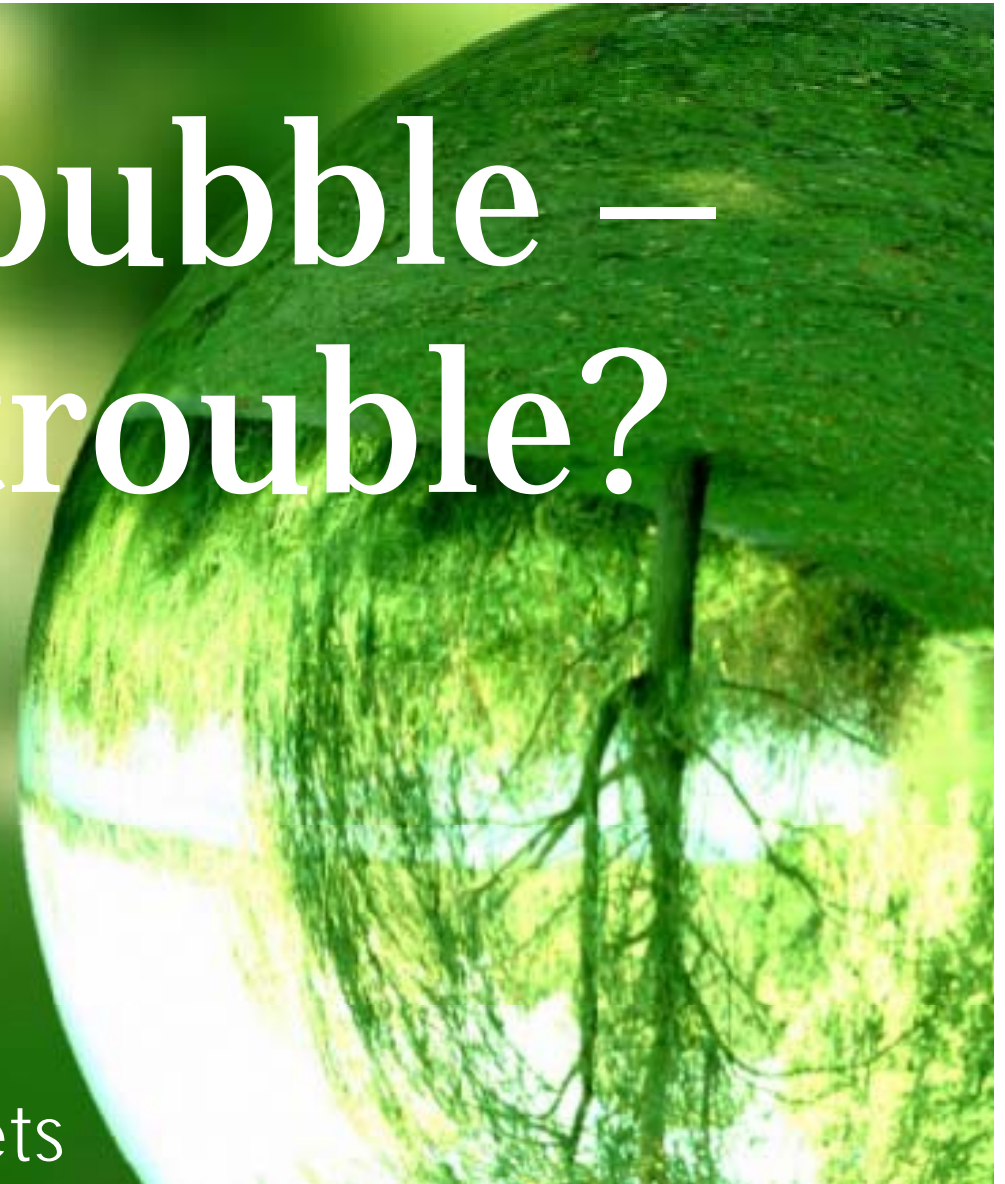


Bubble, bubble – toil and trouble?

15 February 2011

facilitating
debate on the
outlook for the markets





Anh Lu

Portfolio Manager

T. Rowe Price

Summary

What Happened in Asia ex Japan Equity Markets in 2010?

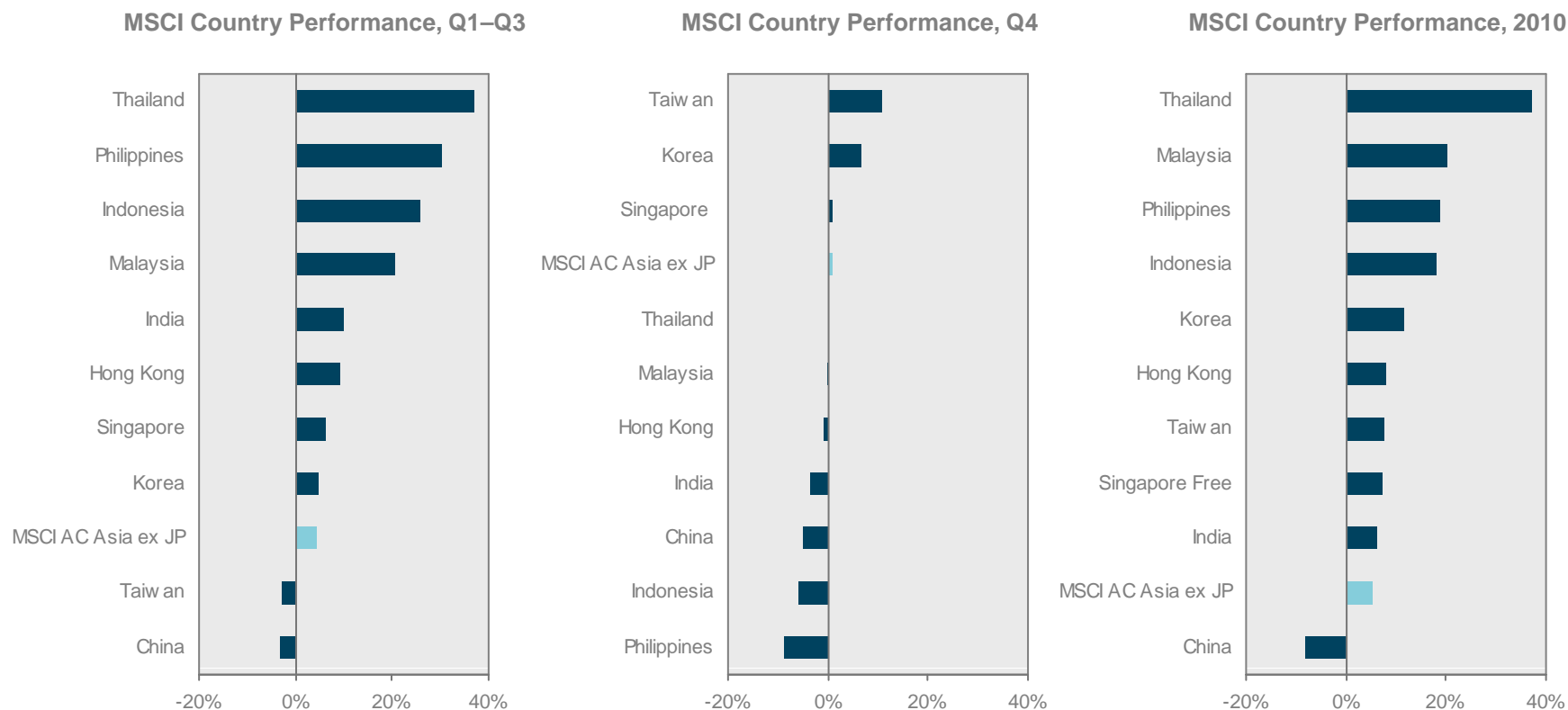
- Huge dispersion in returns between, and within, markets
- Cyclical rotation into developed markets late in the year
- Volatility likely to remain high in 2011

Where Are Markets Now and What is the Longer Term Outlook?

- Aggregate valuations appear reasonable but pockets of over valuation exist
- Long term growth trends remain intact—urbanisation, demographics, rising incomes, healthier economies
- Near term risks linked to global macro imbalances and rising inflation in Asia

2010 Was a Year of Huge Dispersion—Country Performance

As of 31 Dec 2010
Australian dollars

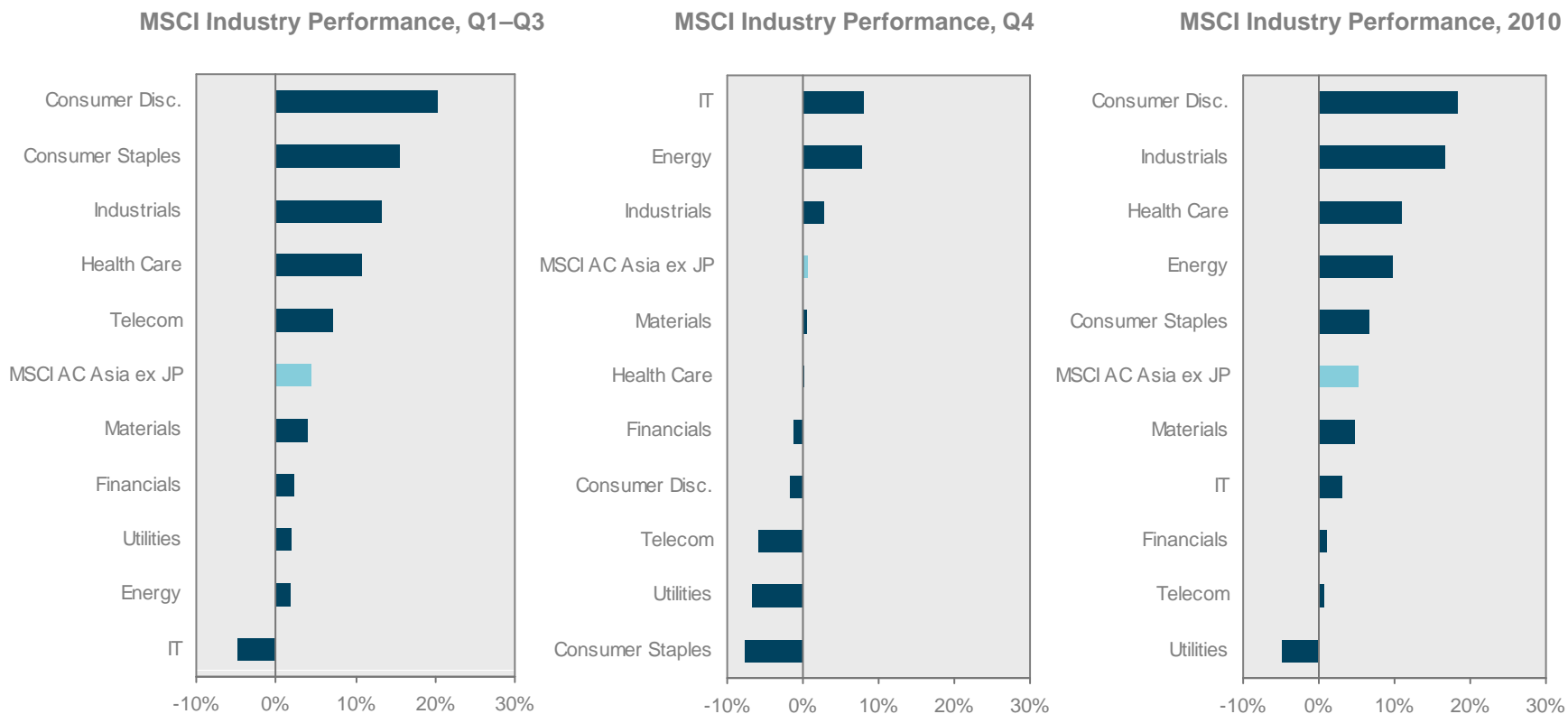


Smaller markets rose rapidly for 9 months but we saw a sharp rotation into larger, more developed markets during Q4.

Source: MSCI/Factset

2010 Was a Year of Huge Dispersion—Sector Performance

As of 31 Dec 2010
Australian dollars

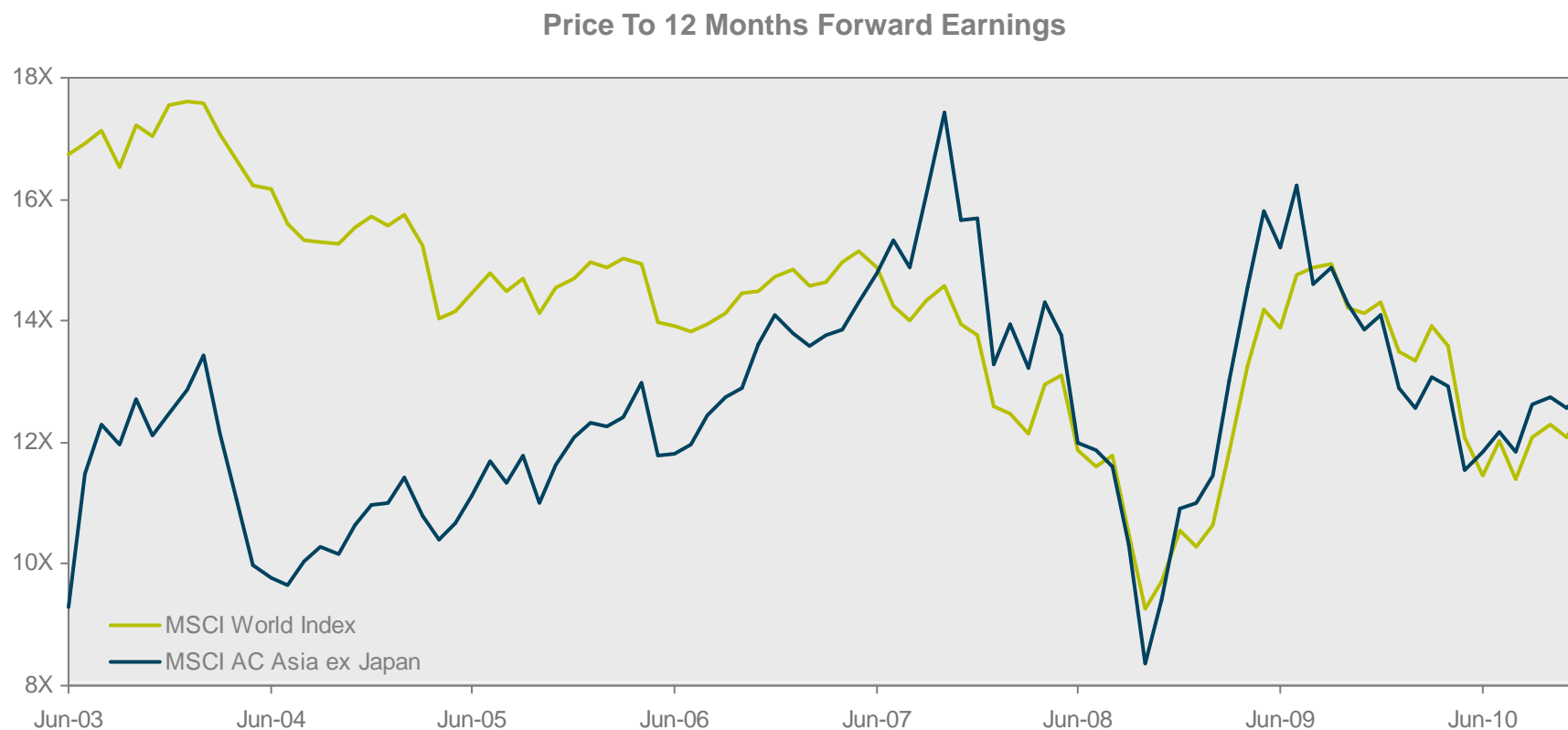


**Domestically-oriented sectors outperform for much of the year,
but there has been a recent rotation into cyclical sectors.**

T. Rowe Price uses the MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. Each year, MSCI and S&P make changes to the GICS structure. The last change occurred on July 1, 2010. T. Rowe Price will adhere to all future updates to GICS for prospective reporting.
Source: MSCI/Factset

Where Do We Stand Now—Valuations (P/E)

As of 31 Dec 2010



Our aggregate valuations remain reasonable relative to World and history, but within this certain sectors are more expensive near term.

Source: MSCI

Long Term Reasons to Invest in Asia Remain Intact— Drivers of Domestic Consumption

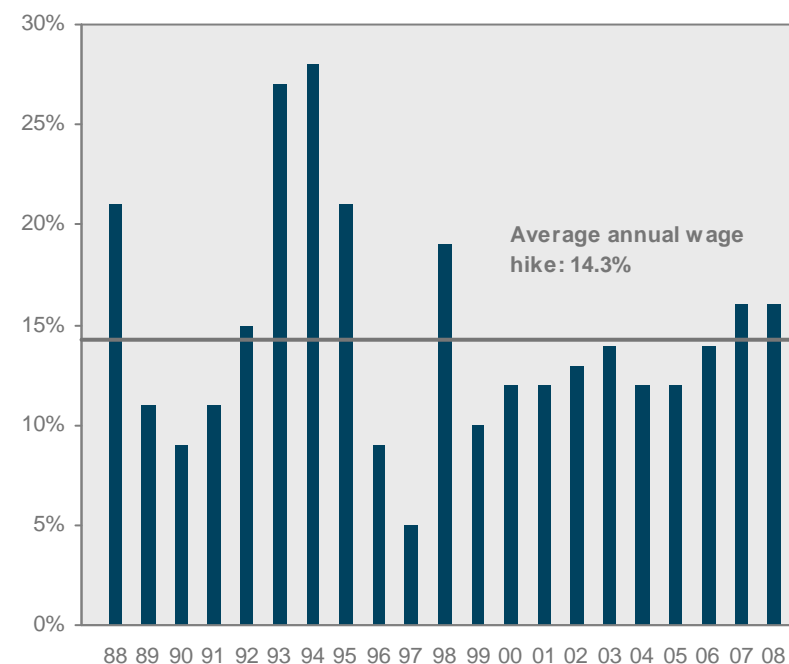
Urban Population as a Percentage of Total Population

Dec 2010

	1970	2000	2015	2030
China	17	36	49	60
India	20	28	32	41
Indonesia	17	42	59	69
Korea	41	80	83	86
Asia ex Japan	20	34	43	52
United States	74	79	84	87
Western Europe	72	76	79	83
Japan	53	65	68	74

Increase in Chinese Manufacturing Wages

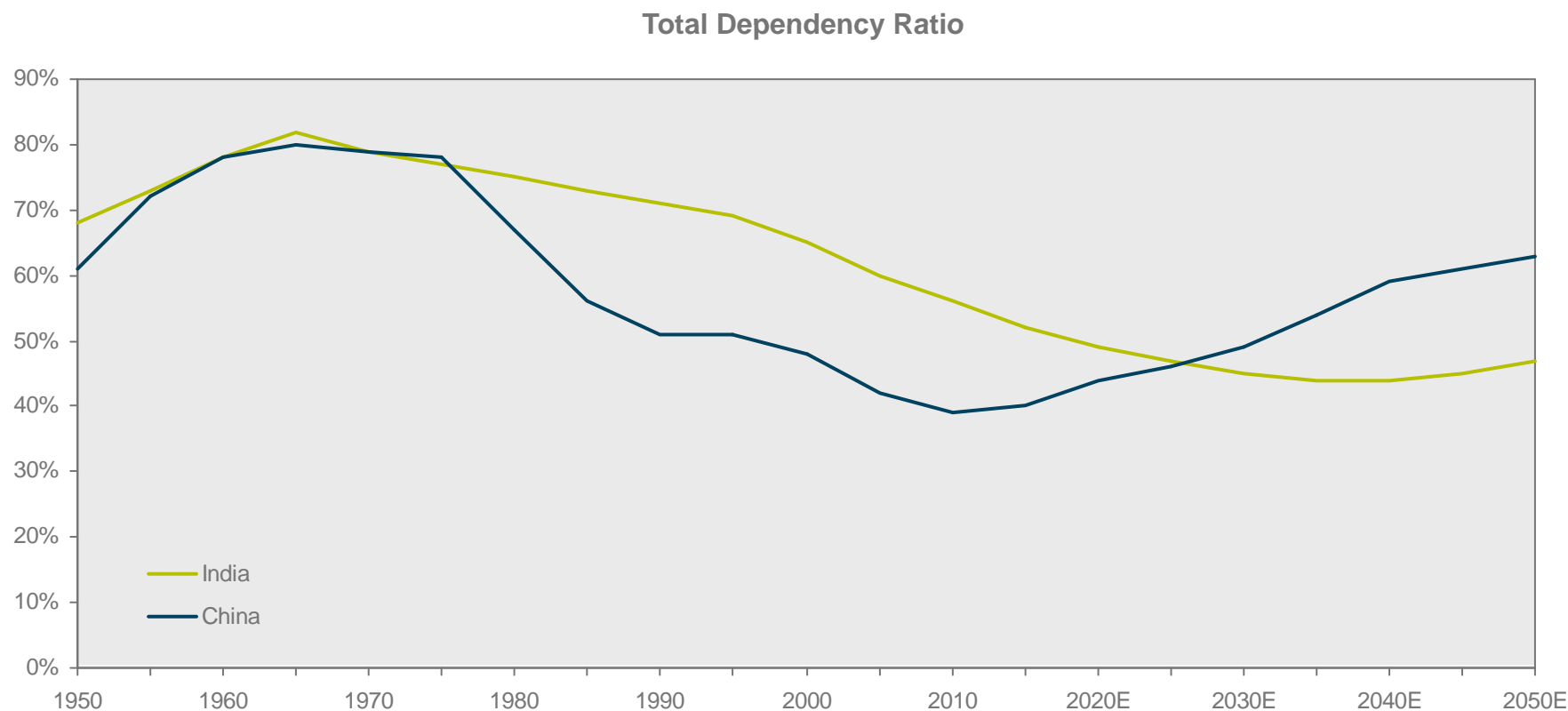
Dec 2008



Rising levels of urbanization, high income growth should lead to continued strong domestic consumption.

Favourable Demographics

As of 22 Oct 2010



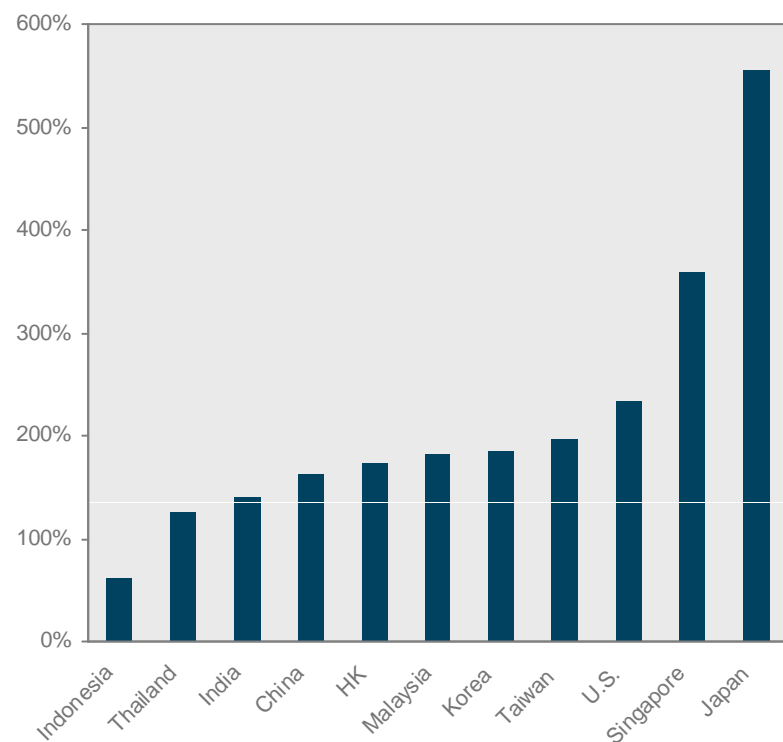
Favorable demographics have played an important role in China's economic prosperity over the last few decades. India now entering a similar phase.

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision, <http://esa.un.org/unpp>,

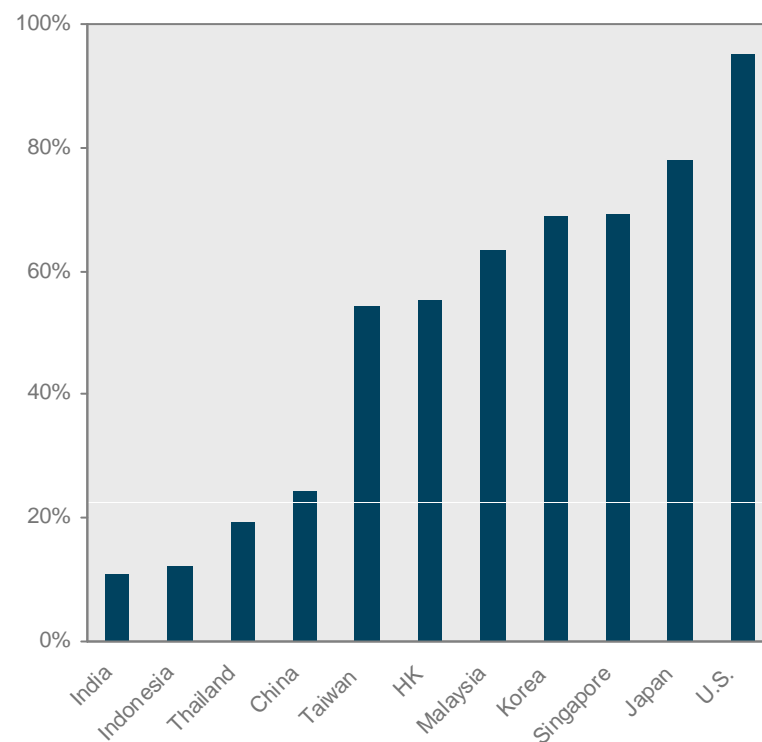
Health of the Financial System

As of 31 December 2009

Credit Penetration: Total Debt¹ as Percentage of GDP (%)



Household Debt as Percentage of GDP (%)



Financial leverage remains low across Asia, especially within the household sector.

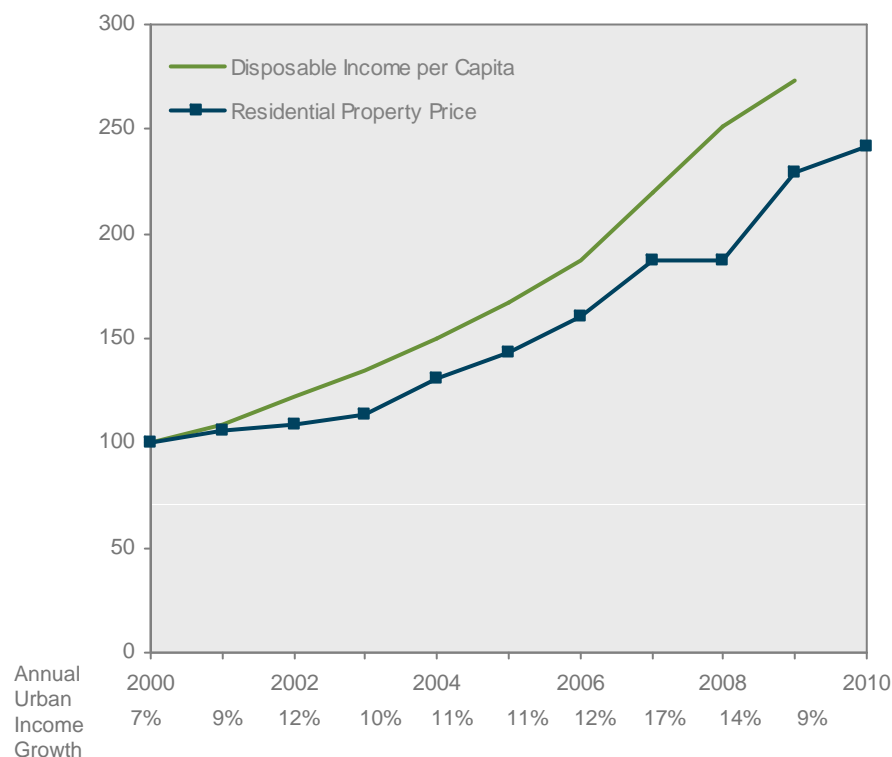
¹Incl. External Debt but excludes Financial Sector

Source: IMF, Central Bank Data, Banc of America Securities Merrill Lynch estimates, CEIC, Haver, Morgan Stanley Research

Chinese Property - Affordability and Demand Remain Strong

As of 31 Dec 2010

China Property: Incomes Have Risen Faster Than Prices



China Property: Demand Has Been Greater Than Supply



Bubbles in Chinese real estate limited to very high end properties in large cities. Mass market demand remains strong. Affordability is high. Policy measures and huge supply make the sector less attractive as an investment currently.

Note: Area sold includes pre-sales prior to completion.
Source: CEIC, National Bureau of Statistics

Focus on Mainland China

As of 31 Dec 2010



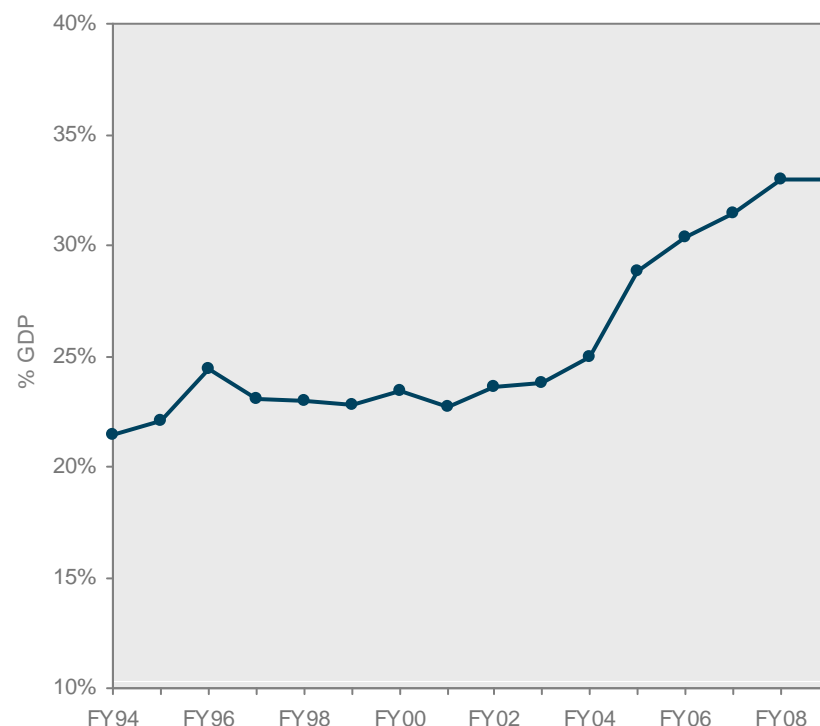
Current account surplus in China is expected to continue to fall. The rebalancing of the world's financial systems and China's domestic economy are inter-connected.

Source: CEIC, Morgan Stanley Research

Focus on India—Investment Spending on the Rise

As of October 2010

Gross Fixed Capital Formation



Gross Domestic Savings



Continued growth in investment spending should lead to higher economic growth. The higher savings rate will help fund the spending requirement and lessen reliance on foreign flows.

Positive implications long-term for fixed asset investment related businesses.

Note: Data from FY05 onwards is based on the new base for national accounts (2004-05) while prior data is based on old base for national accounts (1999-2000)

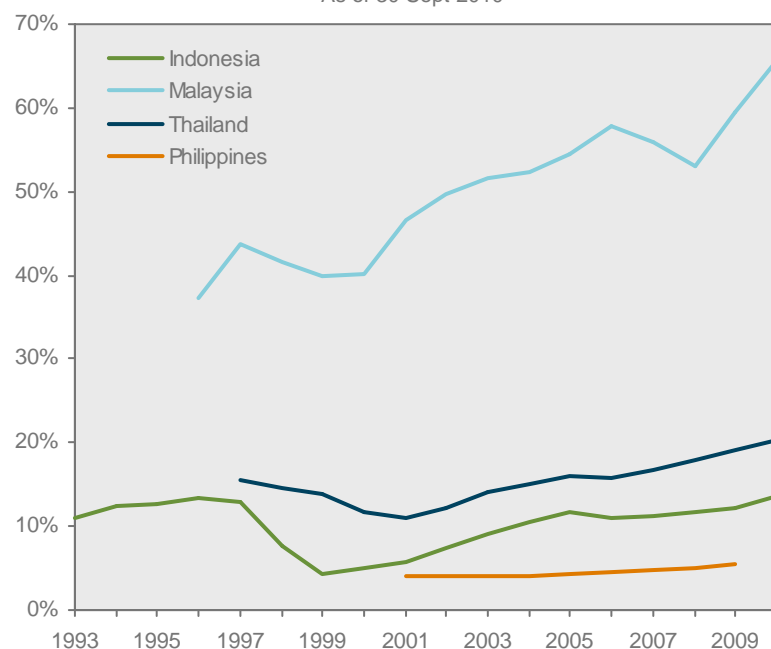
Note: Data for FY10 is not yet available

Source: CMIE, CSO, IIFL Research

Focus on the ASEAN

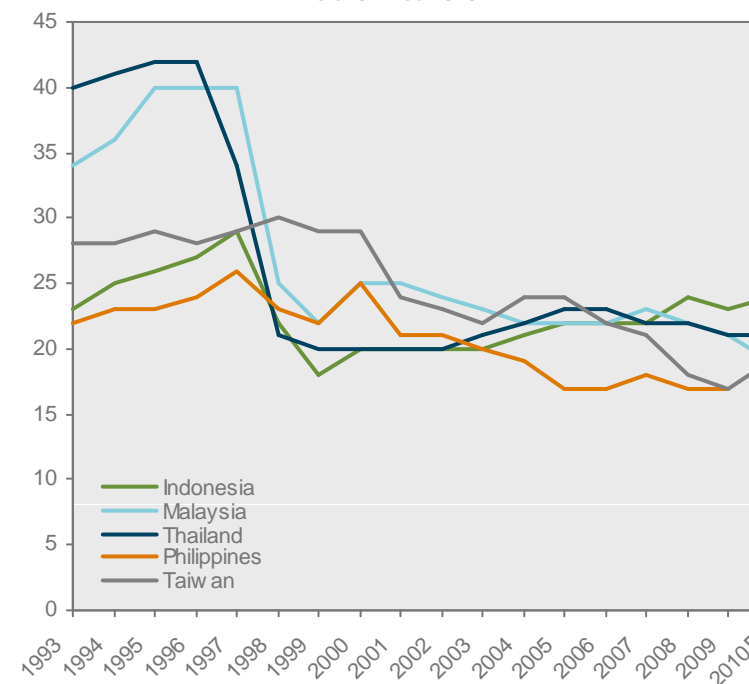
Household Credit (% of GDP)

As of 30 Sept 2010



Gross Fixed Capital Expenditure (CAPEX) (% of GDP)

As of 31 Dec 2010



Improved political outlook gives higher confidence for households to consume. Credit and capex cycle starting to rise again after a prolonged post-crisis downturn.

Positive implications for consumption and capex related businesses.

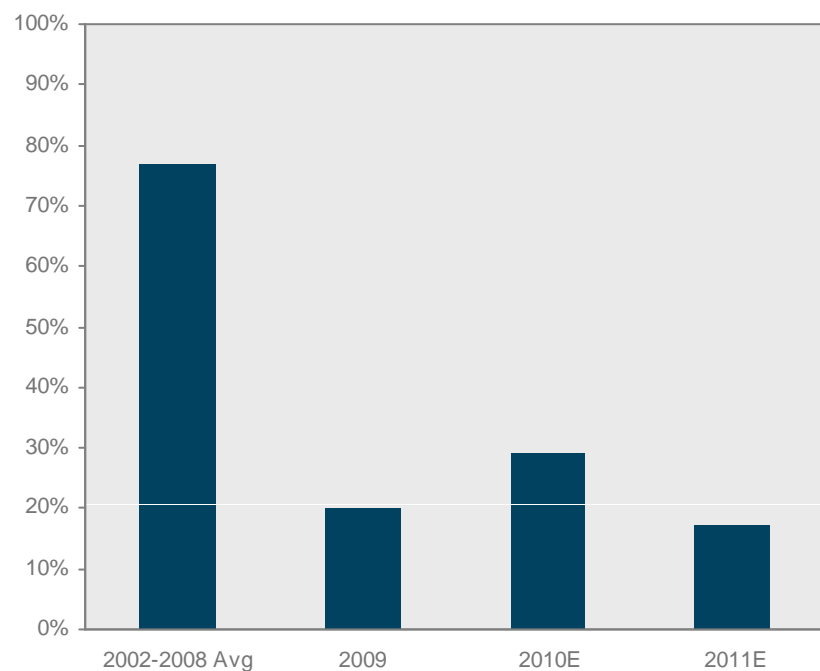
Source: CEIC, Morgan Stanley, Public Debt Management Office of Indonesia

Note: For Indonesia, household credit refers to credit extended by commercial and rural banks to the household sector. For Malaysia, household credit refers to credit extended by the banking system to the household sector. For Thailand, household credit refers to credit extended by the financial institutions to the household sector. For Philippines, household credit refers to credit extended by the banking system as Consumer Loans. In particular, Consumer Loans include Residential Real Estate Loans, Auto Loans and Credit card receivables till 2008. From 2009 onwards, the data also includes a component called 'other consumer loans'.

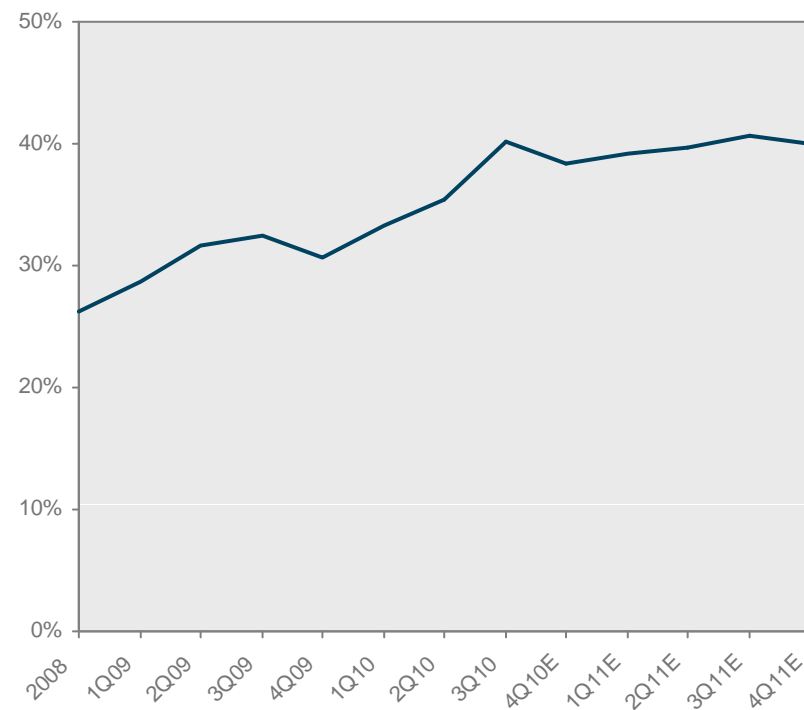
Korea/Taiwan—Global Market Share Gainers

As of 30 September 2010

Industry Level DRAM capex/sales



Samsung Electronics Market Share in DRAM



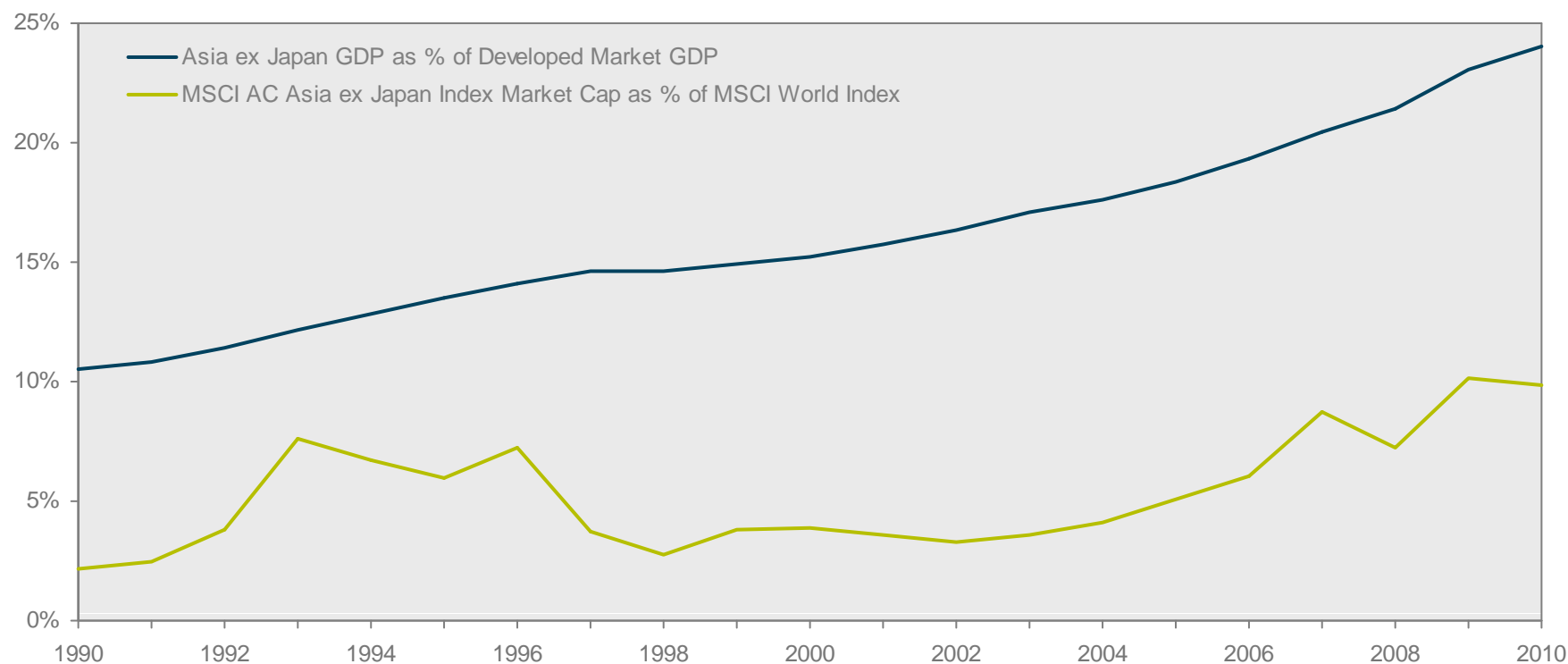
Many companies in Asia are gaining share globally, and profitably.

Source: T. Rowe Price, company estimates

Asian Markets Will Matter More on a Global Scale

As of 31 Oct 2010

Asia's Market Capitalization and GDP Relative to Developed Markets



Asian markets still under-represented in global indices, especially given its dynamic nature.

Developed Markets defined as those countries in MSCI World Index.
Source: MSCI, IMF

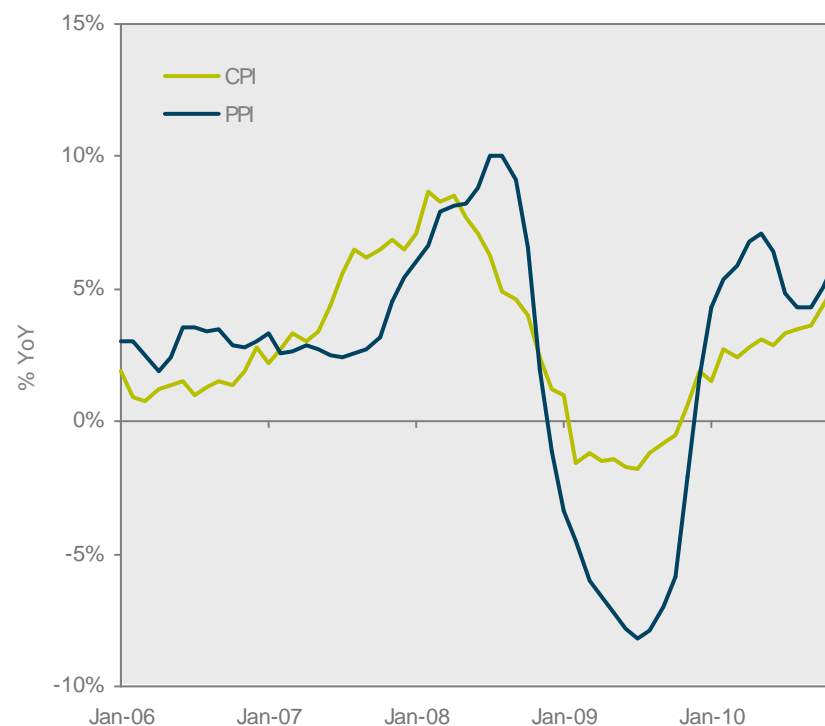
Where Are the Risks in 2011?

- **Inflation**
 - Rising food and commodity prices
 - Policy risks
 - Current account impact
- **Export dependency on developed markets is lower than historically, but a meaningful economic slowdown in the West is a risk**
- **Reversal of 'hot' fund flows**
- **Geopolitics**

Inflation in Asia

As of November 2010

China Inflation



India Inflation

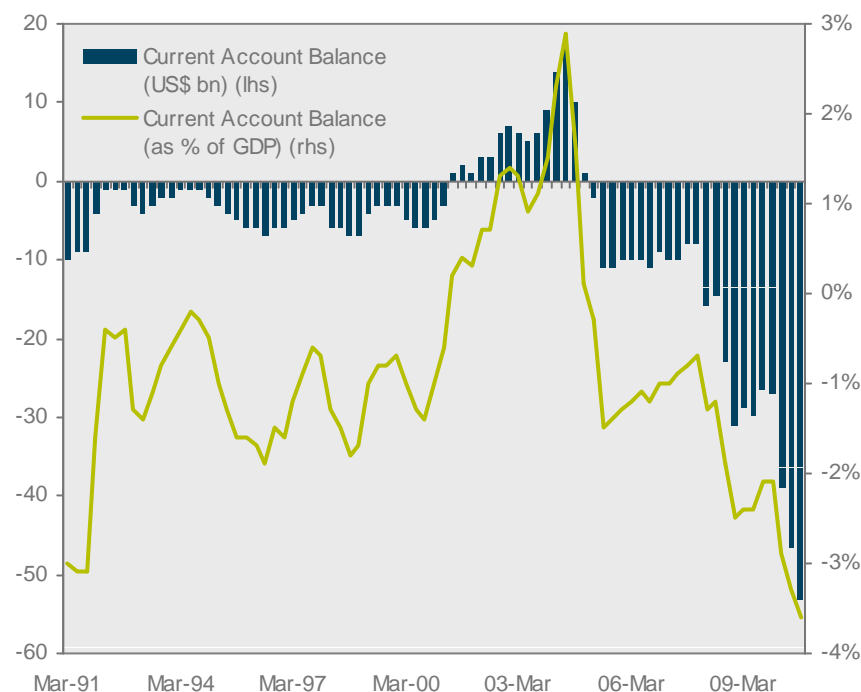


Source: CEIC

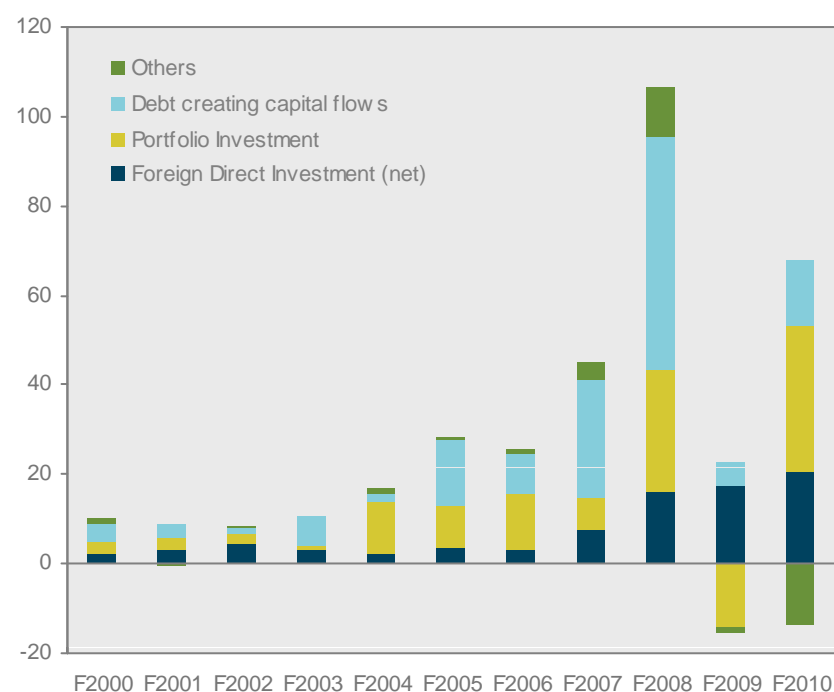
India's Current Account Problems

As of September 2010

**Current Account Deficit (4-quarters Trailing) –
in a Manageable Range Below 2% of GDP Until Recently**



Capital Account Balance (US\$ bn)



India's twin deficits become more concerning with high commodity prices.

Source: CEIC, Morgan Stanley Research

Summary

- **We remain structurally positive on the Asian domestic consumption story**
 - hold stocks with pricing power
 - pockets of over-valuation in the near term
- **CAPEX cycle picking up in S.E Asia and India**
 - related companies will benefit (such as infrastructure)
 - will drive economic and consumption growth
 - inflation may inhibit Indian CAPEX growth near term
- **Continue to find many world class companies in Asia**
 - for example in Korean/Taiwanese technology

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