

'No man is an Island'



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Overview

- ❑ The global financial crisis has more than one cause but its impact has been to slow growth everywhere. Assuming that the various stimulus packages, equity injections and regulatory changes all work as hoped, it will take an extended period for the world to recover the output it has lost.
- ❑ The old economic models in trade and finance are set to be replaced by new ones that will alter growth patterns and change investment targets. This will be driven by the present crisis as well as the impact of long-foreseen demographic changes.
- ❑ A shortage of capital both makes it difficult to raise money and also depresses valuations. For those with the resources this is the time to make quality investments.
- ❑ Globalisation increases the significance of 'externalities' in investment decisions. Stakeholders, both domestic and international, are going to find ways of influencing behaviour. Political and social tolerance requires that international investors are seen to comply with the highest standards.

How we got here

- The global financial crisis has more than one cause
 - Financial institutions created too much cheap credit
 - Inadequate understanding of risk and regulatory oversight
 - The need to recycle vast amounts of capital

 Liquidity and Solvency issues

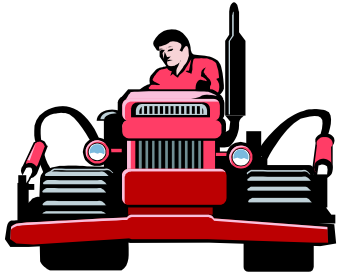
Ballooning credit



How we got here – collapse of the multiplier

The farmer's dilemma

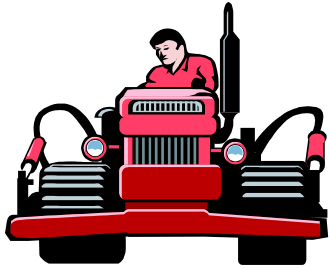
Confident farmer



10 X



Nervous farmer



5 X



How we got here – liquidity and confidence

- ❑ TED spreads balloon out with strongly inverted yield curve
- ❑ Interest rates repeatedly cut
- ❑ Central banks lend unlimited amounts against high quality assets
- ❑ Lower quality assets accepted as collateral by Central banks
- ❑ Quantitative easing



How we got here – Governments to the rescue!

- ❑ TARP programme
- ❑ Capital injections
- ❑ Bank guarantees
- ❑ Fiscal stimuli
- ❑ Industrial aid



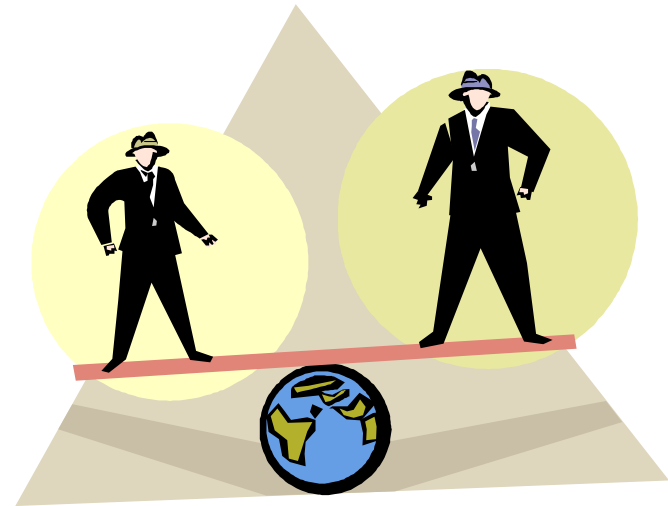
How we got here – Extended recovery period

- ❑ Equilibrium demand will be lower once the crisis has ended
- ❑ Uneconomic investments written off
- ❑ Uneconomic plant closed
- ❑ Labour redeployed
- ❑ Capital expenditure delayed



Where are we going? – Global Imbalances shrink

- ❑ Developed nation deficits will fall
- ❑ Trade surpluses will shrink
- ❑ National balance sheets will take years to repair



Where are we going?

End of the export-led growth model?

- ❑ Trade is essential for healthy growth
- ❑ Export-led model creates vulnerabilities
- ❑ Large countries grow in a different way from small ones.
- ❑ The scramble for raw materials will get worse

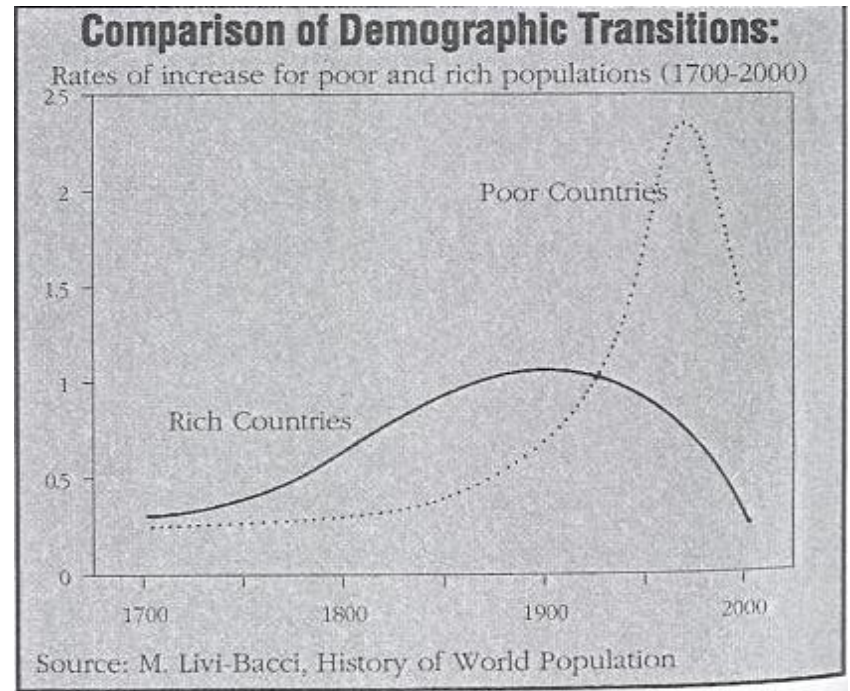


Where are we going?

Is demography destiny?

- The difference between private and taxpayer funded schemes

- The demographic challenge



Where are we going?

Is demography destiny?

- The EM countries should be running trade deficits and be the subject of capital inflows
- A marriage of needs
- Is there an international framework robust enough for pensioners to be sure of collecting their returns?

Dependency

No. of workers per dependent

Country	1989	2025(e)
Brazil	1.5	2.7
China	2.0	2.1
Ghana	1.0	1.7
Malaysia	1.4	2.1
Mexico	1.4	2.2
All non-OECD	1.5	1.9
Japan	2.3	1.4
Germany	2.3	1.4
U.S.A.	2.0	1.6
U.K.	1.9	1.6

There is a funding shortage

- ❑ Traditional sources of funding have dried-up
- ❑ Trade finance/insurance
- ❑ Bank debt
- ❑ Equity capital
- ❑ Market failure and the role of DFIs



The best investments are made after a fall

- ❑ Over the long-term the EM world is expected to continue growing faster than the G7
- ❑ Over the medium term there is still a strong connection between the developed and developing economies
- ❑ Despite recent strength EM economies and markets are expected to continue to be volatile
- ❑ This volatility will throw up compelling entry points.



Investment is about more than return

- ❑ Globalisation creates and magnifies externalities
- ❑ Private equity can be a convenient lightning rod for public anger. The benefits of investment must be made transparent
- ❑ Investors will increasingly be judged by their impact on issues such as the environment and human rights

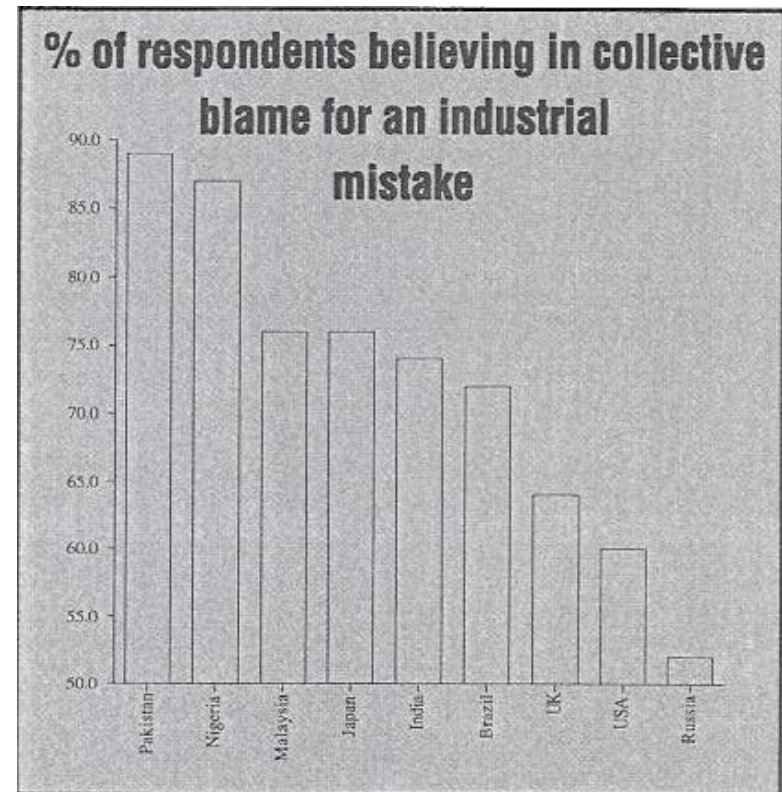


Investment is about more than return

- We ignore cultural differences at our peril



- Navigating contradiction



Conclusions

- ❑ Liquidity problems are being aggressively addressed though solvency may still be an issue. The physical re-tasking of people and plant will take time.
- ❑ Global trade and capital imbalances are going to be materially reduced. There will be a greater emphasis on domestic growth.
- ❑ There is a demographic need to invest in the EM space. However until volatility abates large-scale flows will not resume
- ❑ Risk aversion is throws up compelling valuations. The longer time scale of a PE investor can make volatility a source of opportunity – if the capital is available!
- ❑ Globalisation of trade, finance, information and even disease means that problems readily spill over national borders. The need for political and social tolerance makes compliance with the highest standards a practical as well as ethical necessity.