

James Morton – Cundill Recovery/Emerging Markets

15 Reasons to Invest In Emerging Markets:

<ol style="list-style-type: none">1. In developing economies incomes are rising and surpassing the western world2. Increased consumerism, but spending remains far below that of developed markets3. Too big to ignore -China, India and Brazil are expected to be among the four largest economies by 20504. Middle class is growing as is disposable income and purchasing power5. They have 80% of the world's population and most want what we have: Average temperature in Mumbai is 30.4°C but only 2% of residents have air conditioning<ul style="list-style-type: none">• Only 25% of Indonesian's have refrigerators• BRIC internet usage will triple that of US and Japan combined by 2015• The number of Indian millionaires jumped by 51% in 2009 exceeding 127,000	<ol style="list-style-type: none">6. Consumers have money, but credit is a new phenomenon7. Emerging market consumers have little or no debt8. Public debt to GDP nearing crisis levels in developed markets9. Emerging markets are growing without stimulus, the US is not10. Developed markets: Deflation Emerging markets: Inflation11. Emerging market demographic: Young, growing and ready to work12. Needed: housing & infrastructure -both are value creating projects13. Emerging markets are under-banked and are likely to see high loan growth14. Foreign capital may not always be allowed access15. Despite a strong rebound, emerging markets are not expensive, both relatively and historically
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Is It Time:

- 1960 per capita income in Hong Kong was 28% of the UK level. By 1997 it had risen to 137%.
- Korea's GDP per capita increased from 26% of Japan's in 1980 to 86% in 2009.
- In 1950 the US produced 76% of the world's vehicles. In 2009 only 9%. In contrast China rose from 4% in 2000 to 22% in 2009.
- The emerging world middle class spends around US\$7 trillion. By 2020 that is expected to rise to US\$20 trillion.
- The typical Chinese household consumes about 1/16 of a typical US household.

Where to from Here?

- Taiwan has the highest number of patent filers per million of population.
- By 2015 BRIC internet use forecasted to reach 1.2 billion (3x the US and Japan combined).
- Online shopping in China is ~5% of retail sales.
- Notebook penetration in China is still only 10%.
- Only 2% of India's population has air conditioning.
- In Indonesia outstanding mortgages represent only 2% of GDP.
- In Uzbekistan the total annual insurance spent is \$3 per person, and less than 10% of the population have insurance of any kind.

The US Picture:

- 48 States face budget shortfalls in 2010, California looks likely to be around 25%
- 32 US States have already run out of funds to make unemployment benefit payments
- Every State has unfunded pension liabilities, Total estimate \$3.2 trillion, California's' appears to be equivalent to over 7x the current annual state income
- Municipal governments are likely to come up between \$56 billion and \$83 billion short between 2010 and 2012
- In 2010 the US government is projected to issue almost as much new debt as the rest of the governments of the world combined
- Illinois recently sold 25 year bonds at a taxable 7.35%. During a past debt crisis it traded at 43.75%
- Investors poured \$480 billion into debt mutual funds between June 2008 and June 2010 More than went into equity during the internet bubble

The Great Debate:

Deflation

Declining Countries
Shrinking population
Aging populations
Excess capacity
Mature housing market
High/excessive levels of debt throughout society

Inflation

Developing Countries
Growing population
Young Population
Insufficient Infrastructure
Inadequate real estate
Moderate/Low penetration of consumer non durables

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Cundill Recovery Fund

For Q3, +12.6% vs. +10.2% - MSCI World Index in CAD. **YTD (Oct 31) = +15.0%.**

	10-Oct	08-Nov	06-Apr	03-Oct		P/B	P/E
P/NAV	0.61x	0.33x	1.27x	0.87x	Recovery	0.7x	8.9x
P/E	8.9x	4.8x	11.2x	6.3x	MSCI World	1.6x	12.8x
Leverage	20%	14%	34%	17%	MSCI Emerging Markets	1.8x	11.6x

UEM Land Holdings BHD: The largest listed company with acreage in the Southern Johore region which borders Singapore. Low cost land and cheaper labor in Southern Malaysia will mesh with the needs of growing businesses in relatively high cost Singapore. UEM has been one of our best performing shares all year and continued to be so in Q3.

Modernform Group PLC: Market leader in Thailand furniture; has been firing on all cylinders as it benefits from the pickup in Thai residential property that occurred in 2009. The company has a record back log and has been tidying up its balance sheets selling some non-core assets. This led to a special dividend and there could be more to come.

Cundill Emerging Markets Value Class:

For Q3, +16.6% vs. +14.3% - MSCI Emerging Markets TR Index in CAD. **YTD as of (Oct 31) +27.1%**

	10-Oct	08-Nov	10/10 Estimated Multiples	MSCI EM 10 Year Average	Multiple
P/NAV	0.75	0.40x			
P/E	7.2x	5.1x			
Leverage	-4%	5%			
P/B			0.75x	1.8x	2.4
P/E			7.2x	22.4x	3.1

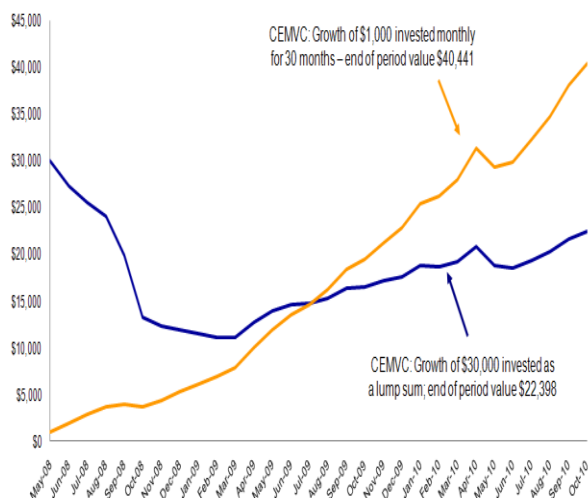
Magnificent Estates Ltd.: Leading hotel operator in Hong Kong. Strong first half results with outstanding growth in both occupancy and room rates that bodes well for the full 2010 numbers. The company is in the process of converting four buildings to hotels in Hong Kong. The discount could be as deep as 75%. With a growing estate and rising earnings as well as an increase in NAV there should be considerable uplift in share prices over the next couple of years.

BFI Finance Indonesia & Clipan Finance Indonesia: 12% of the portfolio as of September. Both had a very strong quarter as investors started to recognize the huge undervaluation both in an absolute and relative sense to other financial stocks in Indonesia. These companies are true value holdings, trading historically at well below NAV, at single digit earnings and with reasonable yields. At the start of the year they were both Magic 6's (Trading at six times earnings and 60% of book value, and boasted a 6% dividend yield). BFI in particular, where the stock was up some 50% in September alone, had a very good run and arguably is getting closer to a sell than buy. The stock was trimmed post period.

"Volatility is not risk, it is opportunity. That being said, a helpful investment approach is to dollar cost into your position." – James Morton

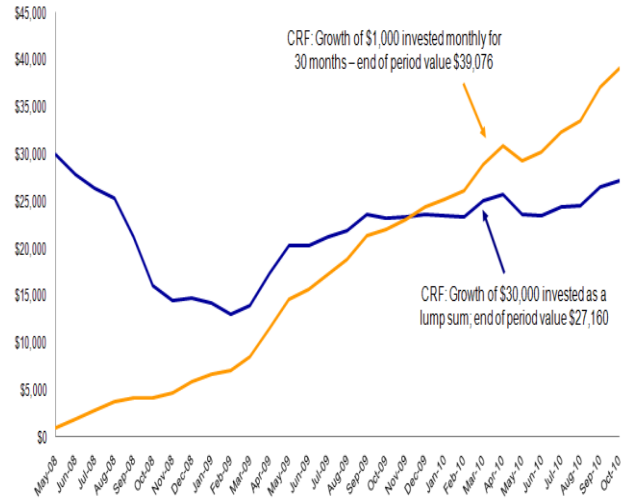
Dollar Cost Averaging: A Strategy for Investing In Volatile Markets

Cundill Emerging Markets



\$30,000 Lump Sum Purchase Cumulative Return -25.3%
\$1,000 Monthly Contributions for 30 Months - Return: **76.6%**

Cundill Recovery Markets



\$30,000 Lump Sum Purchase Cumulative Return -9.5%
\$1,000 Monthly Contributions for 30 Months - Return: **65.8%**