

## Asian Equity Markets in the Global Context

18 October 2007

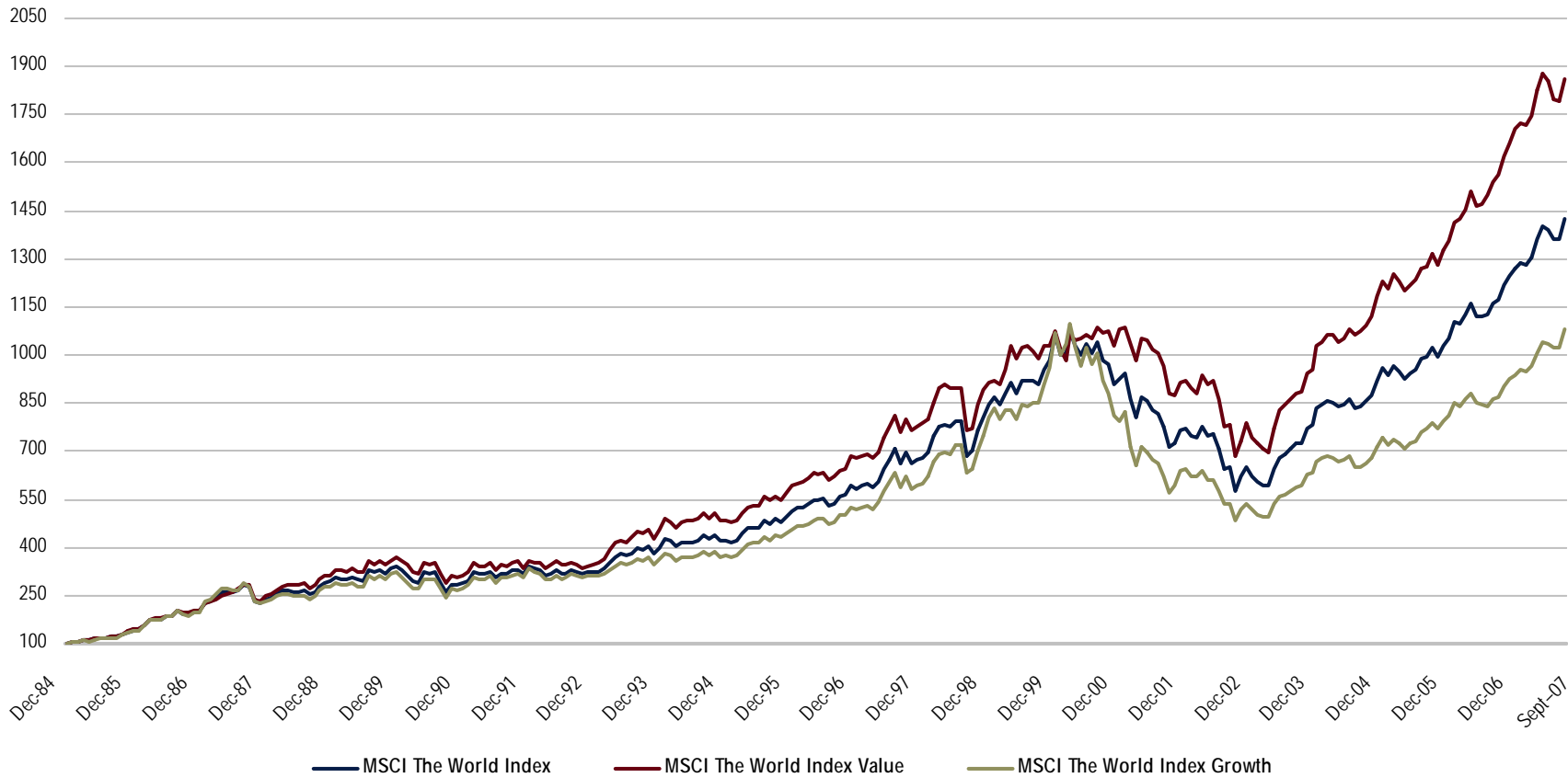
**Simon Rudolph, ACA**  
Executive Vice President / Portfolio Manager  
Templeton Global Equities

Franklin Templeton Investments (Asia) Limited  
17/F, Chater House  
8 Connaught Road Central  
Hong Kong



## Value Consistently Outperforms Growth in the Long Run: In Aggregate

### Value consistently outperforming Growth

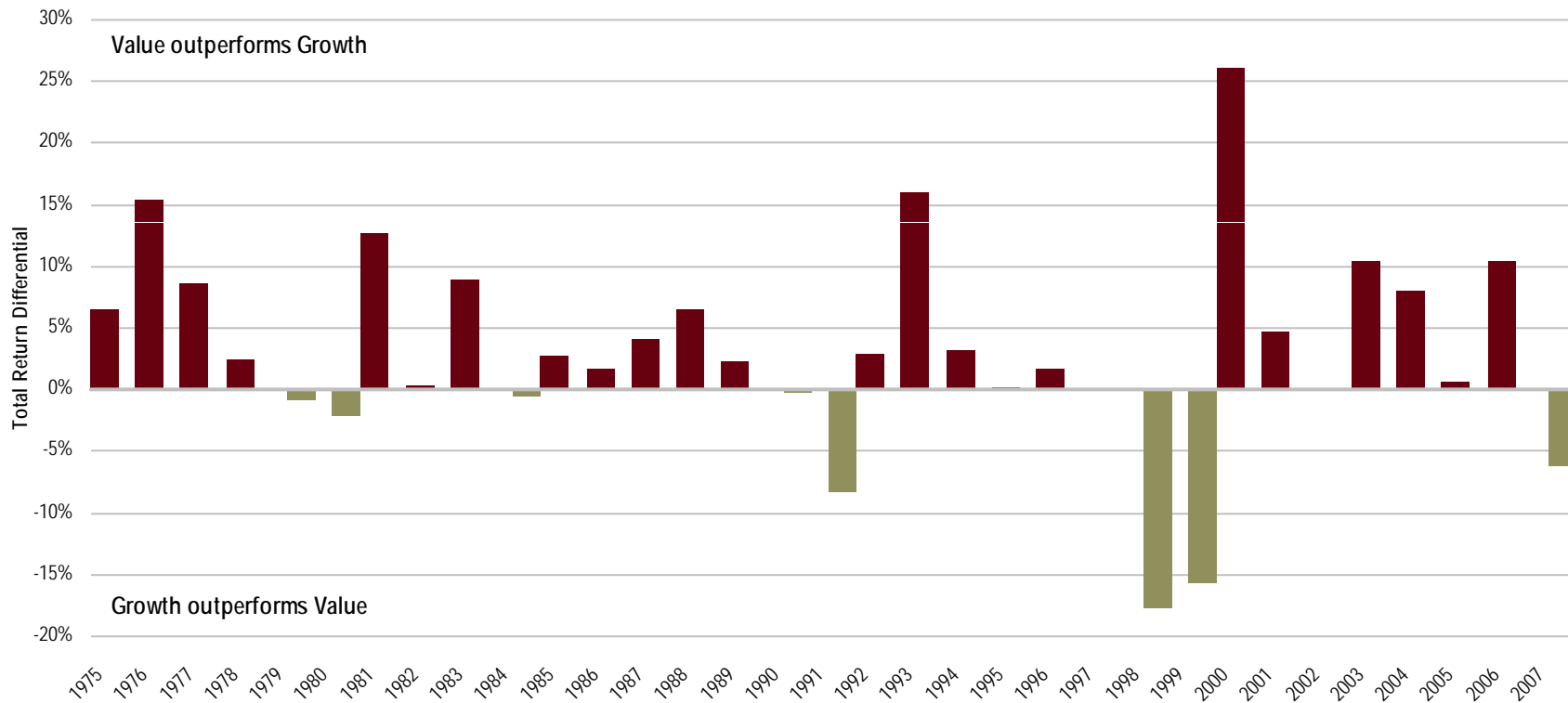


Sources: Lipper; Morgan Stanley Capital International (MSCI®), 30.09.07. Indices are unmanaged and one cannot invest directly in an index. All returns are based on year-end values as of 31.12 in USD.

## Value Consistently Outperforms Growth in the Long Run: On Calendar Year Basis

### Performance Differential between Value and Growth within the MSCI World Index

(1975 – 30 September 2007)



Sources: Lipper; Morgan Stanley Capital International (MSCI®), 30.09.07. Indices are unmanaged and one cannot invest directly in an index. All returns are based on year-end values as of 31.12 in USD.

## FRANKLIN TEMPLETON INSTITUTIONAL

## Global Markets



1989		Turkey
1990		Greece
1991		Argentina
1992		Jordan
1993		Poland
1994		Brazil
1995		Switzerland
1996		Russia
1997		Turkey
1998		Korea
1999		Turkey
2000		Israel
2001		Russia
2002		Pakistan
2003		Thailand
2004		Colombia
2005		Egypt
2006		China
2007 YTD		Peru



	Thailand
	Mexico
	Brazil
	Philippines
	Turkey
	Finland
	USA
	Venezuela
	Russia
	Finland
	Russia
	Switzerland
	Korea
	Czech Rep
	Turkey
	Egypt
	Colombia
	Indonesia
	China



	Austria
	Chile
	Mexico
	Thailand
	Philippines
	Peru
	Sweden
	Hungary
	Hungary
	Greece
	Finland
	Canada
	Colombia
	Indonesia
	Brazil
	Hungary
	Jordan
	Morocco
	Turkey

Source: Factset. Rankings based on the 23 countries in the MSCI AC World Index.  
**Past performance is not indicative of future performance.**

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Global Developed Markets



1989		Austria
1990		Greece
1991		Hong Kong
1992		Hong Kong
1993		Hong Kong
1994		Finland
1995		Switzerland
1996		Spain
1997		Portugal
1998		Finland
1999		Finland
2000		Switzerland
2001		New Zealand
2002		New Zealand
2003		Greece
2004		Austria
2005		Canada
2006		Spain
2007 YTD		Finland



	Greece
	UK
	Singapore
	Switzerland
	Finland
	Norway
	USA
	Sweden
	Switzerland
	Greece
	Sweden
	Canada
	Australia
	Austria
	Sweden
	Norway
	Norway
	Portugal
	Australia



	Germany
	Hong Kong
	Australia
	USA
	Singapore
	Japan
	Sweden
	Finland
	Italy
	Belgium
	Japan
	Denmark
	Ireland
	Australia
	Germany
	Greece
	Japan
	Ireland
	Norway

Source: Factset. Rankings based on the 23 countries in the MSCI World Index.  
**Past performance is not indicative of future performance.**

## Asia is Still Part of the World!

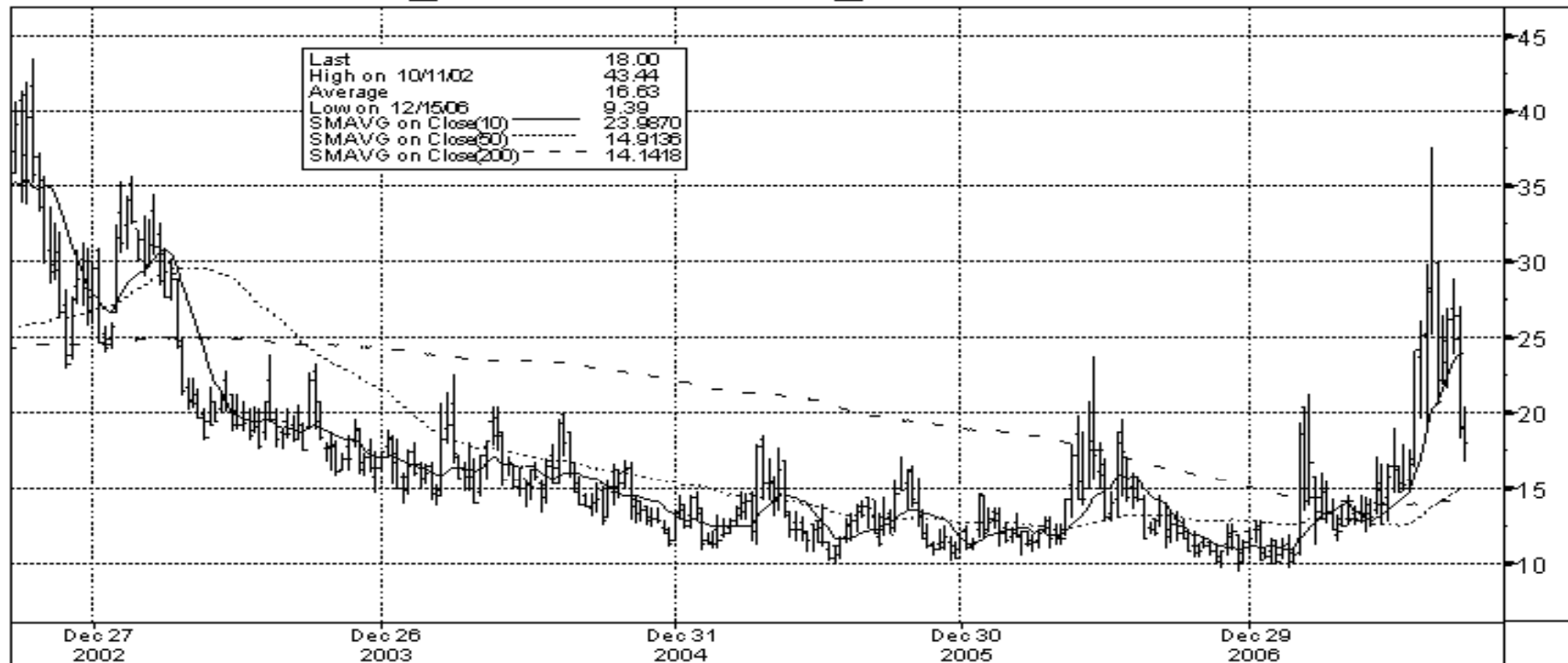
- Subprime lending
- Liquidity
- Commodities
- Currency
- Inflation
- Volatility

VIX Index: Volatility Rises

**VIX** 17.84Y as of close 10/ 1

Index **GPO**

VIX INDEX  GPO - Bar Chart Page 1/22  
 Range  -  Upper  Bar Chart  Mov. Avgs    Currency    
 Period   Lower  None  Mov. Avg

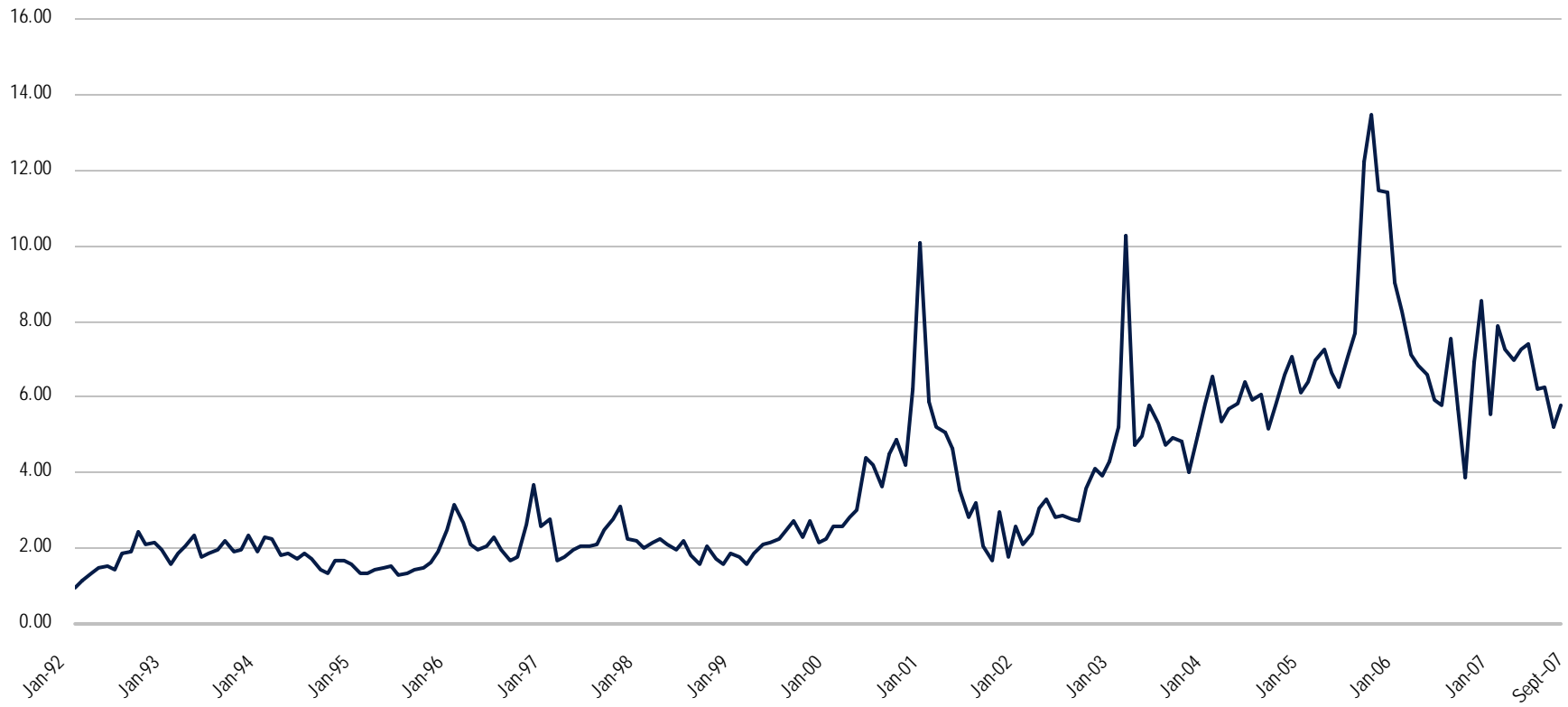


Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.  
 6474-25-1 02-Oct-2007 11:22:38

Source: Bloomberg.

### Natural Gas

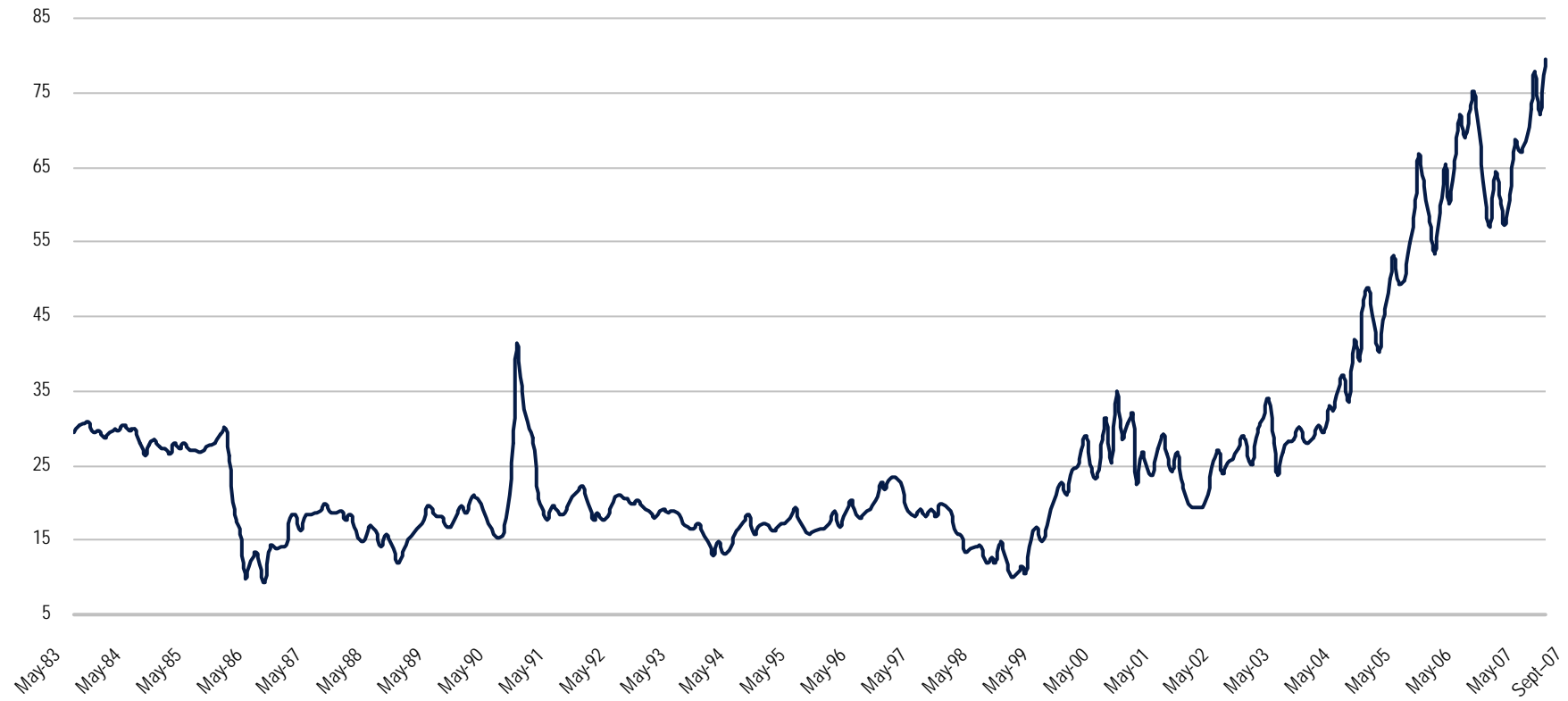
US\$/Mmbtu



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## Oil

US\$/bbl



Source: CLSA.

## Asia is Still Part of the World!

- Subprime lending
- Liquidity
- Commodities
- Currency
- Inflation
- Volatility
- How many have seen bear market?

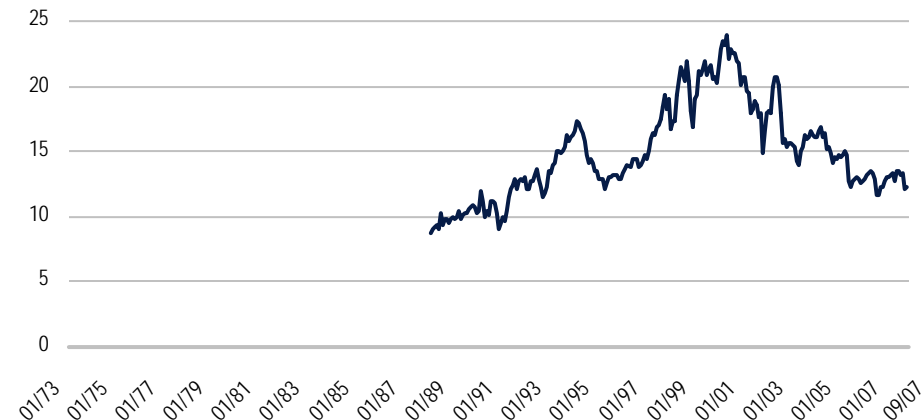
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Forward PE: Reasonable, as Long as Earnings Keep Growing

USA



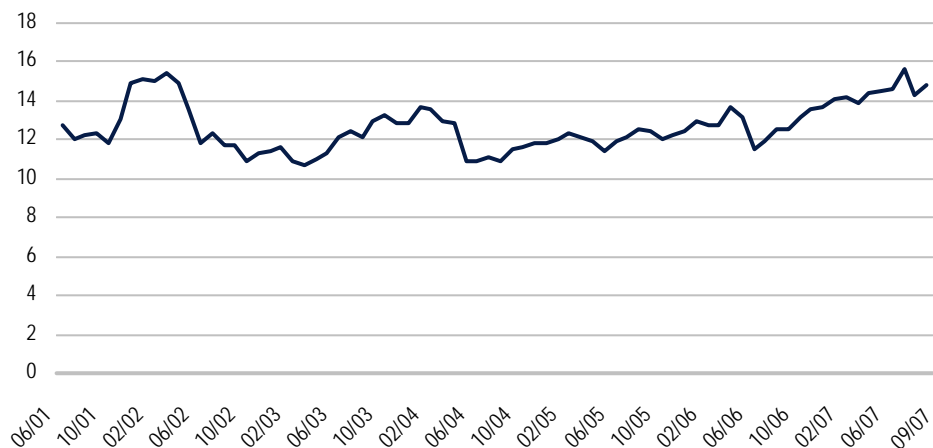
Europe



Japan



MSCI AC Asia Pacific Free ex Japan

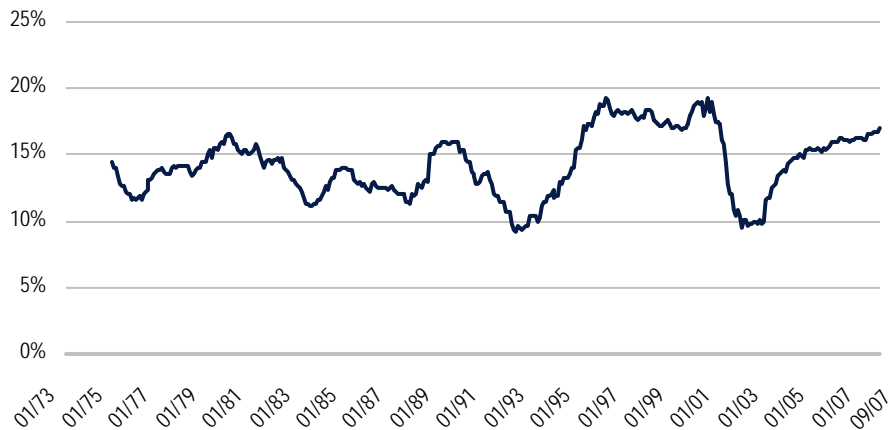


Source: Morgan Stanley.

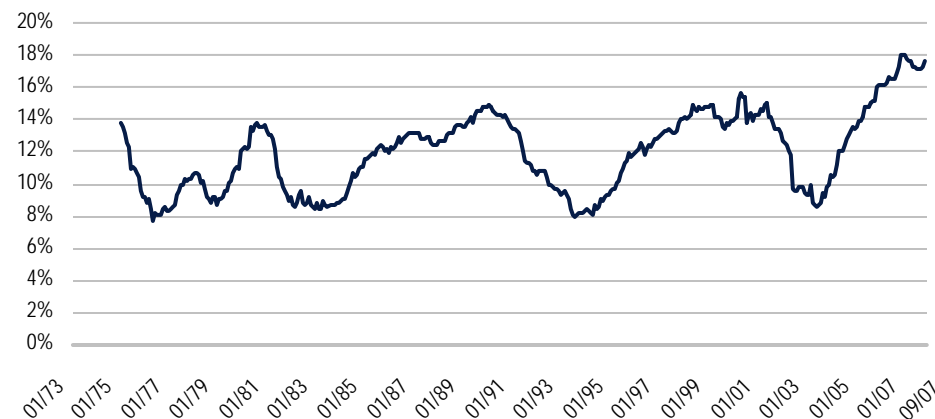
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ROE: Late in the Economic Cycle?

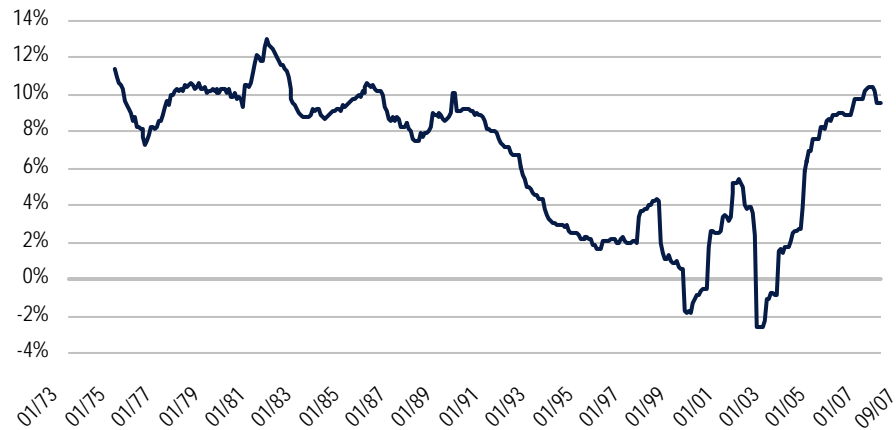
USA



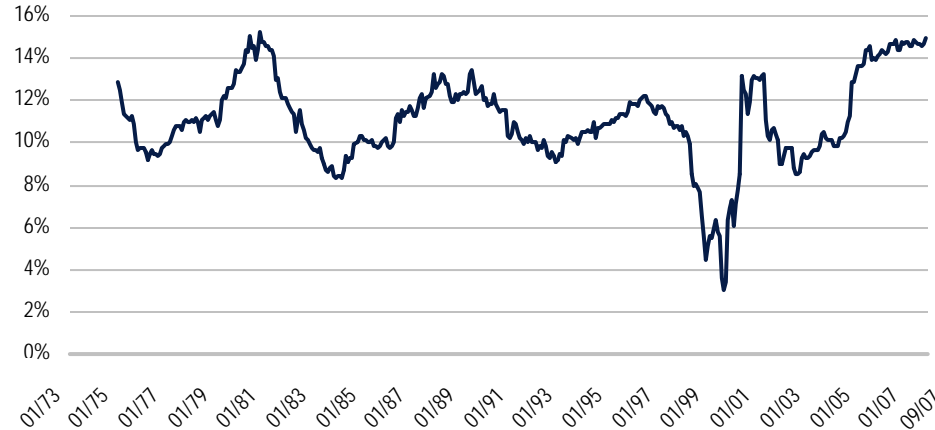
Europe



Japan



MSCI AC Asia Pacific Free ex Japan



Source: Morgan Stanley.

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## 2007 YTD Performance (%)

Region	Index	Local %	US\$ %
U.S.	NASDAQ	11.8	11.8
	S&P 500	7.6	7.6
Japan	TOPIX	-3.8	-0.4
Europe	FRANCE (CAC 40)	3.1	11.2
	GERMANY (DAX)	19.2	28.5
	ITALY (MILAN MIB 30)	-2.9	4.8
	UK (FTSE 100)	4.0	8.2
Asia Pacific ex Japan	BANGKOK (S.E.T.)	24.4	31.2
	HK (HANG SENG)	36.0	36.1
	INDIA (BSE 30 SENSEX)	25.4	39.3
	JAKARTA (SE COMPOSITE)	30.7	28.4
	KOREA (KOSPI)	35.7	38.3
	PHILIPPINES (PESI)	19.8	30.3
	SHANGHAI (A SHARE)	107.0	115.3
	SINGAPORE (STRAITS TIMES)	24.1	28.3
	S&P (ASX 200)	15.8	30.1
	TAIWAN (SE WEIGHTED)	20.3	20.1
Latin America	BRAZIL (BOVESPA)	36.0	57.8
	MEXICO IPC (BOLSA)	14.5	13.4

YTD: 30.09.07.

Sources: Datastream, MSCI.

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## Global Valuations

MSCI Index 30-Sept-07	PE 2007	PE 2008E	PE 2009E	P/BV Trailing	Trailing Div. Yield %	Trailing ROE %
MSCI USA	16.8	15.0	13.4	3.0	1.8	17.0
MSCI Brazil	12.9	11.9	11.2	2.9	2.3	19.0
MSCI Europe	13.7	12.6	11.5	2.4	2.9	17.6
MSCI Germany	14.4	13.0	11.7	2.1	2.4	14.7
MSCI United Kingdom	13.1	12.1	11.2	2.5	3.3	20.1
MSCI Russia	11.6	11.0	10.6	2.4	1.3	18.0
MSCI Australia	17.2	15.7	14.9	3.1	3.4	17.8
MSCI China	25.5	21.6	19.0	4.6	1.2	16.9
MSCI Hong Kong	16.0	21.1	18.5	2.3	2.1	10.8
MSCI India	22.7	19.1	13.9	5.0	0.9	19.6
MSCI Indonesia	15.6	14.0	12.2	4.7	1.9	26.6
MSCI Japan	16.9	15.8	14.6	1.9	1.3	9.6
MSCI Korea	14.3	12.5	11.2	1.9	1.6	13.1
MSCI Philippines	18.7	16.3	13.5	2.7	2.3	17.4
MSCI Singapore	18.0	16.3	14.4	2.4	2.2	13.8
MSCI Taiwan	15.3	13.2	12.0	2.3	3.5	12.4
MSCI Thailand	12.9	11.4	10.7	2.3	3.2	16.8

## 2007: GDP and Earnings Forecasts

### A DISCONNECT?

	GDP Growth 2007E (%)	Earnings Growth 2007E (%)
Australia	4.3	8.1
Europe	2.6	9.4
France	1.8	7.3
Germany	2.4	19.2
Hong Kong	5.0	37.5
India	8.4	9.5
Italy	1.8	1.8
Japan	1.9	20.0
Korea	4.6	12.7
Norway	3.0	3.1
Thailand	4.5	-0.1
UK	2.6	5.8
U.S.	1.9	8.2

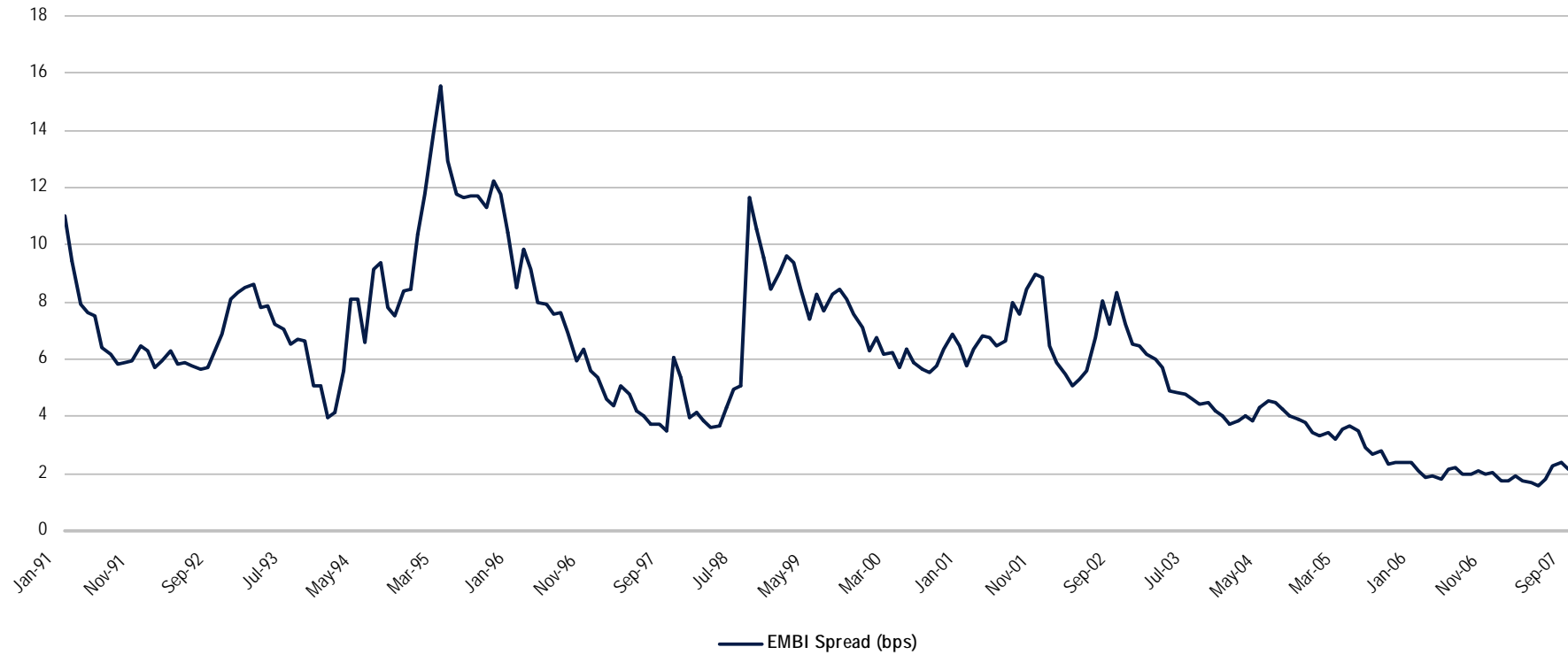
## Asian Equity Markets: How Much is “In the Price”?

### THE POSITIVES

- Strong earnings momentum
- Significantly increased risk tolerance

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## EM Debt Spreads\*



\*Compared to U.S. Treasuries.  
Source: JP Morgan.

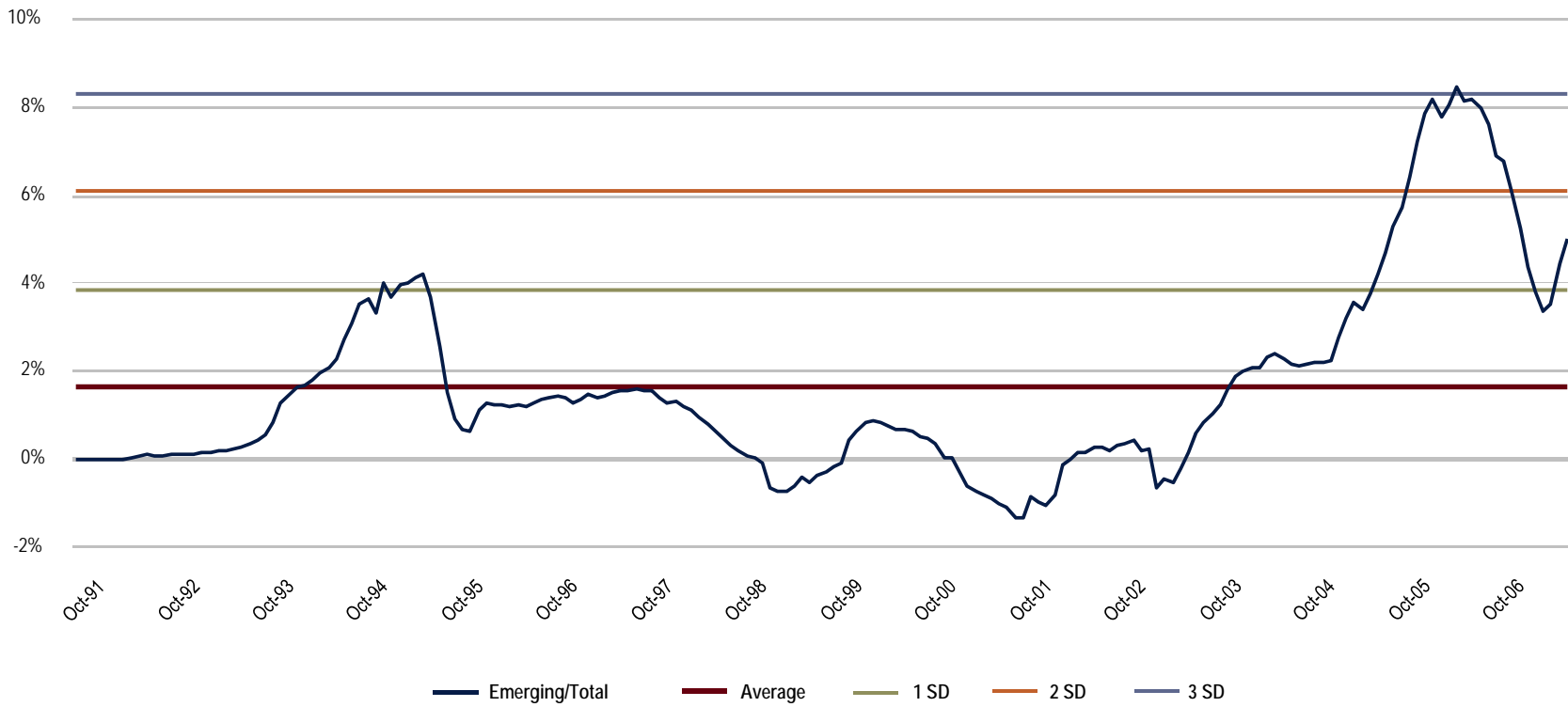
## Asian Equity Markets: How Much is “In the Price”?

### THE POSITIVES

- Strong earnings momentum
- Significantly increased risk tolerance
- Substantial capital flows

## Emerging Market Flows as a % of Total Flows

12-Month Cumulative, excluding Money Market Flows



Sources: Investment Company Institute and Citigroup Investment Research U.S. Equity Strategy.

## Asian Equity Markets: How Much is “In the Price”?

### THE POSITIVES

- Strong earnings momentum
- Significantly increased risk tolerance
- Substantial capital flows

### THE NEGATIVES

- Globally affected/correlated
- Naivety. Revenue growth can slow and margins can fall!
- Risk premiums can rise quickly
- Capital flows reverse in troubled times
- Japan: still expensive and “different”
- Developing Asia: now has highest valuations

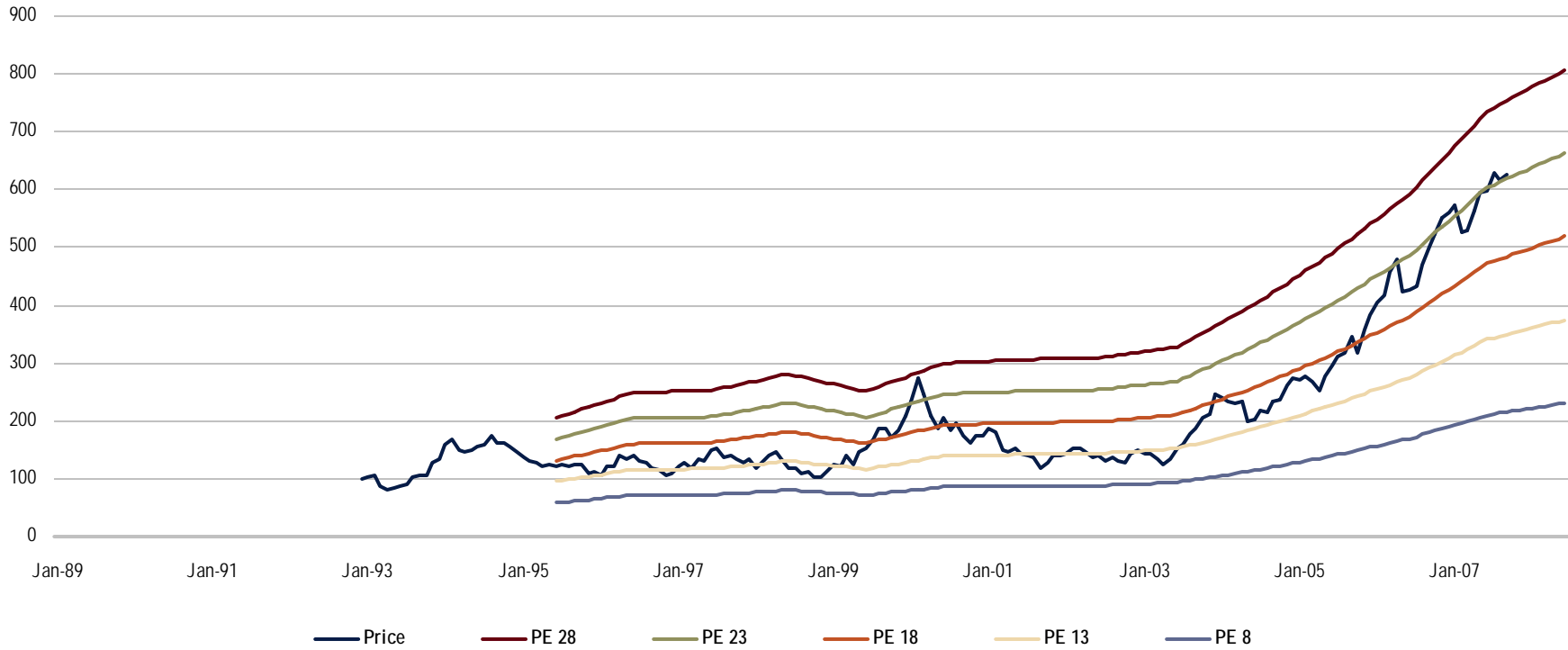
### PE Band: China

#### MSCI China PE Band



### PE Band: India

#### MSCI India PE Band



## Questions & Answers

## Templeton Global Equity Group



**SIMON RUDOLPH, ACA**  
Executive Vice President  
Portfolio Manager  
Templeton Global Equities

Templeton Investments (Asia) Limited  
Hong Kong

Simon Rudolph joined Templeton in 1997 as a portfolio manager and research analyst. He currently is an Executive Vice President. He has global research responsibility for the property sector. Mr. Rudolph also has country research coverage of India and Japan. Previously, he researched global shipping as well as the Food, Personal Care and Household Products sector and had joint coverage of the small cap consumer goods industries. He manages global, international and Asia Pacific mandates, as well as specific country portfolios.

Mr. Rudolph has been a securities analyst since 1986. Prior to joining Templeton, he was an Executive Director with Morgan Stanley and was responsible for the analysis of continental European insurance companies.

Mr. Rudolph holds a B.A. degree in Economic History from Durham University, England. He is a Chartered Accountant (ACA) and a member of the Institute of Chartered Accountants of England and Wales.