue control equity opportunities*
- *Need board reps, operating participation*
- *Well focused analytical expertise*

For Businesses

- *Low dilution compared to PE*
- *No board seats/loss of control*
- *High cost bridge until traditional financing is available*

Mezzanine Market Participants Have Exited or Significantly Reduced Activity

- **Public credit markets are not big enough to serve corporate needs.**
- **High growth, mid-market companies need financing with little dilution**
- **Banks have limited capacity for non-working capital financing**

- **Opportunity for the investors to serve this mezzanine market**

Hedge Funds

- *Typically pursue investments in liquid securities*
- *Constrained by lack of long-term capital*
- *Opportunistic approach to deploying analytical resource*

For Investors

- *Higher returns than public markets*
- *Better covenants leading to control if breached*
- *Collateral protection*

Asian Mezzanine: Attractive Risk/Reward

Asian mezzanine investments provide an opportunity to capture growth and entrepreneurial value creation in the region while both earning a recurring income stream and protecting capital

POSITIVES:

- **Privately negotiated deal opportunities offer tailored-made investment structures.**
- **Returns are typically structured to provide a combination of fixed income return and profit share or equity warrants**
- **Credit quality frequently enhanced through collateralization**
 - Loans secured by hard assets, operating company shares, etc.
- **Provides investors with higher returns than public markets**
 - Potentially strong covenants that trigger ahead of operating company debt
 - Target tenor seniority in capital structure, which Asian borrowers will consider

Asian Mezzanine: Attractive Risk/Reward

Asian mezzanine investments provide an opportunity to capture growth and entrepreneurial value creation in the region while both earning a recurring income stream and protecting capital

NEGATIVES:

- **Different jurisdictions often require specific regional legal and investment expertise**
 - Tax and legal issues related to investment and repatriation of capital offshore
 - Expertise of local bankruptcy processes
 - Some jurisdictions are less reliable than Western enforcement processes

- **Unlike U.S., defaults are more common, necessitating workout experience**
 - Weigh sponsor quality against collateral enforceability
 - Intense monitoring of sponsor's other business interests

Why Does the Opportunity Exist?

<i>Opportunity</i>	<i>Why It Exists?</i>	<i>Execution Experience</i>
Traditional mezzanine	Not many providers of capital especially for tenors over 2 years	AOF has successfully executed and exited a number of mezzanine and private deals throughout Asia
Financing against target assets	Often prohibited. Good returns can be earned for bridge financing until clean security can be established	AOF financed a minority take out in Malaysia at a 14% net IRR in 2008.
Conglomerate or holding company financing	Some regulations do not permit financing at the holding company level	Team has executed a number of deals at the holding company level including a large Newmont-operated mine in Indonesia
Land acquisition	Banks have difficulty financing land acquisitions in some countries like India	AOF funded two large real estate developers in India; investigating others
Cross border M&A	Banks in host countries confronted with target country risks and take time to respond	AOF has underwritten or evaluated numerous M&A-related deals including takeover of a leading department store chain in Singapore and an acquisition of Norwegian company by an Indian acquirer
Restructuring and purchasing in the secondary market existing loans.	Few players with the skill sets, platforms, relationships to address this opportunity	Team's past workout experience in major jurisdictions is generating number of conversations

These distortions/gaps are likely to persist, resulting in sustainable investment opportunities

Fragmentation of Competitive Landscape

Universe of Asia Mezzanine Market Lenders

Investment Banks

- Biggest players in originating and investing in mezzanine and PE deals from 2004 until the crisis
- Banks with buy and hold model suffered significant losses in 2008 and 2009
- Capital for mezzanine businesses has been slashed. Some business models have been switched into distressed strategies
- Conflicts in workouts have become apparent
- *Likely role in future: originators of larger, legally intensive transactions*

Hedge Funds/PE Funds

- Minor participants in 2004, but grew quickly during 2006-07. Convertible and fixed income funds participated in private deals
- Mostly dropped out of the market except those few with specific Asian mezzanine/distressed skills
- PE funds showing some renewed interest
- *Likely role in future: Only funds with committed capital and specific skill sets will remain in this space*

Local Sources

- Local funds, high net worth individuals and non-bank finance companies have been active throughout the crisis
- They have local knowledge and clout but less discipline. They also tend to prefer more equity orientation and less credit protection in their structuring
- *Likely role in future: Will remain as part of the investing landscape*

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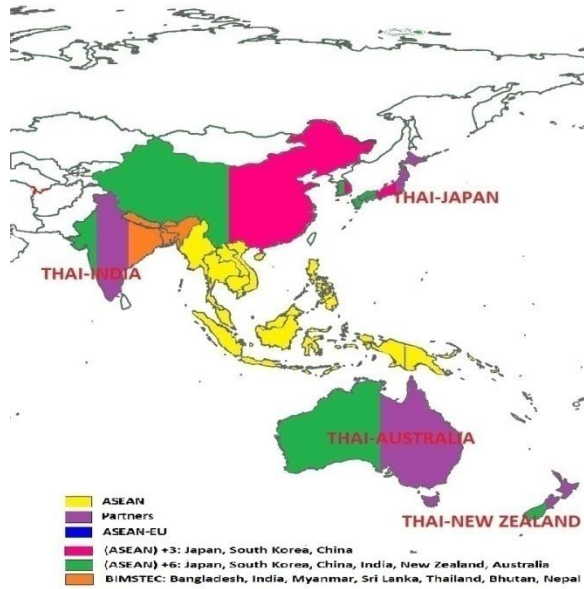
by

Dr. Vachara Phanchet

Thailand Trade Representative



Emerging Asia



- ASEAN: 10 Countries**
- ASEAN+3 (China, Japan, South Korea)**
- ASEAN+6 (China, Japan, South Korea, India, Australia, New Zealand)**
- Central Asia**
- A part of Russia**



Power of Asia

- **After the deepest recession in 2008-2009, Asia is leading the global recovery.**
- **The Regional Economic Outlook:**
 - : Asia rebounded swiftly during 2009 and in the first quarter of 2010, and in the near term the region is expected to continue leading the global recovery.**
 - : In the medium term, the global crisis has highlighted the importance for Asia of ensuring that private domestic demand becomes a more prominent engine of growth.**



Power of ASEAN

2010

- A market of 580 million people
- Combined GDP of over US\$1.8 trillion

By 2015

- A single market and product based through the establishment of ASEAN Economic Community: AEC
- Population is expected to increase to 700 million
- Combined GDP of US\$2.7 trillion

GDP forecast for ASEAN

Country/Group	Year (Unit : Billion USD)			Growth (%)
	2007	2011	2015	2011 - 2015
Brunei Darussalam	12.25	12.59	13.12	4.03
Cambodia	8.69	12.93	19.16	32.49
Indonesia	432.23	776.98	1,111.05	30.07
Lao PDR	4.23	6.95	9.62	27.76
Malaysia	187.01	236.56	321.15	26.34
Myanmar	20.18	36.95	42.69	13.44
Philippines	144.07	212.66	285.10	25.41
Singapore	176.77	233.17	279.13	16.47
Thailand	247.11	334.03	445.72	25.06
Vietnam	71.11	113.63	165.99	31.55
ASEAN	1,303.64	1,976.43	2,692.72	26.60



GDP forecast for ASEAN+6

Country/Group	Year (Unit : Billion USD)			Growth (%)
	2007	2011	2015	2011 - 2015
ASEAN	1,303.64	1,976.43	2,692.72	26.60
China	3,494.24	6,422.28	9,982.08	35.66
Japan	4,377.96	5,683.29	6,517.48	12.80
Korea	1,049.24	1,056.26	1,371.33	22.98
India	1,151.65	1,598.39	2,412.37	33.74
Australia	951.767	1,297.83	1,480.15	12.32
New Zealand	131.004	147.754	167.945	12.02
ASEAN+6	12,459.50	18,182.24	24,624.07	26.16



Asia: Real GDP growth

Asia Real GDP (Year-On-Year; in percentage)	2009	2010	2011
	Latest projection		
Industrial Asia	-4.1	2.1	2.2
Japan	-5.2	1.9	2.0
Australia	1.3	3.0	3.5
New Zealand	-1.6	2.9	3.2
Emerging Asia	5.7	8.5	8.4
NIEs	-0.9	5.5	5.1
Hong Kong Sar	-2.7	5.0	4.4
Korea	0.2	4.5	5.0
Singapore	-2.0	8.9	6.8
Taiwan Province of China	-1.9	6.5	4.8
China	8.7	10.0	9.9
India	5.7	8.8	8.4
ASEAN-5	1.7	5.4	5.6
Indonesia	4.5	6.0	6.2
Malaysia	-1.7	4.7	5.0
Philippines	0.9	3.6	4.0
Thailand	-2.3	5.5	5.5
Vietnam	5.3	6.0	6.5
Emerging Asia excl. China	2.6	6.8	6.6
Emerging Asia excl. China and India	0.4	5.5	5.3
Asia	3.4	7.1	7.1



Global economic review

Country/Group	Year (Unit : Billion USD)			Growth (%)
	2007	2011	2015	2011 - 2015
World	55,615.48	61,943.51	81,921.79	32.25
EU	16,978.02	16,099.10	18,987.78	17.94
USA	14,061.90	14,624.18	18,029.32	23.28
ASEAN + 6	12,459.50	16,710.38	24,624.07	47.36

Source : IMF World Economic Outlook, October 2010.



Economic challenges for Thailand

New economic landscape: the change in business model and consumer behavior

- Business networking and regional value chain across the region
- Consumer preference in the near future will be more harmonious across Asia
- Further drives closer market integration
- Two-ways trade and investments in key industries:
 - **Manufacturing:**
 - Food, Automotive, Gems and Jewelry, Textile
 - **Services:**
 - Construction, Tourism, Medical Services