GLOBAL THEMATIC INVESTORS

QUARTERLY LETTER TO SHAREHOLDERS IN THE P&C GLOBAL THEMATIC INVESTORS FUND APRIL 2010

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Keep an Eye on This Young Fellow

GTI's "*Emerging Middle Class*" investment theme is *the* investment theme of the next decade

He's GTI's New Best Friend. He's young, hard working, needs an upgrade on his vehicle, is saving up for a wrist-watch on his arm, a mobile phone and doesn't mind if he drinks Coke or Pepsi –both taste just fine. He's energetic and ambitious, and –beware- thinks that the next century belongs to him. Whatever happens, he's determined to live better than his parents.

He's our friend because he's going to ensure that GTI's ***"Emerging Middle Class"*** theme will make more money for more people in the next 20 years than any other form of equity investment in history.

That's our confident prediction. When 25-50% of the world is taking part as investors and agents of change, it's not really so brave to be so confident.

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A titanic transfer of wealth is occurring from ageing and mature, post-industrial countries (USA, UK, Germany, France etc) to faster-growing, younger and more vigorous developing countries. Between 2 and 4 billion new consumers are going to vie with each other to become the new consuming "middle class"; that's getting on for 25-50% of the world's population. This is a larger infusion of hungry mouths and itchy wallets than we've seen at any time in history.

Investors who don't plan for this in their strategies –as night follows day- will miss out on this historic opportunity. Worse, many in the West will become road-kill on the Emerging Middle Class Consumer Highway (through job losses, loss of currency purchasing power, educational under-achievement, shifting economic opportunities etc). So it'll be a "double hit" for those who don't invest now. One of the few ways to protect your family from this shift *and* profit from it is to find good ***"Emerging Middle Class"*** theme investments.

One of the ideas of GTI is to give our readers and shareholders the tool kit –including the best stocks, some in this letter- to be successful in this vital investment area. ***"Emerging Middle Class"*** is only one of the 8 global themes that are changing the world we live in, but it's probably the most powerful overall.

Of course, we invest in all of these stocks for our clients' managed accounts and in your P&C Global Thematic Fund.

The Secret To Getting Rich : Youth

GTI investors will be familiar with the ***"Emerging Middle Class"*** theme. Many voices have sung that particular song. First, you need countries to grow before they can consume. But young populations consume more than old ones, because they're more acquisitive. Think America or Britain in the late '50s/ early '60s. Large chrome-decked automobiles with teeth, "The Young Ones", winkle picker shoes, snazzy "gear", Mum and Dad's first house together, loud music, makeup.

Here's a GTI table that summarises the ***"Emerging Middle Class"*** theme. We've cheated slightly. We've created a new country. We've grouped real Sub-Saharan Africa (Africa is over 50 countries) into one group. We've called this newly invented country "Sub-Sahara 30" as it's made up of the 30 countries that make up Sub-Sahara. We've separated out oil-rich Nigeria, the giant oil economy of the region and we've also given a line to South Africa, which is really a middle-income country and thus not really comparable.

But GTI's table includes the 38 countries in the world (nearly 90 if you count Africa) that make up nearly 90% of the world's population, ranked by GDP per capita.

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Wealth Level (GDP per capita)	Country	Population Total, mn 2009	Median Age Years Years	Labour Force Total, mn 2009	GDP per capita Real USD 2009	GDP growth CAGER 2009-2020est
Under USD 2k	"Sub-Sahara 30"	500	19	250	400	8.0%
	Bangladesh	164	23.3	76	512	7.5%
	Pakistan	170	20.8	59	948	5.6%
	Vietnam	90	27.4	44	969	9.7%
	India	1,203	25.3	457	1,083	8.4%
	Nigeria	155	19	47	1,228	7.0%
	Philippines	91	22.5	38	1,805	7.2%
	Egypt	78	24.8	25	1,850	6.5%
USD 2-5k	Indonesia	237	27.6	106	2,081	6.5%
	China	1,344	34.1	731	3,117	11.0%
USD 5-10k	Iran	73	27	29	4,800	7.1%
	Brazil	197	28.6	93	7,427	5.6%
USD 10-20k	Mexico	109	26.3	43	9,280	5.8%
	Turkey	77	27.7	24	9,869	6.3%
	South Africa	49	24.4	18	10,000	5.5%
	Russia	141	38.4	63	10,575	6.5%
	Korea	49	37.3	21	22,631	5.1%
Over USD 20k	Japan	128	44.2	49	34,564	1.2%
	Italy	59	43.3	19	36,781	1.5%
	Germany	82	43.8	32	41,739	1.4%
	France	62	39.4	23	42,631	1.9%
	Canada	33	40.4	16	45,011	2.1%
	USA	312	36.7	139	46,626	2.2%
	UK	61	40.2	26	47,164	2.0%
	Totals / Averages	5464	30.9	2428	15962	5.5%

Source : Global Thematic Investors, US Census Bureau, IndexMundi, World Bank, UN Population Division, CIA World Factbook, Blakeney Management, Goldman Sachs

Take a moment to ponder. It's important for where you need to invest. The forecast growth numbers are Goldman Sachs' and the Sub-Saharan Africa ("SSA") numbers are GTI's advisers' numbers. Few people realize that as a *region*, SSA has for some years been –according to the IMF- the fastest growing part of the World. (China is a *country*, not a *region*). We were amused to see that Mighty Goldman –perhaps waylaid by other worries at the moment- didn't even include SSA in their table. The most important statistic is that the median age in SSA is 19.

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You'll see that over the next decade

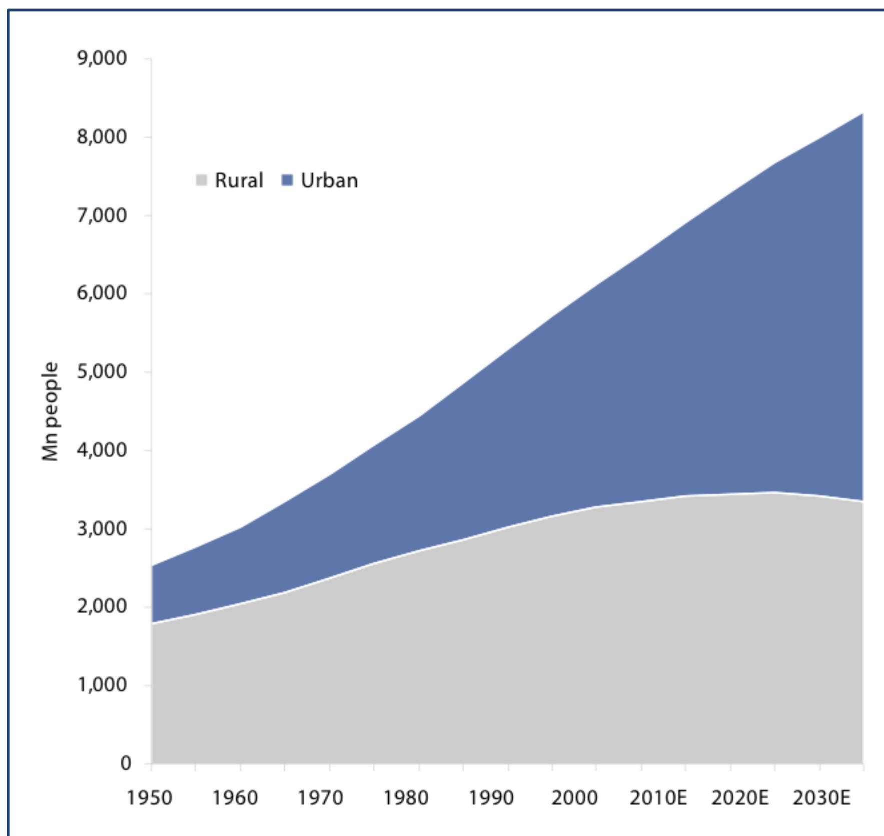
- The "old world" (USA, UK etc) is going to suffer from a bad dose of "growth sclerosis". Hardly a developed world country is going to experience growth over 2%. And that 2% is a level below which unemployment, state dependency and general economic decay occurs
- The "new world" -the fastest growing countries from the developing world- have the best demographics (lowest median age, largest work forces etc)
- China has terrific growth –a symptom of its sheer size- but only "average" demographics
- The larger the population, the younger the work force and the greater the growth (and vice versa for us oldies in the West)
- Some countries sometimes considered to be "developing" –eg South Africa and Mexico- are in fact now middle-income countries
- Parts of the world formerly considered to be basket-cases (eg Sub Saharan Africa) are going to become –indeed have become- centres of growth and consumption

A Tale of Two Cities

Young, ambitious, hungry consumers are moving to the cities. Not the sad, hollowed-out, post industrial cities of our developed world, where prospects are poor. But the exciting, burgeoning, out-all-night cities of the developing world: Mumbai, Shanghai, Jakarta, San Paolo, where they can earn and spend their money.

The number of city dwellers overtook the global rural population for the first time in history in 2007:

World Urban and Rural Populations



Source : The World Bank

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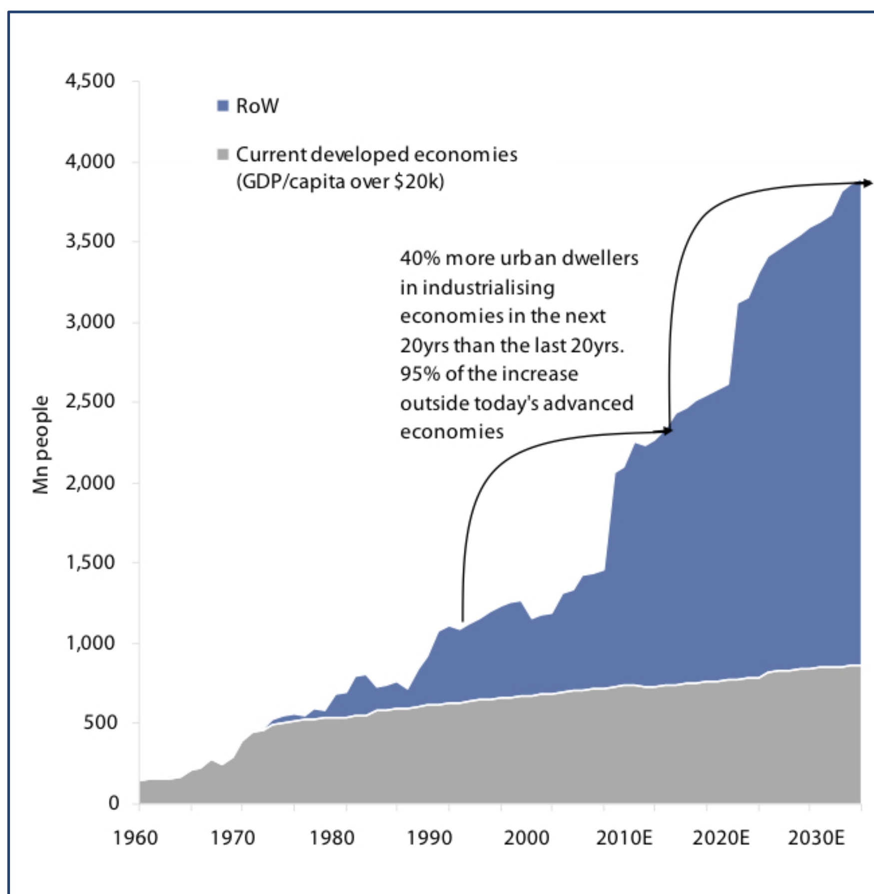
Number of urban dwellers in countries with GDP per capita over $2,000



Source : The World Bank, UN Data, Goldman Sachs Research

The result is that there will be 40% more urban dwellers in industrialising economies in the next 20 years than in the last 20 years. 95% of this increase is going to happen outside today's developed world, where we live.

Acceleration Alchemy

But what are these young urbanites going to spend all their money on?

At this point, a form of economic alchemy occurs. It's called "acceleration". "Acceleration" creates a road map for GTI's companies to use as they grab part of this growth and helps us plan an investment strategy that is going to make us money in the years ahead. How does this work?

"Acceleration" is a principle developed by early 20th century economists such as Carver, Aftalion, Bickerdike and Clark. It teaches that consumption–like our ***emerging middle class theme*** consumption- *accelerates* as average incomes pass certain levels. This is possible because income is distributed according to a "normal, Gaussian" pattern (the famous bell-shaped curve, with few people with very low and few with very high incomes, and most incomes grouped in the middle on either side of the average).

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GTI

Gavekal Research –a superb research house headquartered in Hong Kong- describe well what happens next.

"Let us assume that in a developing country, the average income in 1985 was USD 5,000 a year. The number of people earning more than USD 10,000 would be, e.g., 5%. If by 1990 this average income goes up to USD 8,000 (+60%), the number of people earning more than USD 10,000 will not rise by 60%, but by a much larger figure (say 180%). And this is where the acceleration comes in: when it comes to the buying of certain goods and services, the historical evidence points to the existence of "thresholds". For example, if the average income in a country is below USD 1,000, nobody owns a television; when the income moves above USD 1,000, then almost everybody buys one. For the automobile industry, the critical level seems to be USD 10,000 a year. For university education, USD 20,000.....

*.....When the average income reaches USD 10,000, the demand for cars will literally explode way beyond the correspondent growth in income. Acceleration works in a very surprising way. Similarly, if the average income falls from USD 10,000 to USD 8,000, the demand for cars will not decline by 20%, but **will disappea**r! As incomes rise across Asia, various thresholds will be crossed and consumption will explode. The boom in consumption is boosted further by the fall in certain prices (electronics, automobiles etc.....). Asia is on the verge of a deflationary boom (i.e. automobile sales in China)."*

Want to Surf Stocks? We Prefer To Float in the Swimming Pool

Knowledge of how acceleration works wonderfully simplifies our **"emerging middle class"** theme investment strategy. You can either surf stocks whose products are about to be hit by the wave of acceleration. Or –a strategy we much prefer- stick with the stocks supplying basic fast moving consumer goods (FMCG) products which have the skills to change (ie upgrade) their marketing strategy as the acceleration process occurs. Let's look at names like Unilever, P&G, Nestlé, Colgate....

So GTI's core and growth **"Emerging Middle Class"** theme holdings should be FMCG. We need to be invested in companies that make or –preferably- *make and sell* cooking oil **(Unilever Indonesia**), toothpaste (**Colgate Palmolive India**), cookies (**Hsu Fu Chi, China**), household goods (**Wumart, China**), noodles (**Tingyi, China**), hair oil (**Marico**, India), milk products (**Vinamilk,** Vietnam). These FMCG companies are going to be great places to invest all the way through a country's development. But some sectors -television set and car distributors for example- will be more dependent on the acceleration taking income levels to a point where there is a growth surge in their products.

We now bring you an **"Emerging Middle Class"** thematic stock par *excellence*: Lianhua Supermarkets, which is also part of our **"Developing China"** theme. Linhua is a core holding of GTI's superb Asian advisers, Arisaig Partners of Singapore, in whose fund our P&C GTI Fund is invested.

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Lianhua : A Supermarket Trolley Named Desire

Lianhua Supermarket Holdings Co Ltd (980) 25.65

Source : Fullermoney

Lianhua, one of GTI's "Hot Dog" growth holdings, is the largest listed food retailer in China but is only capitalized at a little over USD 2bn (compare that to Wal Mart, with a "market cap" of USD 400bn). It operates widely throughout China, but it's dominant in Shanghai. So the largest listed food retailer in China, with a dominant position in its most important commercial hub, is worth the same as a small to medium sized US listed company? Hmm.

Lianhua's stores are of 3 sorts

- 126 hypermarkets (61% of sales)
- 1,780 supermarkets (32% of sales) and
- 2,026 convenience stores (7% of sales)

It's also in joint venture with Carrefour (the French food retailing giant) via a 45% stake in Carhua, composed of 19 hypermarkets, and has recently acquired its sister company, Hualian Supermarkets, which runs about 1,400 stores in Eastern China, most of them supermarkets. Behind Lianhua is a name that you will need to get used to over the next few decades, as you'll be hearing a lot about it: Bailian, one of the largest retailers in China. Bailian owns 56% of Lianhua.

GTI's adviser's discussions with top management –as is clear from its acquisition of Hualian- show that Lianhua understands the basic truth of retailing: the imperative to acquire industry scale and market share as quickly as possible. Size and scalability in a low margin business like food retailing create the buying power that protects and enhances margins via ruthless working capital control; suppliers are squeezed and shelf prices forced down to get rid of competition in the sector. Students of retailing know the world according to WalMart when they see it.

Lianhua enjoys dominance in its home base (Shanghai) as well as excellent local knowledge around China. This gives its large retail network fierce bargaining power over brand owners.

What are the drivers for Lianhua's profits and why should we buy it now?

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Trolley Ready For Lift Off

Lianhua has spent the last 3 years restructuring its business and profits are ready for lift-off. Its profitability has greatly improved and the store network has been refined to adopt a regionally focused strategy. As a result, 75% of hypermarkets are now located in wealthy Eastern China, compared to 55% 3 years ago. The ratio of profitable stores has risen from 40% in 2005 to 70% in 2009.

Lianhua is going to benefit from the single most important factor in retailing in **"Developing China";** the shift from an "informal" economy to a "formal" one. Being a large scale-provider of formal retailing services, Lianhua will receive the Chinese consumer's incremental renmimbi as organized retail increases its market share from 15% to 30% over the next 5 to 8 years.

Lianhua will also enjoy increased margins in its hypermarkets, the sector which is seeing the highest revenue growth but the lowest margins. Our GTI advisers suggest that operating margins will move from 0.8% in 2008 to 2.0% in 2012. This will have a dramatic impact on profits.

Its loyalty card programme now boasts over 7.5mn members (3.5mn in 2004) and accounts for over 55% of revenues (only 28% in 2004). GTI advisers report that the average loyalty card member's "ticket" is now Rmb 97 – an increase of 65% since 2004- compared to Rmb 37 for non-members. Our advisers project that Lianhua is going to add 500,000 members every year, so that by 2013 loyalty card members will account for 70% of revenues.

We in the West now know what loyalty cards reveal about us and our buying habits. Lianhua is going to teach millions of Chinese the same lesson. We shareholders will benefit.

Financially, Lianhua is in good shape. Like many food retailers, it works off tiny net margins (just under 2%) but is an awesome cash generator, with a normalized annual free cash flow of about Rmb 400mn (USD 60mn) in recent years.

"Working capital cycle" is an important concept in FMCG. It describes a company's ability to finance the working capital needs of its business by demanding better terms from its suppliers than it gives its customers so as to be efficient in holding inventory. But Lianhua is a chinese master at it. It takes 58 days to pay its suppliers, holds its stock for an average of 40 days and –of course- gets paid by its customers in a single day. *Hey presto magico!* A "negative" working capital cycle of some 17 days (58 minus 40 minus 1). No need to curry favour with bankers - particularly when credit is rationed-for any short term finance.

Truth be told, Lianhua has more of a State Owned Enterprise (SOE) mentality than GTI's other Chinese retailing stock, Wumart, though its newly appointed General Manager is said to be very investor-friendly. But in a sense, the SOE mentality is also the opportunity.

If Lianhua can continue to modernize, scale up and make a success of its loyalty card programme, there's no reason to suppose that it can't move its net margins up towards the 3 or even 4% level and reap bumper profits. The sheer scale of opportunity in China more or less guarantees a profits explosion in the next few years in any case, but this extra margin expansion will be the icing on our cake.

What could go wrong?

Of course, there's always the threat of intensifying competition from international players (we'll be keeping a beady eye on that, though a cheap way in to China for a foreign MNC is simply to *acquire* a company like Lianhua).

And rising rents and labour costs are often a threat in the food retailing business (though mitigated by the wall of human capital as China urbanizes). But overall, it's far more likely that Lianhua will create enormous wealth for its shareholders over the next few years

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Lianhua trades on about 25x next year's earnings and, being a growth company, pays a small dividend of nearly 1.5%. On another valuation measure, the price to sales ratio, Lianhua looks intriguingly cheap at 0.5x sales, showing that the market place doesn't place great store (no pun intended) on Lianhua's ability to expand margins (we don't agree).

What sort of revenues and profits can we expect for Lianhua?

Dweeb's Corner : Long Term Forecasting

Forecasting a company's long term revenue and earnings trend in a developing market like China or India can be a pretty technical business. But our GTI advisers have a proprietary

methodology, and one that makes intuitive sense to me. We use it for all our "Emerging Middle Class" and "Developing China" theme FMCG companies, as it works particularly well for companies with low cyclicality.

You start by creating an "S" curve of potential revenues for the company's product by plotting the "historic spend per capita" at various levels of income per capita in other countries. Now you can fit the GTI company's own "spend per capita" and country specific income levels on the S curve. Based on this, you can now forecast –using similar models for development in other countries- what our GTI company's revenues are likely to be for the next 20 years or so. Of course, you have to make some fairly heroic assumptions about the company's market share –this can add or subtract revenues- but the biggest factor by far is the growth in the overall market itself.

Earnings are derived from the revenues number by reference to the net, operating and other margins normally achievable in the sector.

As an additional check, by calculating the "residual cash flow" (the cash left over for shareholders after capital expenditure, tax and other costs have taken their bite out of it), we can discount future earnings to their present value using a discount rate (our GTI advisers use a conservative 12.5%) and hence find a Net Present Value (NPV) for the whole company. You can compare the company's existing market value with this NPV number to determine relative cheapness. Our GTI advisers are doing this work on all of our companies on a perpetual basis.

Based on the GTI methodology explained in Dweeb's Corner, we estimate that Lianhua can grow its sales over the next 20 years (we like to think "longer term" than "lunch time" in GTI) at about a +11% per annum Compound Annual Growth Rate(CAGR). Earnings should follow at a +15-20% lick. This is enough growth to have another WalMart on our hands. Now read the first paragraph again, do the simple math and remind yourself what returns you can expect if this is indeed so.

We've put Lianhua –freely traded on the Hong Kong market- into our shopping trolley now and have passed the check out. Being long term investors, we've signed up for the loyalty card because Lianhua looks like a long term winner.

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Where There's Brass, There's Muck

POTASH CORP OF SASKATCHEWAN INC. (POT:US) 96.68

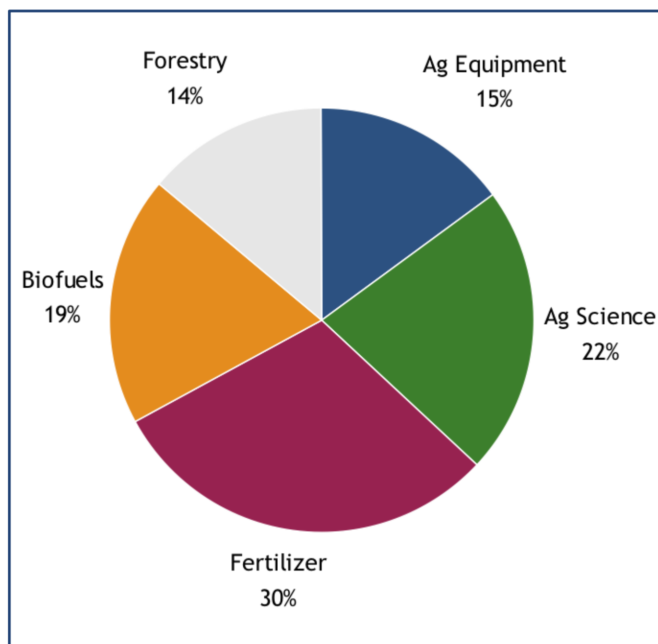
Source : Fullermoney

We've added **"Supply Inelasticity"** theme play PotashCorp (POT:US / USD 96.68 and POT:CN/ CAD 103.69) to our international core holdings. Saskatchewan is rather closer to home for most of our readers than Singapore or Shanghai, so you may find it easier to buy (or visit.....but take your hard hat).

You can buy POT:US today below USD 100 and POT:CN below CAD 103.69. POT shares used to trade near USD 230 in the summer of 2008. I'll tell you why I think they are going to return to USD 230 and maybe well beyond USD 230. That's at least a "double" from here. Internally, we need to make a case for our core holdings to double in 4-6 years. For our growth holdings, the time period is 3-5 years.

I recently attended a breakfast in Zurich hosted by the mighty investment firm, BlackRock, one of GTI's **"Supply Inelasticity"** theme advisers. I asked the manager, with whom I've invested client money for nearly 10 years, what he thought was the highest quality way –globally- to play agriculture in the coming bull market. He replied: "POT", a part of the Fertilizer slice of this pie chart.

Segmental Breakdown of publicly listed agricultural-related companies



Source : BlackRock

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It's important to point out that Agriculture, though strictly a part of our "Supply Inelasticity" theme, is also a big part of our "Emerging Middle Class" theme, since the "growth driver" is the urbanised middle class of the developing world. These young people now wish to eat meat, grains and fish instead of more traditional diets, based on rice, soy and sorghum.

Fast "Mining" Consumer Goods

POT is a strange hybrid. It's a **"Supply Inelasticity"** agricultural thematic play –a food or soft commodity play- disguised as a miner. That's because its products -phosphates and potash- are dug up from the ground.

Now, we've got a confession to make. It's born of our experience and prejudices. Miners and diggers and earth movers are worse quality (i.e. more cyclical and unpredictable) businesses than *dominant* soap or cooking oil or supermarket or FMCG companies. But that's largely because few miners or dirt-shifters are *dominant* in the products they mine.

POT is an exception. POT is a digger with some *dominance*. It commands 20% of the world's potash (fertilizer) market and it does so while being the lowest cost producer. And fertilizer is really a "consumer" good as you can't have a whole range of FMCGs –food products- without it. Fertilizer is responsible for 40-60 percent of the world's total crop yield. By feeding plants, fertilizers help to feed animals and people. And, as we will show, POT has got a gigantic "moat" round its business for several years –maybe decades- to come.

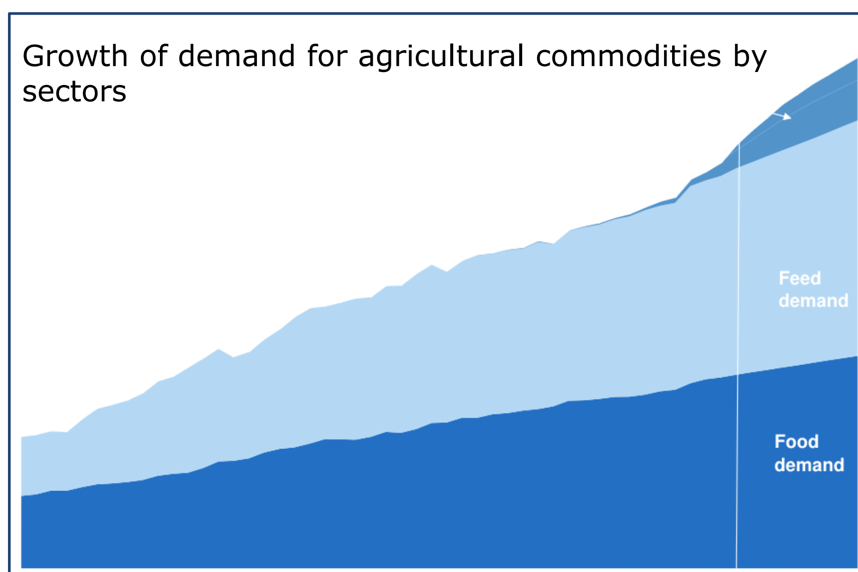
After a sweaty 2009, when there was a buyers' strike in its main products, POT is also a clear medium-term recovery candidate -that bit's thrown in "for free". But that's not the reason to buy it.

POT –*the* low cost producer with its vast installed resource base- is going to be a long-term winner in GTI's flatter world.

F-F-Feed The World

According to GTI's advisers, verified by the UN, global food production needs to rise by +40% by 2030 and by +70% by 2050. Of course, this is mainly driven by population growth.

But another factor is at work today. In the past, FOOD (what we eat) and FEED (what animals eat) were the only 2 factors that drove demand for fertilizers. Now, FUEL (read "biofuels") is the third "F".



Source : USDA, Goldman Sachs Commodities Research

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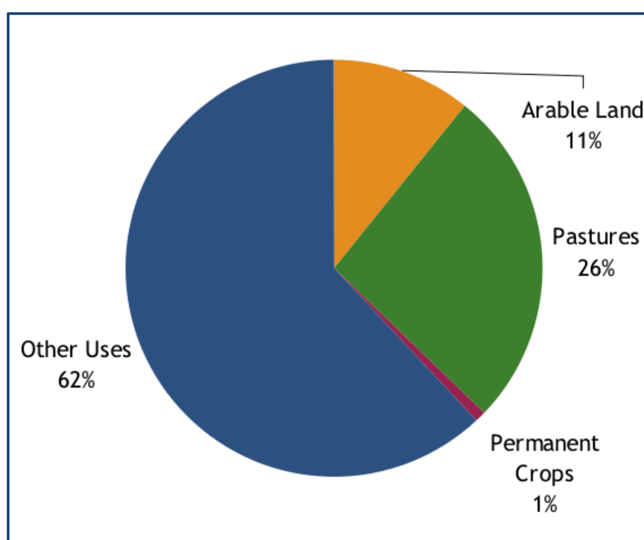
All Is Not Well in The Global Food Chain

There are problems in the global food chain, and they must be solved if people are to eat.

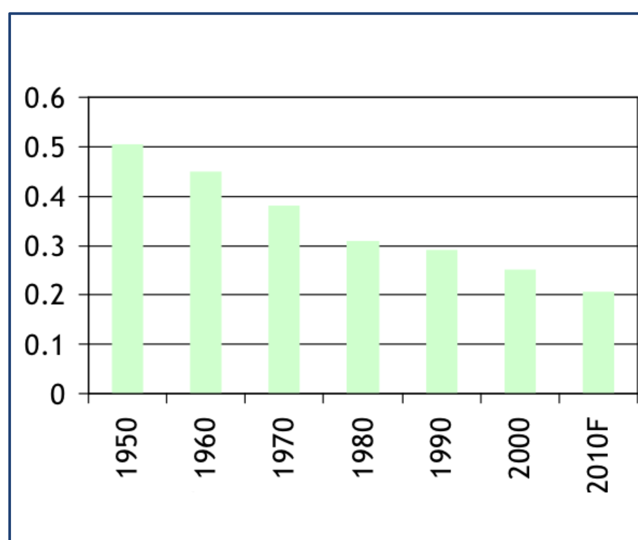
Agricultural volume yields have been on a downward path and there are supply constraints on land. The world has cropland of 1.4bn hectares (that's 11% of global land), and this can –with difficulty- be increased by 1.6bn hectares (mainly in Africa and South America), but massive investment is needed for logistics and infrastructure. This all takes time and money. But people still need to eat ***now***. More land under agriculture means more demand for fertilizers. Step forward POT.

Distribution of Global Land use



Source : ADM, USDA, ACTI

Global Arable Land per person



Source : FAO, Potash Corp

One solution is simply to increase the productivity of the land that exists. Fertilizers are the obvious way to do this, particularly now that –finally- agricultural prices make it profitable to spend money on them. Either way –increased agricultural land = more fertilizers or stable agricultural land = more fertilizer intensity to boost yields- POT ends up a winner.

PotashCorp : The First 20 Years.....Only 1,000 More To Go

POT management boasts about the life of its reserves, with good reason: One Thousand Years.

GTI adviser Don Coxe of *The Coxe Strategy* Journal describes POT as a *"true national treasure"* and proclaims POT's reserves in the ground in politically secure Saskatchewan to be *"possibly the longest-duration reserves of any mineral asset on Planet Earth"*.

Yet POT has only been around since 1989, when current CEO,

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Bill Doyle and his friends arranged for an IPO privatization of the Crown corporation owned by the government of Saskatchewan. Since then, POT has grown to its present dominant size by a carefully focused acquisition strategy: Saskterra, Potash Company of America, White Springs Agricultural Chemicals, Texasgulf Inc, Arcadian Corporation (nitrogen in Trinidad), Israel Chemicals (Dead Sea Works, the fifth-largest global potash exporter), Potash Company of Canada , Minera Yolanda SCM (a specialty potash producer in Chile, Arab Potash Company).

Despite its north and south American base, POT is really a developing world play, since 63% of its sales come from "offshore", including the emerging markets.

PotashCorp's Production — Currency : USD (Million)

Activity	Gross Margin	%	Potash Sales	Tonnes '000	%
Potash	730	71%	North America	1,093	37%
Phosphate	104	10%	Offshore inc		
Nitrogen	192	19%	Emgg Mkts	1,895	63%
Total	**1,026**	**100%**	**Total**	**2,988**	**100%**

Source : GTI, GWI, Annual reports, Company Data

In 2009, the bottom fell out of POT's market. CFO Wayne Brownlee describes how for 3 to 6 months – that's a long time in POT's business- the world simply stopped buying potash and nitrates and fertilizer. That's why net profits fell by -72% after a credit crisis driven buyers' strike by its customers.

But management's latest Q409 statement is optimistic:

"...in North America, our order book suggests a strong start to the year, and spring demand appears to be robust" and "PotashCorp is forecasting 2010 net income per share in the range of $4.00-$5.00, including $0.70-$1.00 in the first quarter".

Other incidental news is promising too.

One of GTI's advisers in Canada reports

- Sulphur and Fertilizer carload data is up 97% year on year. Potash is the majority -some 60%- of this. Remember POT's slogan: "Potash First". Potash is the part of the fertilizer sector where POT is powerful
- The USDA has modestly increased its corn production forecast (more corn, more fertilizers....)
- Southeast Asia and even European demand is picking up too
- Chinese potash inventories have been falling and there are shortages across China
- The Indian government is approving a new subsidy programme for fertilizer on 1/4/10. Key details are about to be announced
- North American potash inventories have been declining in December and January, even though production was 72% higher in January 2010 over December 2009
- The government of Saskatchewan -50% of world supply- has changed its potash production tax. This will make it hard for POT's new competitors –the "moat" round its business we mentioned above. It is also long term positive for potash prices.

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GTI is going for earnings of over USD 6/share. And we think this might be light. If the recovery gathers pace, we'll be revising upwards our forecast through the year.

Co Name : PotashCorp
Currency : USD (Million)

Mkt Cap : USDmn 33,738
Price NYSE : USD 111.00
Price (TSE) : CAD 116.00

31st December	2005	2006	2007	2008	2009	USDmn	2010e	2011e	2012e
Sales	3,847	3,767	5,234	9,447	3,977	3,977	4,971	5,866	6,570
% change		*-2%*	*39%*	*80%*	*-58%*		*25%*	*18%*	*12%*
Less: Freight costs	250	256	346	325	191		180		
		2%	35%	-6%	-41%		-6%	-100%	#DIV/0!
Less: Transport costs	122	134	124	132	128		130		
		10%	-7%	7%	-3%		1%	-100%	#DIV/0!
Less: Cost of Goods Sold	2,351	2,375	2,883	4,082	2,632	2,632	3,000	3,450	3,795
% change		*1%*	*21%*	*42%*	*-36%*		*14%*	*15%*	*10%*
Gross Profit	1,125	1,002	1,881	4,907	1,026	1,026	1,661	2,416	2,775
% change		*-11%*	*88%*	*161%*	*-79%*		*92%*	*23%*	*15%*
Profit Before Tax	810	790	1,520	4,572	1,071	1,071	1,607	2,089	2,716
Tax	267	158	416	1,077	94	94	182	228	308
% Tax Rate	*33%*	*20%*	*27%*	*24%*	*9%*		*11%*	*11%*	*11%*
profit After Tax	543	632	1104	3,495	988		1425	1861	2408
% Change		*16%*	*75%*	*217%*	*-72%*		*44%*	*31%*	*29%*
Net Margin	14.1%	16.8%	21.1%	37.0%	24.8%		28.7%	31.7%	36.7%
Gross Margin	29.2%	26.6%	35.9%	51.9%	25.8%		39.6%	41.2%	42.2%
Return on Equity	25.5%	22.7%	18.3%	76.2%	15.2%		18.3%	20.7%	23.3%
Analysts estimates									
EPS	1.79	2.08	3.63	11.5	3.25		4.69	6.12	7.92
% Change		*16%*	*75%*	*217%*	*-72%*		*44%*	*31%*	*29%*
DPS			0.35	0.40	0.40		0.44	0.48	0.53
% Change				*14%*	*0%*		*10%*	*10%*	*10%*
PER(x)				**15.6**	**55.3**		**38.4**	**29.4**	**22.7**
Price to Sales (x)				**3.57**	**8.48**		**6.79**		
Yield (%)				**0.3%**	**0.3%**		**0.4%**	**0.4%**	**0.5%**
Price to Book (x)				**7.4**	**5.2**		**4.3**		
Cash	94	326	720	277	385	385			
Short Term Debt	252	558	90	1,324	729	729			
Long Term Debt	1,258	1,357	1,339	1,740	3,319	3,319			
Net Cash	-1,416	-1,590	-710	-2,787	-3,663	-3,663			
Shareholders Funds	2,133	2,780	6,019	4,589	6,501	6,501	7,801	8,971	10,317
Net Debt: Sh Funds	*-66%*	*-57%*	*-12%*	*-61%*	*-56%*				
Shares In Issue (mn)	304	304	304	304	304		304	304	304
Book Value/share	7	9	20	15	21	21	26		

Source : GTI, Annual reports, Company Data

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In summary, POT combines two exciting qualities: one, that its long term story (meat and grain demand in the developing world) is truly exceptional and –two- its short/ medium term story is now improving with the global recovery.

And, as POT's management says, farmers can't hold off from buying fertilizers indefinitely, any more than companies can hold off on IT up-grades. Yes, they can defer, postpone and delay, but they simply can't stop buying them eventually.

We've fertilized our GTI portfolio with POT under USD 120 or CAD 125 (you can buy it in either New York or Toronto). We see no reason why it shouldn't revisit 2008 levels near USD 230 within 5 years. That's a "double" from here and a lot better than USD deposits.

The P&C Global Thematic Investors Fund Review

The Stealth Bull Market: Remember our War Cry since the dark days of late 2008?

All else being equal...following "significant" monetary stimulation, economies take 11 to 16 months to start to recover.

Stock markets anticipate this economic recovery by 6 to 9 months.

The problem is the "lead and lag" effect. If October 2008 were the start of the "significant" monetary stimulus (no one disputes this we think), then Month 16 is January 2010 and 6 months before this is July 2009. On the other hand, if you use Month 11 (September 2009) and a 9 month stock market lead, the stock market should have bottomed in January 2009. So you have a window of January to July 2009, with March / April 2009 the mid-point.

And "all else being equal" this time round includes the collapse of the global banking system.

The average rally one year after the bottom of an S&P500 bear market bottom is 42%. On average, subsequent bull trends wipe out about three quarters of bear market losses within one year.

Well, we now know that the S&P500 bottomed in March, was up about...er...65% and wiped out...er...60% of the losses.

Close enough.

We then said that the normal "Second Phase" of a bull market is volatile. It makes sense. Poor *backward* looking data (eg unemployment etc) conflicts with more promising *forward* looking data (eg purchasing managers surveys) as economies recover and stocks are rebuilt.

Well, it's sure been volatile recently.

What now? Recent equity market corrections have caused some technical damage to our uptrends. These have probably caused a temporary loss of investor confidence which means that we are probably in for a medium term correction."Medium term" means anywhere from "several weeks to "several months".

The good news is that many of our stocks –whose results have been anywhere between good and excellent- can now be bought at levels that are extremely attractive. Start by having a look at the dividend yields on our list Of GTI stocks. Then compare them to the yields available in "top quality" government bonds (an oxymoron in most cases!) or cash deposits.

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We've been buying stocks like Unilever ***("Emerging Middle Class"*** theme), Royal Dutch ("***Energy and Alternative Energy"*** theme), Wumart ***("Developing China"*** theme) and Veolia ***("Water and Ecology"*** theme) in recent days. We've also got buying levels a little below current prices for our 3 gold shares basket (our ***"Supply Inelasticity"*** theme).

"After You". *"No, After You"*

Now comes the question that every portfolio manager dreads. That's because it spells *danger*.

"Iain And Bruce, after the rollicking ride we've seen in equity markets since March 2009, which I've totally missed, how can you justify buying equities in my portfolio now? CNBC tells me the Dow is up over 60% from its lows last March. I'm 12 months late and more than a dollar short."

Why the dread? Why the danger?

It shows that the client has missed out on something pleasant; an opportunity to enjoy a partial or total recovery in his capital after the nightmare of 2008. The client now has "regret anxiety"; regret that he didn't do the right thing by selling out, regret that he's now earning a derisory 0.15% on his cash deposits rather than a dividend yield of 3-5% in the equity market, perhaps regret that his retirement has been postponed. Most humiliating of all, regret that his friends at the golf club are cracking champagne to boast about their stock market success while he's nursing his sad little diet Coke in the corner.

"Regret anxiety" spills over quickly into "blame game". No matter how much you tried to prevent him selling out around.....er.....the 9th March 2009, you're the one to blame. You allowed him to do it, after all. Emotion defeats logic in most private client interactions. And the client is always right. That's one reason why the private client business is tough. It's probably also why it's so well paid.

Second, you're now in an impossible position. To gainsay the client, and invest, and be wrong, can be a form of suicide, maybe a sacking offense. You'll then have to bite your lip and listen to the four most hurtful words in our business: "*I Told You So*". To go with the client's flow and to agree **not** to invest can be just as fatal. The market roars up on you. He wasn't invested. He blames you. After all, you had discussed it with him -*hadn't you*? You'd told him the markets were cheap....

Few strategies work with what I call "After You" clients, perverse investors who enjoy watching others go through the investment door before them. They seem happier to see others enjoy the bull market, usually staying out on unimpeachably sound intellectual grounds . They tend to be happier to hop on the bull market bus later, once the highly profitable early stages are past.

"After You". "*No, After You*".

Mature Bear, Immature Bull

My response in this case is not to argue that –rollicking ride aside- equity markets are good value – *they are, particularly when compared to cash and bonds*- or that it was better to earn 4% in safe dividend yields than 0.15% on deposit –*of course it is*- or that by keeping money on deposit you are guaranteeing a long term loss of purchasing power owing to inflation *(even our dog knows that.....see "And One More Thing" on the final pages!)*.

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Market	Date prev HIGH	Months since High	% below HIGH	% to return to HIGH
DJ World Stock Average	Oct-07	31	-35%	53%
MSCI Emerging Markets	Oct-07	31	-33%	49%
	ASIA AND JAPAN			
MSCI ASIA	Oct-07	31	-33%	50%
Japan Nikkei	Dec-89	246	-75%	298%
Japan Topix Banks	Dec-89	246	-91%	1036%
Japan Topix	Dec-89	246	-68%	214%
Japan 2nd Section	Jan-06	52	-60%	153%
Taiwan	Feb-90	244	-42%	72%
Thailand	Dec-93	198	-55%	120%
MSCI China Free	Dec-93	198	-56%	129%
Australia S&P	Oct-07	31	-36%	57%
	NORTH AMERICA			
Dow Jones Industrial Av	Oct-07	31	-29%	40%
USA S&P 500	Oct-07	31	-31%	46%
USA Nasdaq	Feb-00	123	-55%	123%
USA Dow Transports	May-08	24	-23%	31%
USA Dow Utilities	Jan-08	28	-34%	51%
Canada	Jun-08	23	-24%	31%
	EUROPE			
MSCI Europe	Aug-00	117	-40%	66%
MSCI Emerging Europe	Dec-07	30	-48%	91%
UK FTSE 100	Dec-99	113	-27%	37%
UK FTSE AIM	Feb-00	123	-75%	306%
France	Aug-00	117	-48%	93%
Germany	Jul-07	35	-27%	38%
Italy	Feb-00	123	-60%	151%
Sweden	Mar-00	122	-34%	51%
Finland	Apr-00	121	-64%	181%
Poland	Jul-07	35	-42%	72%
Bulgaria	Oct-07	32	-81%	415%
Greece	Sep-99	116	-72%	258%
Portugal	Feb-00	123	-54%	117%
	"REAL" EMERGING MARKETS			
MSCI Arabia	Feb-06	51	-55%	123%
Nigeria	Mar-08	26	-58%	141%
Chana	Oct-08	20	-35%	54%
UAE	Nov-05	55	-64%	181%
Ecuador	Jan-95	184	-34%	50%
Peru	Jul-07	35	-40%	66%

Source : P&C Global Wealth Managers SA, GTI, Fullermoney

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The bear market stretches way back to the late '80s in some cases, and the '90s for much of fast growing Asia.

It's not the bull that's mature. It's the bear that's mature:

- Japan, briefly the largest stock market in the world in the '80s- dates its bear market back to the dying days of 1989. That's two decades of bear. The market needs to rise about 300% to get back to its old highs
- Japan Banks are still down 90% over 244 months
- Asia –and remember this is the century of Asia- still has to climb by nearly 50% to reach its old highs. Does one really think Asia will not see a new market high, +50% from here, in the next 10 years? Or even 3 years? (It just needs +14% a year over 3 years to get there)
- Some Asian markets like Thailand and Taiwan have been thrashing around without direction for almost 2 decades
- MSCI China Free (a non-domestic China index) is half of its old high
- The London AIM market has been decimated... and in a bear market for 10 years... it's picking up now
- Most of "sensible" / developed Europe is in a 10 year bear market (but picking up)
- In terms of "Dow Theory" (Dow Theory states that a bull market requires the confirming advance of sector indices like the Dow Utilities and the Dow Transports) we are far from being called a new high BULL (but, again, recent performance is satisfactory)
- Some growth emerging markets eg Nigeria and Ghana have been gunned down and present intriguing possibilities as they rise from their lows
- Wall Street can rise by a 40% before it can be called a true bull market (this keeps the "chickens" out and creates the "wall of worry" that all bull markets need for their oxygen)

Global equities are grinding higher in a "Stealth Bull Market", and it's still early days. It's the "Media Bear Market" that is long in the tooth. Ask yourself if you really think Asia won't see a new high in the next decade, as it moves towards global economic dominance a 4%-12% pa compound return in strong currency Asia is still a whole.lot better than cash.

And, for Heaven's sake, turn down the volume on CNBC.

Our Current Asset Allocation for GTI

Our monthly fund fact sheets report the important facts, so we won't go into too much detail here. +40.9% in EUR in 2009, +9.7% in EUR in 2010 to end March. They also report the down year in 2008, though our memories for some reason are dim on this point. Our current asset allocation for GTI is:

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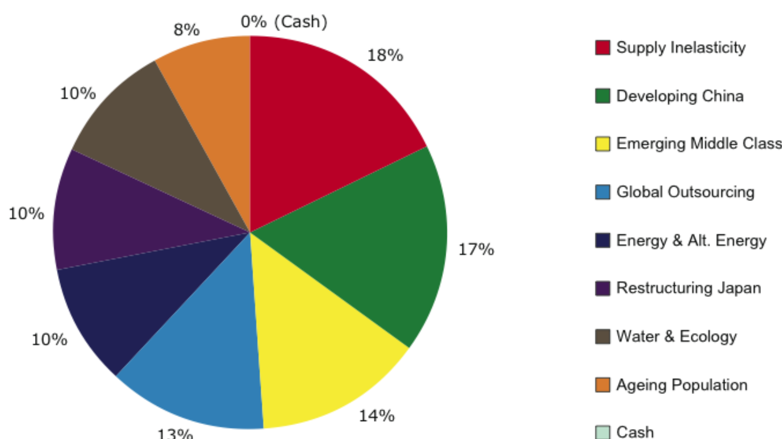
Asset Allocation by Global Theme

Theme	%
Supply Inelasticity	18%
Developing China	17%
Emerging Middle Class	14%
Global Outsourcing	13%
Energy & Alt. Energy	10%
Restructuring of Japan	10%
Water & Ecology	10%
Ageing Population	8%
Cash	0%



We have made few changes of late, beyond buying some more individual stocks and reducing funds accordingly. We are near-maxing out (the ceiling is 20%) for our 2 favourite themes: **Supply Inelasticity** and **Developing China**. GTI's **Ageing Population** theme remains our least favourite theme tactically but could rise to more prominence as the year progresses. It all depends if the "higher-beta" plays show signs of tiring. At this point we shall seek some refuge in more defensive areas like the **"Ageing Population"**, with its high –and underperforming- pharmaceutical weighting.

GTI's Hamburger and Hot Dog List

"To refer to a personal taste of mine, I am going to buy hamburgers for the rest of my life. When hamburgers go down in price, we sing a "Hallelujah Chorus" in the Buffett household. When hamburgers go up, we weep. For most people, it's the same way with everything they will be buying - except stocks. When stocks go down and you can get more for your money, people don't like them anymore".

Ours Buffett-inspired GTI Hamburger list started with Royal Dutch back in the dark, demonic days of November 2008. We've added so many names now that we can truly start a hamburger stand. To get on our Hamburger stand, you've got to be a major blue chip international stock with an established global franchise and a consistent track record of maintaining dividends. Preferably, your dividend yield is twice or three times the cash deposit yield in your own country. In either case, we expect to double our money in 5-7 years. To qualify as a "Hot Dog", you've got to be an exciting growth stock, such as the Dominant Consumer Franchises we write about, where we can foresee the stock price doubling in 3-5 years.

All our stocks are held –directly or indirectly- in our GTI investment programme.

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GTI Hamburgers:

GTI Int'l Core Hldg	GTI Rating	Ticker (ADR)	GTI Theme	Date rec'd	Price then	Recent Price	Perf	Historic Yield
Royal Dutch Shell	BUY	RDS/A:US	Energy&Alt Energy	Nov-08	USD 47.00	53.01	12.8%	6.3%
Iberdrola	BUY	IBE:SM	Energy&Alt Energy	Dec-08	EUR 5.75	5.38	-6.4%	6.1%
Pfizer	BUY	PFE:US	Ageing Population	Dec-08	USD 16.90	15.73	-6.9%	4.3%
Roche	BUY	RHHBY:US	Ageing Population	Jan-09	USD 36.20	35.47	-2.0%	3.9%
Newmont Mining	BUY	NEM:US	Natural Resources	Feb-09	USD 35.00	55.84	59.5%	0.7%
Rio Tinto*(adj 1-4 issue)	BUY	RTP:US	Natural Resources	Mar-09	USD 28.75	43.24	50.4%	1.0%
Standard Chartered	BUY	STAN:LN	Emerging Mid Class	Apr-09	GBP 11.12	16.73	50.4%	2.8%
Infosys Technologies	BUY	INFY:US	Global Outsourcing	May-09	USD 32.40	57.33	76.9%	0.9%
Veolia Environnement	BUY	VE:US	Water & Ecology	Jun-09	USD 28.50	26.06	-8.6%	6.3%
PotashCorp	BUY	POT:US	Natural Resources	Mar-10	USD 110.50	99.77	-9.7%	0.4%
Unilever	BUY	UL:US	Emerging Mid Class	May-10	USD 27.19	27.19	0.0%	4.0%

GTI Hot Dogs:

GTIInt'l Growth Hldg	GTI Rating	Ticker (local mkt)	GTI Theme	Date rec'd	Price then	Recent Price	Perf	Historic Yield
Colgate Palmolive India	BUY	CLGT:IN/ India	Emerging Mid Class	Apr-09	INR 455.00	699.95	53.8%	2.9%
Godrej Consumer	BUY	GCPL:IN/ India	Emerging Mid Class	Apr-09	INR 142.00	333.55	134.9%	1.5%
Wumart	BUY	8277:HK/ HK	Developing China	Jul-09	HKD 9.50	14.20	49.5%	2.6%
Want Want China	BUY	151:HK	Emerging Mid Class	Jul-09	HKD 4.50	5.53	22.9%	2.9%
Nestlé India	BUY	NEST:IN	Emerging Mid Class	Sep-09	INR 2,214	2,946	33.0%	1.6%
Tao Heung	BUY	573:HK	Developing China	Sep-09	HKD 2.75	2.85	3.6%	4.4%
Hsu Fu Chi	BUY	HFCI:SP/ S'pore	Developing China	Nov-09	SGD 2.01	2.40	19.4%	2.5%
Sonatel	BUY	SNTS:BC/ W Afr SE	Emerging Mid Class	Dec-09	CFA 120,000	135,000	12.5%	9.0%
Unilever Indonesia	BUY	UNVR:IJ / Jakarta	Emerging Mid Class	Dec-09	IDR 11,000	14,850	35.0%	2.2%
Lianhua Supermarkets	BUY	980:HK	Developing China	Mar-10	HKD 26.05	25.55	-1.9%	0.5%
East African Breweries	BUY	EABL:KN	Emerging Mid Class	Mar-10	KES 155	174	12.3%	4.6%
Britannia Industries	BUY	BRIT:IN	Emerging Mid Class	Mar-10	INR 1,581	1,673	5.8%	2.4%
Gold Basket (to be bought together, 1/3, 1/3, then 1/3)								
IAMGOLD	BUY	IAG:US	Natural Resources	May-10	USD 17.58	17.58	0.0%	0.3%
Fresnillo	BUY	FNLPF:US	Natural Resources	May-10	USD 12.70	12.70	0.0%	1.9%
Eldorado Gold	BUY	EGO:US	Natural Resources	May-10	USD 16.65	16.65	0.0%	0.0%

****Health Warning: Official Bloomberg data at a time when many dividend cuts are taking place...we will discuss a possible model for adjusted dividend yields next time*

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GTI's New Stocks of the Month (East African Breweries (EABL) 174 & Britannia Industries (Brit) 1742.7)

East Africa Breweries (quasi monopoly beer company in Kenya majority owned by Diageo, the largest premium drinks company in the world) and Britannia Industries (34% market share in biscuits in India) are both parts of our Emerging Middle Class theme.

East African Breweries Ltd (EABL:KN) 174

Source : Fullermoney

Britannia Industries Ltd (BRIT:IN) 1670

Source : Fullermoney

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A quick tour of our GTI advisers.

GTI's New York City based *Ageing Population* theme adviser, 40 year market veteran Sam Isaly of Orbimed (Sam's fund, in which GTI invests, is +154.3% over the last 5 years), wrote to us about the Obama health care reforms:

" We look forward to the resolution of healthcare reform in the United States, which we expect no later than April. We anticipate either a passage of a bill that is benign (to pharma revenues and earnings) OR the complete failure of the reform effort. Regardless of outcome, we expect pharmaceutical stocks to rally".

GTI's brilliant and original **"Emerging Middle Class"** theme adviser, former colleague and close friend, Douglas Polunin, took a contrarian view of emerging market investments in a letter to us in March (the bold, underlined type is our own):

*: ".....Some of the world's largest liquidity pools are still contemplating their first moves into this asset class (emerging markets).....****there's strong evidence to support the theory that global investors are more underweight emerging market equities today than they have ever been****......global equity funds are 400 bps underweight emerging markets today, whereas in 2002 they were 400 bps overweight. Over the same period, the weighting of emerging markets in the MSCI World index of equities has risen from 4% to over 13%. Clearly, whilst foreigners have been reducing their relative participation in emerging markets, the continued bull market suggests that other investors have filled the gap. We believe those investors are domestic institutions. High savings rates and low interest rates have forced local investors to consider equities in many countries, perhaps for the first time......put simply, domestic investors didn't sell into the crisis the way that foreign investors did in 2008 and in every previous crisis. The reason is that, from a domestic standpoint, they didn't perceive an economic crisis and therefore felt no reason to sell. The volatility of global equities has sky rocketed in the last 2 years as economic uncertainty has become entrenched in investors'' minds, whilst the volatility of emerging markets has remained largely stable.* ***It is not surprising that more global investors are starting to dig around in this asset class. Once they do so, they will realize that nothing that has happened since markets peaked 2 years ago has changed the demographics of Indonesia or Brazil.****"*

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And One More Thing.....

Do you know the iconic Second World War cartoon by "Fougasse*", art editor *and* editor of the magazine "Punch" ("Careless Talk Costs Lives")?

*Fougasse's real name was "Cyril Kenneth Bird". He adopted the pen name "Fougasse" after the mine in WW I's Battle of Gallipoli that invalided him out of the army. He gave his artistic services to his country for free in WW II.

Well, we've got a "beef" similar to Fougasse's and it's every bit as dangerous:

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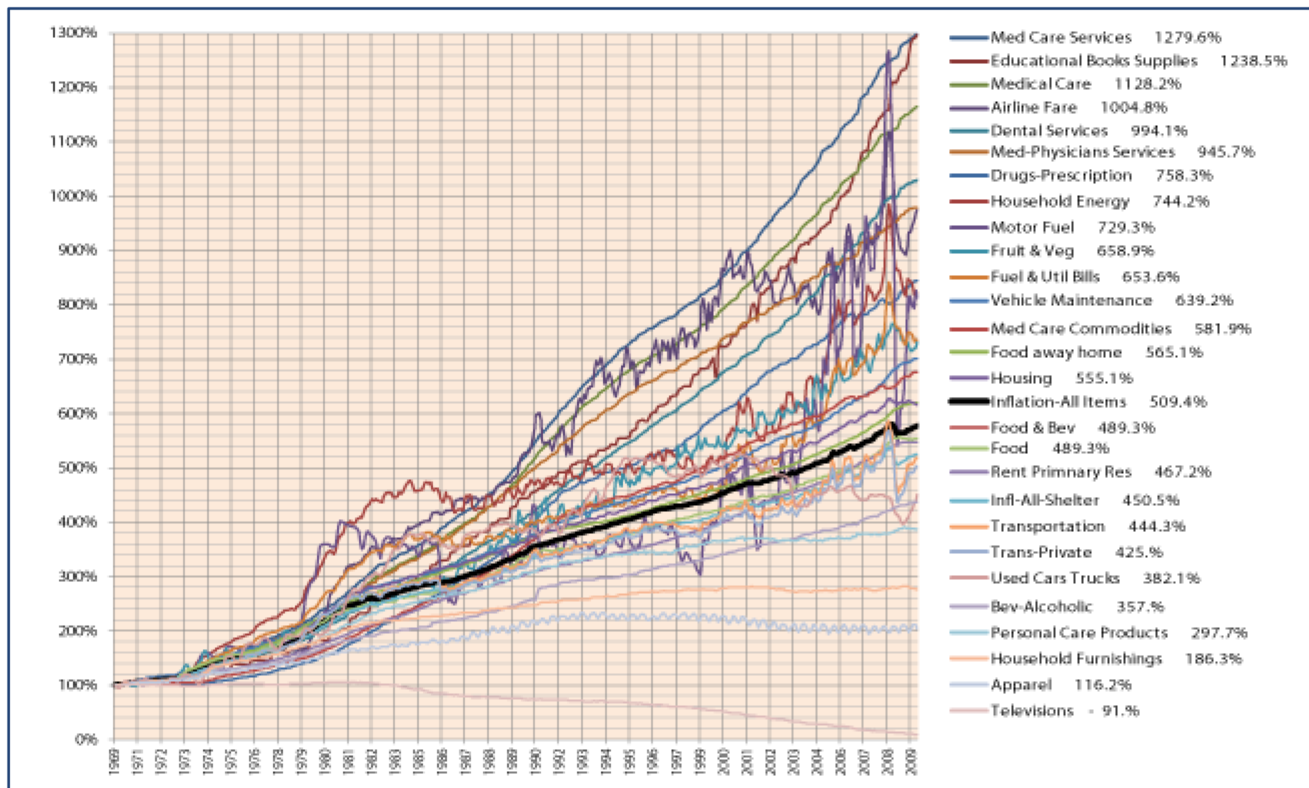
How many times, have you heard careless mention of the word "inflation"? Governments, economists, media, financial commentators, employers.....they all use the word "inflation" carelessly and usually in their own best interests.

Careless academic consensus opines that inflation has been clipping along at about 3% pa over the last hundred years or so. At this rate the value of the dollar /pound / renmimbi in your pocket halves every two decades or so (a pretty terrifying prospect if you're a baby boomer looking forward to cosy retirement on a fixed pension for another 30 years (yes, life expectancy 90 minus retirement age 60 equals "pay-the-bills" 30.....get used to the hard maths of our **"Ageing Population"** theme).

Well, GTI brings you the first chart of the real picture (*thanks, Bruce*!). Here it is, a 40 year chart of inflation shown not as the politicians like to show it, but as it really is.....to a *Middle Class professional person in the West*. Please note that the items that really matter to these sorts of people –education, college fees, medical care, airline fares, dental services, drugs, vehicle maintenance- have gone through the roof and continue to do so.

The laggard items are apparel, televisions and household furnishings, to which the lower middle class wallet is most conveniently exposed. (We suspect the hand of China and GTI's **"Global Outsourcing"** theme in keeping prices low in this segment. Please read Gavekal's piece in our first section, about deflationary booms in China).

Long Term Chart of inflation from 1969



Source : Investment Strategy Network

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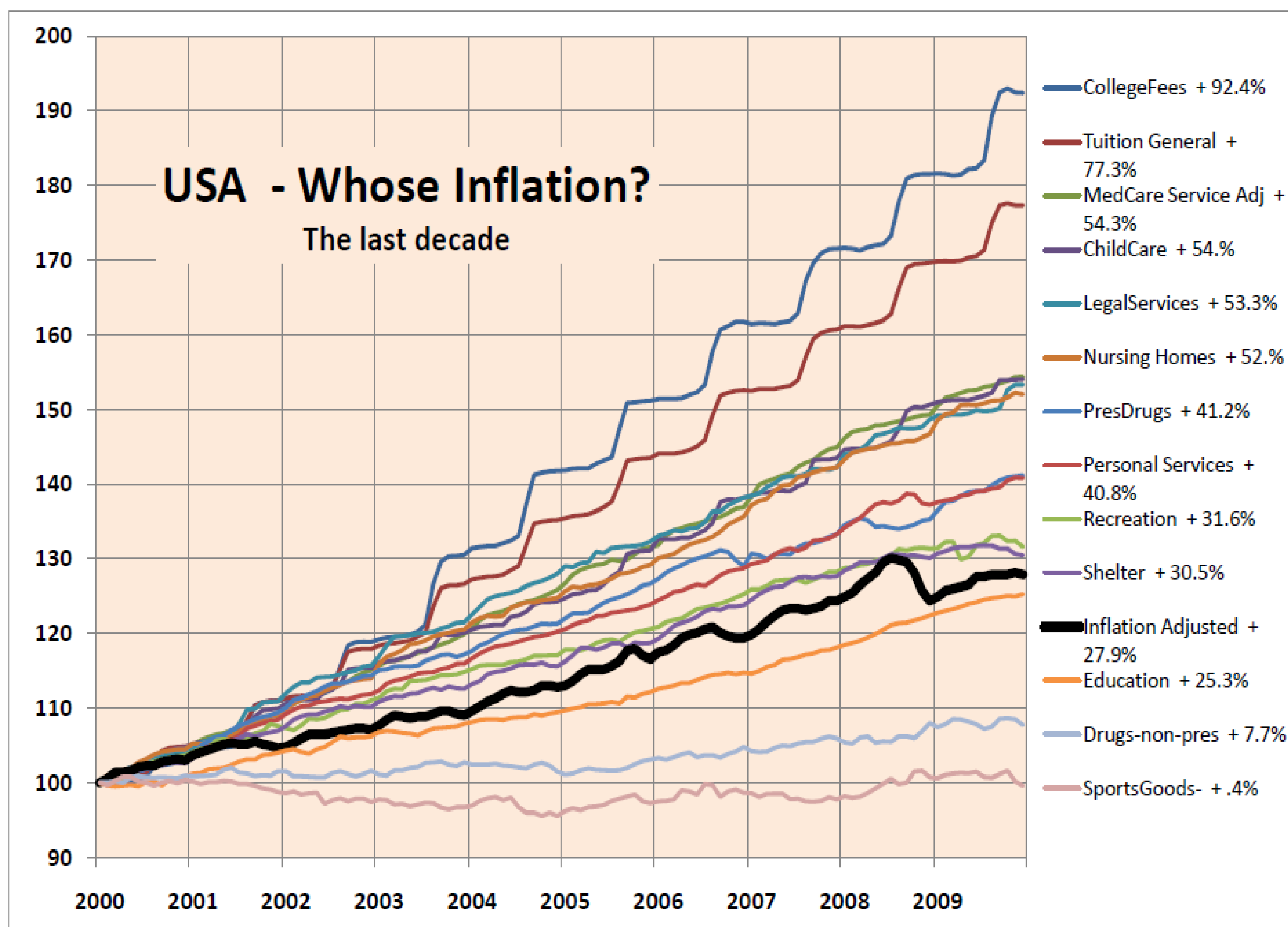
"OK", you say, *"the chart includes a period of exceptionally high inflation in the 1970s.....today's world is different."*

Really?

Here's the last 10 years.



Source : Investment Strategy Network

The fact is that no governments – incumbent or aspirational- have any interest in proclaiming that the inflation of "the few" is high versus the inflation of "the many".

Whatever the politics, the implications for an investor are obvious.

You must be predominantly invested in international shares. Above all, you must be invested in international shares that will see "growth", such as those of our 8 global themes. No "ifs", no "buts". In fact, from a long term point of view, you may need a higher weighting in shares than at any time over the last 50 years because the traditional "safe" asset classes such as sovereign bonds have become "unsafe".

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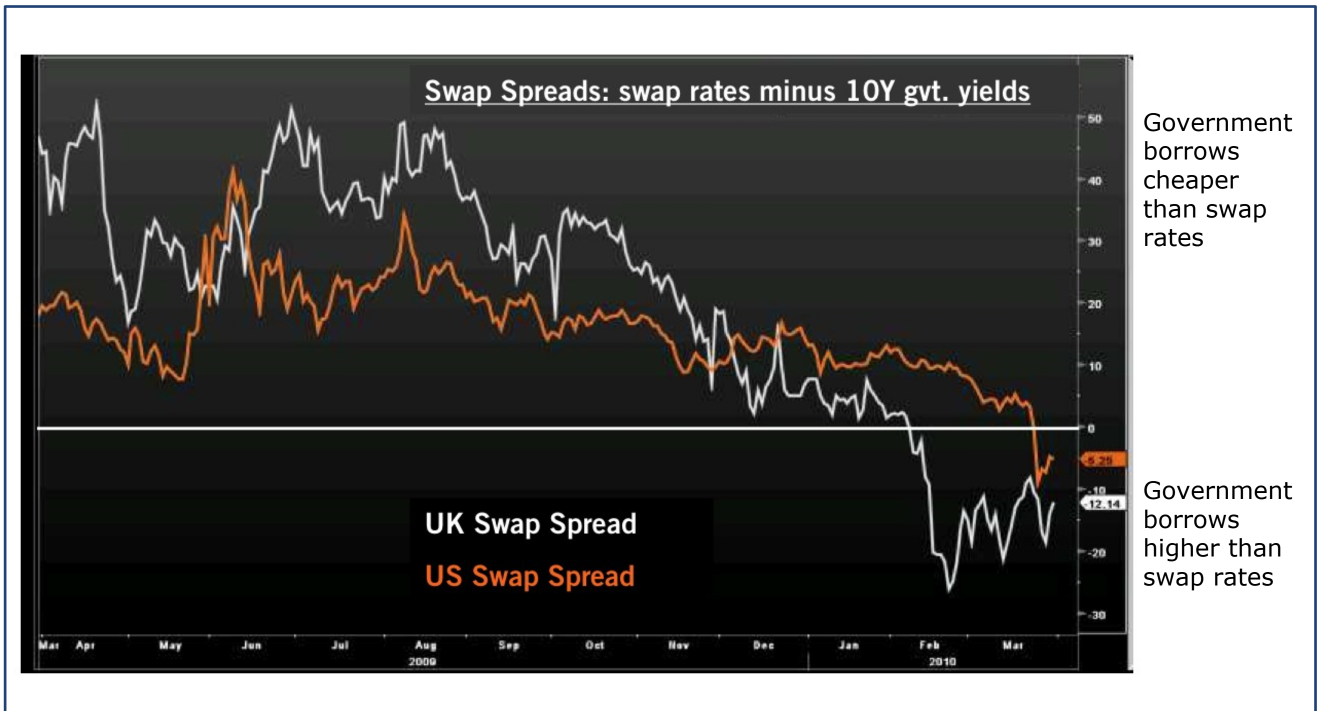
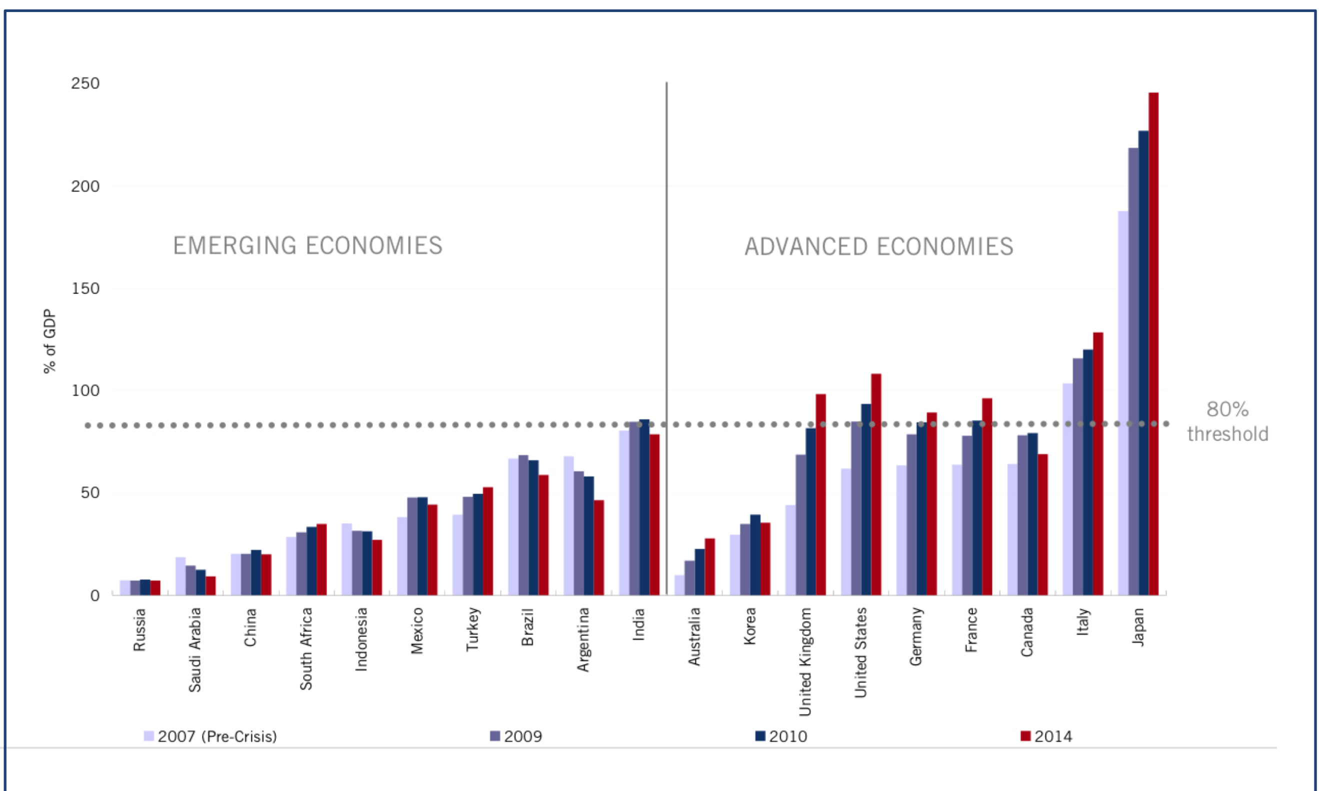
The US Government Borrows at…Swap +4bps!



Source : PWM Investment Strategy 2010-03-31

Projection of Debt to GDP Ration for the G20 Economies



Source : IMF Report on the state of public finances, Updated 2009-11-03

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Yes, there are some "inflation-busters" that may help you protect your purchasing power: index-linked bonds, gold, real assets.

But cash yields 0.2%. Developed world bonds yield under 4%. Your best chance of defeating inflation –the "real" inflation that besets you as a professional middle-class or retired person- is by holding shares in business corporations which are themselves the agents of the very growth that the world so desperately needs. That's GTI growth.

The good news is that some of them yield the same as or more than bonds –see our table above.

Quote of The Month

"Skate where the puck is going to be, not where it has been".
Wayne Gretzky, the greatest ice-hockey player of all time

Why we invest according to global themes

The investment rationale for Global Thematic investing is simple.

In a free global marketplace capital tends to flow to sectors where long term growth rates - and hence returns- are more attractive than the average. This capital –whether of a private or public sector sort- bids up prices of assets in these sectors and creates "sustainability" of growth. As investment managers, it's our role to "allocate capital" (Warren Buffett's hallmark phrase) to where the best potential returns (and lowest prices and risks) are available. Pricing is important; "overpaying" for assets is always dangerous. The same theme may be "played" at one stage of the cycle through one fund, then at another stage through another, depending on the attractions of the specialist sector. Robust long term global themes may remain a powerful way to make money for decades, whilst the funds chosen to "play" them may be–though do not *have* to be- different at different times.

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The Team That Developed the Global Thematics Philosophy

The editors –two professional fund managers each with over 25 years in the international investment business, half of it working together

Iain Little

Iain is British and has spent over 25 years in private banking as a global strategist and portfolio manager. He's held senior portfolio manager. He's held senior positions with Kleinwort, Benson in Hong Kong and London and with Pictet et Cie, the largest Swiss private bank in Geneva, London and Tokyo.

Iain now works as a Partner of P&C Global Wealth Managers SA in Switzerland.

Iain is also on the board of GTI Fund Investment, Cayman, managers of the P&C GTI Fund and serves as a non-executive director of other specialist funds, including the Arisaig India Fund.

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Bruce is British and has held a number of high profile jobs as head of investment over 30 years in the industry. He was head of European investment for the Abu Dhabi Investment Authority (the single largest pool of own-managed money in the world, reported to be several hundred billion USD), Chief Investment Officer for Pictet London, and Chief Investment Officer for Rothschilds. He worked closely with Iain Little for a decade in Pictet London.

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