Sujet: La crise n'est pas uniforme en Europe / It is not all bad in Europe.

Source: Excel Funds

Date: 26-5-2010

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Info DalpéMilette

CONFERENCE CALL HIGHLIGHTS

Emerging Europe Conference Call

May 26, 2010

Debt in Europe:

- The debt situation in "new Europe" is far better than "old Europe".
- When we talk about debt spiralling out of control, it doesn't have a big impact on more than half of the European population.
- The 500M+ inhabitants of Emerging Europe live in countries that have room for growth, have a solid banking system and one of the healthiest corporate sectors. The household sector has grown its balance sheet and is capable of taking on debt in the mortgage market.
- The #1 country in the Excel Emerging Europe Fund, Russia, is debt-free on a sovereign level. Countries like Russia that are not burdened by heavy debt loads will see growth in personal income and investment infrastructure.
- In addition to being debt-free, Russia also has extensive currency reserves. The Russian economy is approx. $1 trillion in size with net reserves of approx. US$ 400B. The amount of money circulating in the Russian economy is approx. US$ 400B. The Russian currency is essentially fully-backed for reserves in the central bank. A large part of the Russian economy (i.e. energy) is denominated in US$.
- New EU members such as Poland represent approx. 150 million people. These countries together have less sovereign debt than Greece by itself.
- Almost all of the new EU countries are not yet part of the Euro. They can conduct an independent currency regime. They have the advantage of adjusting their own rates in the economic cycle without being dependent on the European Central Bank.
- Debt in markets such as Poland, Turkey and the Czech Republic is quite long: 5-6 years in duration. 90% of this sovereign debt helps finance insurance companies and banks. These countries have a high enough savings rate to finance their own economies and their own fiscal policy. They have the advantage of not being independent on the international money markets.
- Countries that are new additions to the EU have an advantage. They had to demonstrate, for example, that budget deficits were under control. New EU members can also access structural funds that could reflect 2.5-5% per annum GDP.

Sovereign Risk:

- The situation in Portugal, Spain, Greece and Italy is very different from Emerging Europe. The former had become uncompetitive, while the latter had to be extremely competitive just to stay on the growth path.
- Growth in these Mediterranean countries was financed through debt and created a dependency on the international money markets. These markets are no longer willing to support their unsustainable development. While Emerging European countries are seeing a lot of direct foreign investment, the Mediterranean regions are paying a price for their negligence.
- Sovereign credit default swaps for treasury bonds in Greece, Portugal and Spain have risen significantly over the past couple of weeks. The market understands how difficult it will be for these markets to consolidate fiscally. There is a risk of a multi-year recession, or worse, in these countries.

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Sovereign Risk continued...

- The inflexible labour markets in these countries will contribute to an expansion of the credit default swaps, highlighting that investors will not support unsustainable developments in those countries.

- How does this impact Emerging Europe? Credit default swaps remain not only tight in Central and Eastern Europe, in Emerging Europe they are much tighter than Greece, Portugal and Spain. The cost of capital in Emerging Europe is significantly lower in than the cost of capital in Southern European countries like Greece. It's important because it shows bond investors are relaxed and are actively seeking to invest in the countries. It's not as easy because debt levels are not high resulting in not a lot of debt to be bought by bond investors.

- Banks in Emerging Europe are well-capitalized and highly liquid. They don't rely on short-term debt or international money markets.

The Consumer & Corporate Debt:

- Household debt represents between 10-25% of GDP in Central and Emerging Europe. The rest of Europe is close to 75%.

- Unleveraged households will lead to a positive separation between Emerging Europe and other parts of Europe. Financial market intermediation will become more professional and as a result we will see more credit growth.

- Outstanding mortgage loans in the US are approx. 85% of GDP. The figure in Poland is about 20%, Russia 3% and Romania 4%.

- Similar to households, companies in Emerging Europe are among the least leveraged companies globally. This is partially due to a cultural influence. There is a preference to use cash flow to finance growth.

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