

China's Role in the Global Economy

An Investors Perspective

“...the number and wealth of the merchants, and the amount of goods that passed through their hands, were so so enormous that no man could form a just estimate thereof.”

The Book of Ser Marco Polo the Venetian concerning the Kingdoms and Marvels of the East

James Donald, CFA
October 12, 2009

NCTR Conference
Renaissance Esmeralda
Indian Wells, California

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Agenda

- **Introduction**
- **Means of Investing in China**
- **Market Observations**
- **Conclusions**

Introduction

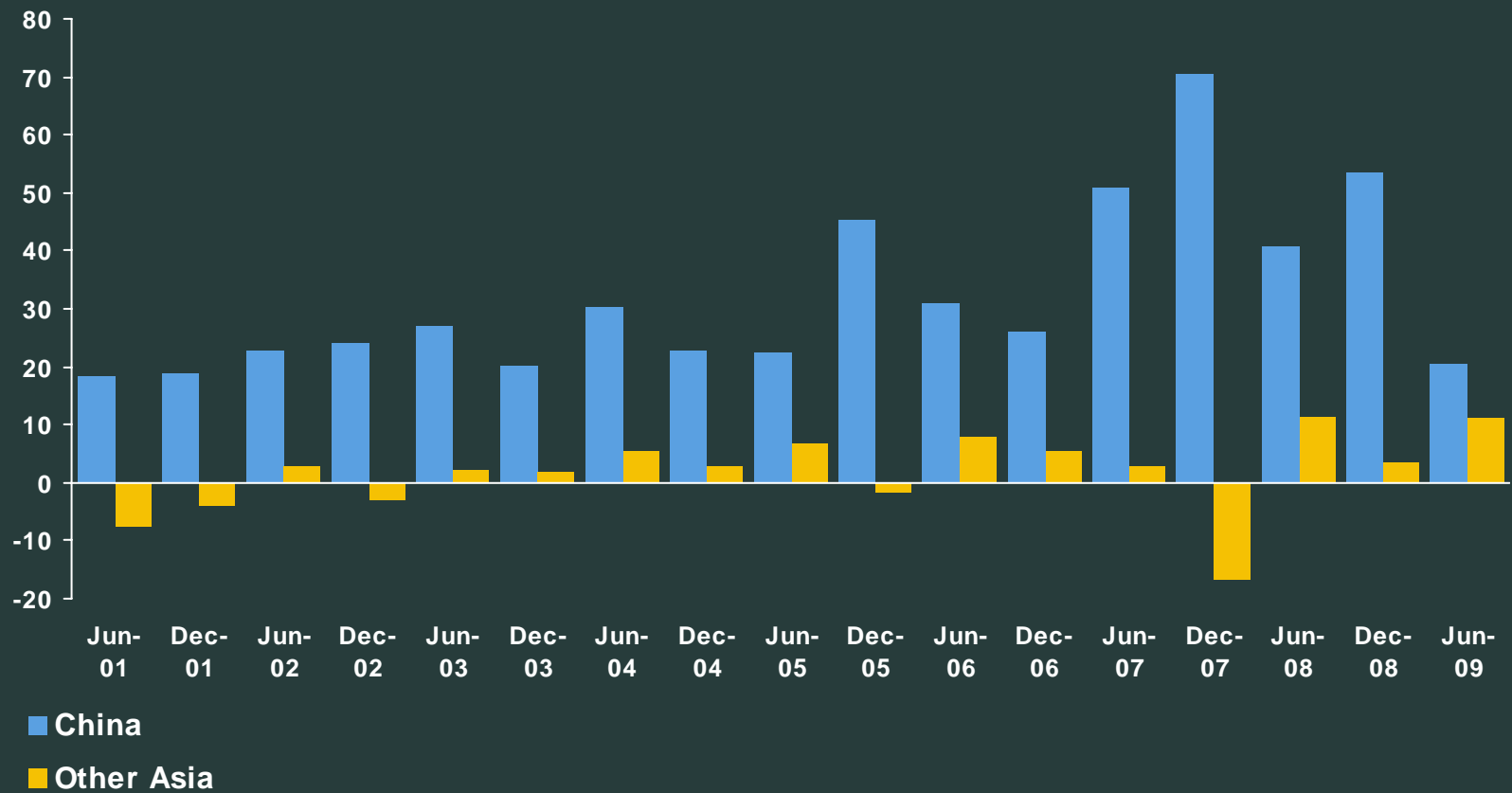
Introduction

- **Scale**
- **Industrialization**
- **The Stock Market**

Too Big Not to be Involved

Foreign Direct Investments

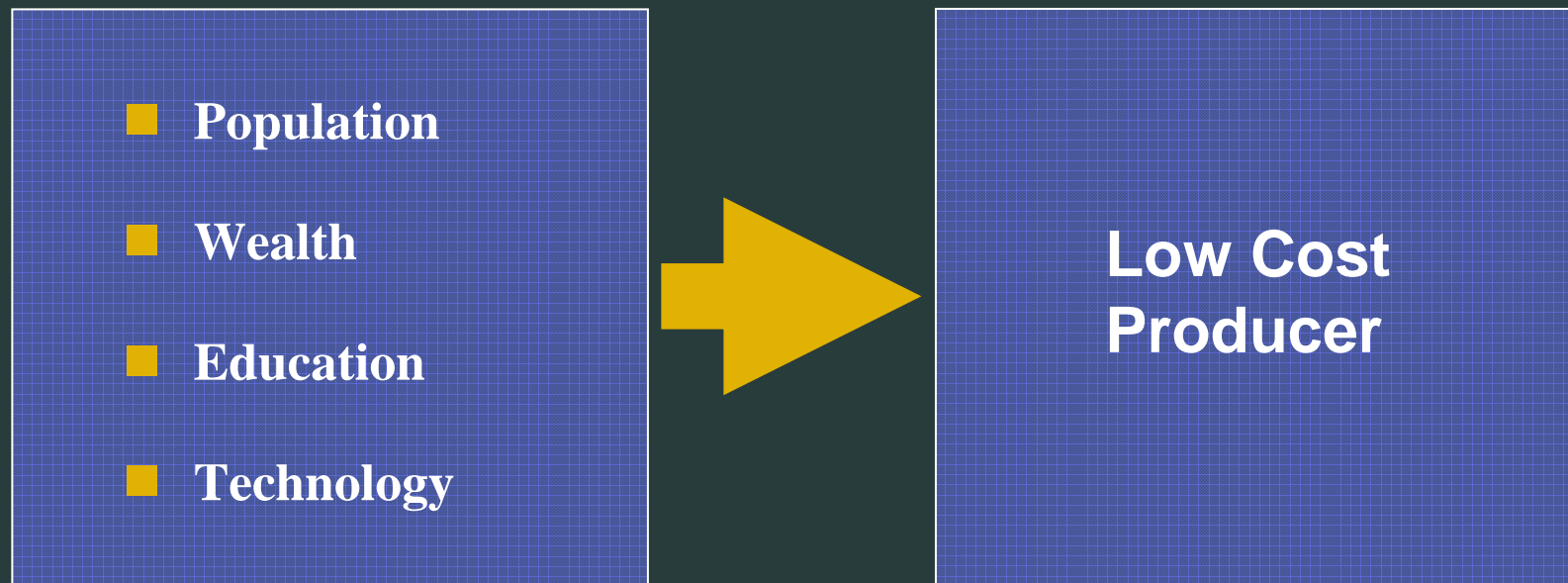
USD (millions)



As of 30 June 2009

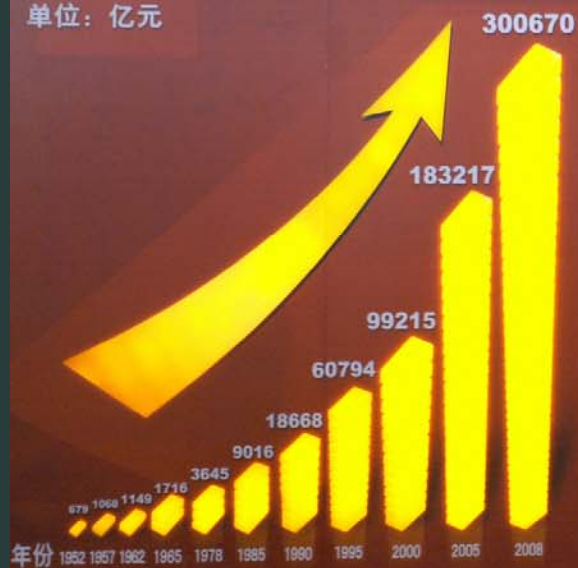
Source: Morgan Stanley

Scale



国内生产总值跃居世界第三位

单位：亿元



对外贸易总量跃居世界第三位

单位：亿美元

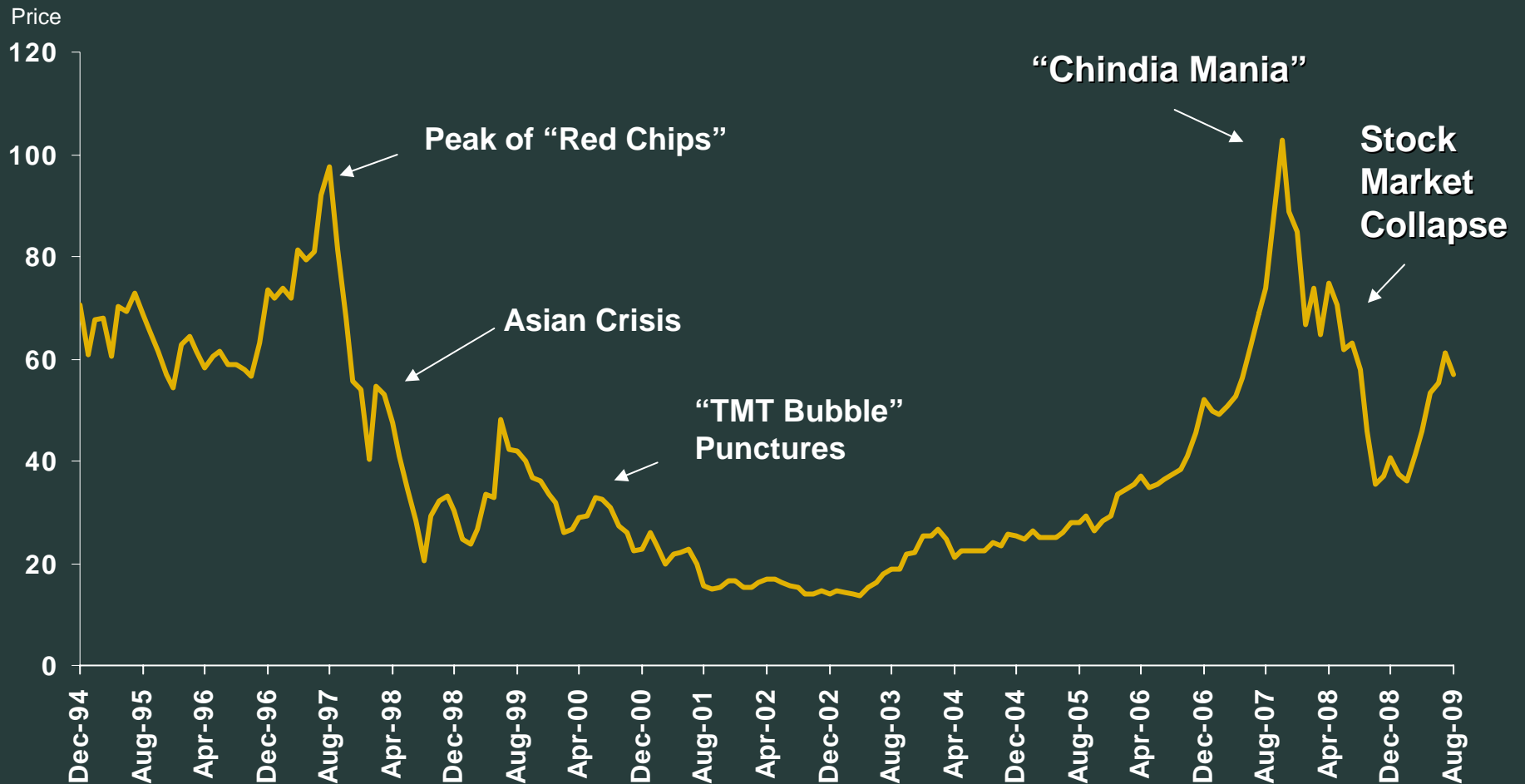


外汇储备跃居世界第一位

单位：亿美元



MSCI China Index



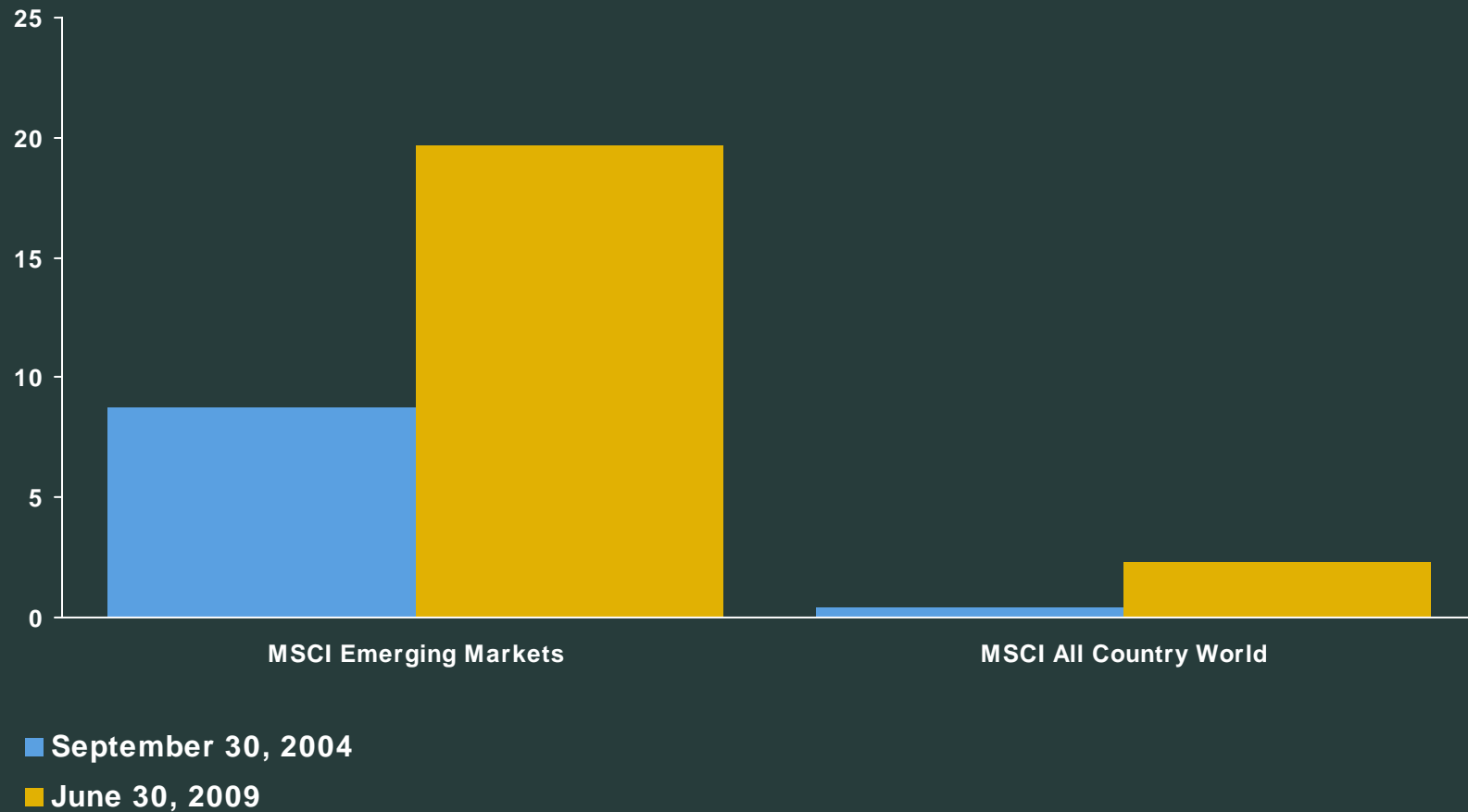
As of 30 September 2009

Source: MSCI - Barra

Past performance is not a reliable indicator of future results.



MSCI China as a % of



As of 30 June 2009
Source: MSCI - Barra

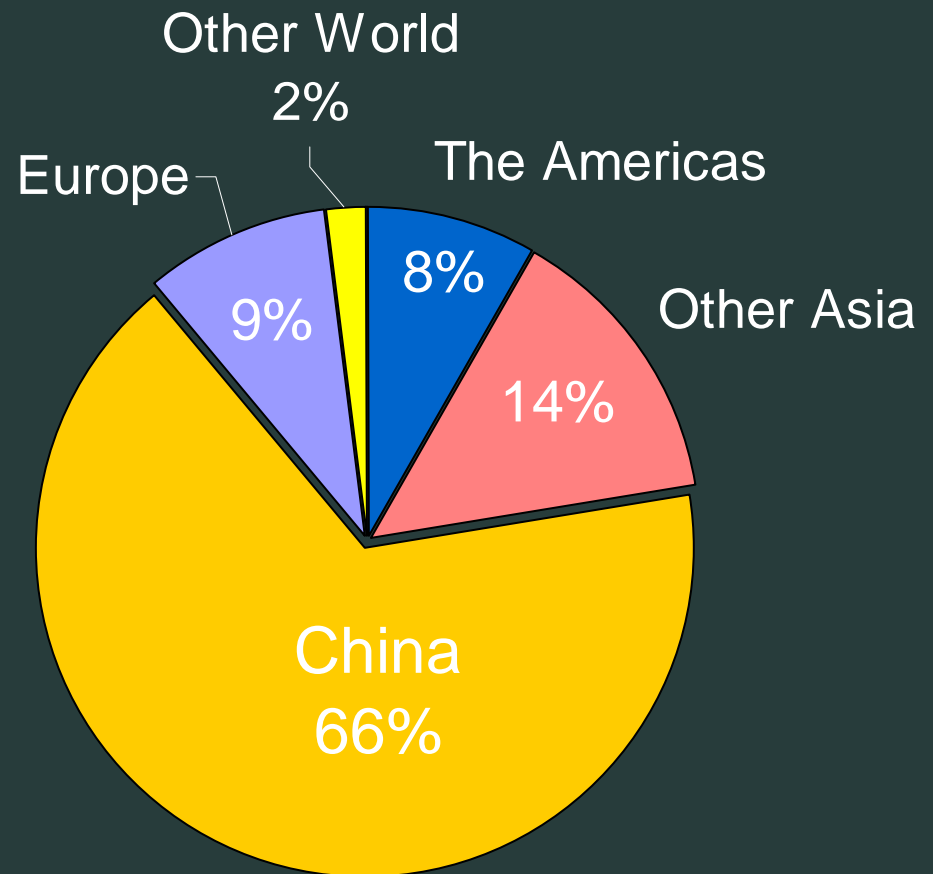
Means of Investing in China

Means of Investing in China

- **Global Multinationals**
- **Asian Multinationals**
- **PE Funds**
- **Chinese Corporations**

Indirect Investments in the Chinese Market

Vale : Sales Volume by Region and Country



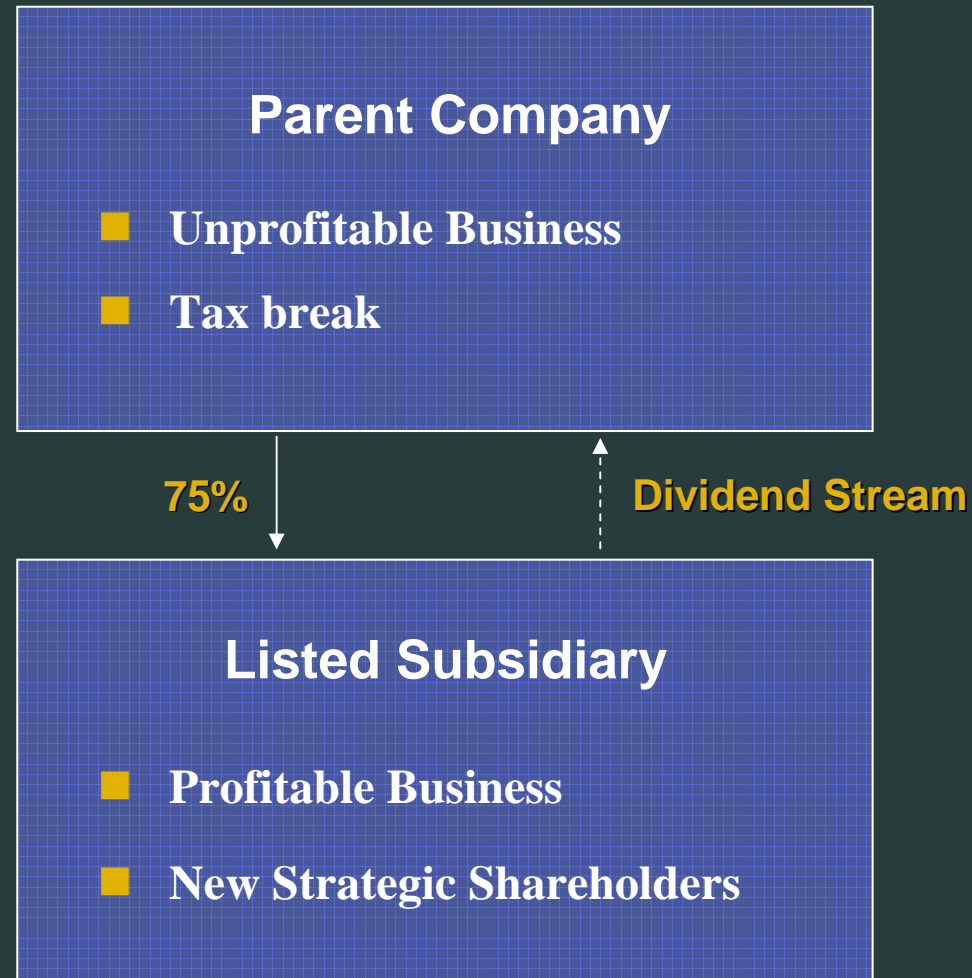
Source: Vale 2nd Quarter 2009 U.S. GAAP Earnings Release

The information provided should not be considered a recommendation or solicitation to purchase or sell any security

Chinese Corporations

- 'L' and 'N' Shares
- 'H' Shares
- 'B' Shares
- 'A' Shares
- 'C' Shares
- Private Equity
- Bonds?

Typical China Privatization Structure



Market Characteristics

Then and Now

Constituents as % of MSCI China Index

September 30, 1997		September 30, 2004		June 30, 2009	
Sinopec Shanghai Petro	14%	China Mobile	18%	China Mobile	13%
Qingling Motors	12%	Petrochina	10%	China Construction Bank	7%
China Shipping Dev	11%	CNOOC	8%	Industrial & Commercial Bank of China	6%
Guangshen Railway	9%	Sinopec	7%	China Life Insurance	6%
Maanshan Iron & Steel	8%	China Life Insurance	5%	Bank of China	6%
Shanghai Lujiazui	6%	China Telecom	5%	PetroChina	5%
Jinlin Chemical	4%	Citic Pacific	3%	CNOOC	5%
Dazhong Trans	4%	Huaneng Power Intl	3%	China Petroleum & Chemical Corp.	3%
Guangdong Elect	3%	Ping An Insurance	2%	China Shenhua Energy	3%
China Intl Marine	3%	Cosco Pacific	2%	Tencent Holdings	2%

As of 30 June 2009

Source: MSCI-Barra

The securities identified are not necessarily held by Lazard Asset management for all client portfolios, and should not be considered a recommendation or solicitation to purchase or sell these securities. It should not be assumed that any investment in these securities was, or will be, profitable.

Trailing Valuations and Profitability

MSCI Emerging Markets Index vs. MSCI China



As of 30 June 30 2009
Source:MSCI - Barra

Forward Looking Valuations and Profitability

MSCI Emerging Markets Index vs. MSCI China



As of 30 June 2009
Source: MSCI - Barra

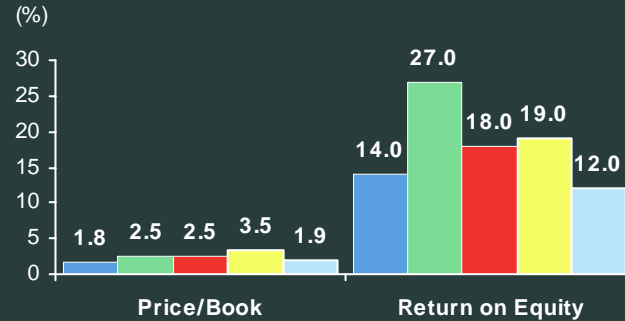
Forward-looking characteristics do not represent a promise or guarantee of future results and are subject to



Emerging Market Relative Valuations

Prospective Market Characteristics

Banks



- Standard Bank
- Banco do Brasil
- CCB
- CMB
- MSCI EM Sector Index

Insurance



- Sanlam
- China Life
- MSCI EM Sector Index

Telecom



- America Movil
- PLDT
- China Unicom
- China Telecom
- MSCI EM Sector Index

Technology



- NHN
- ZTE
- Baidu
- MSCI EM Sector Index

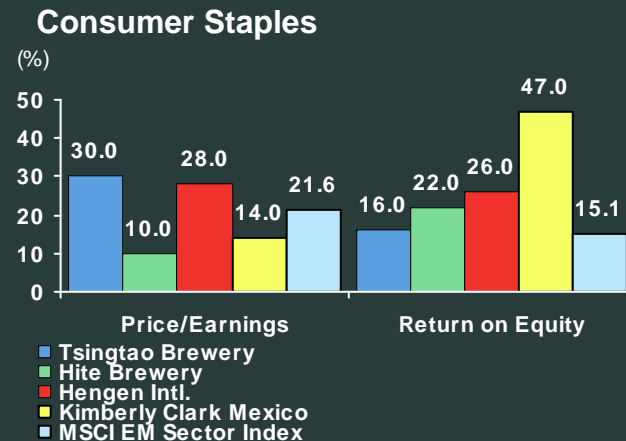
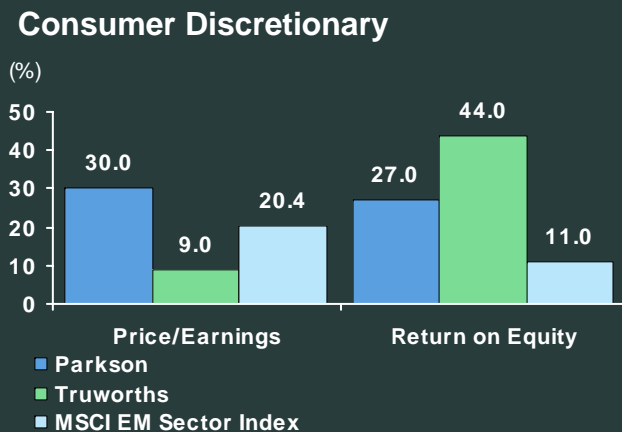
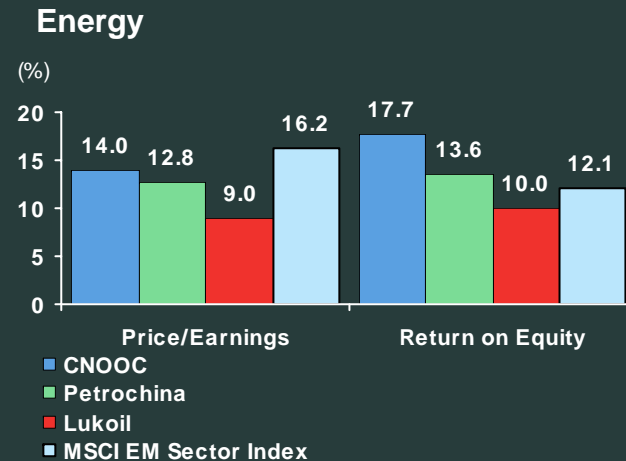
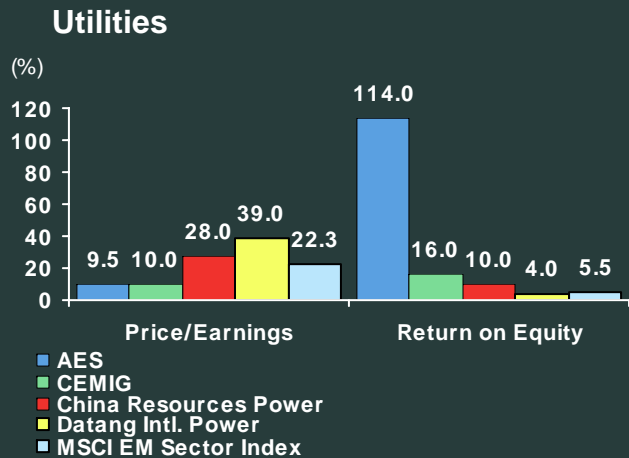
As of September 30 2009

Source: Lazard Asset Management, MSCI

The information provided should not be considered a recommendation or solicitation to purchase or sell any security

Emerging Market Relative Valuations

Prospective Market Characteristics



As of September 30 2009

Source: Lazard Asset Management, MSCI

The information provided should not be considered a recommendation or solicitation to purchase or sell any security

China: More Growth than Value

	Parameters (%)	Lazard Developing Markets Equity (% Portfolio)	Lazard Emerging Markets Equity (% Portfolio)	MSCI EM Index (%)
Latin America				
China	0-20	10.8	1.0	19.4
South Korea	0-25	3.8	10.1	12.3
Russia	0-20	12.7	8.3	6.0
South Africa	0-20	9.7	13.1	7.5
Turkey	0-15	5.4	6.4	1.4
		100	100	100

	Parameters (%)	Lazard Developing Markets Equity (% Portfolio)	Lazard Emerging Markets Equity (% Portfolio)	MSCI EM Index (%)
Energy	0-25	17.9	10.9	15.9
Consumer Staples	0-15	3.6	11.4	5.1
Industrials	0-25	12.9	7.9	7.2
Information Technology	0-25	8.5	11.6	12.3

As of June 30 2009

Source: Lazard Asset Management, MSCI

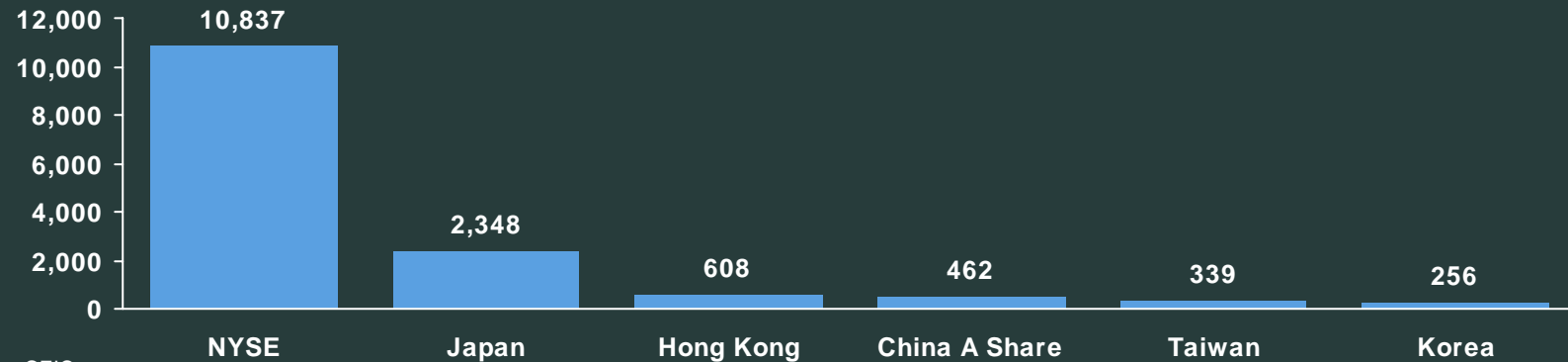
Allocations are as of 30 June 2009 and are subject to change



Market Cap Comparison

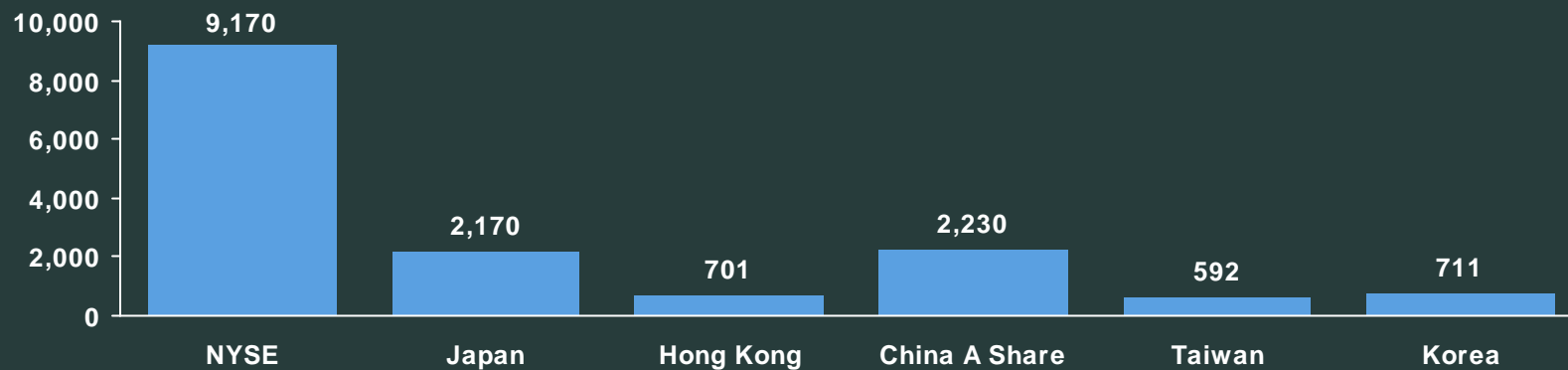
September 20, 2003

USD (billions)



Source: CEIC

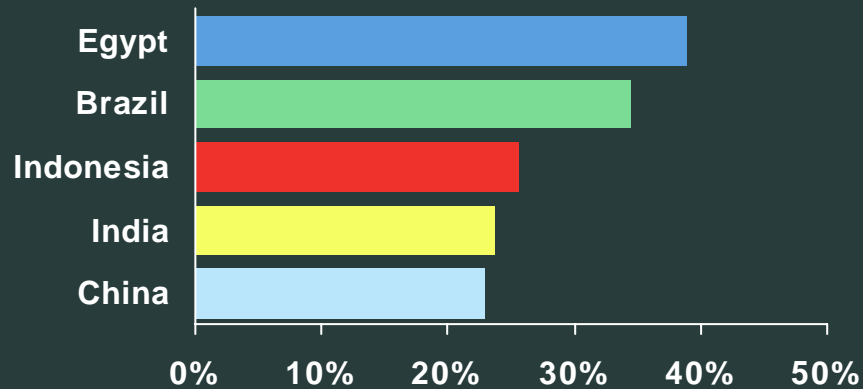
September 30, 2009



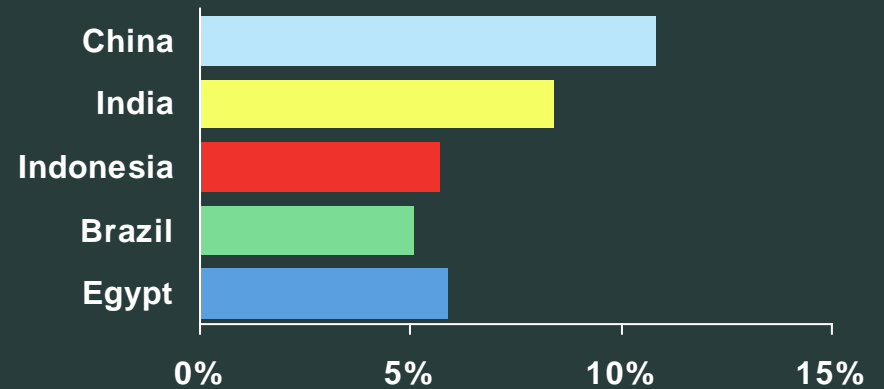
Source: Bloomberg

Equity Markets Don't Always Correlate with Economic Growth

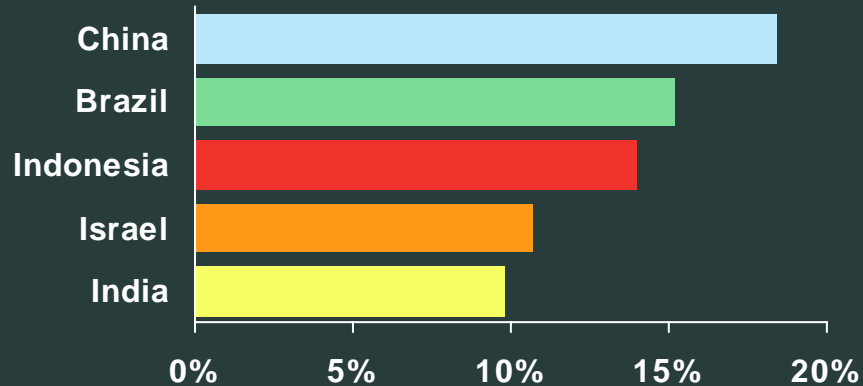
5 year annualized Stock Market Returns



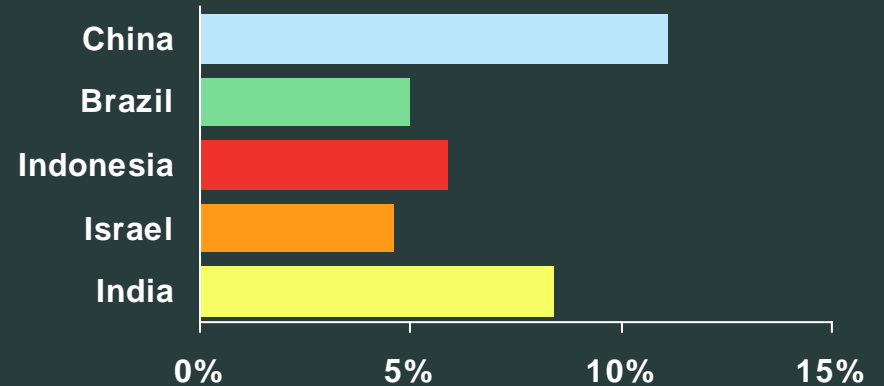
5 year annualized GDP Growth



3 year annualized Stock Market Returns



3 year annualized GDP Growth



As of 30 June 2009

Source: Global Insights, International Monetary Fund
 Past performance is not a reliable indicator of future results.

Conclusion

- **World's most important economy today**
- **Powerful recent equity returns**
- **Relatively attractive from a growth perspective**



