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23 – 24 August 2006 | AJC Convention Centre, Randwick, Sydney

Pillars for building better
quality investor portfolios...



The Impact of Emerging Markets in the Search for Global Alpha

Pedro V. Marcal

Portfolio Manager Global Select, Nicholas-Applegate
PortfolioConstruction Conference 2006

Allianz Global Investors Australia Limited
ABN 63 003 171 533 AFSL 244 322

Allianz 
Global Investors



Agenda

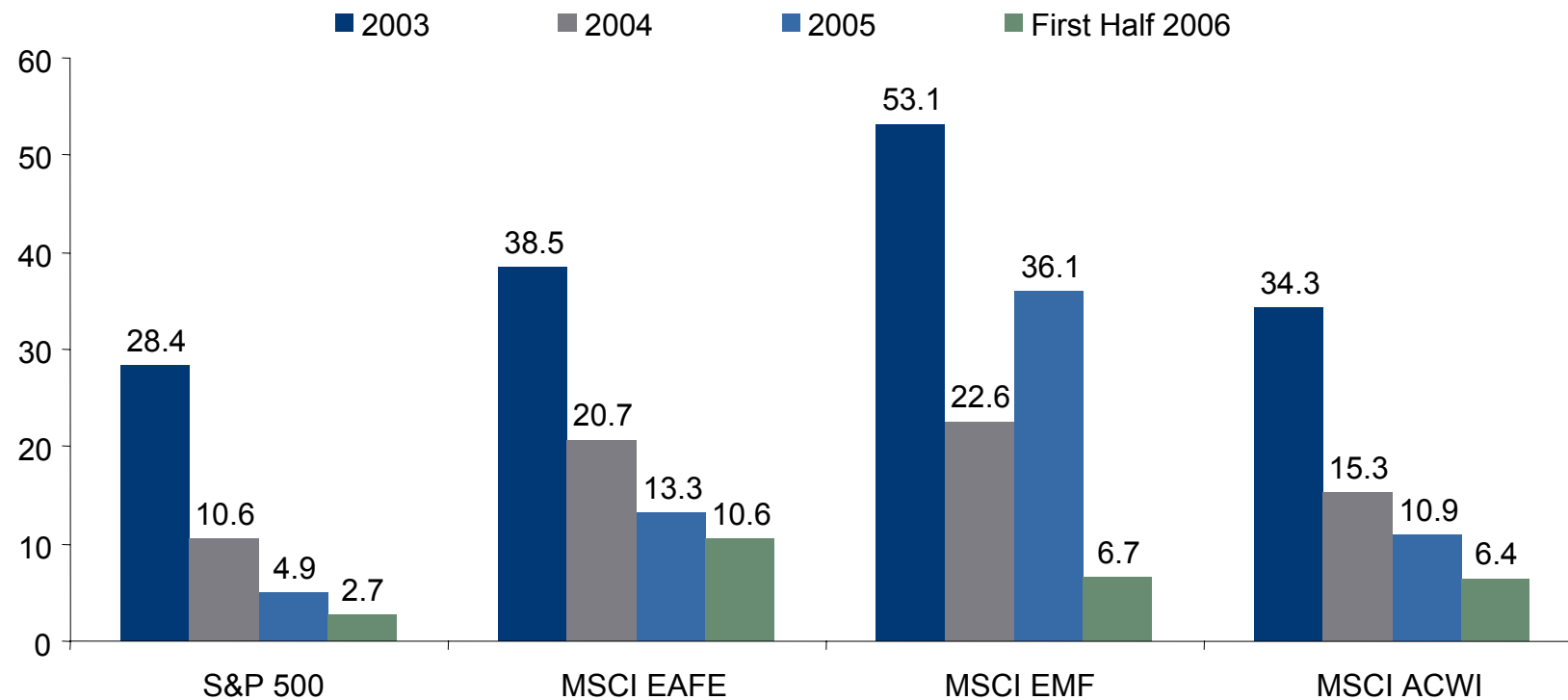
- Historical Role in Emerging Markets
- Impact Today of Emerging Markets
- Alternative Method of Gaining Exposure
- Nicholas-Applegate Global Select
- Conclusion and questions



Emerging Markets Delivered Solid Returns

Annual Returns – 2003 to 2006

Annual Returns – 2003 to 2006

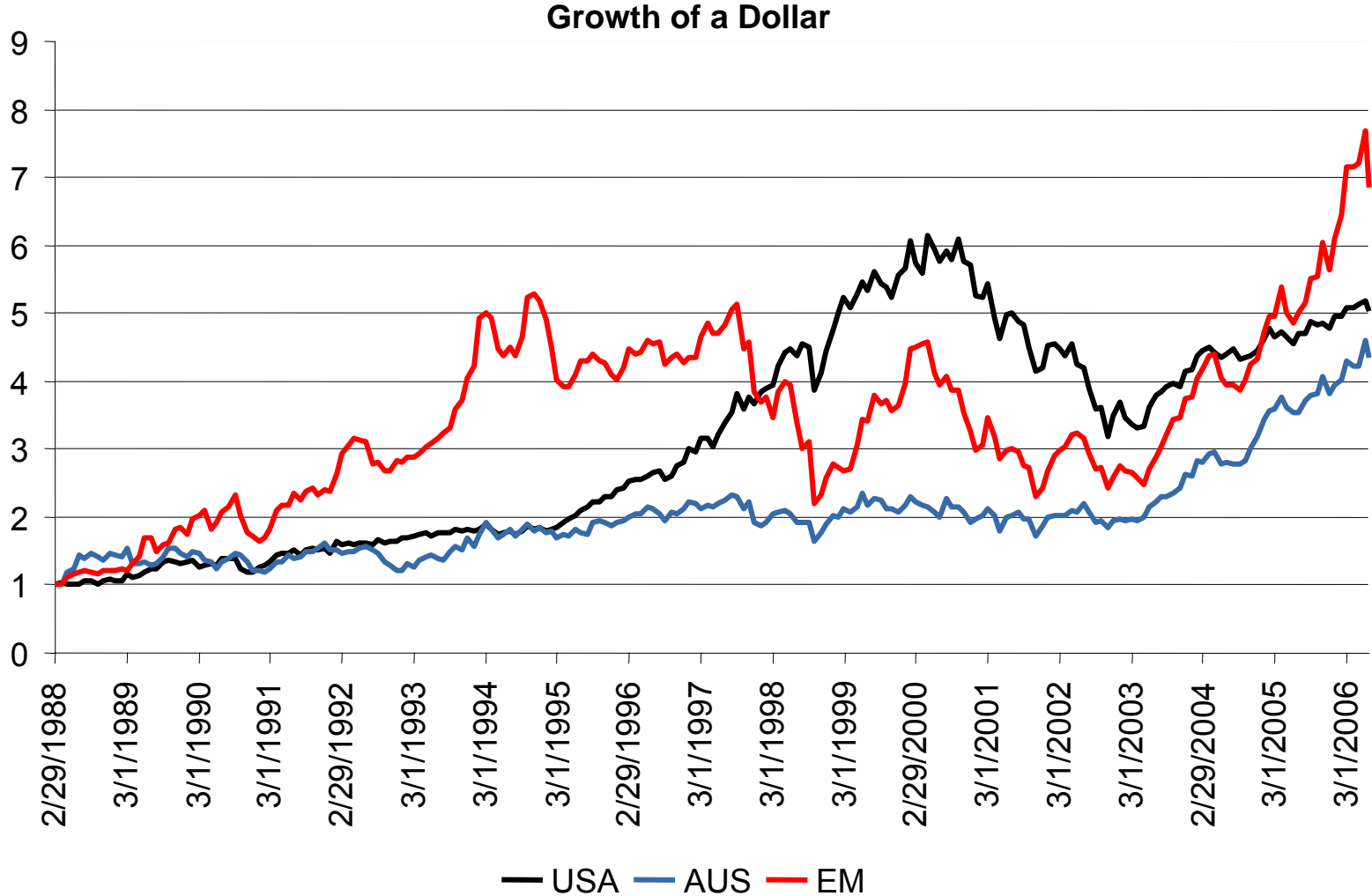


Source: FactSet

As of 30-Jun-06



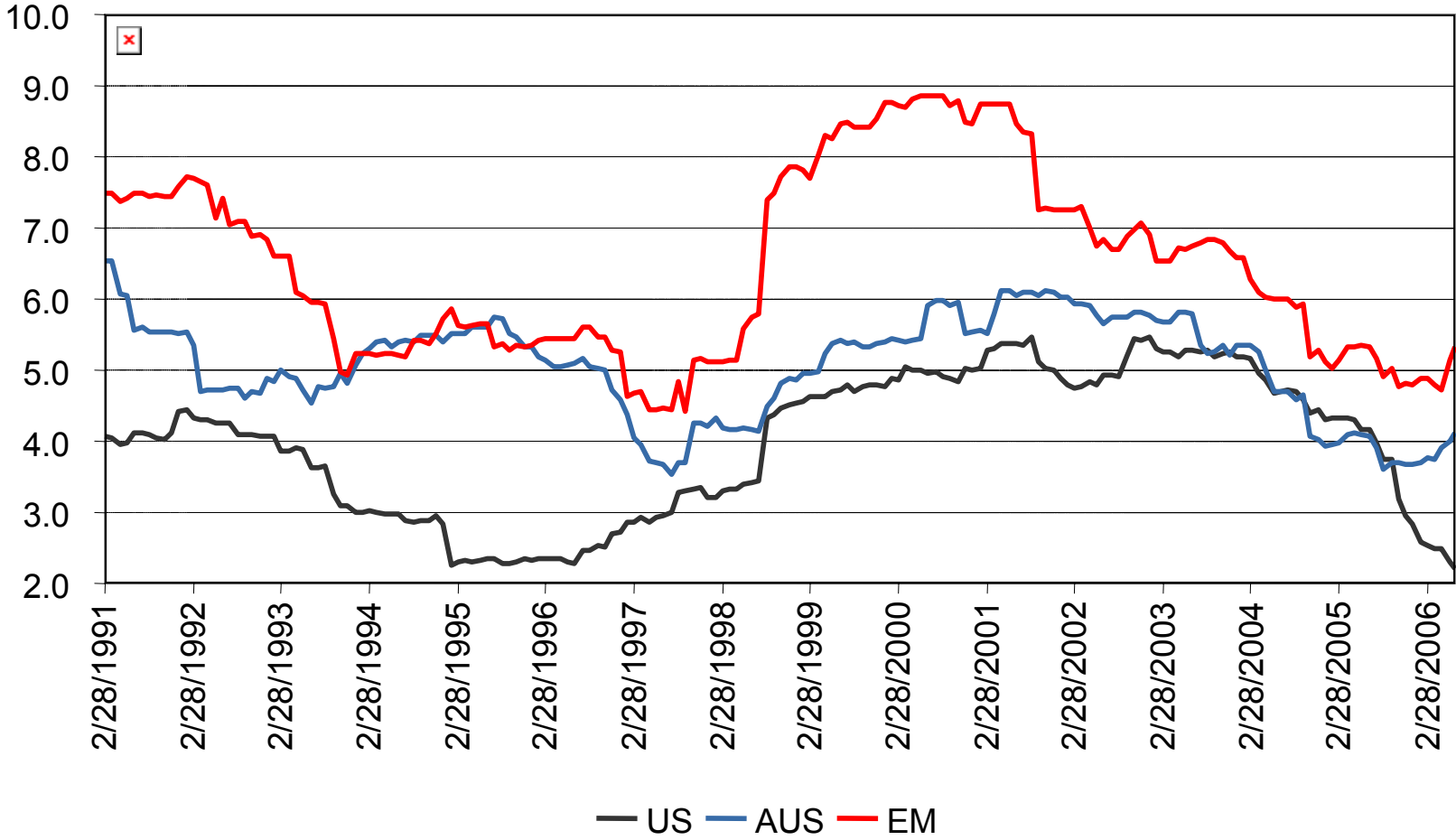
Exposure to Emerging Markets Benefited Investors





Volatility

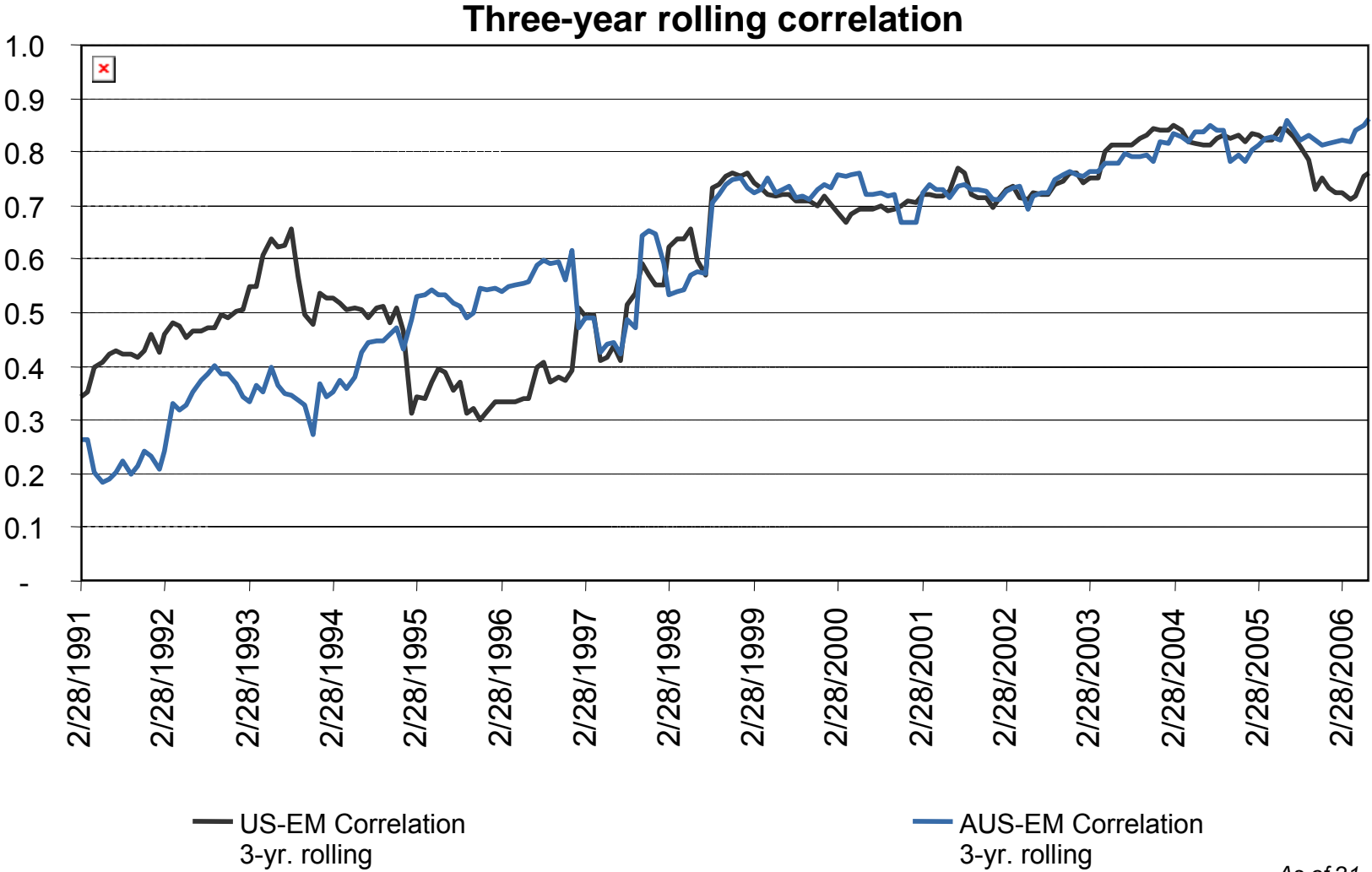
Standard Deviation of monthly average return (3 year moving average)



Source: FactSet



Globalization Transforms the Role of Emerging Markets



Source: Morgan Stanley and Nicholas-Applegate

As of 21-Jun-06



Integrated Global Alpha is Greater Than the Sum of its Parts

$$\alpha^{\text{Global}} > \alpha^{\text{US}} + \alpha^{\text{EAFE}} + \alpha^{\text{EMF}}$$

- Expanded Opportunity Set
- Leverage Knowledge Gained From Experience of Developed Markets
- Exploit Beneficiaries of Emerging Market Trends Regardless of Company Domicile




Emerging Markets Broadens the Opportunity Set

Number of Companies

Sector	Developed		+	Emerging	=	Global
	US	EAFE+Canada				
Consumer Discretionary	121	226		104		451
Consumer Staples	35	95		80		210
Energy	48	70		40		158
Financials	127	256		171		554
Health Care	68	61		24		153
Industrials	65	250		128		443
Information Technology	95	106		84		285
Materials	29	143		122		294
Telecommunication Services	12	35		52		99
Utilities	34	45		44		123
TOTAL	634	1,287		849		2,770



Understanding the Global Food Chain Allows Managers to Take Advantage of Existing and Emerging trends

Handset	Chip Design	Chip Manufacturers	Phone Assembly	Retailers	Operators
<p>Nokia</p> 	<p>RF Micro (US)</p> <hr/> <p>ST Micro (US)</p> <hr/> <p>Texas Inst. (US)</p> <hr/> <p>Motorola (US)</p> <hr/> <p>Silicon Labs (US)</p> <hr/> <p>Qualcomm (US)</p> <hr/> <p>Samsung (Korea)</p> <hr/> <p>DIAG SEMI (Finland)</p> <hr/> <p>ARM (UK)</p>	<p>Texas Inst. (US)</p> <hr/> <p>TSMC (US)</p> <hr/> <p>Motorola (US)</p> <hr/> <p>United Micro Elec. (Taiwan)</p> <hr/> <p>IBM (Taiwan)</p> <hr/> <p>Samsung (Korea)</p>	<p>Elcoteq (Finland)</p> <hr/> <p>Compal (Taiwan)</p> <hr/> <p>BENQ (Taiwan)</p> <hr/> <p>Samsung (Korea)</p> <hr/> <p>Flextronix (Singapore)</p> <hr/> <p>Foxconn (Taiwan)</p>	<p>Best Buy (US)</p> <hr/> <p>Circuit City (US)</p> <hr/> <p>Radio Shack (US)</p> <hr/> <p>Carphone Warehouse (Europe)</p>	<p>Verizon</p> <hr/> <p>Cingular ATT Wireless</p> <hr/> <p>Sprint/Nextel</p> <hr/> <p>T Mobile</p> <hr/> <p>Vodaphone</p> <hr/> <p>China Mobile</p> <hr/> <p>SK Telecom</p> <hr/> <p>NTT Dokomo Japan</p> <hr/> <p>Hutchison</p>



Buying the “Best of the Best”



U.S. – 2		EAFE – 11		Emerging Markets – 17	
Ford	BMW	Porsche	Astra	Hyundai	
GM	DaimlerChrysler	Renault	Bajaj	Kia	
	Fiat	Toyota	Brilliance	Mahindra	
	Honda	Volkswagen	China Motor	Maruti Udyog	
	Nissan	Yamaha	Denway	Proton	
	Peugeot		DongFeng	Tan Chong	
			DRB-Hicom Berhard	Tofas	
			Ford Otomotiv	Yulon	
			Hero Honda		



Pursuing the “Best of the Best” Often Leads To Non-U.S. – In This Case, To China

Denway: A Producer Of Hondas In China

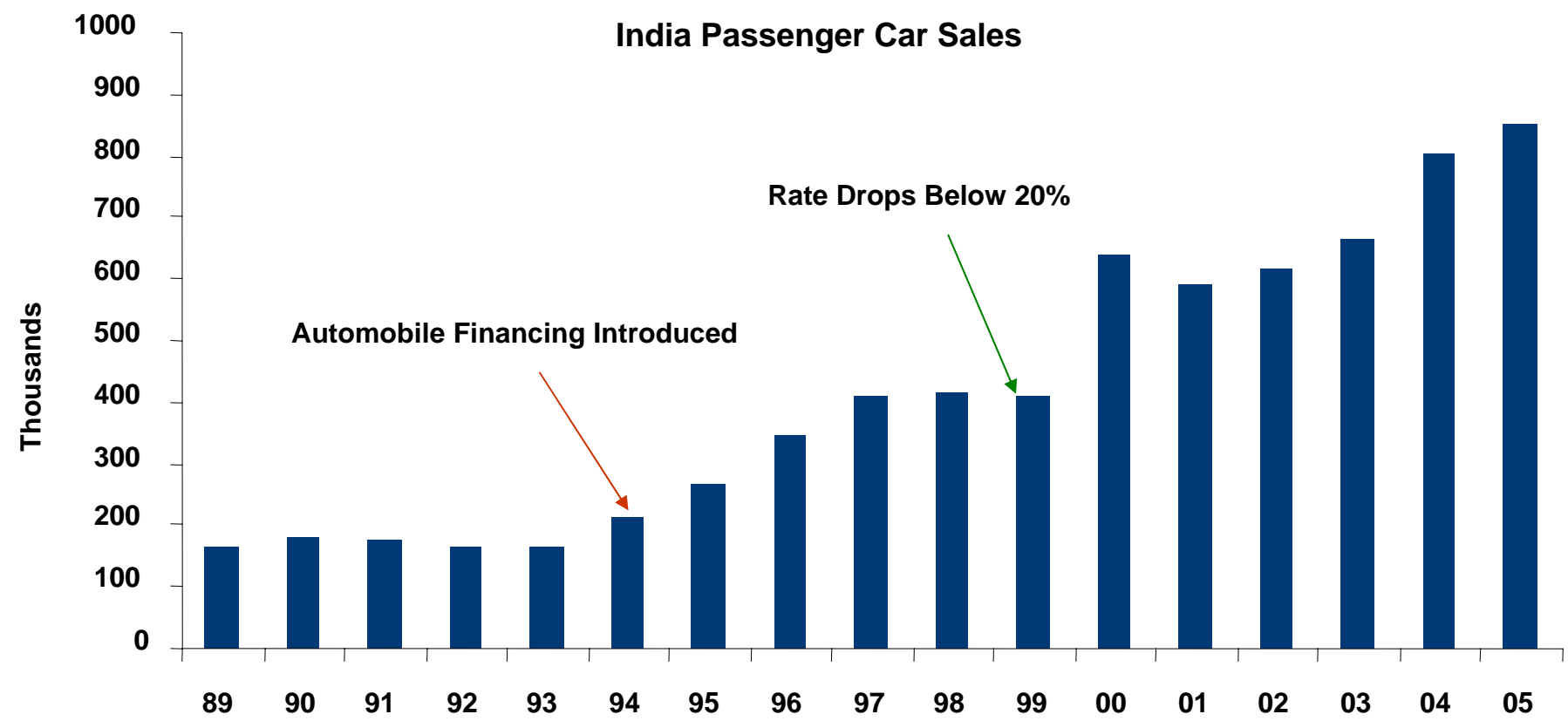
- Significant Sales Increases Due to
 - Financing Availability
 - Increased Purchasing Power of Chinese
 - New Government Policies Supporting Car Ownership- Road building





Autos Case Study: Availability of Financing Increases Sales

India Passenger Car Sales



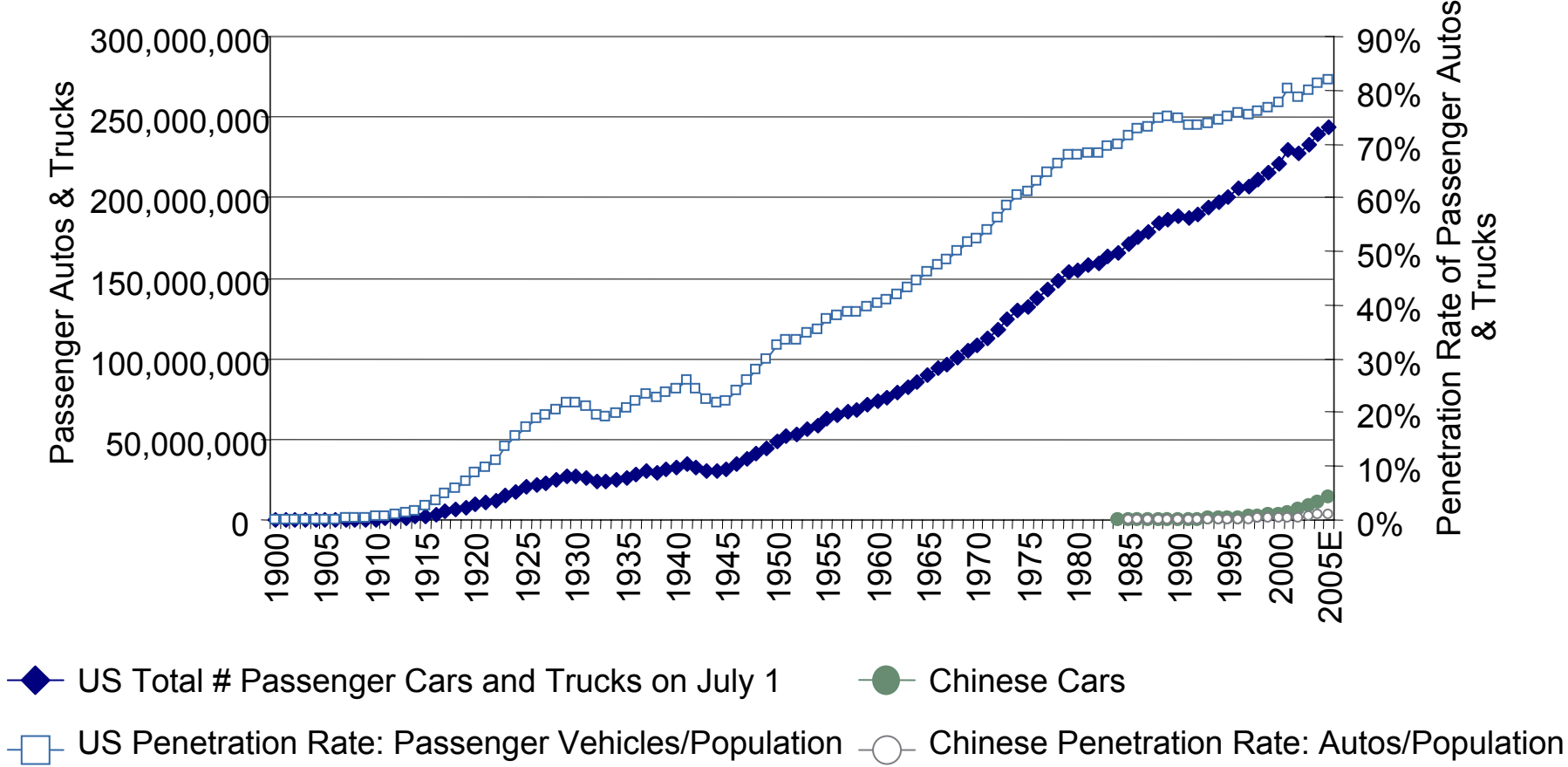
Source: Citigroup India

As of 31-Dec-05



Experience in Developed Markets Allows Managers to Spot Trends in Emerging Economies

Comparison of Chinese and US Autos as Percent of Population



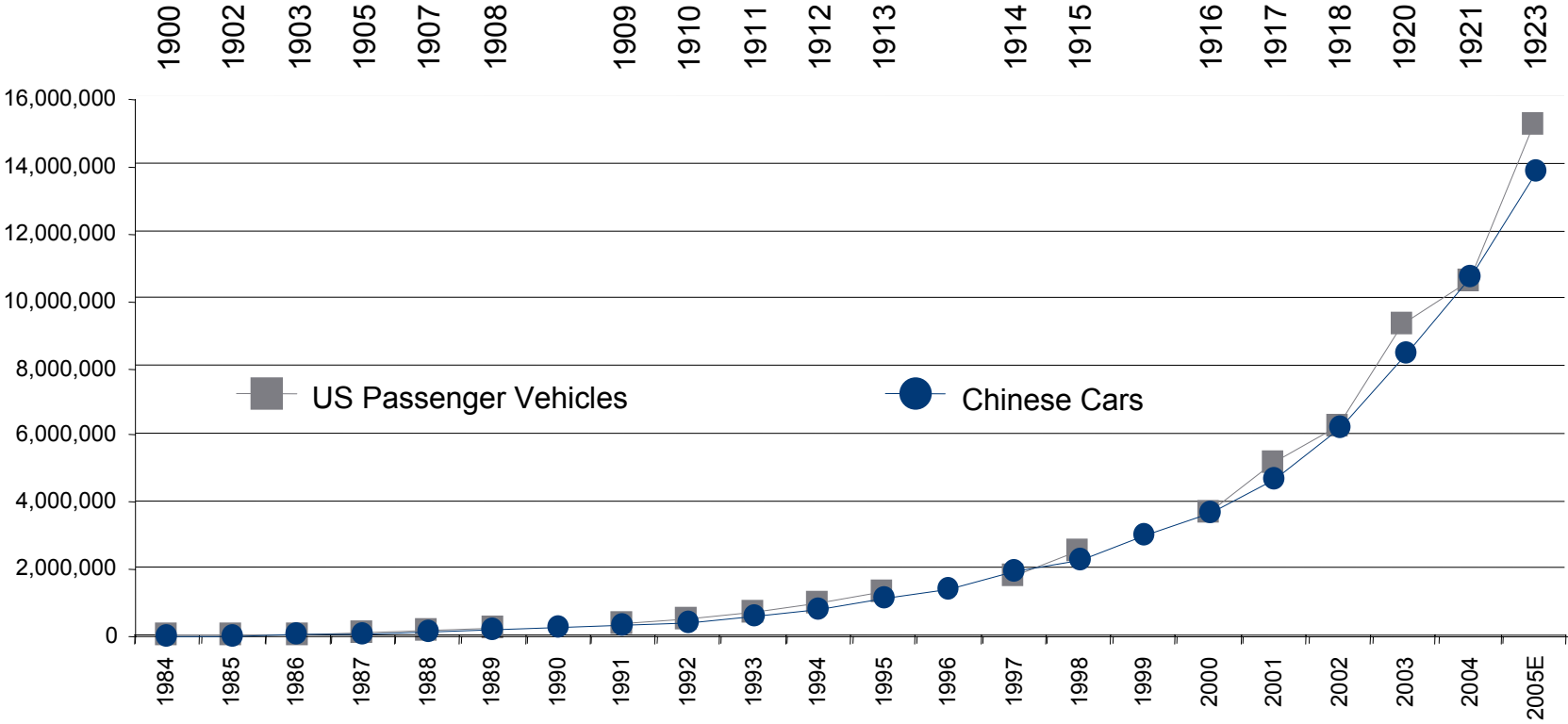
Source: Morgan Stanley; FactSet

As of 31-Dec-05



Experience in Developed Markets Allows Global Managers to Spot Trends in Emerging Economies

Comparison of the Pace of Chinese and US Passenger Vehicle Penetration



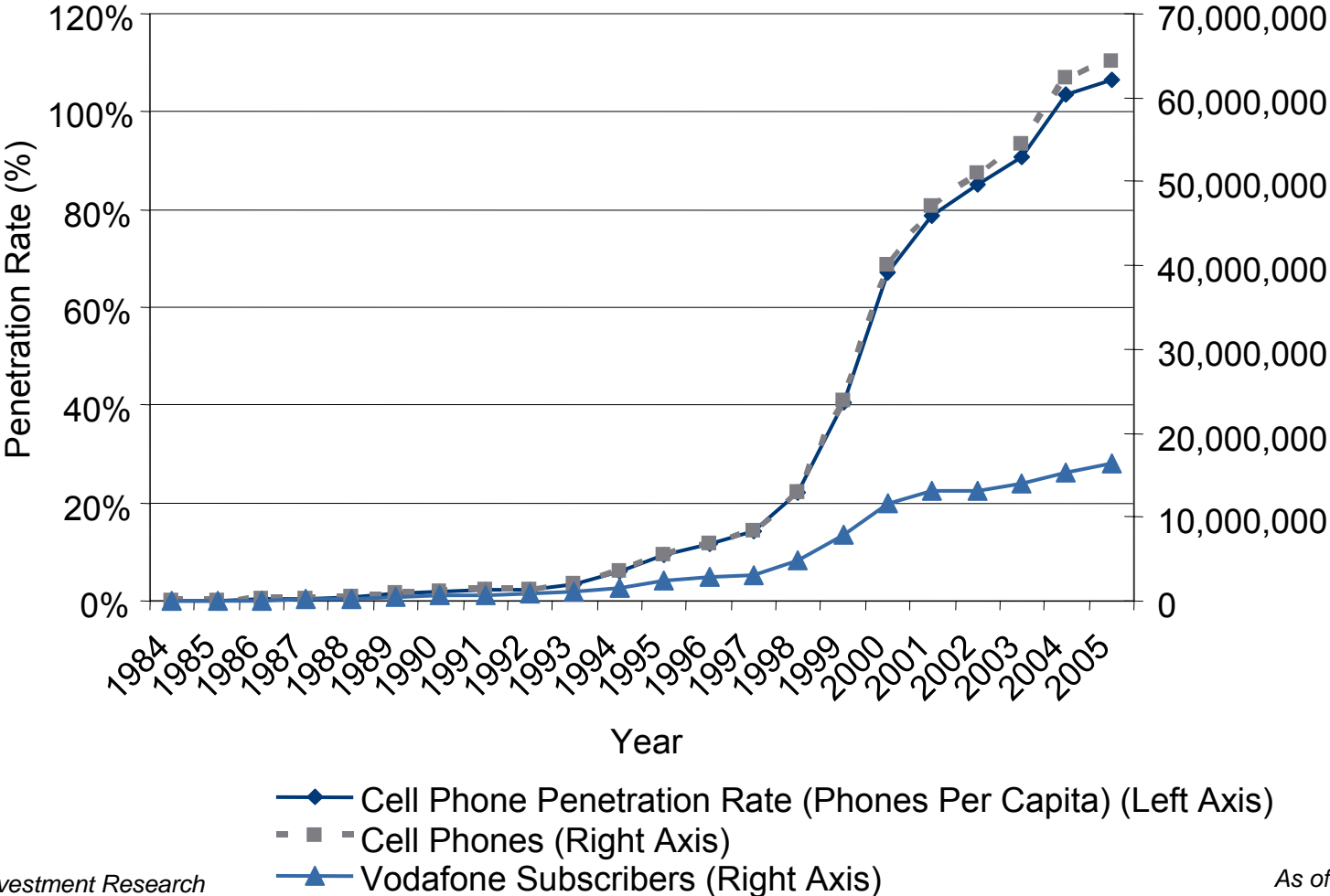
Source: Morgan Stanley; FactSet

As of 31-Dec-05



Experience with Developed Markets Allows Global Managers to Spot Trends in Emerging Economies

U.K. Mobile Phone Penetration 1985-2006



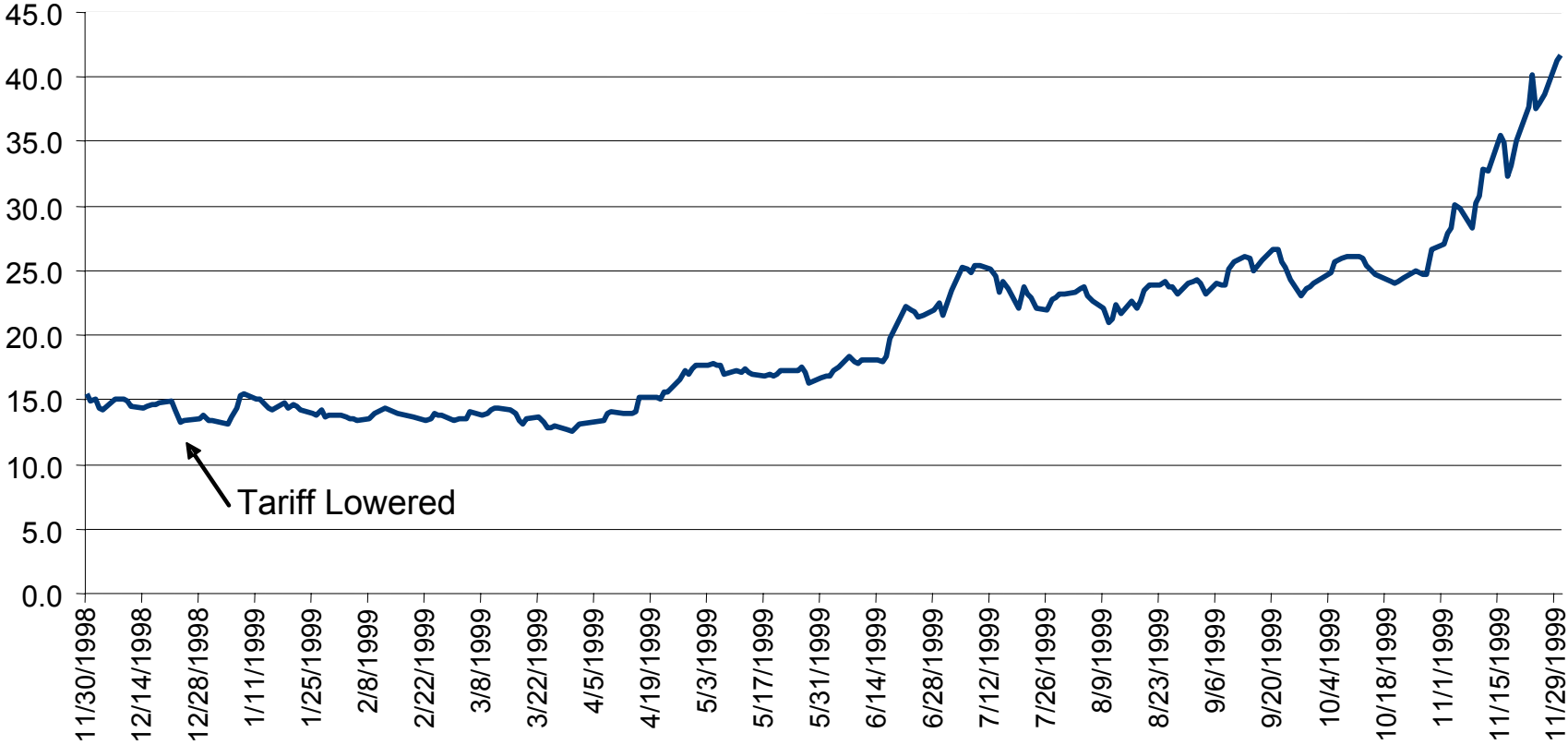
Source: Citigroup Investment Research

As of 31-Dec-05



Experience with Developed Markets Allows Global Managers to Spot Trends in Emerging Economies

China Mobile Price Chart 12/98 – 12/99
Hong Kong \$



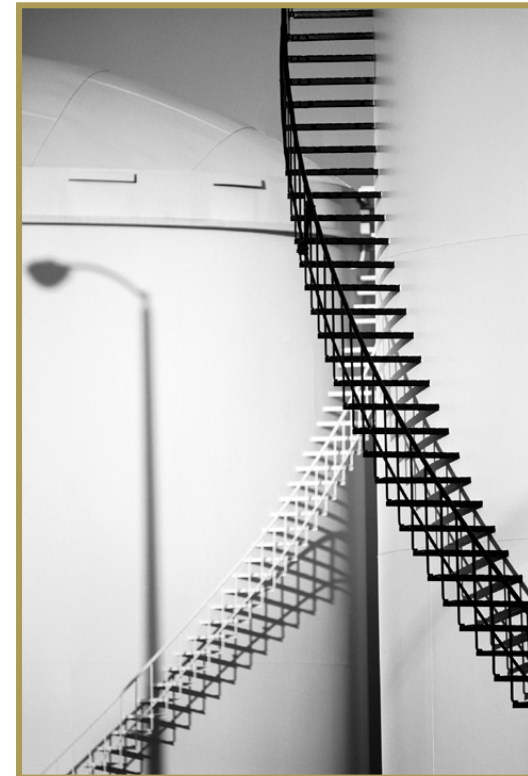


Developed Markets Benefit From Growth in Emerging Economies

2004/2005 Increasing Emerging Markets Demand for Energy/Oil Benefited US Oil Refiners

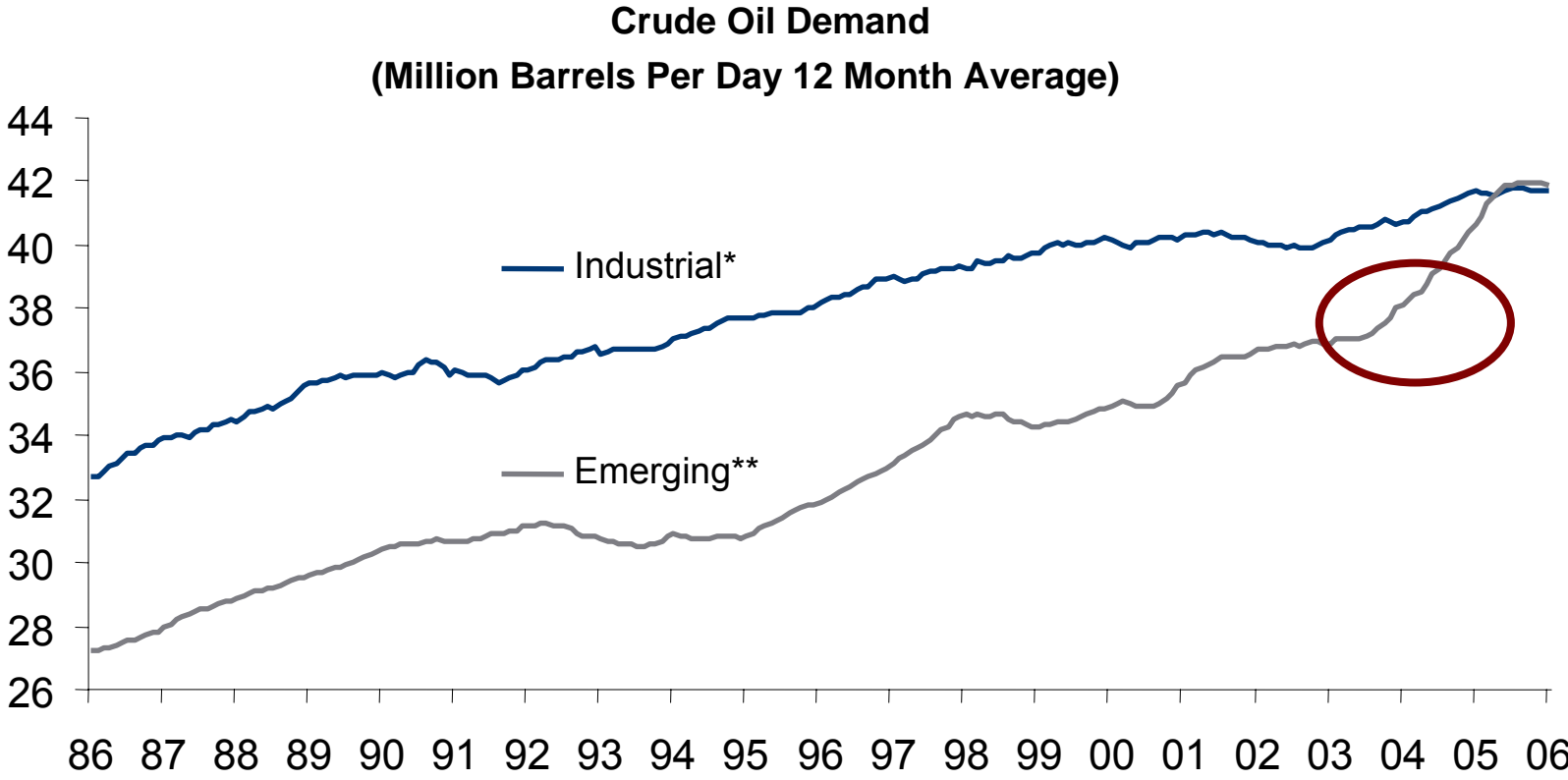
- Massive Demand For Energy in Developing Economies
- Supply of Light Sweet Crude Oil is Inelastic
- Lack of Global Oil Refining Capacity

Leads to Much Higher Refining Margins for U.S. Complex Refineries.





Industriazed and Developing Oil Demand

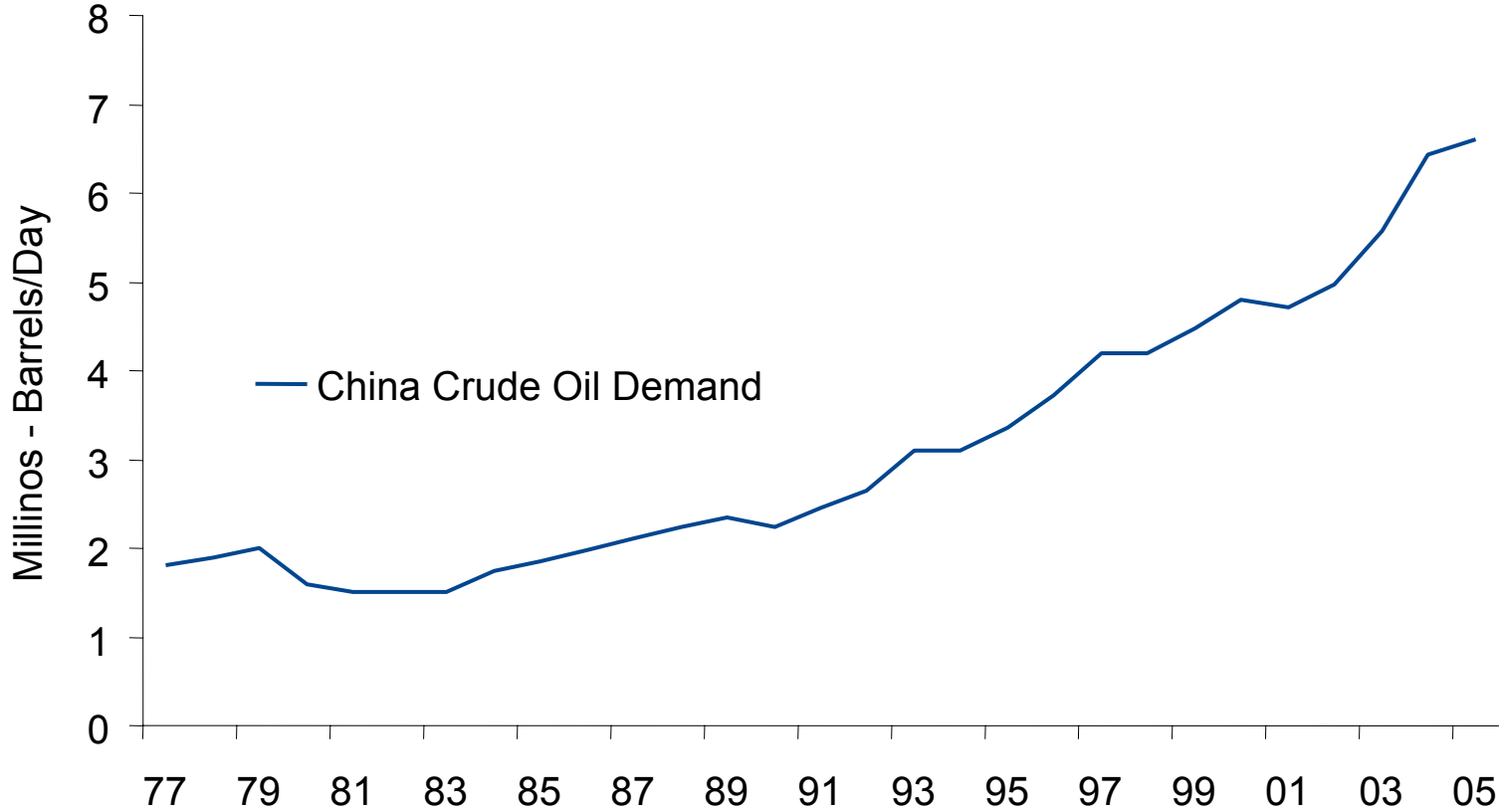


* U.S., Western Europe and Japan.
 **Total excluding U.S., Western Europe and Japan

Source: Oil Market Intelligence



China: Crude Oil Demand Is Rising Quickly

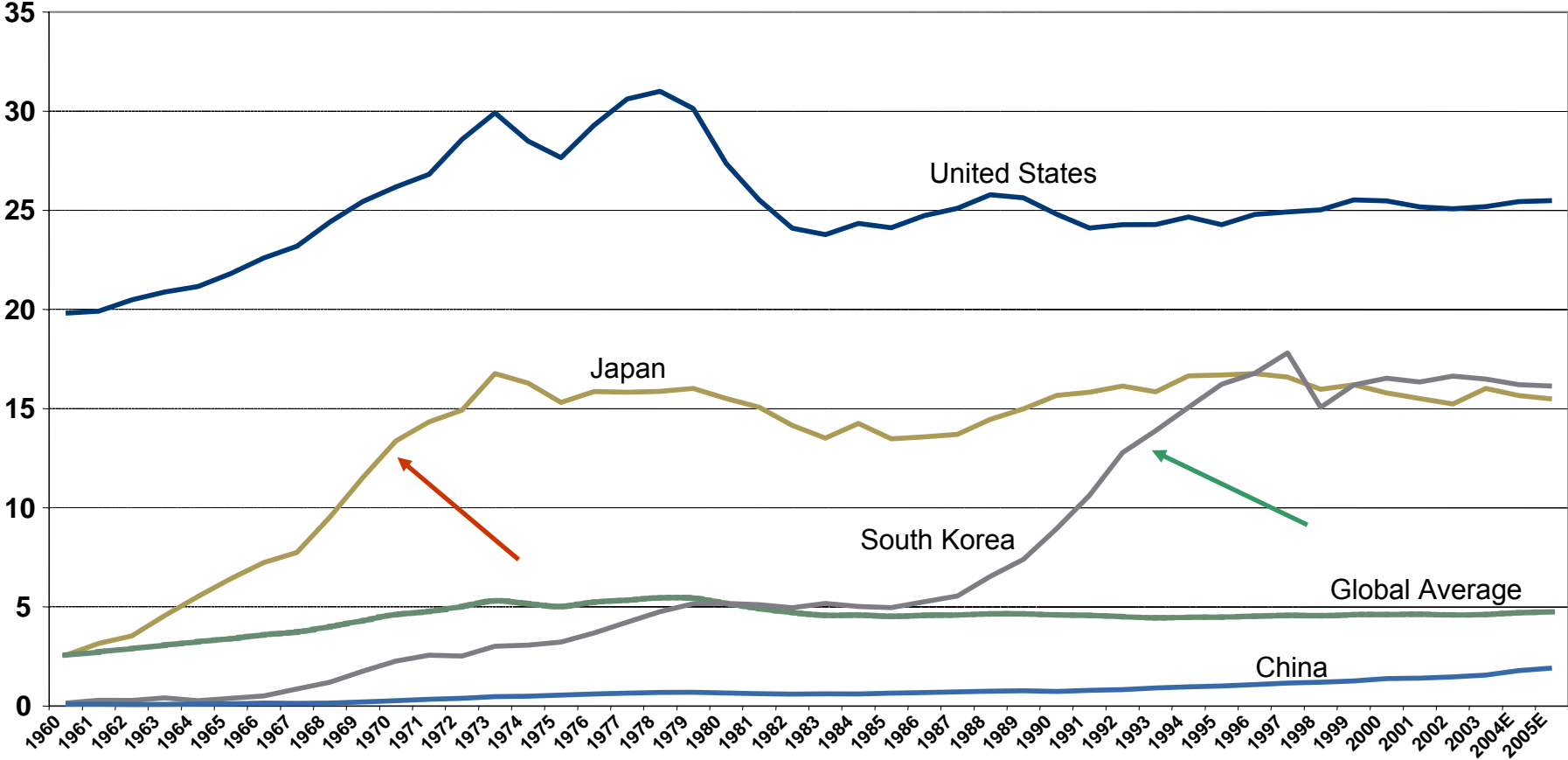


Source: Oil Market Intelligence



Making Room for China: Oil Demand Growth Potential

Per Capita Oil Demand, Barrels Per Year



Source: E.G. Edwards & Sons Energy Research / IEA EIA, U.S. Census Bureau



Benefiting From Global Trends

Valero: An Independent Petroleum Refiner That Owns and Operates Complex Refineries in the US

- Increase in Sales and Margins Due to Increase in Global Demand for Their Products Straining Current Supply
- Increase in Light Heavy Differential
- Increase in Refining Margins
- New Environmental Policies in US Effecting Diesel Fuel and Motor Gasoline





Integrated Global Alpha is Greater Than the Sum of its Parts

$$\alpha^{\text{Global}} > \alpha^{\text{US}} + \alpha^{\text{EAFE}} + \alpha^{\text{EMF}}$$

- Expanded Opportunity Set
- Leverage Knowledge Gained From Experience of Developed Markets
- Exploit Beneficiaries of Emerging Market Trends Regardless of Company Domicile



Benefits of an Integrated Global Process

Nicholas-Applegate's philosophy:

- Academic research in behavioural finance indicates that investors react inefficiently to changing information
- Nicholas-Applegate examine positive change as an indicator of out performance – change provides opportunity

Nicholas-Applegate's approach:

- To construct a globally integrated all country, all sector, all market cap portfolio using best ideas around the world
- To leverage the extensive resources of Nicholas-Applegate's research platform, both internal and external, fundamental and quantitative.





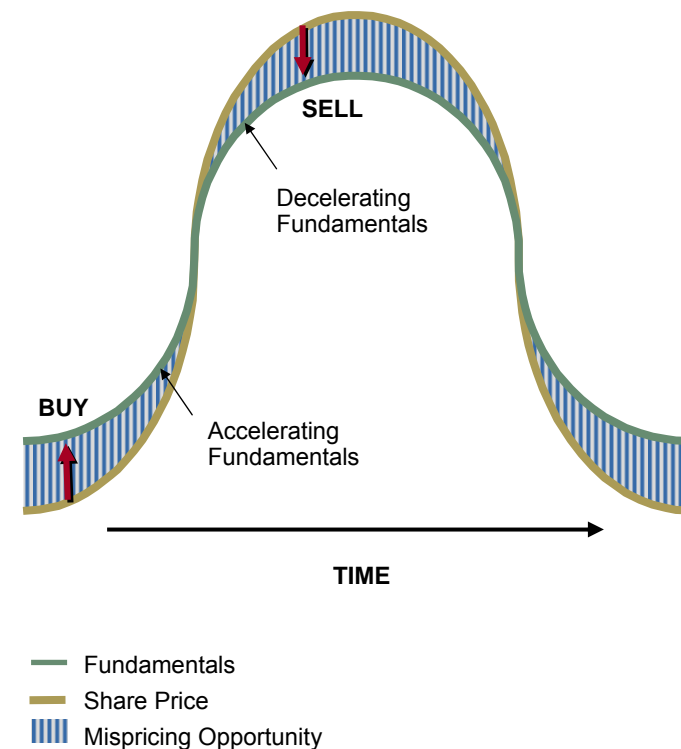
Nicholas-Applegate Global Select philosophy: capitalise on change

Nicholas-Applegate believes that stocks rarely remain fairly priced because of constantly changing information.

- Academic research in behavioral finance indicates that investors react inefficiently to changing information
 - investors tend to anchor on the past
 - investors tend to be overconfident
- This market inefficiency presents mispricing opportunities that Nicholas-Applegate capitalises on to earn excess return

This investor behavior creates opportunity.

CHANGE CREATES OPPORTUNITY



Source: Nicholas-Applegate



Global Select: investment management approach

Nicholas-Applegate's investment approach combines focused fundamental research with globally integrated stock selection and portfolio construction.

- Nicholas-Applegate's best stock picks around the world
- Globally integrated process
- All countries, all sectors, all caps over US\$500 million
- Includes emerging markets

Adding value through stock selection.

INVESTMENT APPROACH

Global Select

- Investment objective:
 - Excess return 3%-5%
 - Tracking error 4%-7%
- Investment universe:
 - All markets, developed and emerging
 - All capitalisation ranges
 - Approximately 4500 stocks
- 75-125 holdings
- 125%-200% turnover

Non actual past performance

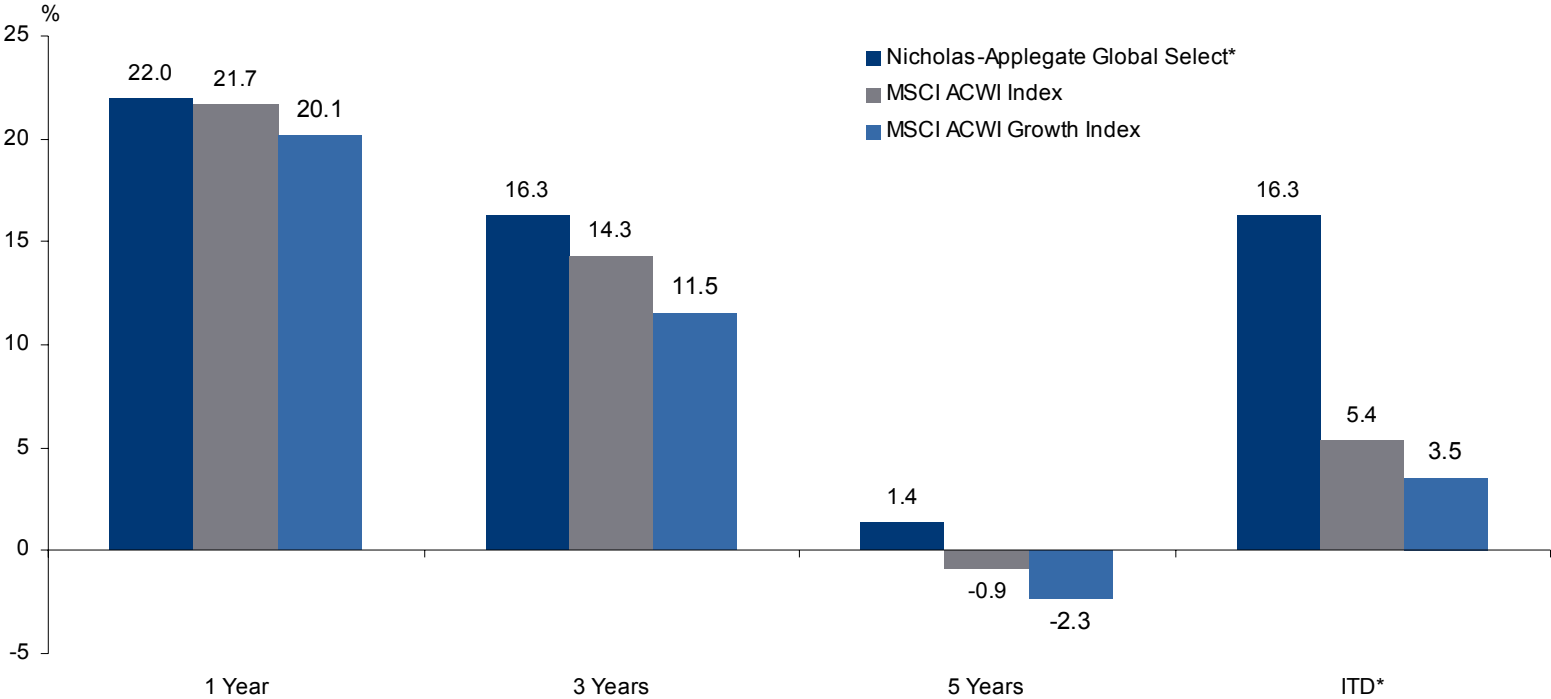
Past performance for the Global Select capability is non-actual in that it is based on a composite of performance from discretionary mandates, mutual funds and sub-advisory accounts managed under the global select strategy.

Composite inception 01-Oct-97



The Global Select Portfolio Has Produced Strong Returns Relative to the MSCI ACWI Since Inception.

Annualized Performance (\$AUD)



* Composite inception 01-Oct-97
 Source: Nicholas-Appligate; see additional disclosure

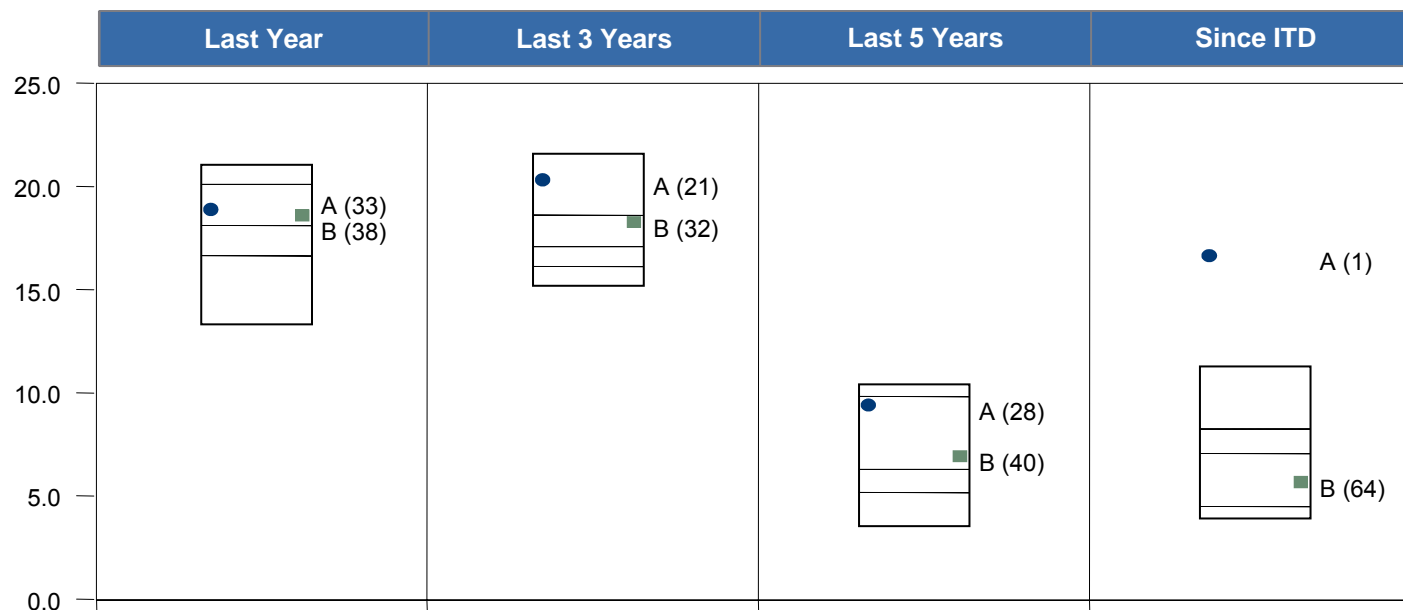
As of 30-Jun-06



Global Select (\$ US): Risk-adjusted Results

Global Select Has Delivered Top-Quartile Rankings.

Returns For Periods
Ending 30-Jun-06
CAI Global Select Style
Inception Date: 1-Oct-97



	Last Year	Last 3 Years	Last 5 Years	Since ITD
NACM Global Select Comp.	18.89	20.32	9.41	16.66
MSCI:AC World Free	18.59	18.28	6.92	5.67
10th Percentile	21.06	21.58	10.40	11.28
25th Percentile	20.11	18.61	9.83	8.24
Median	18.11	17.08	6.29	7.05
75th Percentile	16.64	16.12	5.16	4.49
90th Percentile	13.30	15.20	3.53	3.90

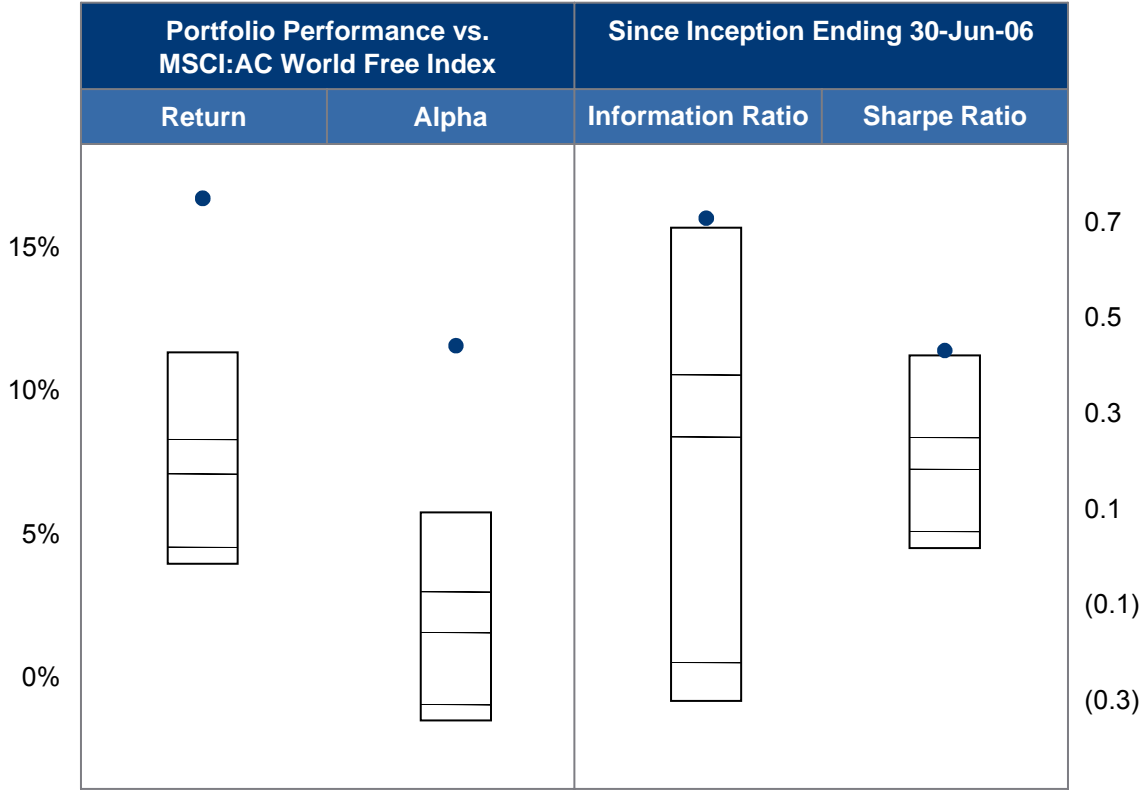
* Composite inception 01-Oct-97; Source: Callan Associates Inc.; see additional disclosure

As of 30-Jun-06



Global Select (\$ US): Peer Rankings

Global Select Has Delivered Top-Quartile Rankings.



	Return	Alpha	Information Ratio	Sharpe Ratio	
● NACM Global Select Comp	16.66	11.52	0.71	0.43	
CAI: Intl EQ Global Sty Median	7.05	1.52	0.25	0.18	
1=High 100=Low	NACM Global Select Comp. Rank	1	1	9	6

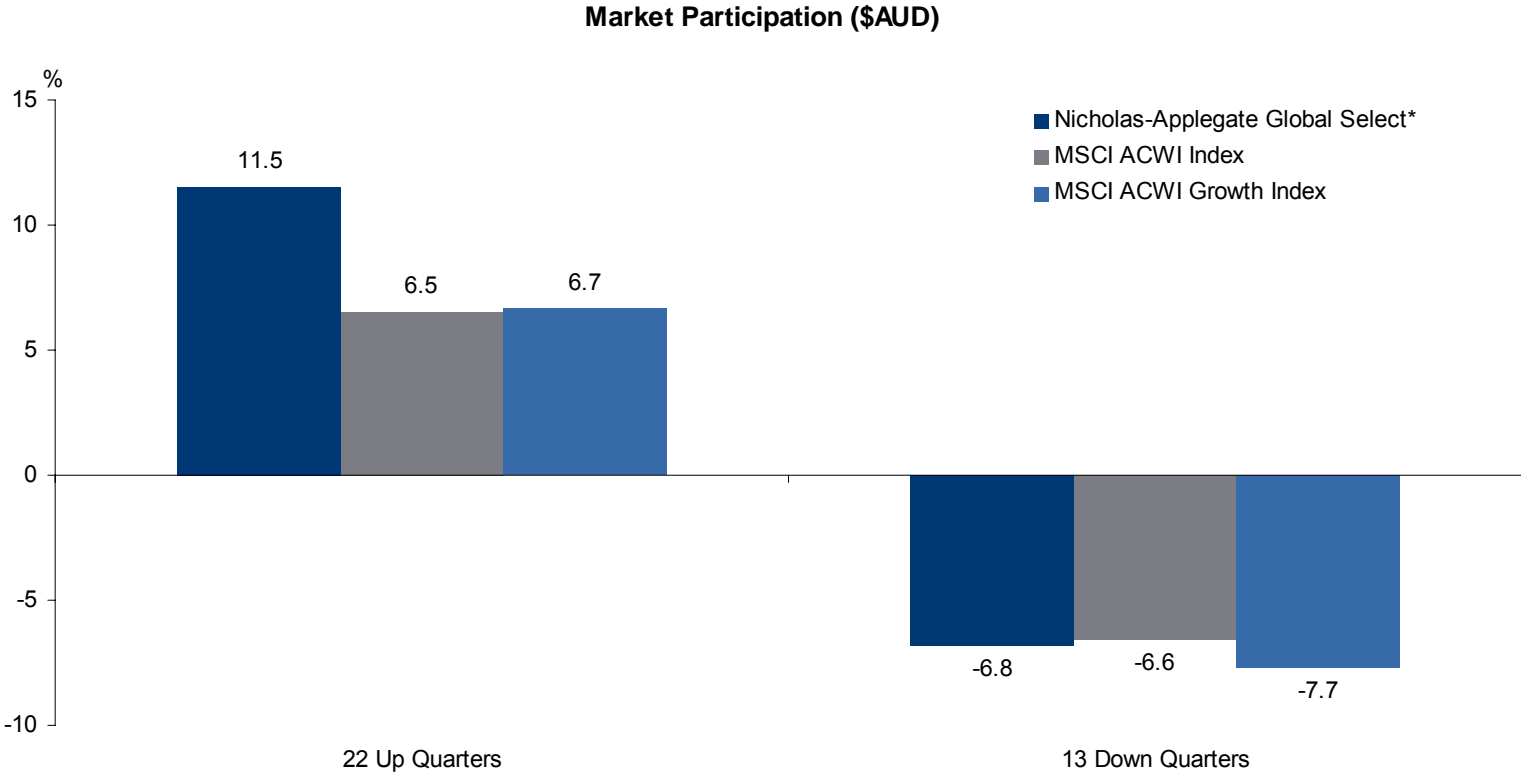
* Composite inception 01-Oct-97; Source: Callan Associates Inc.; see additional disclosure

As of 30-Jun-06



Global Select (\$ AUD): Market Participation

The Global Select Portfolio Has Produced Strong Returns Relative to the MSCI ACWI Since Inception.



* Composite inception 01-Oct-97
 Source: Nicholas-Applegate; see additional disclosure

As of 30-Jun-06



Why you should select Nicholas-Applegate

The rationale for selecting Nicholas-Applegate

- Philosophy focused on uncovering inefficiencies created by change
- Dedicated, experienced global team
- Globally integrated stock selection and portfolio construction
- All caps, all regions ... no barriers
- Aims to deliver superior risk adjusted returns





■ Your Questions



Disclosure

This report is intended to provide general advice and information only and has been prepared by Allianz Global Investors Australia Limited ABN 63 003 171 533 AFSL 244 322 ("AllianzGI") without taking into account any particular person's objectives, financial situation or needs. Before acting on this general advice and information, you should consider the appropriateness of this general advice and information having regard to your personal objectives, financial situation and needs and, if necessary, seek appropriate professional advice.

The information in this report, including any opinions, estimates or forecasts:

- › has been obtained from, or is based on, sources believed by us to be reliable
- › is not guaranteed as to accuracy or completeness
- › is given without obligation and on the understanding that any person who acts on it does so entirely at his or her own risk
- › constitutes our judgment and is subject to change without notice
- › may be based on proprietary research and is not to be relied on as advice
- › are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in this report.

Investments can go up and down in value. Past performance is not a reliable indicator of future performance.

Changes in rates of exchange may cause the value of investments to fluctuate.

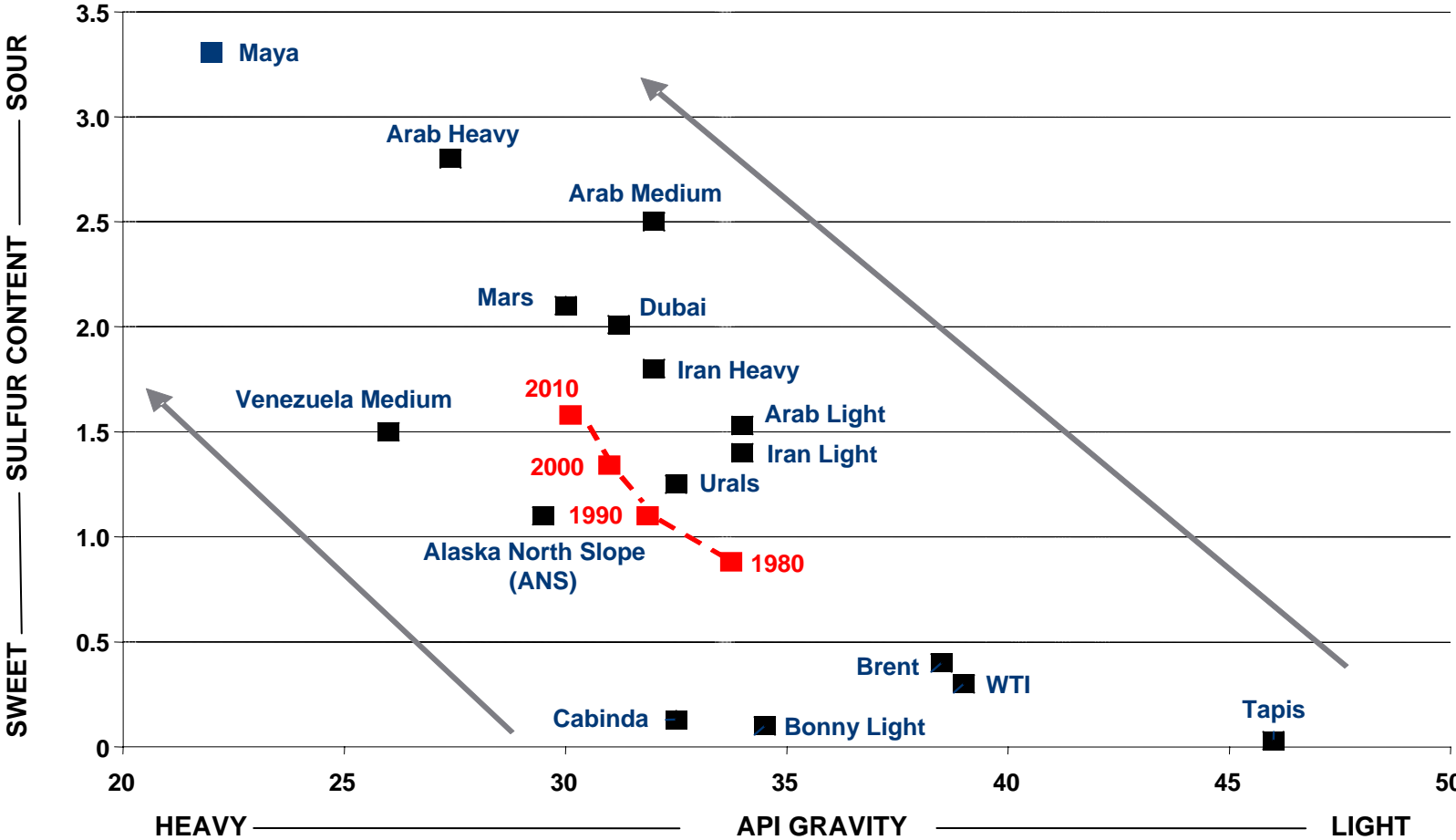


Supplemental Information

Supplemental Information



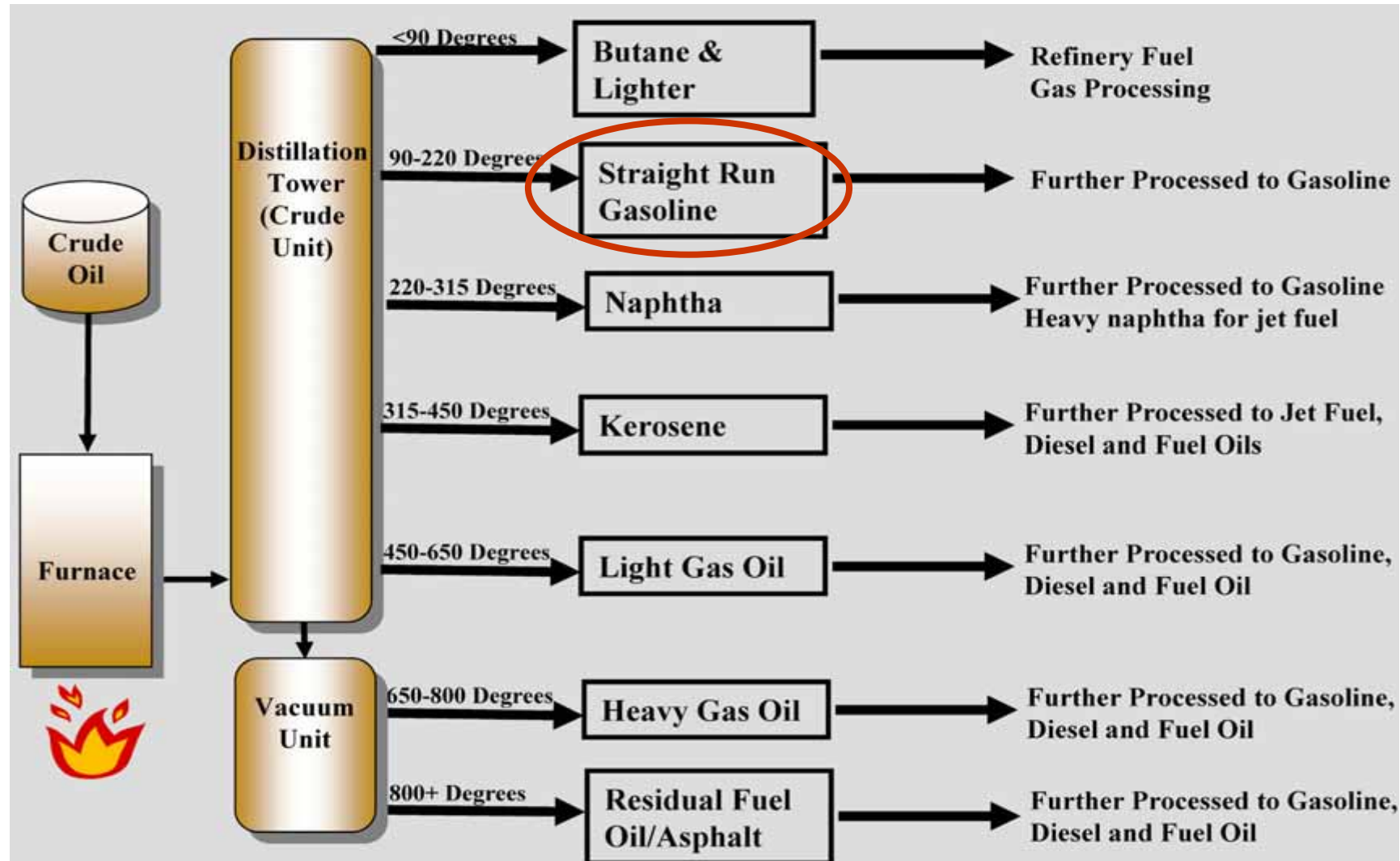
Quality of Important Worldwide Crude Types



Source: Simmons & Company International

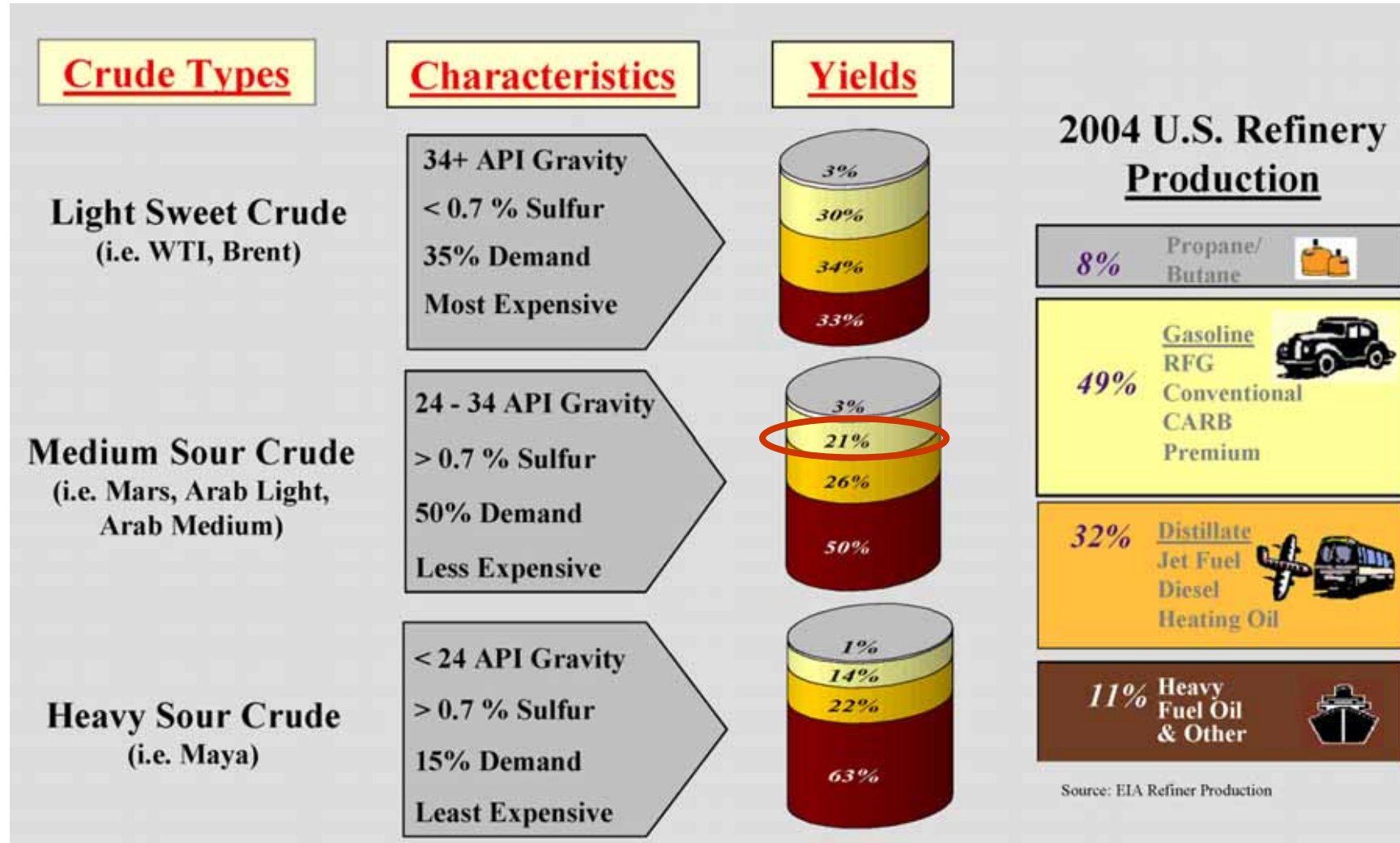


Basic Refining Concepts





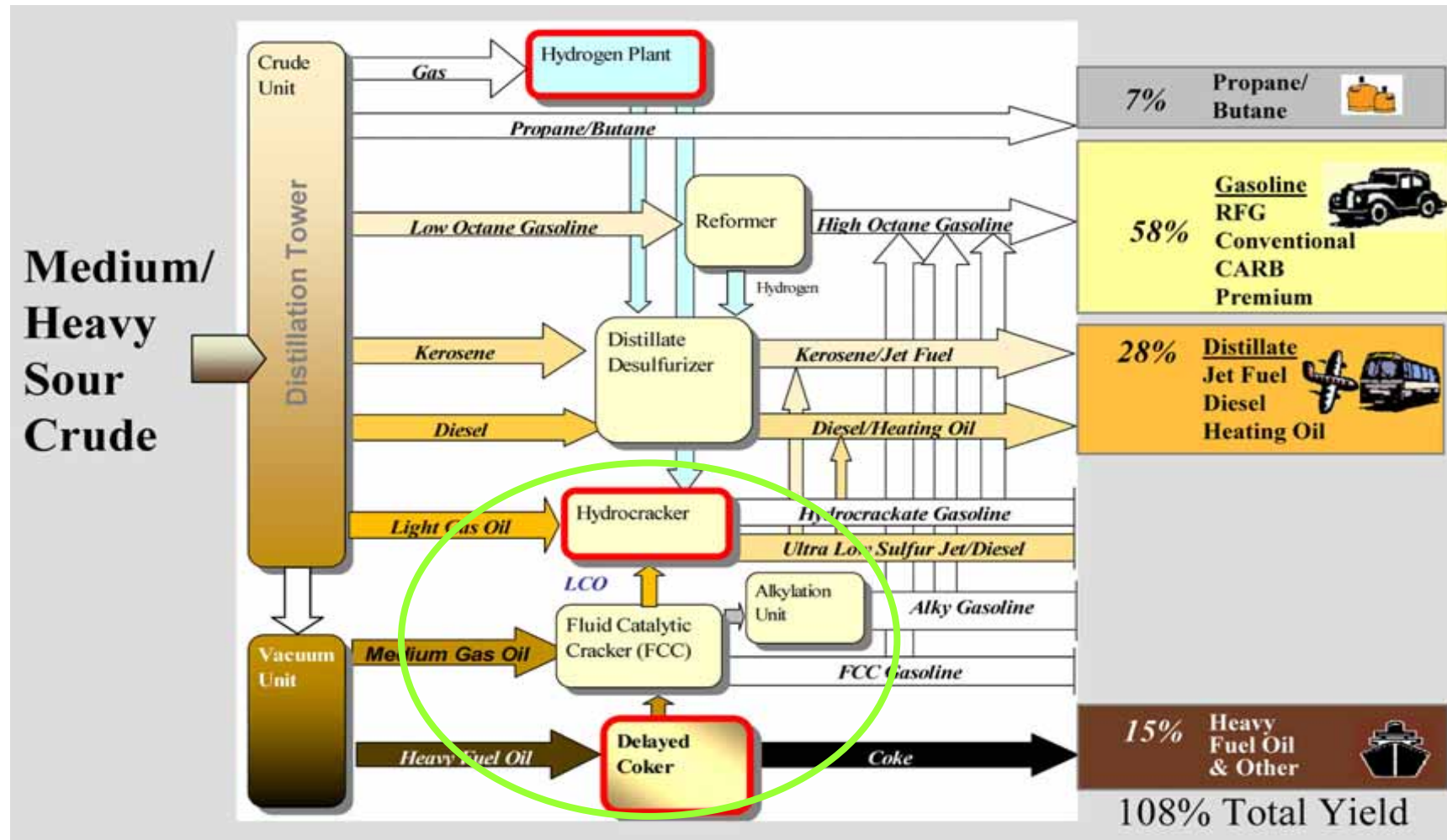
Basic Refining Concepts



Refineries Upgrade Crude Oil to Higher Value Products



High Conversion: Coking/Resid Destruction

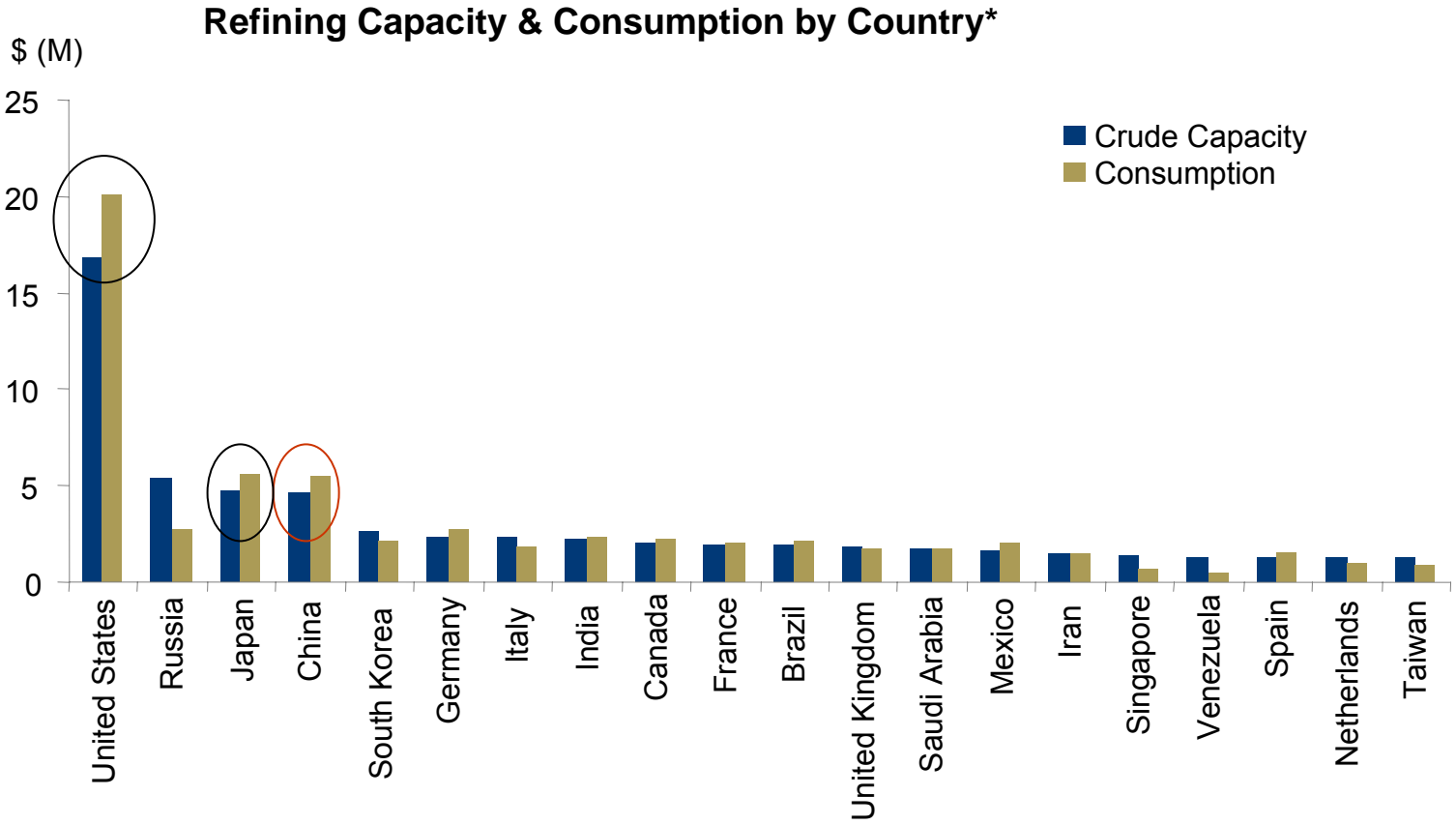


Complex Refineries Can Run Heavier and More Sour Crude While Achieving the Highest Light Product Yields and Volume Gain



Country Refining Capacity and Consumption

Short 3,520,000 b/d of refined product - Primarily U.S. and Asia

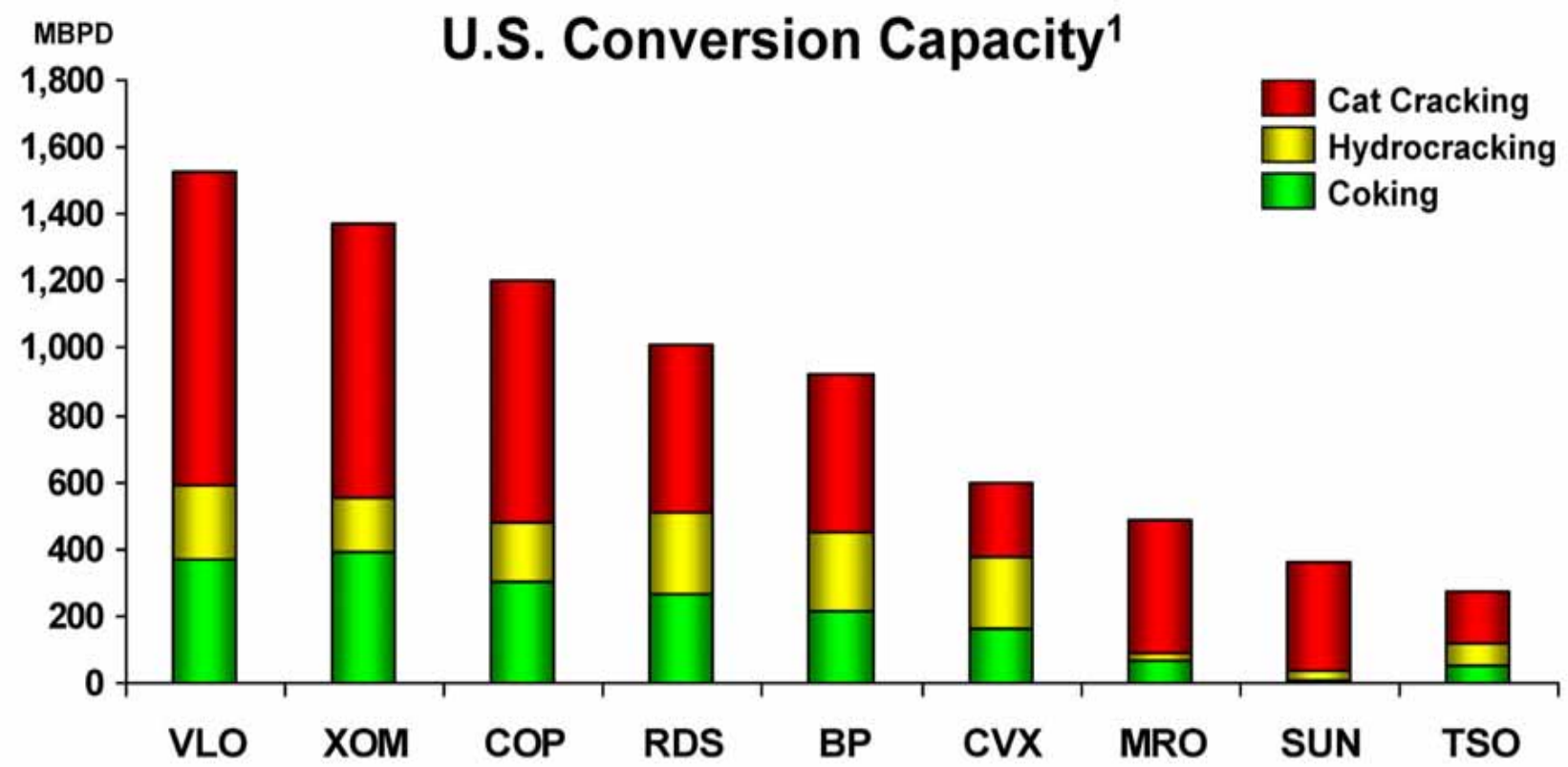


Source: Oil and Gas Journal

*As of 04-Jan-06



Comparison of Sour Conversion Capacity



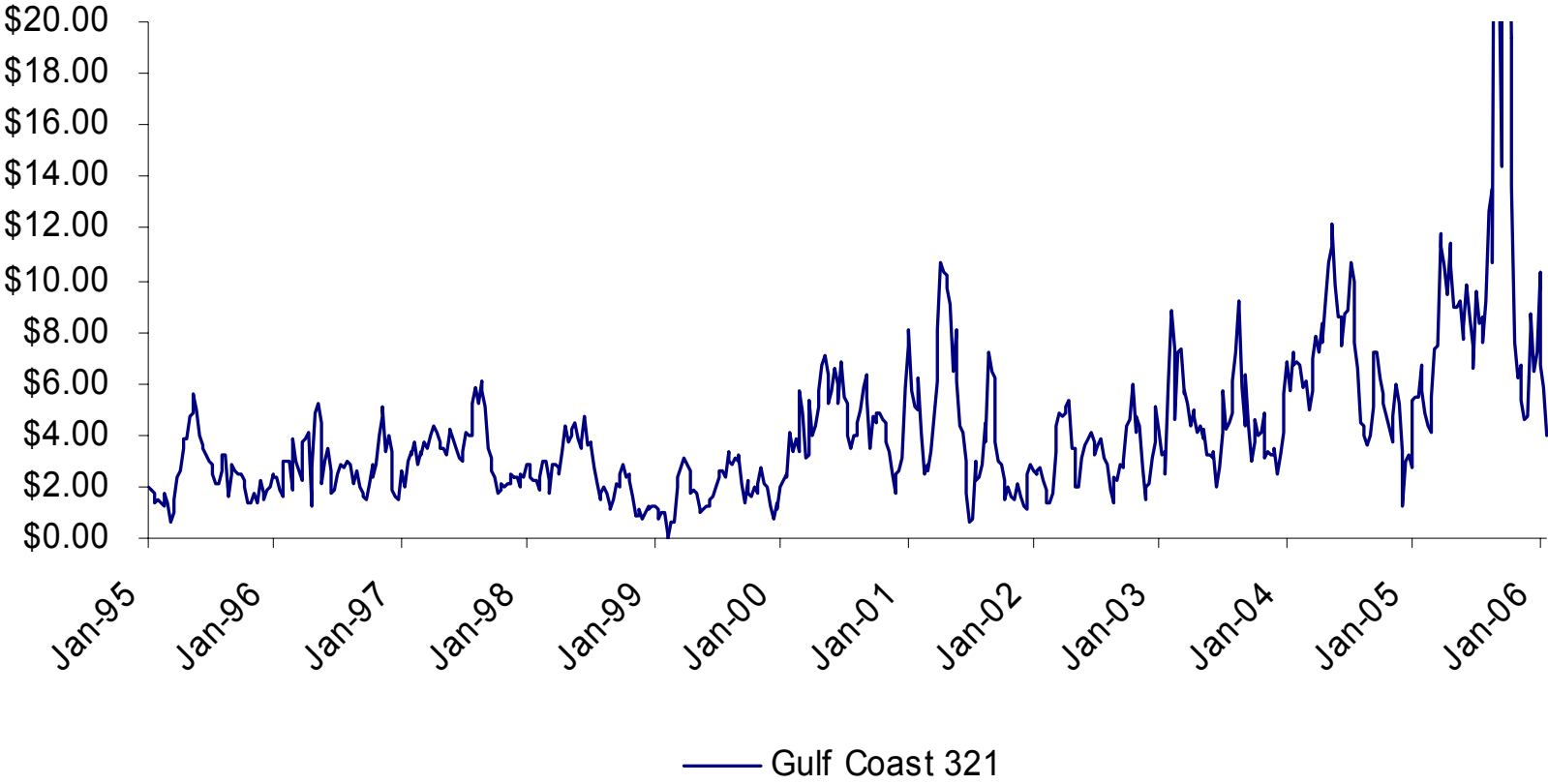
Source: Oil & Gas Journal, Company Websites

1: Conversion Capacity = Sum of Coking, Hydrocracking and Cat Cracking Capacity

Source: John S. Herold



US Gulf Coast 3-2-1 Refining Margins 1995-2006



As of 31-Jan-06

Gizmo time

Which session are you in?

6. Tyndall

7. AMP Capital Investors

8. Schroders

9. Nicholas Applegate/Allianz
Global Investors

10. Challenger Financial Services

Gizmo time

Please rate the overall quality of this session...

1. awful
2. Poor
3. Mediocre
4. Good
5. Very good
6. Great!



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