

# Regaining investor confidence: the next steps

4 December 2008

**Presentation to**  
ASLI Malaysian Capital Market Summit 2008

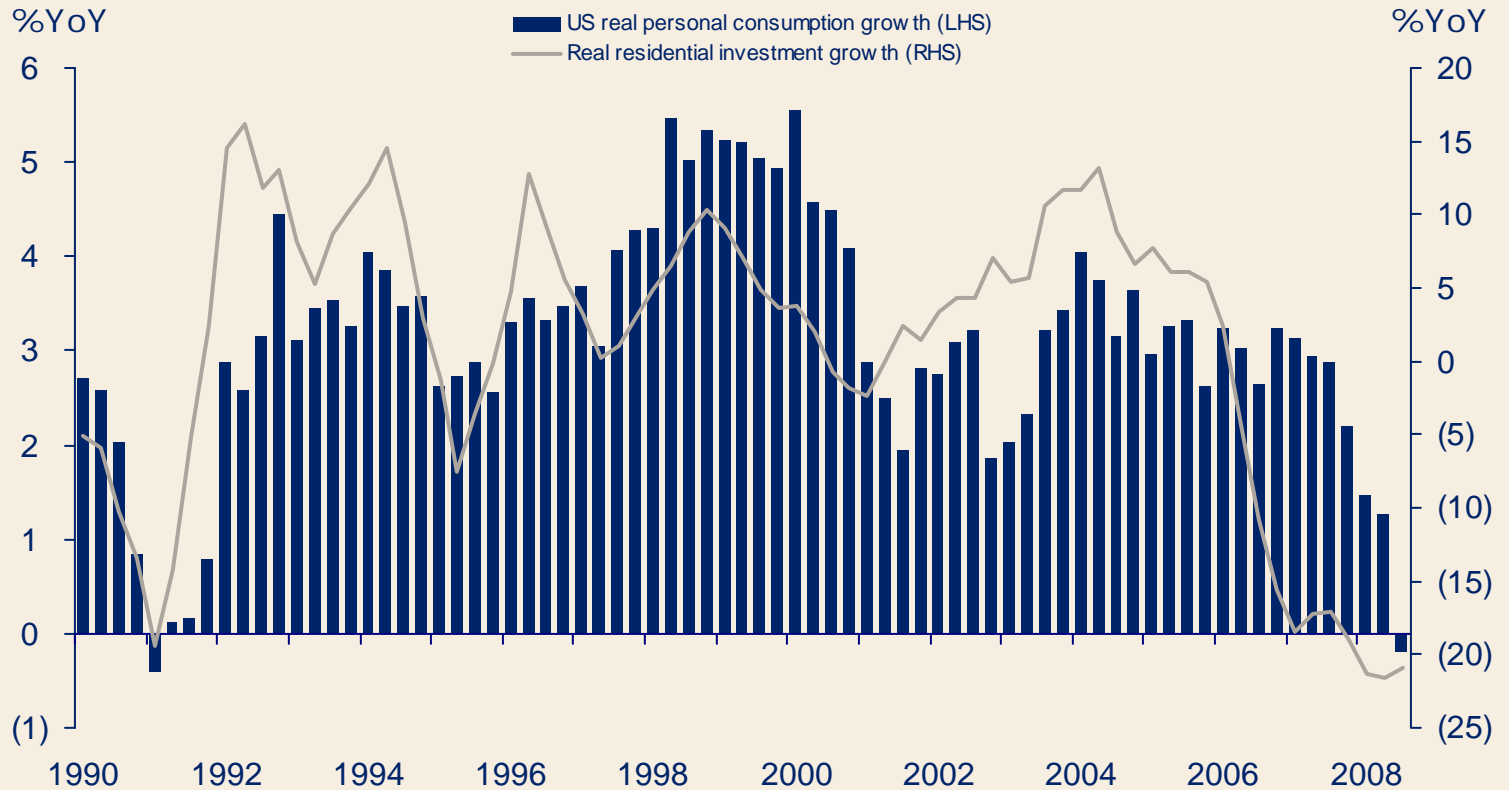
**Gerald Ambrose, Managing Director**  
Aberdeen Asset Management Sdn Bhd



# The structural problem is in the West this time

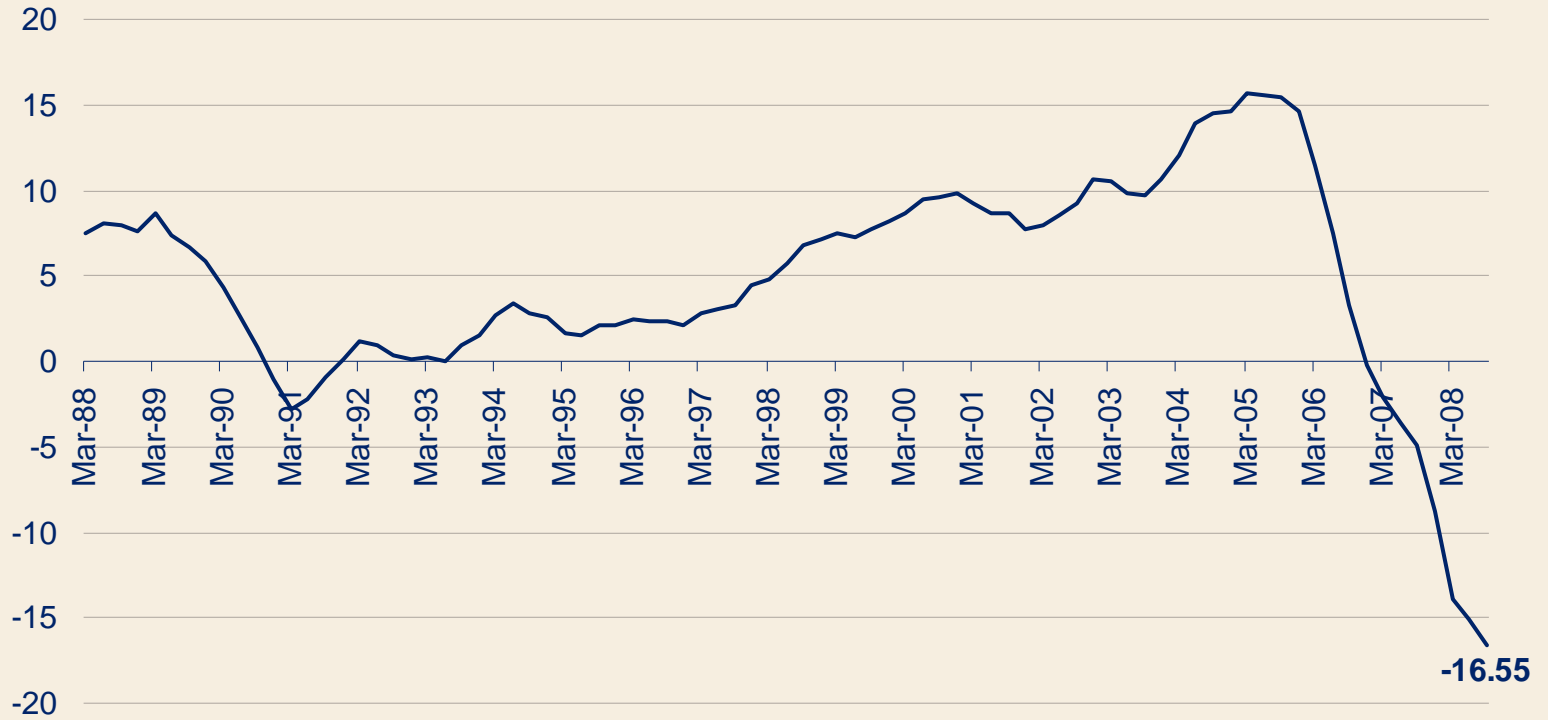
## It started with residential property

### US real personal consumption growth vs real residential investment growth



# The effect on US housing is clear ...but is it nearly over?

Case Shiller 20 City index (Quarterly)

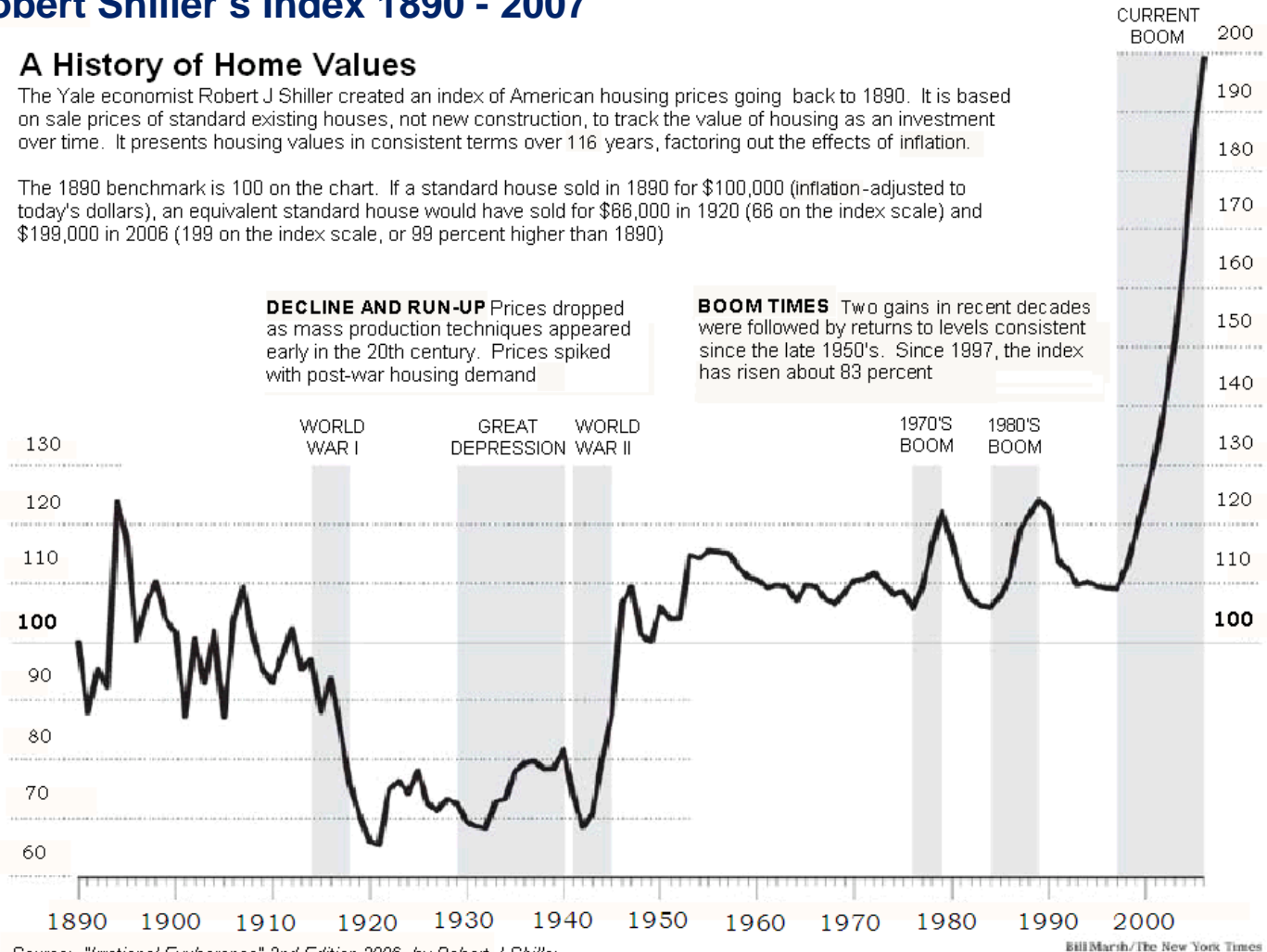


## Robert Shiller's Index 1890 - 2007

### A History of Home Values

The Yale economist Robert J Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890)



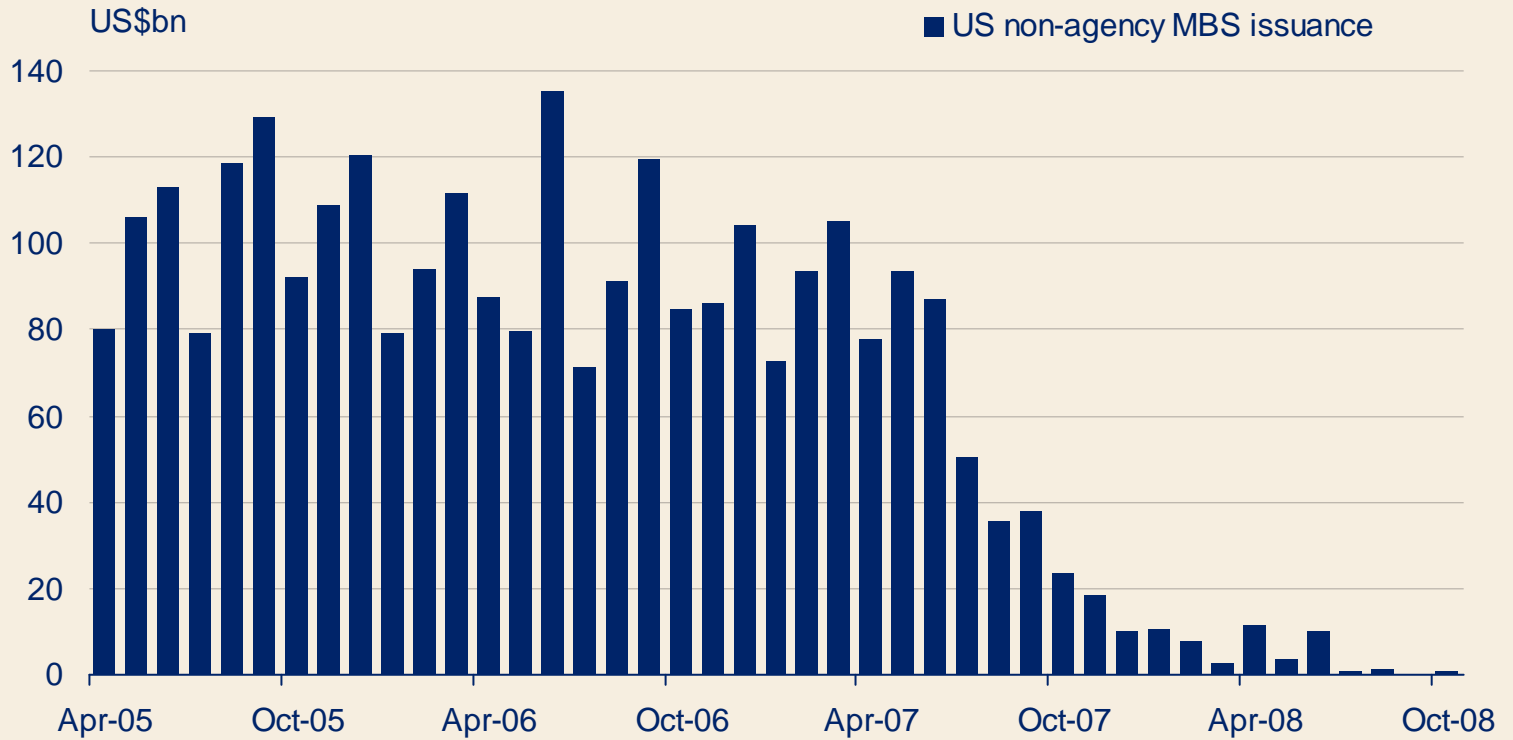
Source: "Irrational Exuberance" 2nd Edition 2006, by Robert J Shiller

Bill Marsh/The New York Times

- Robert Shiller, New York Times, August 28, 2006

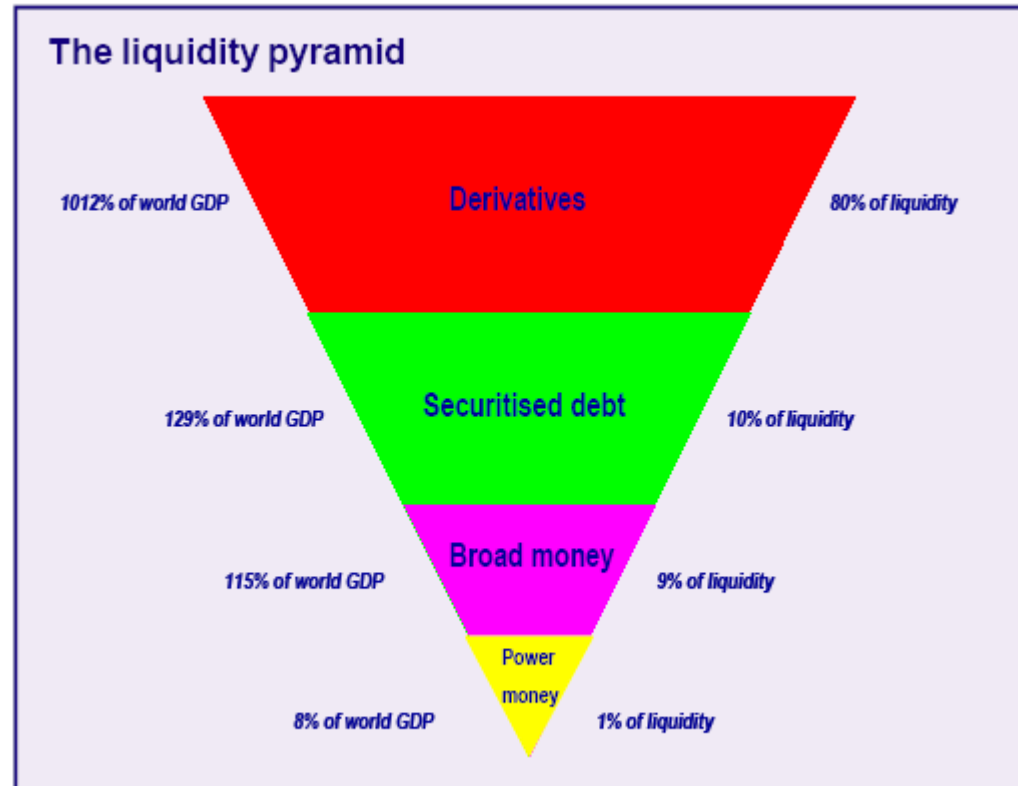
# The engine is broken

## US non-agency mortgage-backed securities issuance



# The biggest margin call in history

Central banks have lost control of the monster they created. The transmission system has broken down



**Figure 2.** Source: Independent Strategy

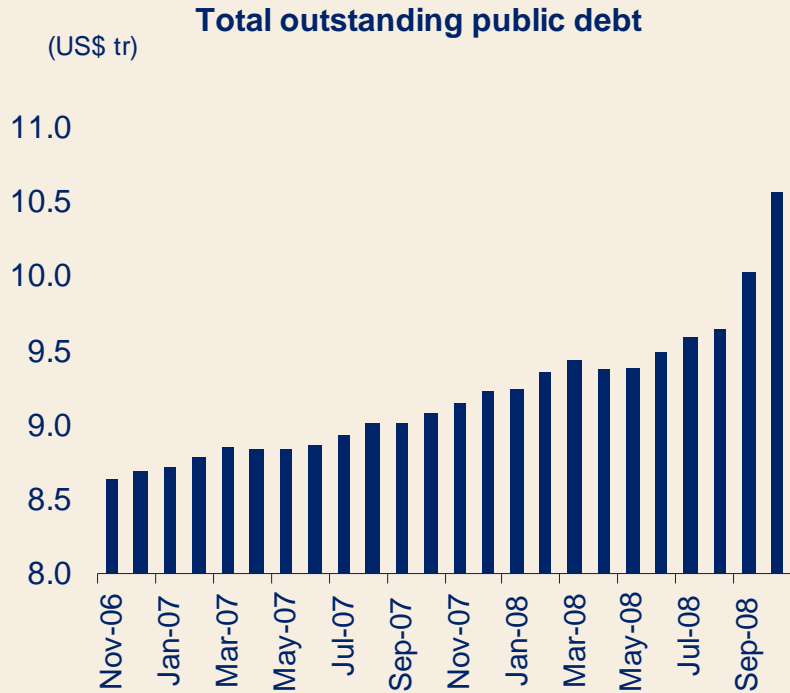
## US vs Malaysia: entirely different levels of stress

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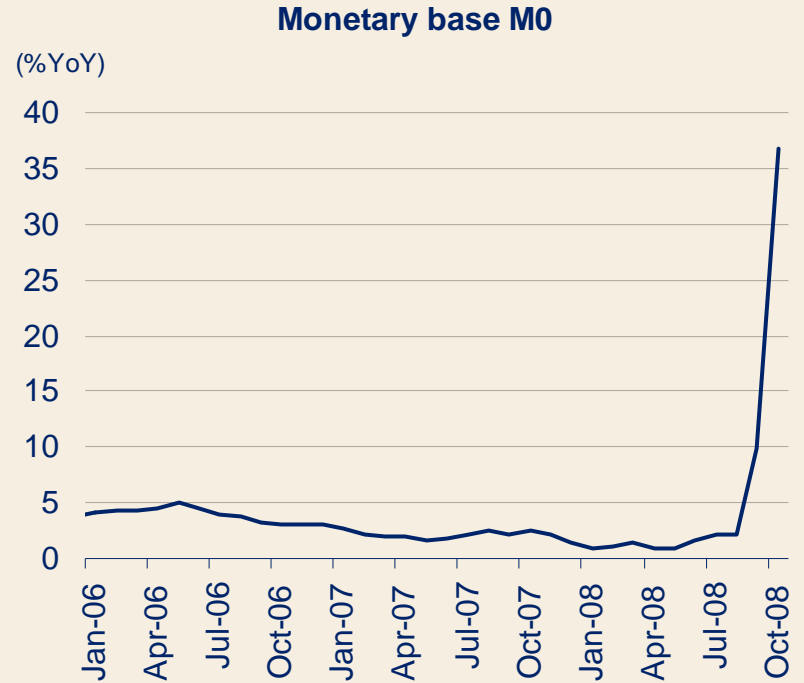
- Malaysia doesn't have the structural problems of the West but will merely enter a cyclical slowdown
- Malaysia's emergency fiscal stimulus package announced 4 Nov 08: RM7bn
- US Federal reserve and US Treasury measures announced 2008 to date: US\$8.5trillion!

# Malaysia's 08f forecast fiscal deficit of 4.8% of GDP isn't really relevant anymore compared with blowouts in the West:

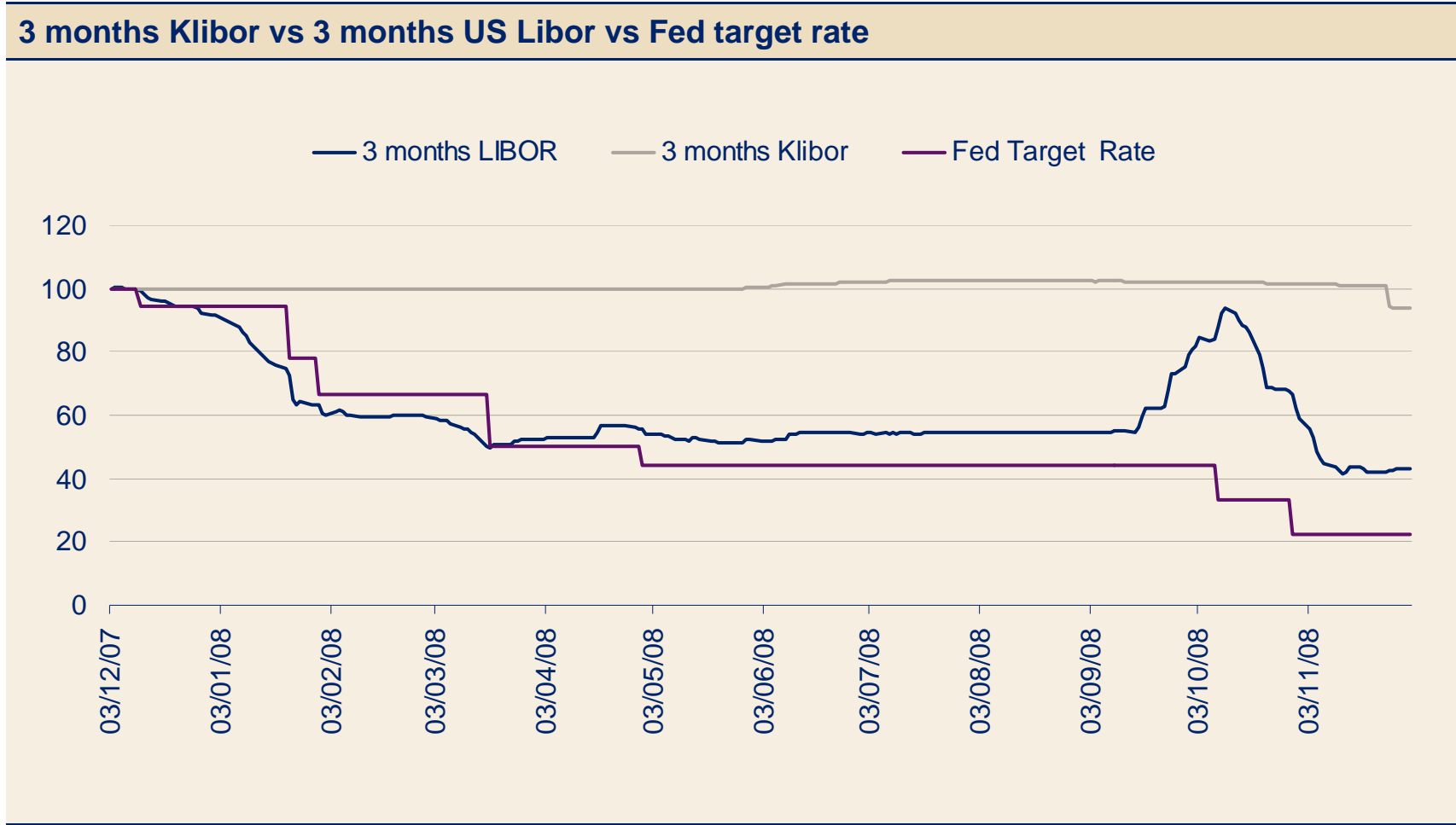
## US federal debt blowing out



## ... and so is the monetary base



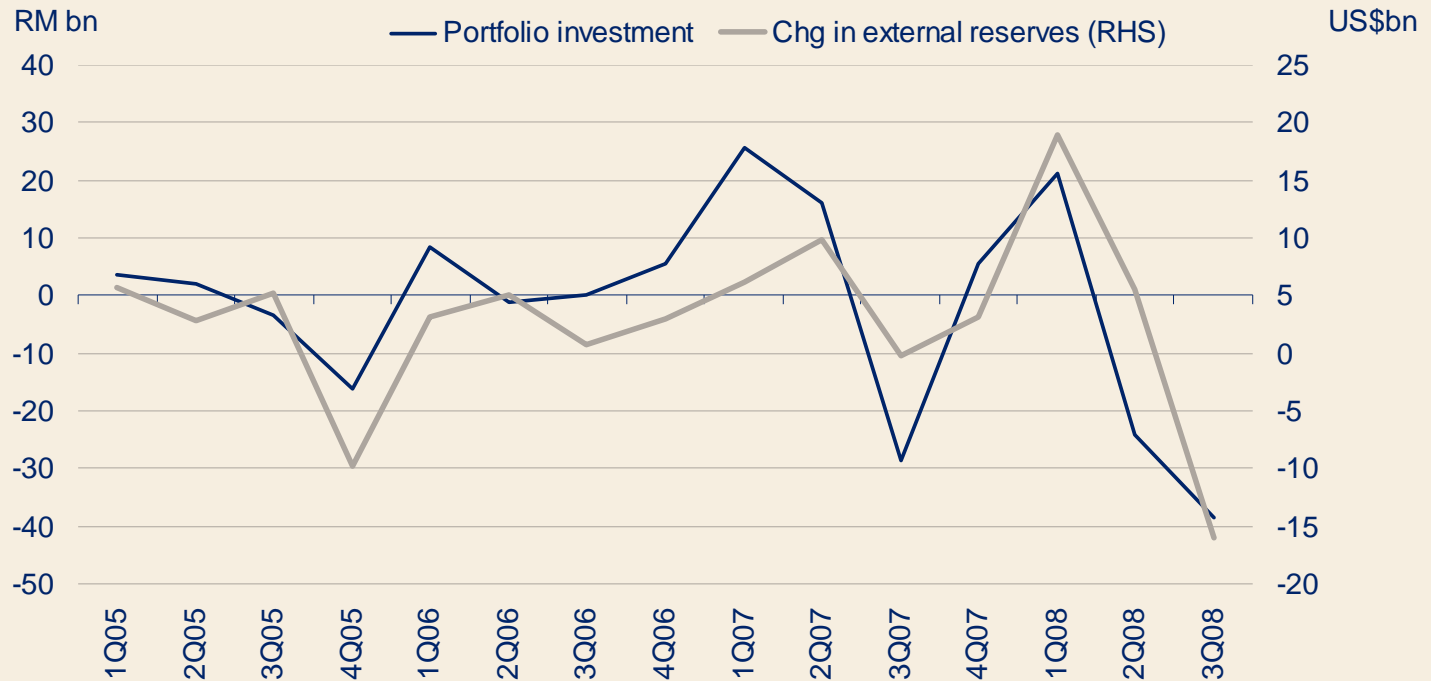
# In the West, banks don't trust each other, but here they do



Source: Bloomberg, 1 Dec 08

# What have foreigners been doing with their Malaysian investments

## Portfolio flows and BNM external reserves



# Where we are now?

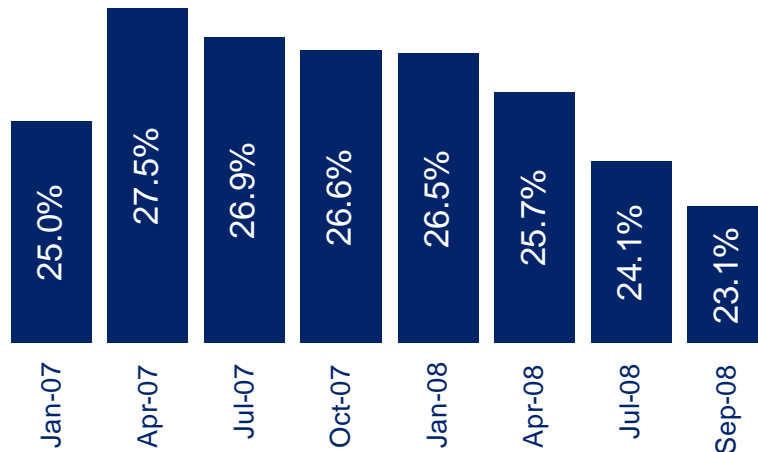
## Foreign Ownership At 21.7%

### Malaysian and Foreign Shareholdings as at 31 October 2008

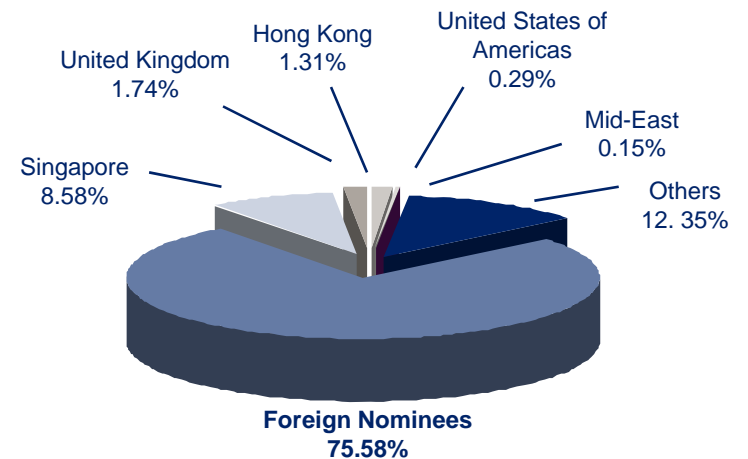
Items			October 2008			
			Total Shareholdings (Units-Bn)	%	Total Market Value (RM-Bn)	%
1	Foreigners	Direct Holdings	16.8	4.06	31.2	<b>4.77</b>
		Foreign Nominees*	52.0	12.57	110.8	<b>16.92</b>
2	Malaysians		344.9	83.37	512.7	78.31
3	Total securities immobilised in CDS		413.7	100.00	654.7	100.00

Note : Foreign Nominees reflect shares owned by foreigners but held via Authorised Nominee Companies incorporated in Malaysia.

### Foreign Ownership from Jan 07 – Sept 08

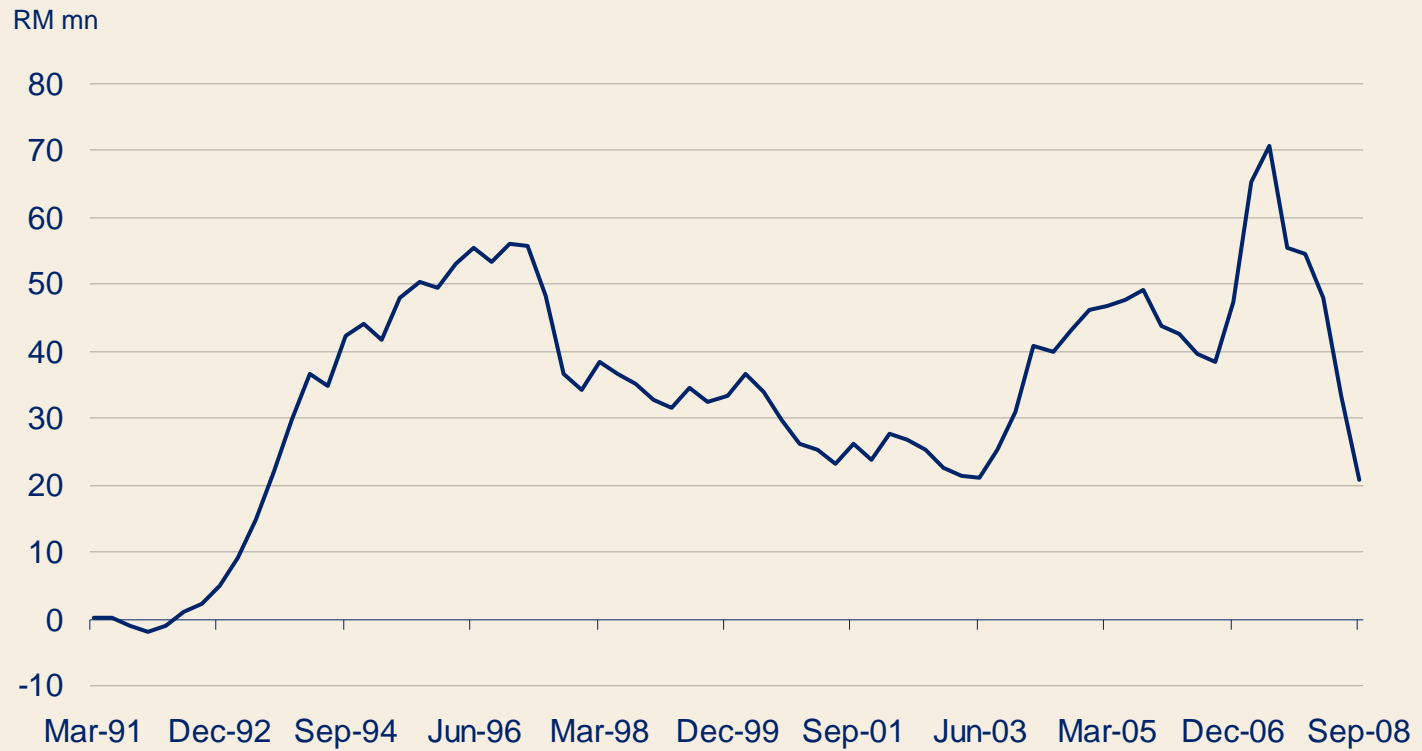


### Foreign Shareholdings by Nationality for Selected Countries as at 31 October 2008



# Fall in value of foreign holdings has been sharp

## Cumulative foreign equity portfolio net flows



## A simple recipe

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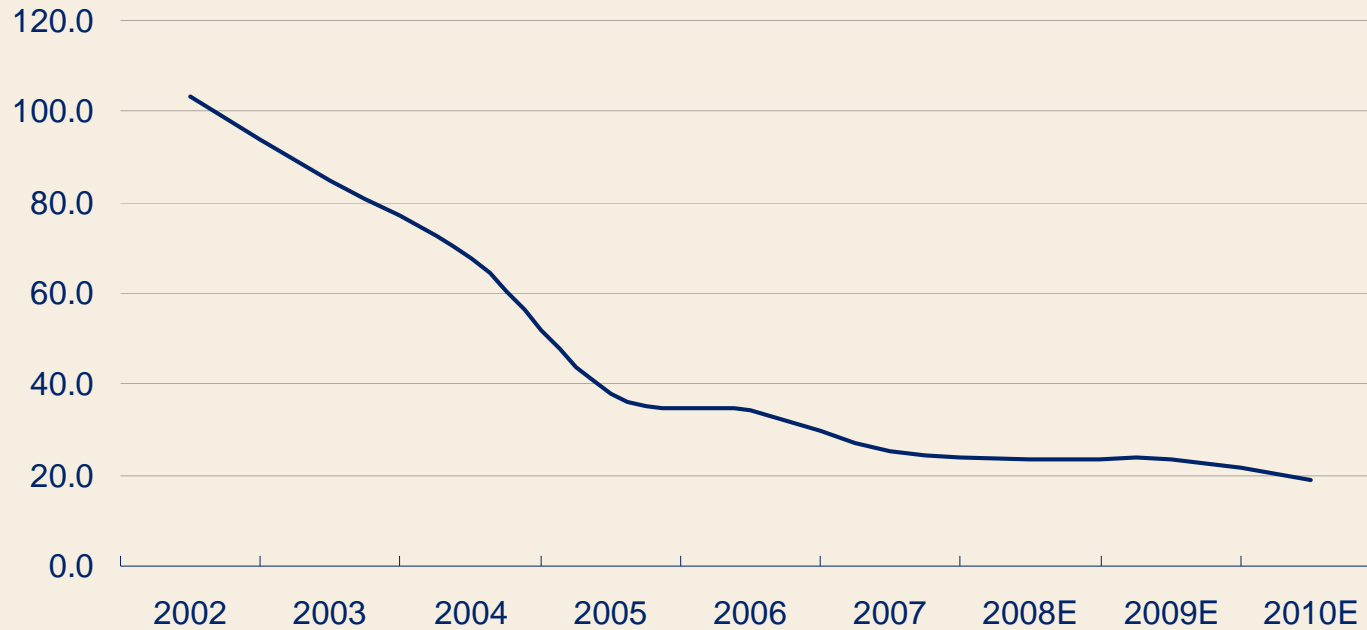
Q: So what steps to take to restore foreign investor confidence?

A: As little as possible – too much tinkering caused the problem in 1998

- If you act, act PROactively, not REactively

# Malaysia looks attractive enough without make-up

**MSCI Malaysia - Net Gearing (%)**



# PBVs also look attractive

## Regional PBV



## Malaysian PBV

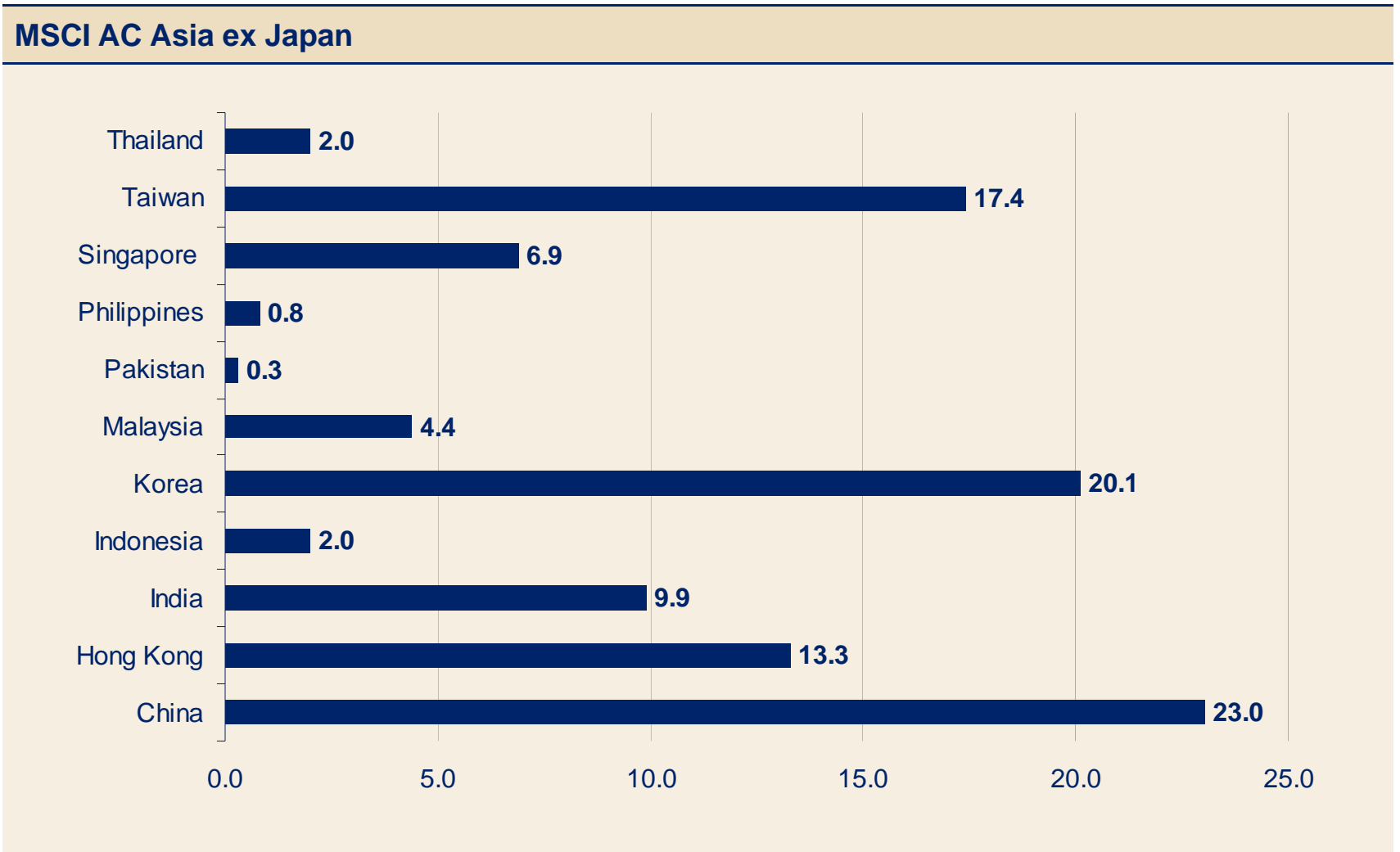


# Average dividend yield rebounding to record levels

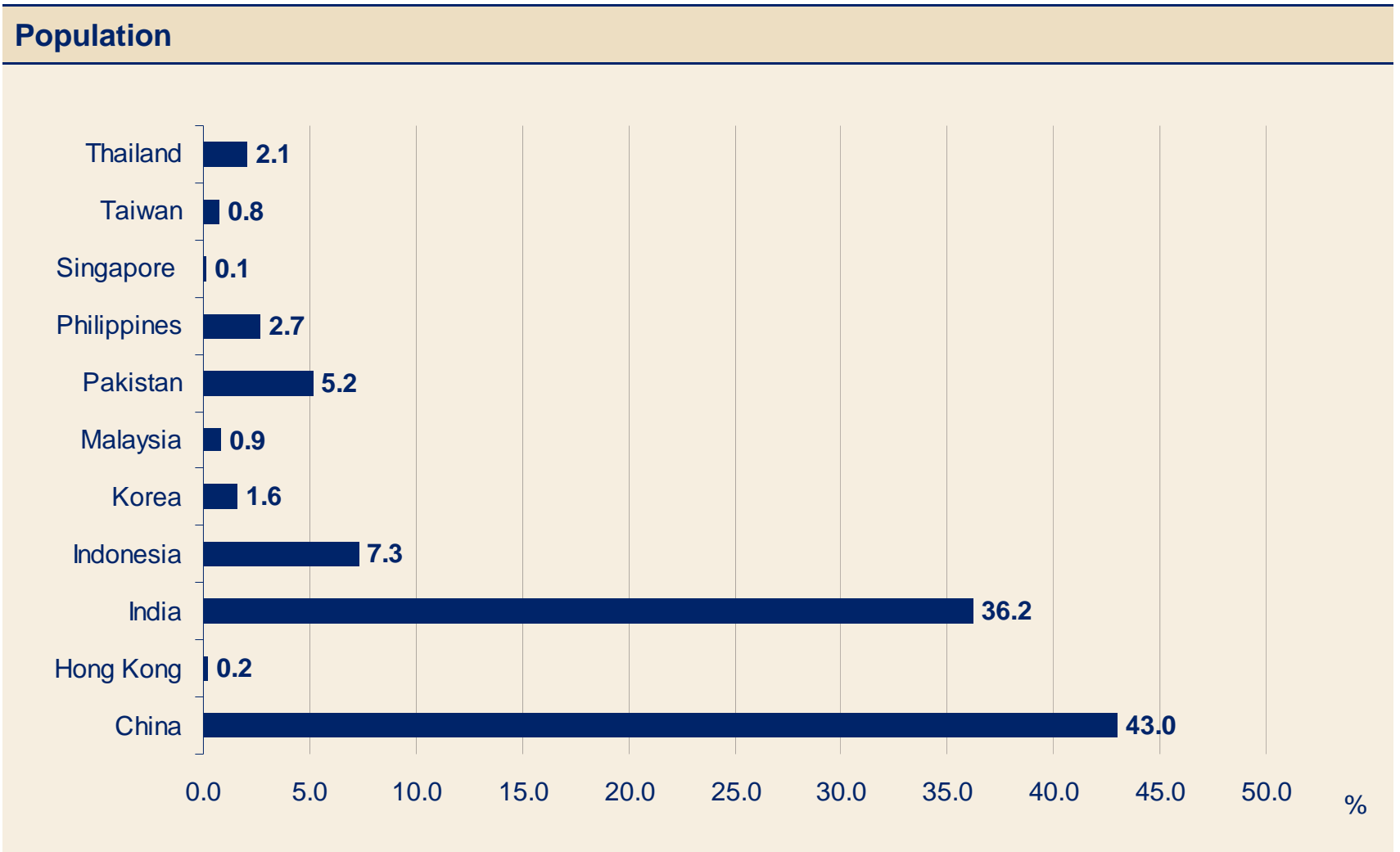
## Average dividend yield



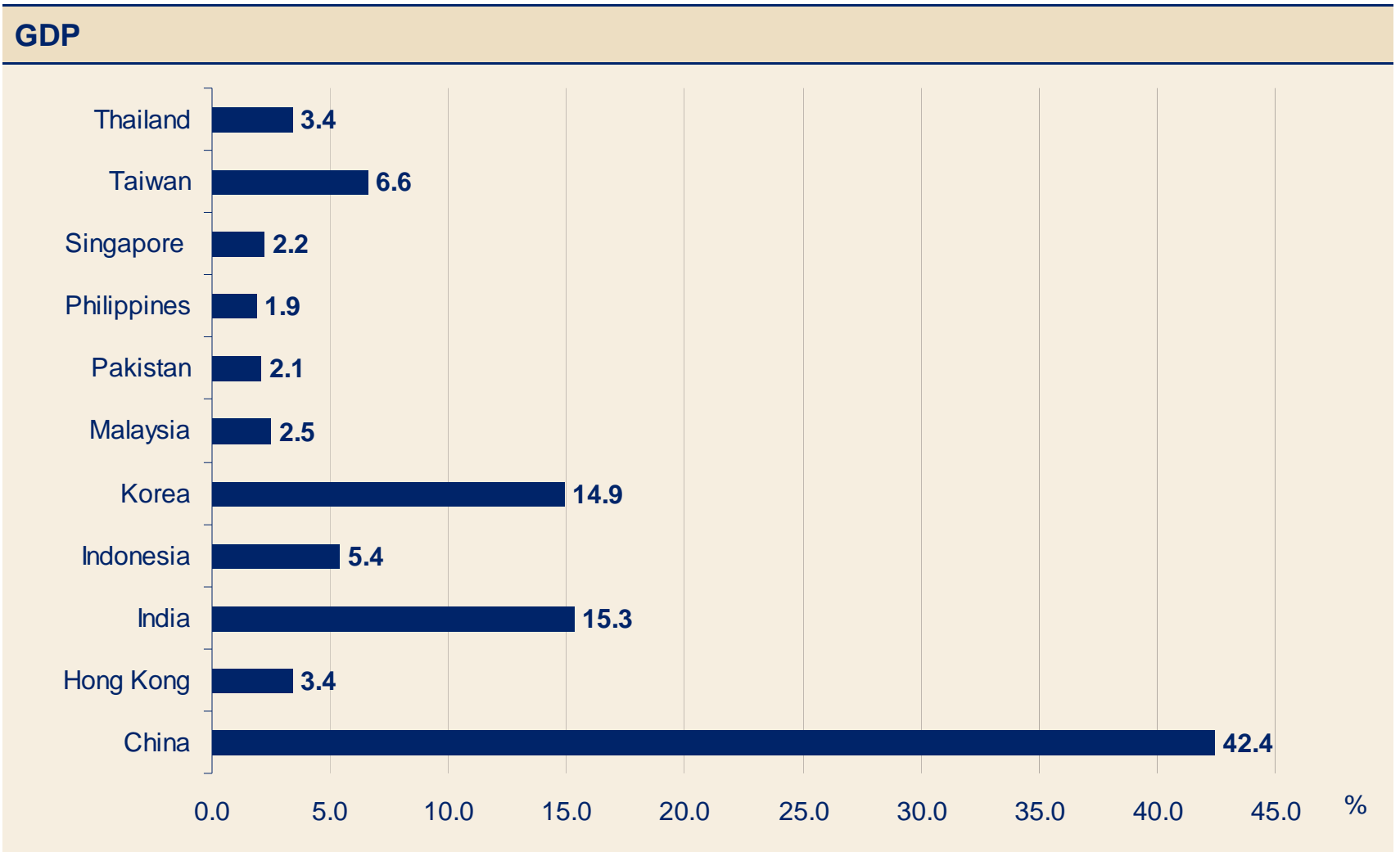
# MSCI AC AxJ index country weightings (%)



# MSCI AC AxJ countries by population (%)



# MSCI AC AxJ countries by GDP (%)



# Disclaimer

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