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23 February 2007

Emerging markets product analysis

Year end 2006 update – short version

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LON-NMR00411-006

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Project objectives

- Examine if there is good evidence based on historical performance to suggest that the innovative multi-manger EM product recently launched by Nomura (the Nomura GEM Product) has potential to outperform single EM providers
- Investigate
 - How have your selected regional specialists perform vs. the regional specialist universe?
 - How would an aggregate global EM fund made of the average and first quartile regional specialists have performed versus typical single manager global EM funds?
 - How has the Nomura GEM product performed vs. both the synthetic product average and the single global manager average?
- This is the 2007 update document of the original 2006 analysis

We have sourced data from Bloomberg and arrived at a ‘cleansed’ universe of 449 funds



Geographic focus	No. of funds
Global	600
Asia Pacific	166
Latin America	63
Emerging Europe	115
South Africa	12
Argentina	1
Brazil	7
Czech Rep	4
Greece	1
India	1
Middle East Region	2
Philippines	1
Russia	21
Sri Lanka	1
Thailand	2
Turkey	1
Ukraine	2
Geography not available	2
Total	1,002

Geographic focus	No. of funds
Global	341
Asia Pacific	147
Latin America	48
Emerging Europe	92
South Africa	8
Total	636

Geographic focus	No. of funds
Global	217
Asia Pacific	116
Latin America	40
Emerging Europe	68
South Africa	8
Total	449

- Filtering process details
 - 314 non-equity focused funds
 - 44 single country focus
 - 6 funds with <3 yr track record
 - 2 geographic data unavailable
- Total number of funds excluded: 366

- 156 duplicated funds
 - These funds are duplicated due to the listing of multiple share classes for each fund
 - They were removed to prevent double counting
- 15 China focused funds (categorised by Bloomberg as Asia pacific)
- 1 telcom sector only fund
- 11 funds with AuM <\$5 MM
- 2 funds which switched geographic focus during the period of analysis
- 1 fixed income fund incorrectly categorised by Bloomberg
- 1 fund of funds

Source: Bloomberg. Mercer Oliver Wyman analysis

The cleansed dataset accounts for over \$200 BN of AuM, one third from specialist regional funds

Global		LatAM		Asia Pac		Eastern Europe		
Fund name	AuM (\$BN)	Fund name	AuM (\$BN)	Fund name	AuM (\$BN)	Fund name	AuM (\$BN)	
1.	GMO Emerging Markets	12.9	Threadneedle Investment Funds ICVC – Latin America Fund	1.6	Matthews Pacific Tiger Fund	2.8	Baring Global Umbrella – Baring Eastern Europe Fund	2.7
2.	American Funds – New World Fund	10.9	Morgan Stanley SICAV – Latin American Equity Fund	1.5	Vontobel Fund – Far East Equity	1.9	JPMorgan Funds – Eastern Europe Equity Fund	1.9
3.	Oppenheimer Developing Markets Fund	10.0	JPMorgan Funds – Latin America Equity Fund	1.1	First State Investments ICVC – Asia Pacific Fund	1.6	Raiffeisen-Osteuropa-Aktien	1.7
4.	Capital International Emerging Markets Fund	6.5	Fidelity Funds – Latin America Fund	0.9	Arisaig Asia Fund Ltd	1.5	Pictet Funds Lux – Eastern Europe	1.6
5.	Templeton Developing Markets Trust	5.7	Gartmore SICAV – Latin American Fund	0.4	Mellon Global Funds PLC – Asian Equity Fund	1.4	Credit Suisse Equity Fund Lux – Eastern Europe	1.6
Next 5		19.5		1.4		4.6		6.5
Next 40		49.6		1.7		13.4		10.9
Next 100		28.4		NA		NA		NA
Rest		2.4		0.0		3.6		0.6
Total		145.8		8.6		30.7		27.3

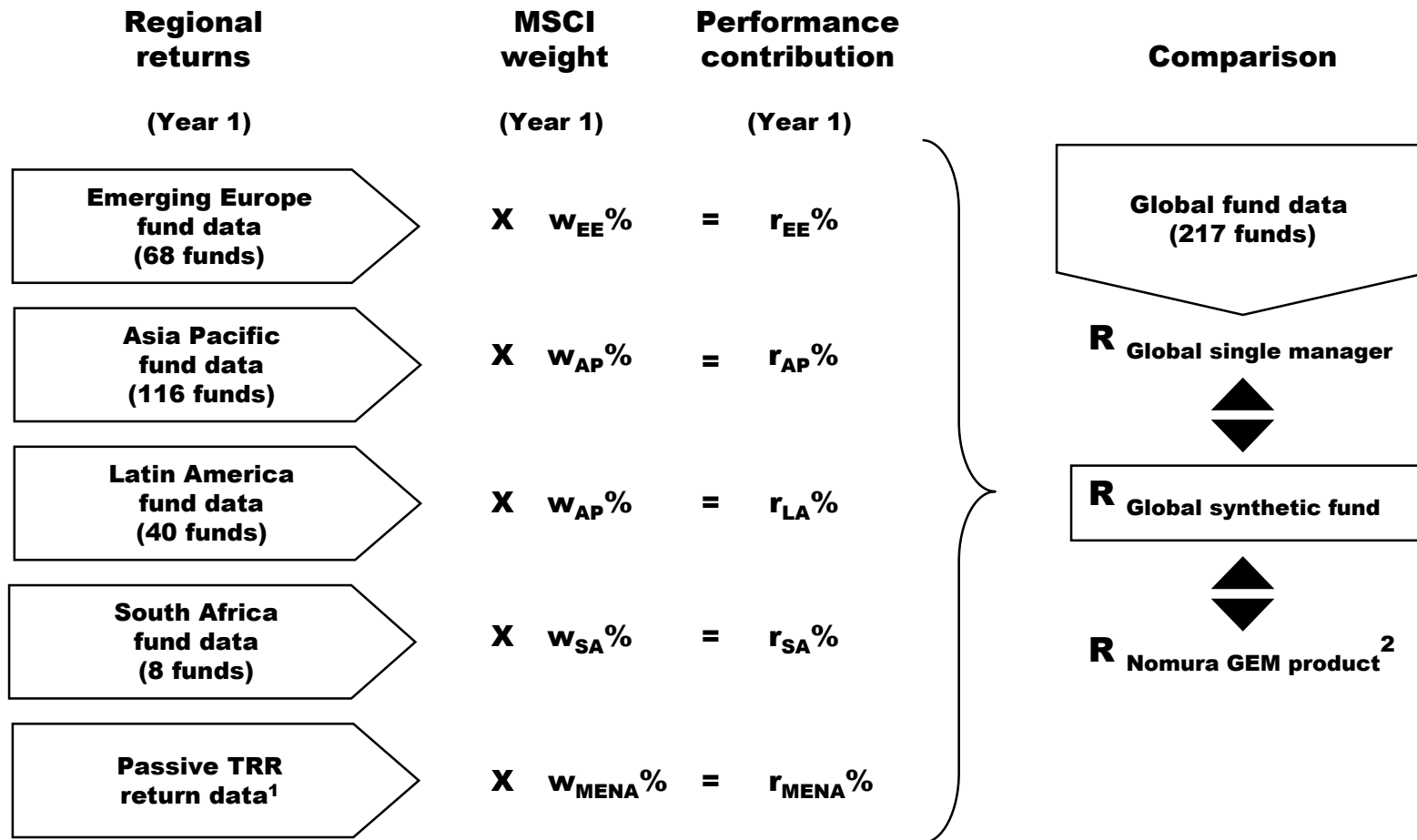


List also includes the following well known EM names:

- Pictet
- Frank Russell
- JP Morgan
- Fidelity

Source: Bloomberg. Mercer Oliver Wyman analysis

Methodology – one year weighting example

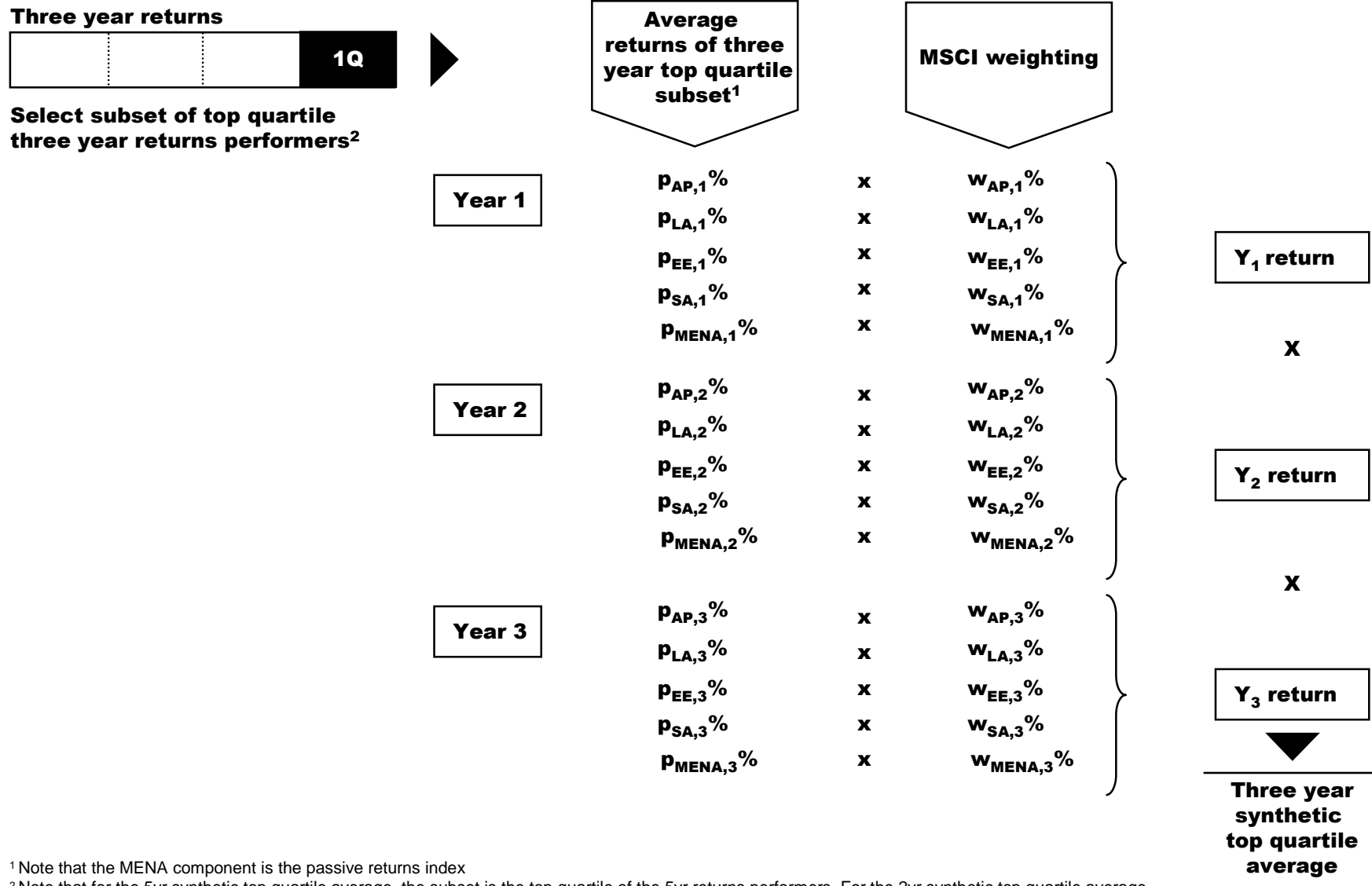


Source: Bloomberg. Mercer Oliver Wyman analysis

¹ Covers residual MSCI EM index markets of Israel, Morocco, Jordan and Egypt (where insufficient active funds exist and which represent <4% of the market)

² Nomura GEM product returns. i.e. less a TER of 1.45% to ensure comparability

Methodology – yearly rebalancing: three year returns example



¹ Note that the MENA component is the passive returns index

² Note that for the 5yr synthetic top quartile average, the subset is the top quartile of the 5yr returns performers. For the 2yr synthetic top quartile average, the subset is the top quartile of the 2 yr returns performers, etc.

Regional synthetic funds outperformed the global funds in 2006

	MSCI benchmark ¹	Global EM funds Average ²	Global top quartile average ²	Regional synthetic average ³	Regional synthetic top quartile average ⁴	Nomura GEM product ⁵	Nomura excess p.a. over average regionals	Nomura excess p.a. over average globals
Annualised returns								
1 yr	33%	30%	38%	32%	42%	35%	3%	5%
2 yr	34%	31%	37%	30%	37%	35%	5%	4%
3 yr	31%	28%	34%	29%	34%	34%	5%	5%
4 yr	37%	34%	40%	35%	41%	39%	5%	5%
5 yr	27%	25%	30%	27%	33%	30%	3%	4%
6 yr	22%	20%	30%	21%	34%	25%	4%	5%
Actual yearly returns								
2006	33%	30%	38%	32%	42%	35%	3%	5%
2005	35%	31%	40%	29%	35%	33%	4%	2%
2004	26%	23%	31%	27%	32%	25%	-2%	1%
2003	56%	55%	68%	54%	67%	56%	-2%	2%
2002	-6%	-5%	4%	-1%	11%	-10%	-9%	-4%
2001	-2%	-5%	2%	-2%	4%	3%	6%	8%

Source: Bloomberg, MSCI Nomura, Mercer Oliver Wyman analysis. All data up to year end 2006

¹Global emerging market index returns

²Returns of global emerging market funds

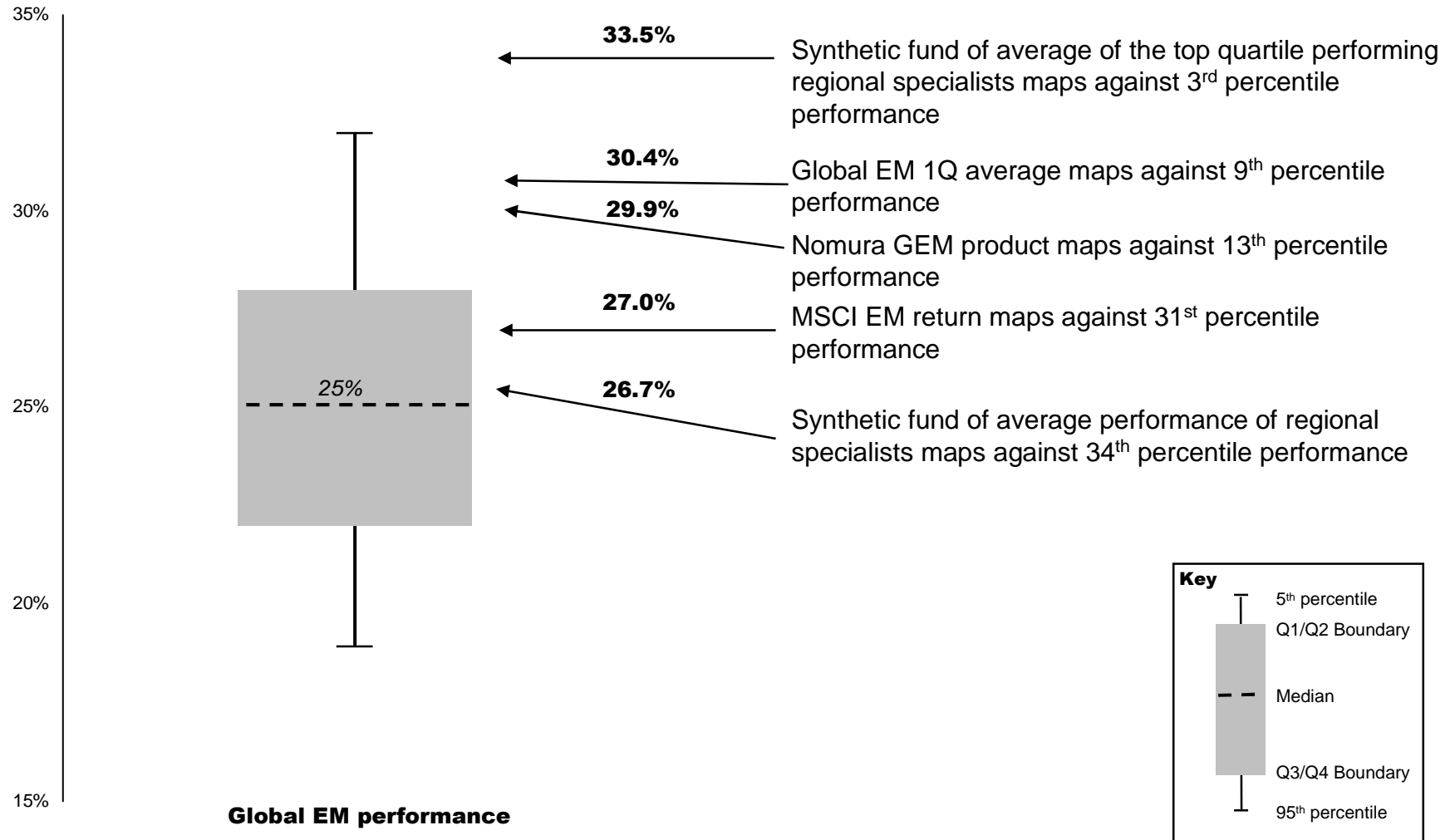
³The returns to a synthetic global fund consisting of the regional specialist funds, using the average returns in each region in each period. Regional weightings determined by the MSCI index weighing, rebalanced at the end of each year. Passive index returns are used for Egypt, Morocco, Israel and Jordan.

⁴As for 3 but uses the top quartile players for each period.

⁵Gross performance as provided by Nomura, with fee adjustment using 1.45% TER p.a.

Over five years period the average regional manager outperformed the globals and the best regional managers massively outperformed

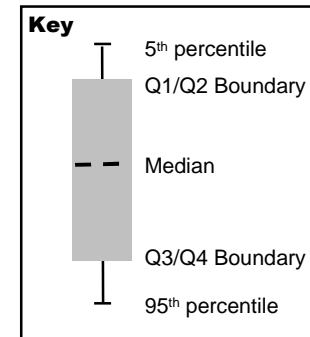
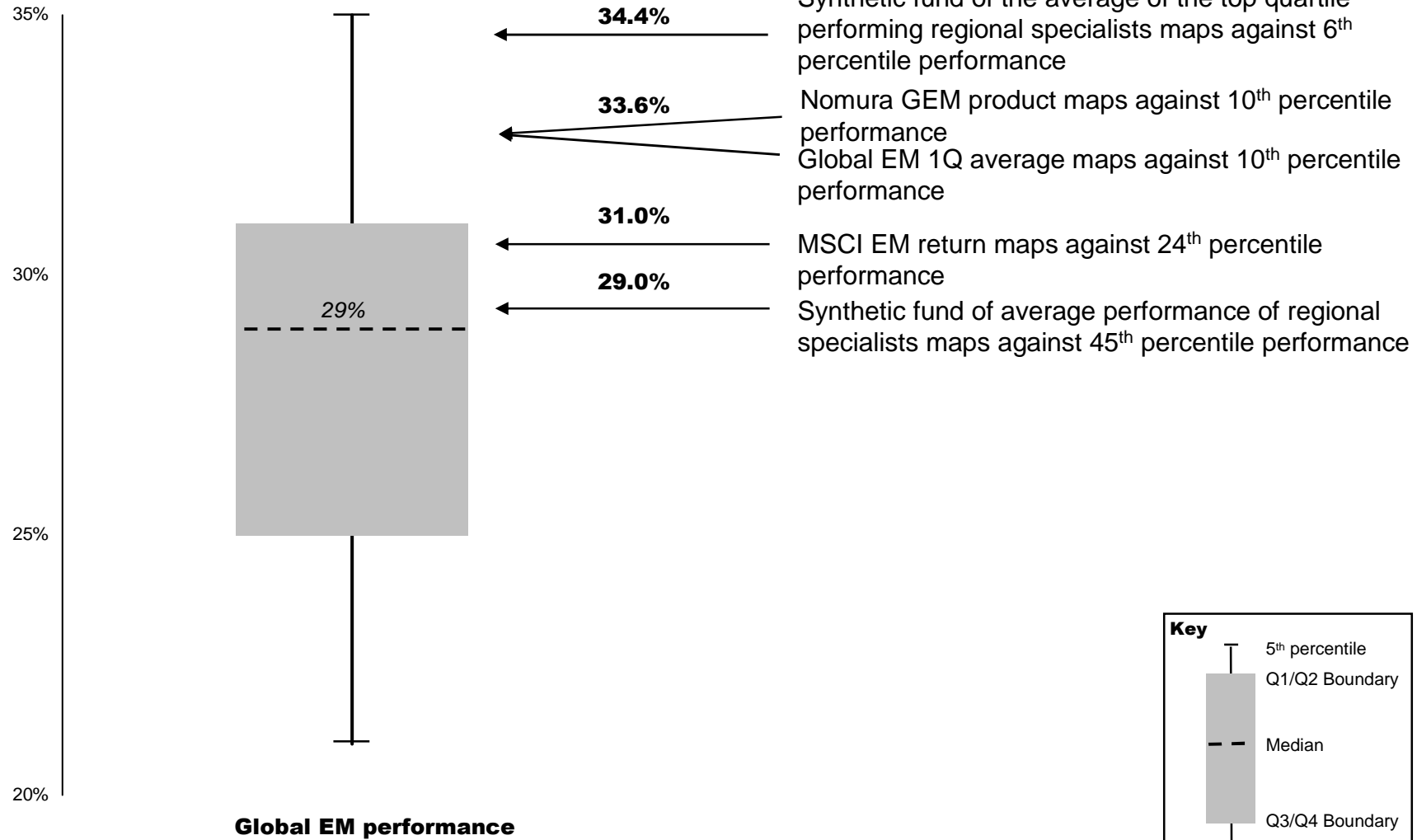
5 yr annualised total returns



Source: Bloomberg, Nomura, Mercer Oliver Wyman analysis

Three year annualised returns comparison

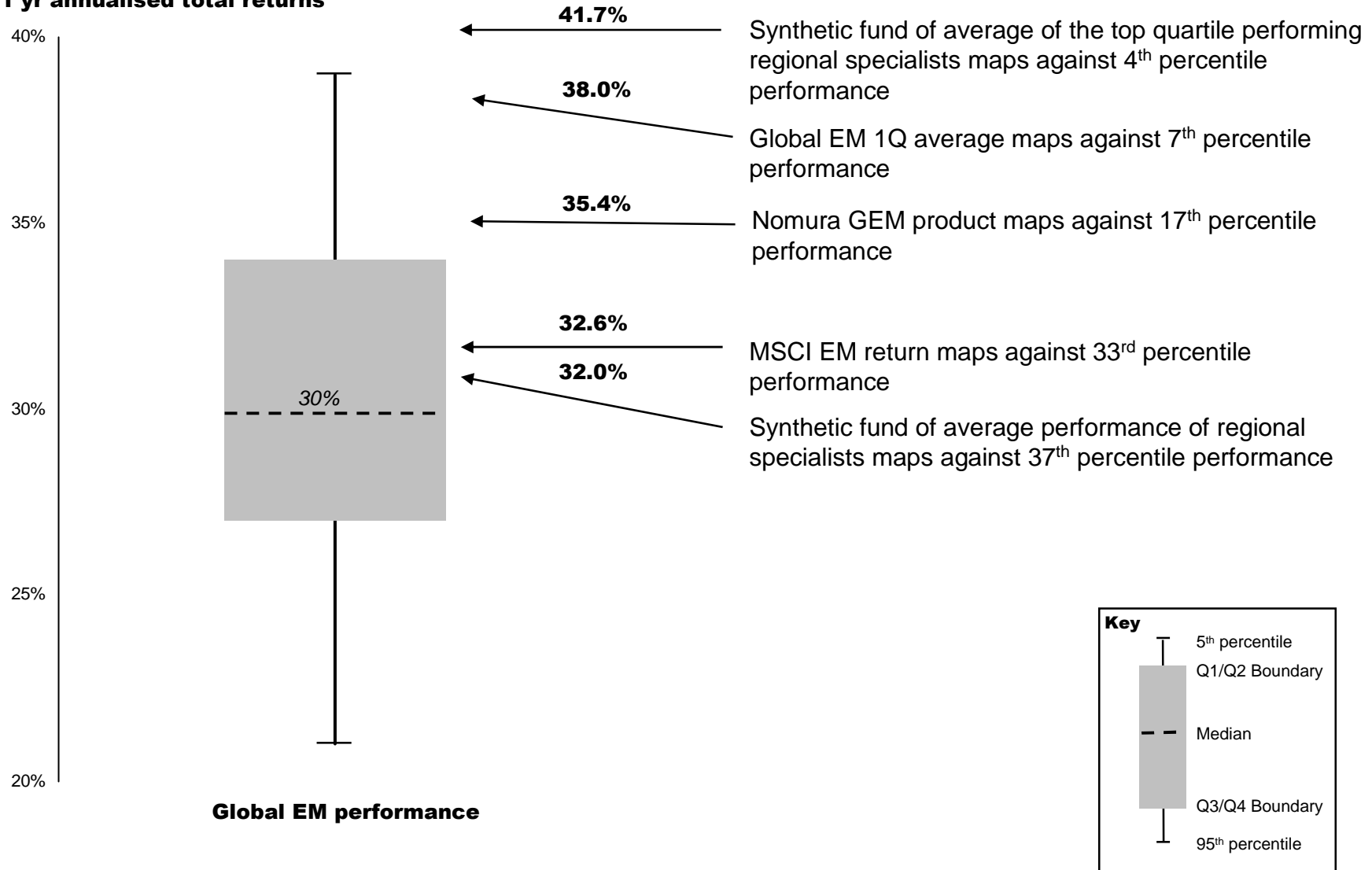
3 yr annualised total returns



Source: Bloomberg, MSCI, Nomura, Mercer Oliver Wyman analysis

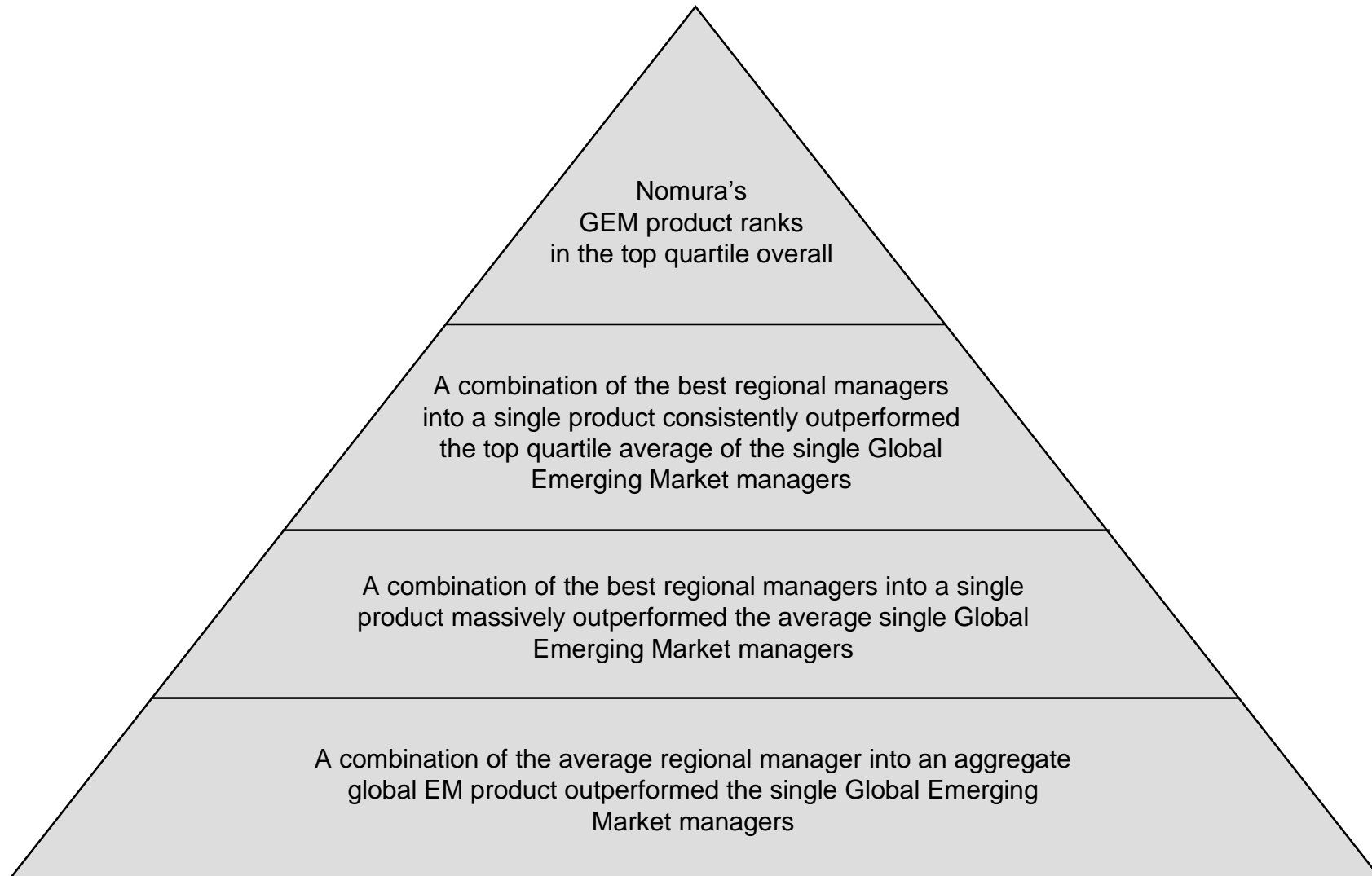
One year annualised returns comparison

1 yr annualised total returns



Source: Bloomberg, MSCI, Nomura, Mercer Oliver Wyman analysis

The rationale underlying Nomura's regional specialist approach to EM management is therefore supported by our research



Notes: Performance references refer to analysis of annualised numbers over one, three and five years