



C A M B R I D G E A S S O C I A T E S L L C

GLOBAL MARKET COMMENT

Asian Markets Primer Part VI

Asian Style Indices: Where's the Growth?

June 2005

Robert Lang
Marcelo Morales

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Asian Style Indices

Where's the Growth?

This is the sixth, and last, in a series of primers designed to introduce investors to characteristics of Asian capital markets. This month we look at style indices. We review the performance history and valuations of growth and value indices in the region.

It's All Value

Asia makes, the world takes. The region's economy may indeed be the world's fastest grower, but for equities, growth has been a straggler. Since the inception of the MSCI style indices, value has absolutely thrashed growth: whether among developed equities, emerging markets, or a combination of the two, value's dominance has been consistent and undeniable (Tables A through F). Among S&P/Citigroup and FTSE Asian style indices, which began in 1989 and 1994, respectively, value has also outperformed growth, though by less significant margins (Tables G through I).

The only exception to this rout has been MSCI India, where growth has bested value since the return series begins in 1997, posting average annual compound returns of 15.7% and 9.0%, respectively. During the late 1990s, growth in MSCI India considerably surpassed growth in other indices in terms of magnitude and length. This outperformance cannot be attributed to the heavy representation of the information technology sector per se;¹ rather, tech in India simply bested tech in other Asian markets.

The return disparity between growth and value is particularly pronounced among MSCI indices because prior to mid-2003 it applied a single-dimension methodology—price-to-book (P/B)—to categorize all companies as either value or growth. Securities with the lowest 50% P/B were classified as value, while those with the highest 50% P/B were placed in the growth index. Since June 2003, MSCI has incorporated a multifactor approach to its stock classification,² using three variables to determine value characteristics and five for its growth attributes.

This new framework represents a significant improvement in MSCI's style segmentation, and it now closely resembles the methodologies employed by S&P/Citigroup and FTSE index providers to define growth and value. All three index providers use a multifactor approach to classify stocks, though the specific factors considered differ slightly (see chart on following page). As would be expected given the similar methodologies used, the market-cap weights of sector allocations between comparable MSCI and S&P/Citigroup indices are generally not terribly significant and we would expect these index returns to be relatively highly correlated (Tables J through L).

¹ The information technology sector accounts for 47.1% of India Growth's market cap, and only 0.5% in its value counterpart. In MSCI Emerging Asia Growth, technology accounts for a similar share (45.1%), but the index substantially *underperformed* its value counterpart, where the sector makes up 12.0% of its market cap.

² The two series are blended. Upon adopting the new methodology, MSCI did not restate historical figures.

Is the Reign Over?

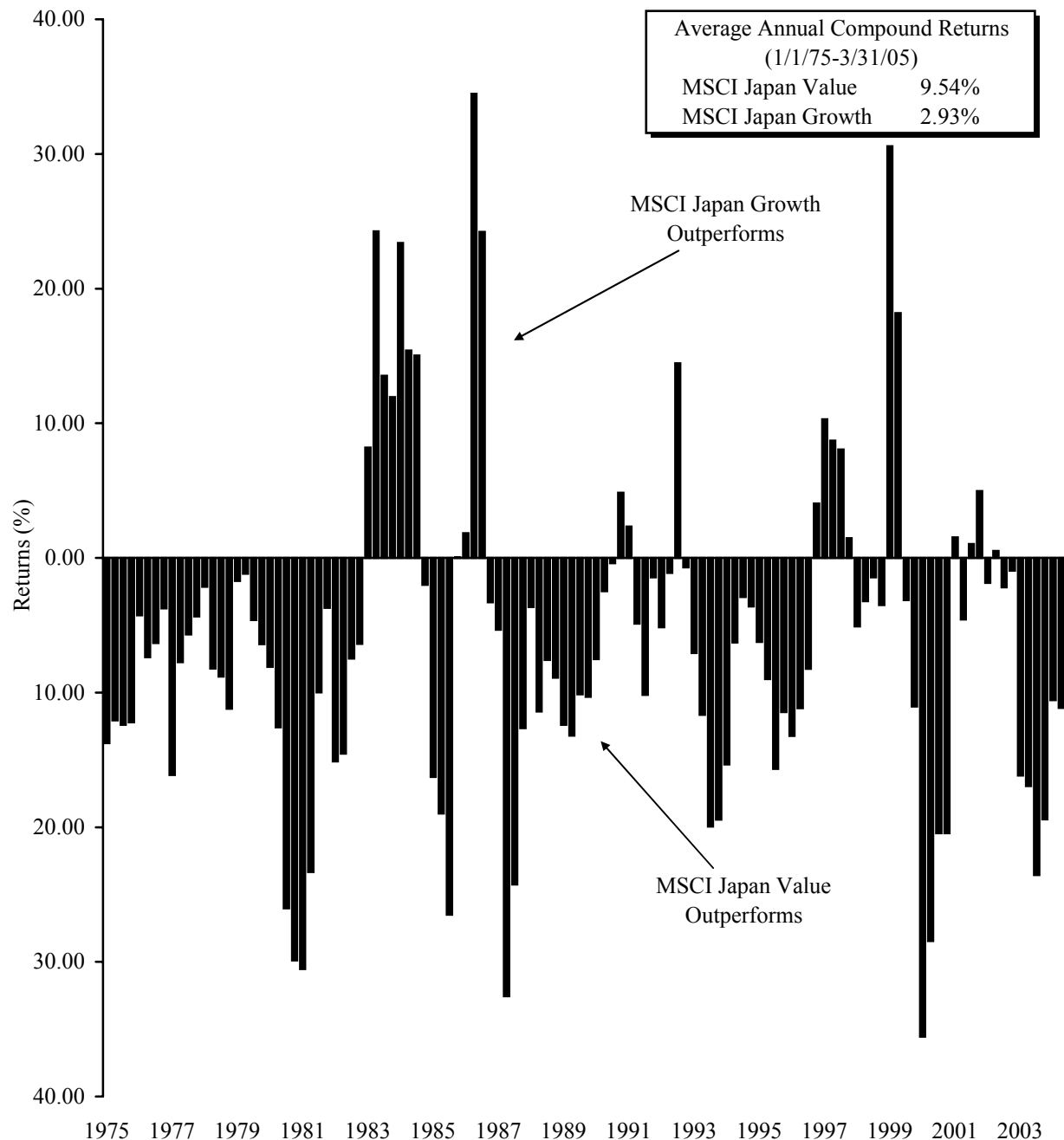
Is it possible that, after years of submission, growth may begin to avenge value's dominance? In general, among MSCI and S&P/Citigroup indices, various valuation measures suggest growth is currently undervalued compared to its own historical averages, though it is roughly comparably priced to value³ (Tables M through X). In other words, valuation disparities are not sufficiently compelling to induce investors to adopt a style bias. However, valuations vary by country and region. For example, relative to value, growth stocks offer compelling value in Japan, China, and India.

Defining Style: The Multifactor Approach Among Three Index Providers			
	<u>MSCI</u>	<u>S&P/Citigroup</u>	<u>FTSE</u>
Value			
Price-to-Book	√	√	√
Price-to-Earnings (12-Month Forward)	√		
Price-to-Sales		√	√
Dividend Yield	√	√	√
Price-to-Cash Flow		√	√
Growth			
Historic Sales Growth Rate	5-Yr	5-Yr	3-Yr
Historic EPS Growth Rate	5-Yr	5-Yr	3-Yr
Forward Sales Growth Estimate			2-Yr
Forward EPS Growth Estimate	12-Month & 3- to 5-Yr		2-Yr
Equity Growth Rate*	√	5-Yr Avg Annual Rate	√

* ROE x (1 - Payout Ratio).

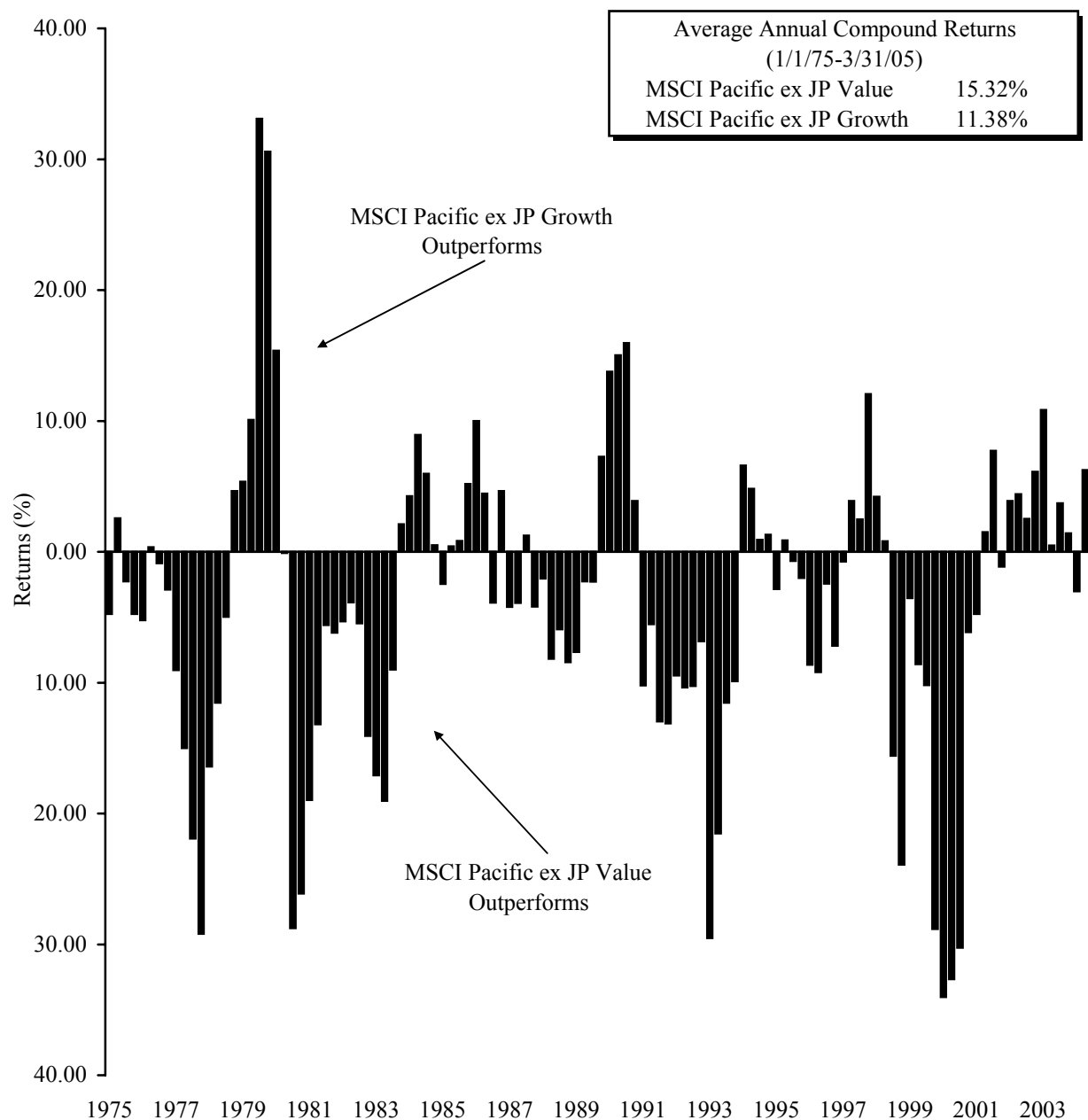
³ The notable exception is MSCI Pacific ex Japan Growth, which is overvalued relative to its historical averages and slightly expensive compared to its growth counterpart.

Table A

MSCI JAPAN GROWTH RELATIVE TO MSCI JAPAN VALUE**January 1, 1975 - March 31, 2005****Rolling Four-Quarter Returns**

Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: All returns are in local currency.

Table B**MSCI PACIFIC EX JAPAN GROWTH RELATIVE TO
MSCI PACIFIC EX JAPAN VALUE****January 1, 1975 - March 31, 2005****Rolling Four-Quarter Returns**

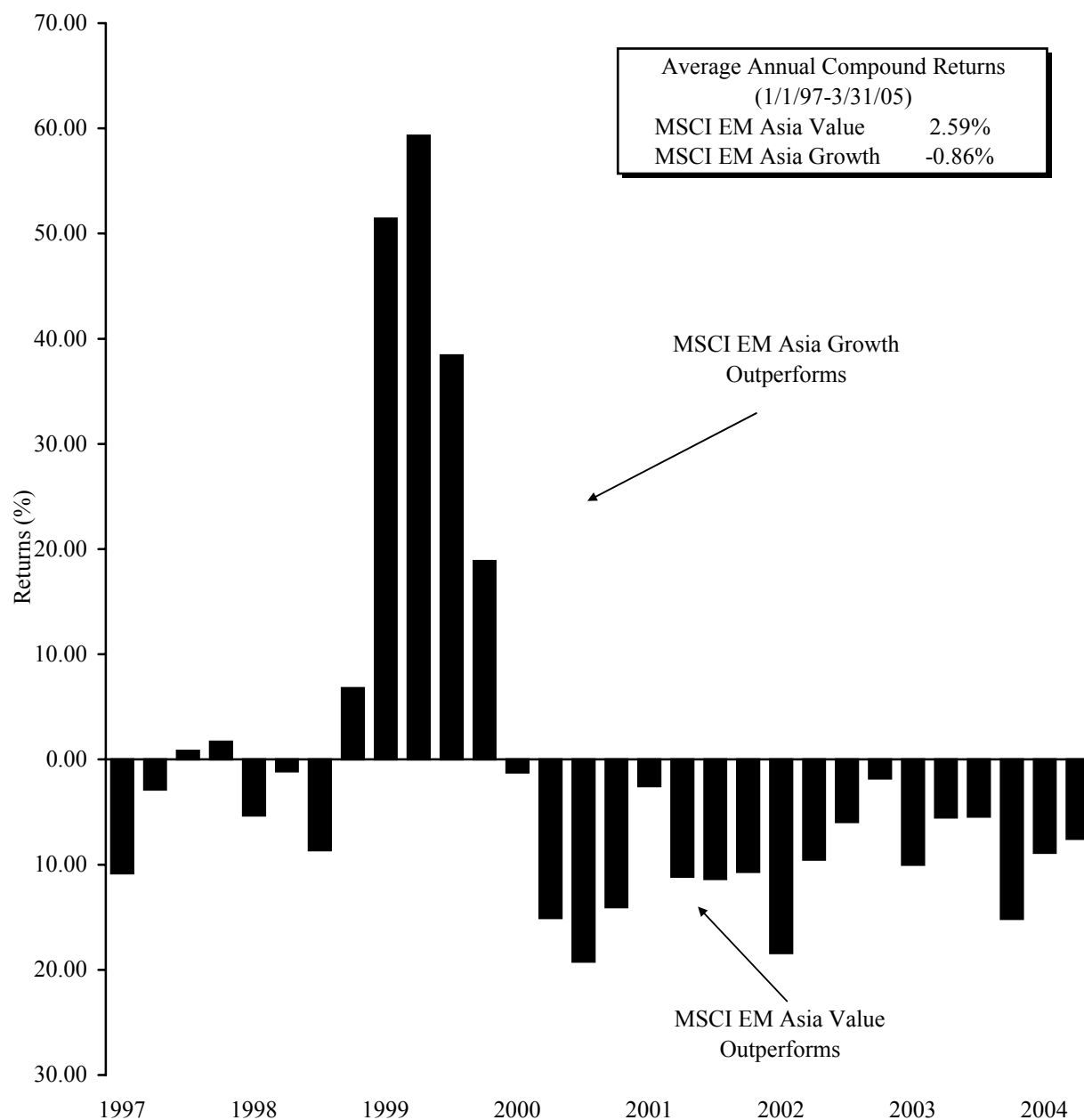
Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: All returns are in local currency.

Table C

MSCI EMERGING MARKETS ASIA GROWTH RELATIVE TO MSCI EMERGING MARKETS ASIA VALUE

January 1, 1997 - March 31, 2005
Rolling Four-Quarter Returns



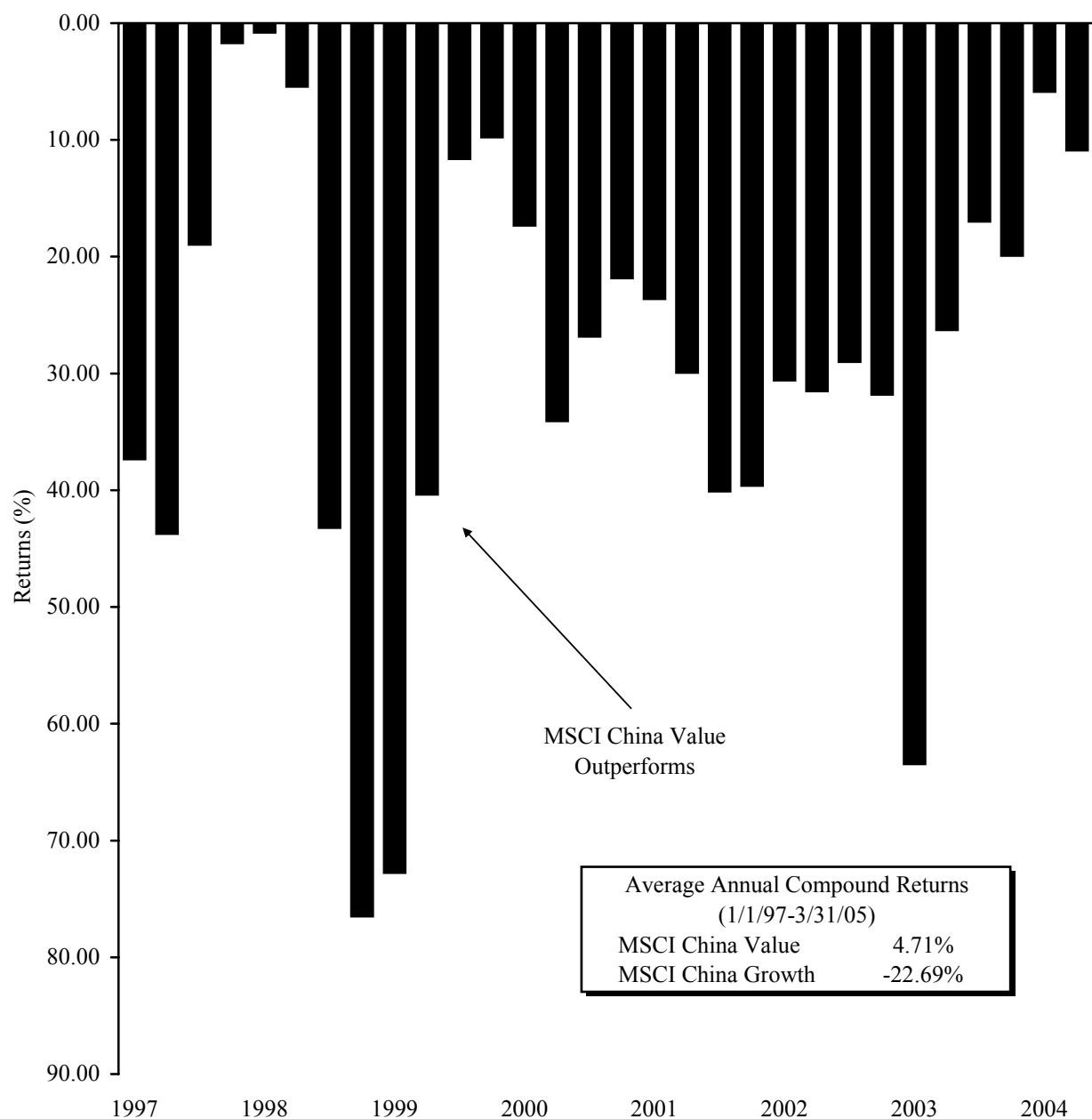
Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: All returns are in local currency.

Table D

MSCI CHINA GROWTH RELATIVE TO MSCI CHINA VALUE

January 1, 1997 - March 31, 2005
Rolling Four-Quarter Returns



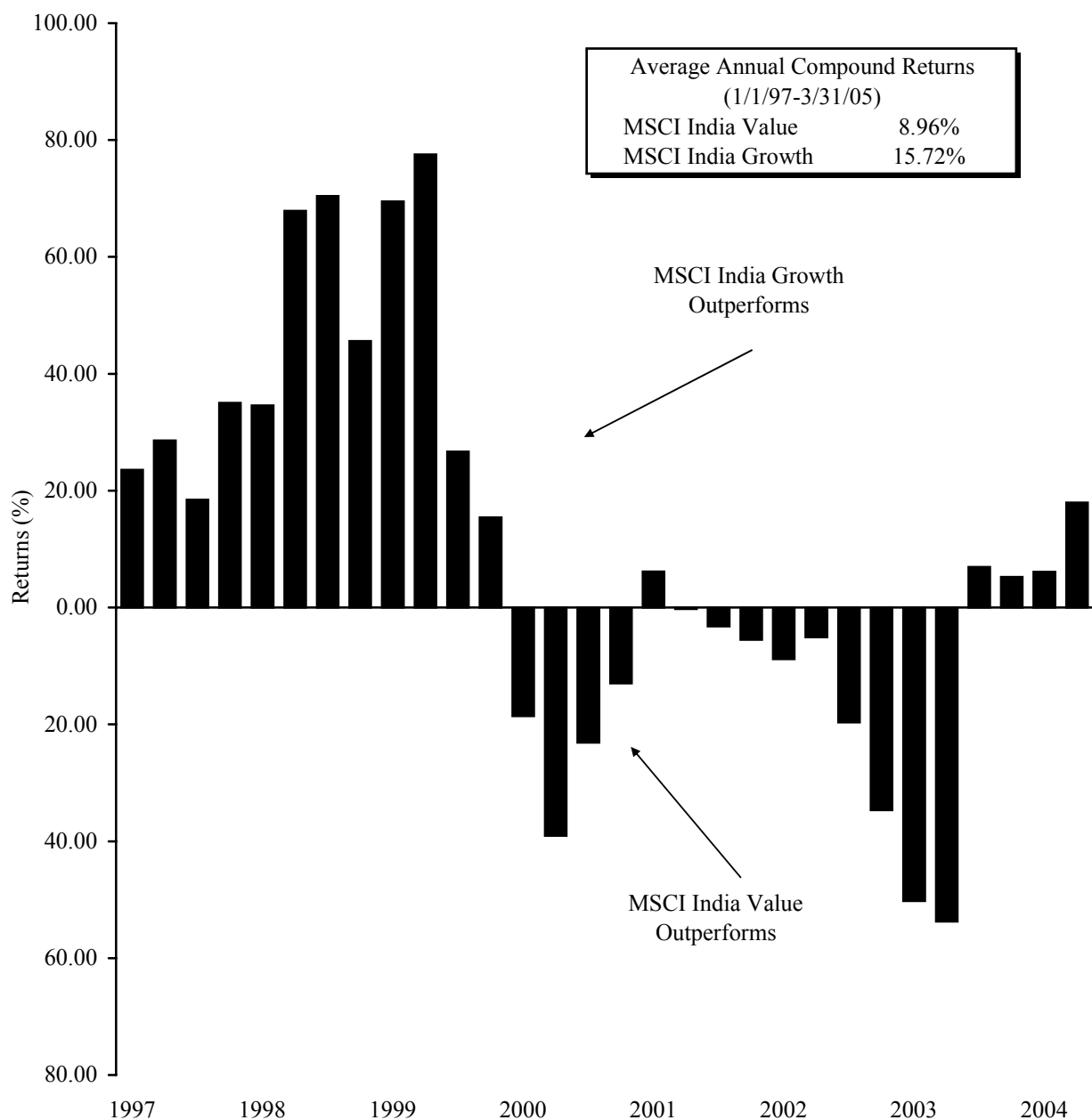
Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: All returns are in local currency.

Table E

MSCI INDIA GROWTH RELATIVE TO MSCI INDIA VALUE

January 1, 1997 - March 31, 2005
Rolling Four-Quarter Returns



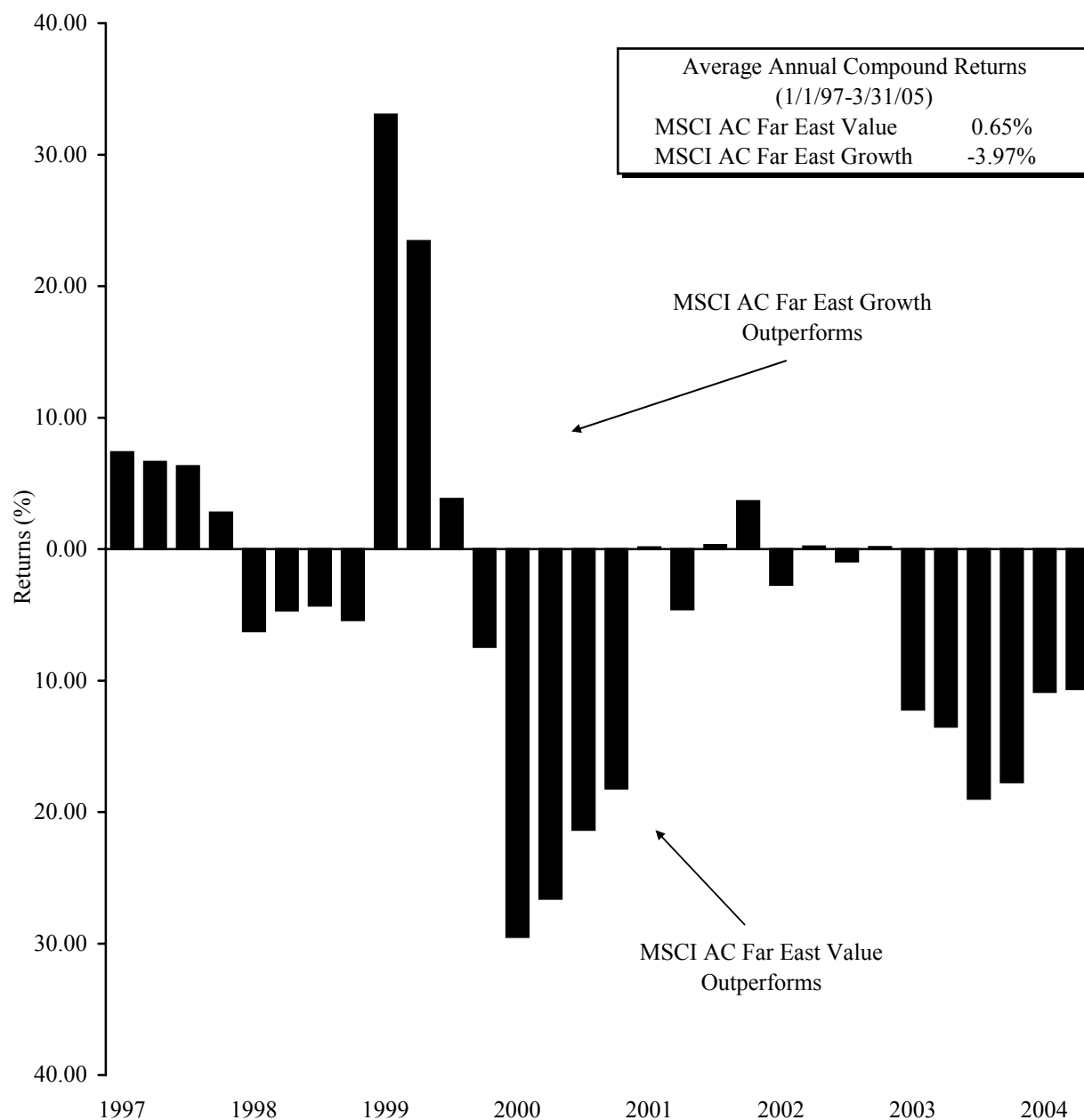
Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: All returns are in local currency.

Table F

MSCI ALL COUNTRY FAR EAST GROWTH RELATIVE TO MSCI ALL COUNTRY FAR EAST VALUE

January 1, 1997 - March 31, 2005
Rolling Four-Quarter Returns



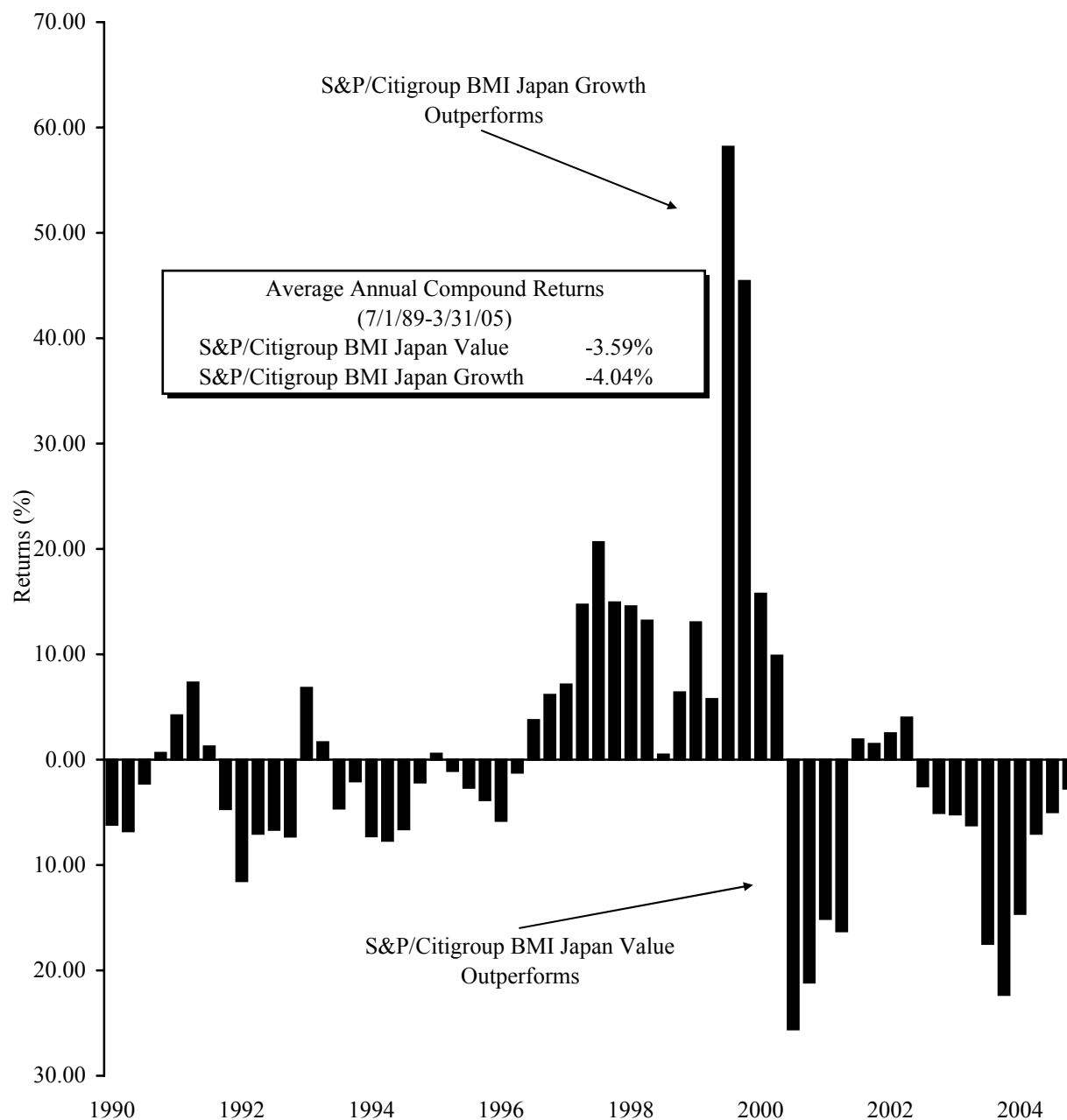
Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: All returns are in local currency.

Table G

**S&P/CITIGROUP BMI JAPAN GROWTH RELATIVE TO
S&P/CITIGROUP BMI JAPAN VALUE**

**July 1, 1989 - March 31, 2005
Rolling Four-Quarter Returns**



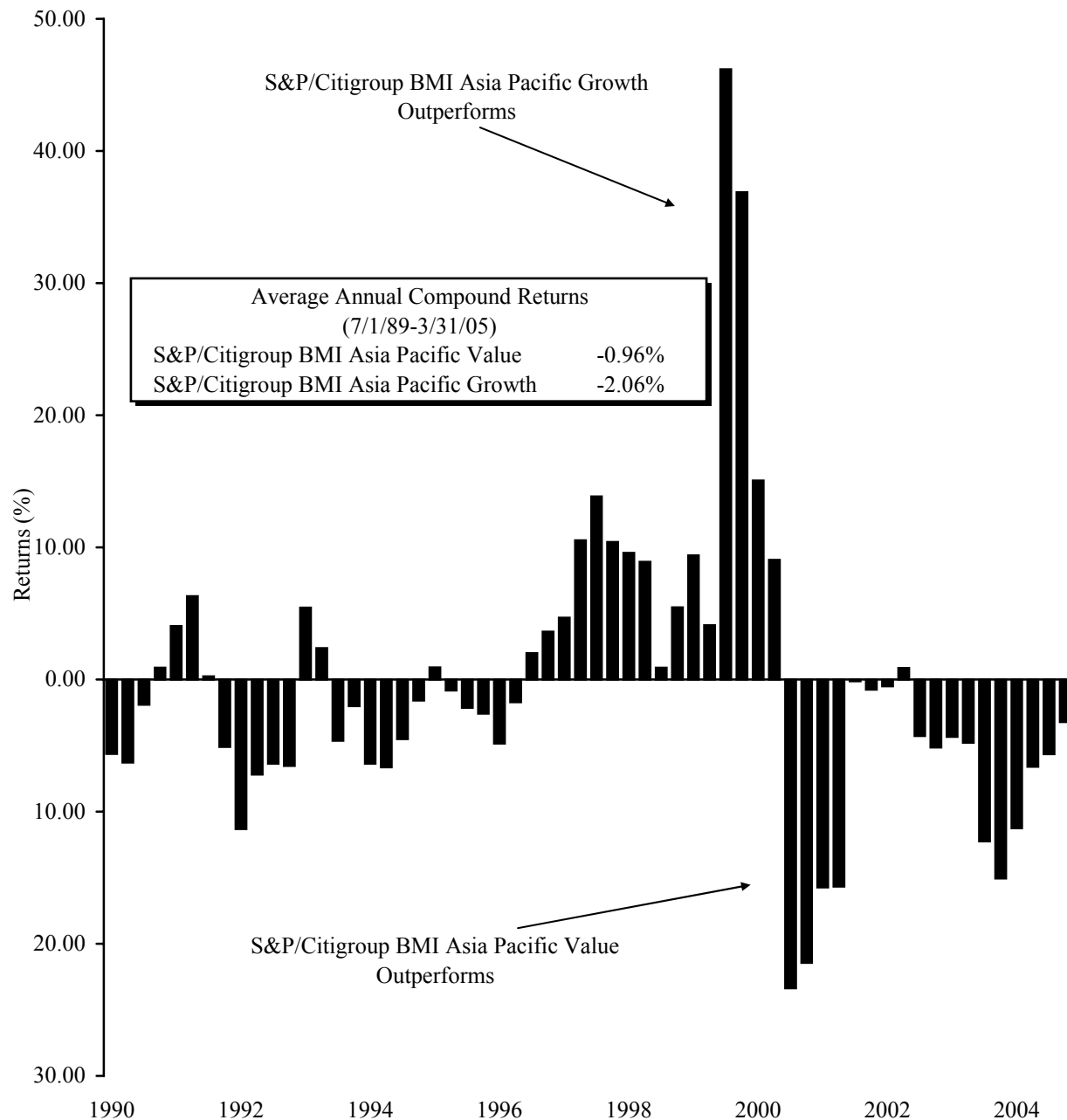
Sources: S&P/Citigroup Global Equity Indices and Standard & Poor's.

Note: All returns are in local currency.

Table H

S&P/CITIGROUP BMI ASIA PACIFIC GROWTH RELATIVE TO S&P/CITIGROUP BMI ASIA PACIFIC VALUE

July 1, 1989 - March 31, 2005
Rolling Four-Quarter Returns



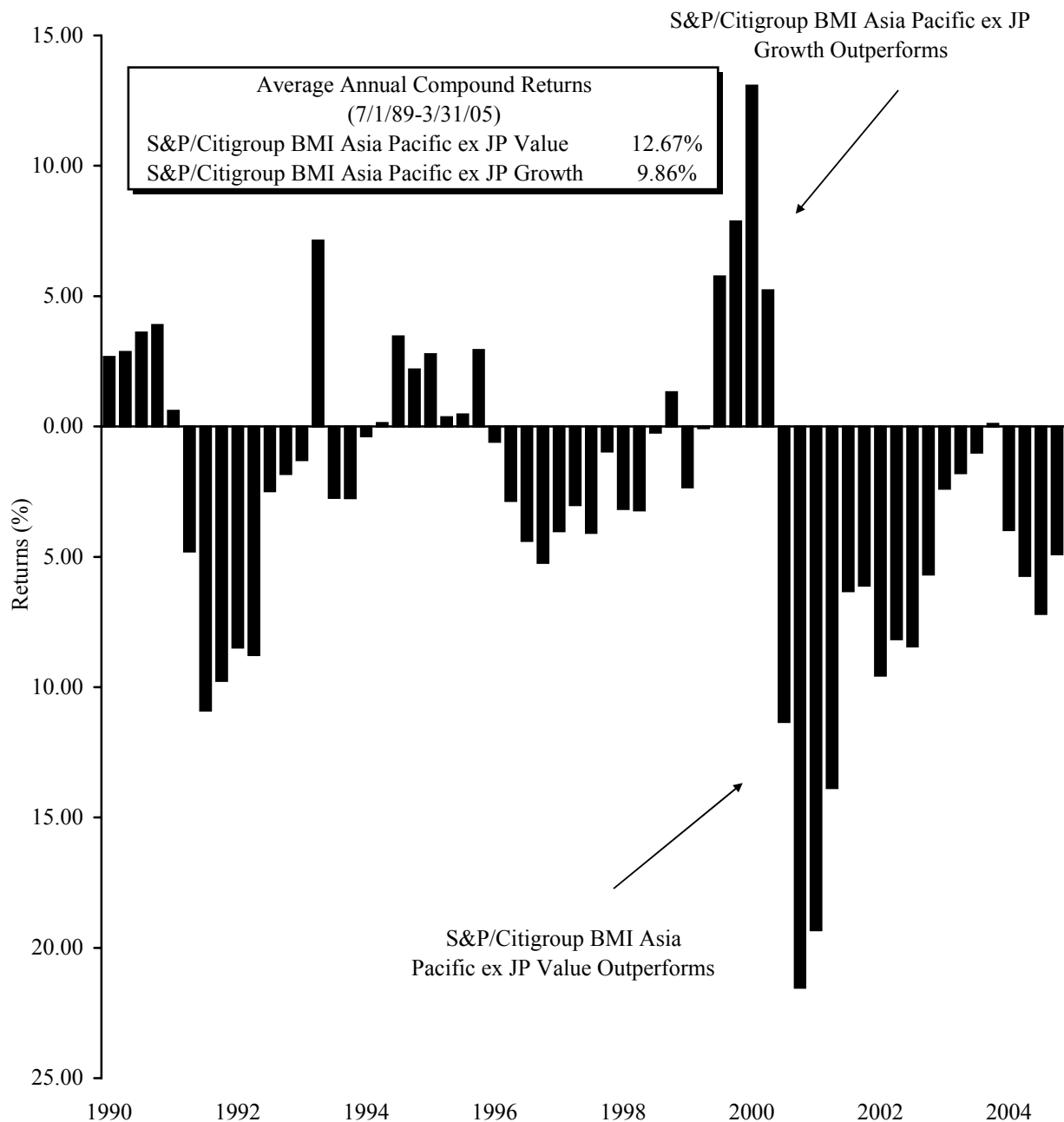
Sources: S&P/Citigroup Global Equity Indices and Standard & Poor's.

Notes: Australia, Hong Kong, Japan, Korea, New Zealand, and Singapore constitute the S&P/Citigroup BMI Asia Pacific Index. All returns are in local currency.

Table I

**S&P/CITIGROUP BMI ASIA PACIFIC EX JAPAN GROWTH RELATIVE TO
S&P/CITIGROUP BMI ASIA PACIFIC EX JAPAN VALUE**

**July 1, 1989 - March 31, 2005
Rolling Four-Quarter Returns**



Sources: S&P/Citigroup Global Equity Indices and Standard & Poor's.

Note: All returns are in local currency.

Table J

SECTOR ALLOCATIONS FOR SELECT ASIAN MSCI EQUITY INDICES

As of May 31, 2005

	<u>MSCI Japan Growth (%)</u>	<u>MSCI Japan Value (%)</u>	<u>MSCI Pacific ex Japan Growth (%)</u>	<u>MSCI Pacific ex Japan Value (%)</u>	<u>MSCI AC Far East Growth (%)</u>	<u>MSCI AC Far East Value (%)</u>
Consumer Discretionary	20.11	23.77	10.56	1.73	16.73	19.85
Consumer Staples	5.34	6.62	8.67	1.63	4.47	5.73
Energy	0.21	2.01	3.03	2.04	1.51	3.07
Financials	22.12	15.00	30.34	64.46	23.83	18.54
Health Care	4.53	7.50	3.02	0.75	3.25	5.38
Industrials	14.79	16.14	13.82	9.54	12.63	16.30
Information Technology	21.90	7.61	2.20	0.24	25.59	8.17
Materials	7.73	8.54	22.52	7.92	6.10	8.92
Telecommunication Services	3.28	2.30	3.06	5.55	5.16	4.03
Utilities	---	10.51	2.79	6.14	0.73	10.02

Sources: Factset and Morgan Stanley Capital International. MSCI data provided "as is" without any express or implied warranties.

Note: As of May 31, 2005, the market caps in billions of U.S. dollars for MSCI Japan was \$1,856.4, MSCI Hong Kong + Singapore was \$224.2, and MSCI Emerging Markets Asia was \$619.3.

Table K

SECTOR ALLOCATIONS FOR SELECT DEVELOPING ASIAN MSCI EQUITY INDICES

As of May 31, 2005

	<u>MSCI Emerging Asia Growth (%)</u>	<u>MSCI Emerging Asia Value (%)</u>	<u>MSCI China Growth (%)</u>	<u>MSCI China Value (%)</u>	<u>MSCI India Growth (%)</u>	<u>MSCI India Value (%)</u>
Consumer Discretionary	5.29	12.83	4.65	6.96	6.70	5.94
Consumer Staples	3.84	5.64	0.70	0.70	8.25	10.30
Energy	6.94	10.16	18.16	37.01	11.96	26.60
Financials	19.41	17.38	15.23	3.42	7.07	25.87
Health Care	1.24	0.40	---	0.35	10.77	1.65
Industrials	4.79	13.02	10.51	25.13	6.40	8.27
Information Technology	45.12	11.96	5.86	0.65	47.14	0.51
Materials	3.07	14.10	5.85	3.90	1.72	13.24
Telecommunication Services	9.54	8.58	39.04	11.37	---	2.45
Utilities	0.75	5.92	---	10.51	---	5.18

Sources: Factset and Morgan Stanley Capital International. MSCI data provided "as is" without any express or implied warranties.

Table L

SECTOR ALLOCATIONS FOR SELECT ASIAN S&P/CITIGROUP EQUITY INDICES

As of May 31, 2005

	<u>S&P/Citigroup Japan Growth (%)</u>	<u>S&P/Citigroup Japan Value (%)</u>	<u>S&P/Citigroup Asia Pacific Growth (%)</u>	<u>S&P/Citigroup Asia Pacific Value (%)</u>	<u>S&P/Citigroup Asia Pacific ex Japan Growth (%)</u>	<u>S&P/Citigroup Asia Pacific ex Japan Value (%)</u>
Consumer Discretionary	22.76	19.18	17.79	15.55	8.75	8.38
Consumer Staples	6.22	5.10	6.01	5.12	5.63	5.17
Energy	0.48	1.51	1.45	2.18	3.20	3.51
Financials	17.79	25.21	23.00	31.16	32.49	42.89
Health Care	9.53	2.09	6.94	1.79	2.23	1.21
Industrials	14.04	17.79	12.79	16.73	10.53	14.63
Information Technology	19.12	8.87	17.44	7.84	14.38	5.79
Materials	5.49	9.94	7.60	10.66	11.44	12.08
Telecommunication Services	3.77	2.00	5.11	2.25	7.54	2.75
Utilities	0.80	8.31	1.87	6.72	3.81	3.58

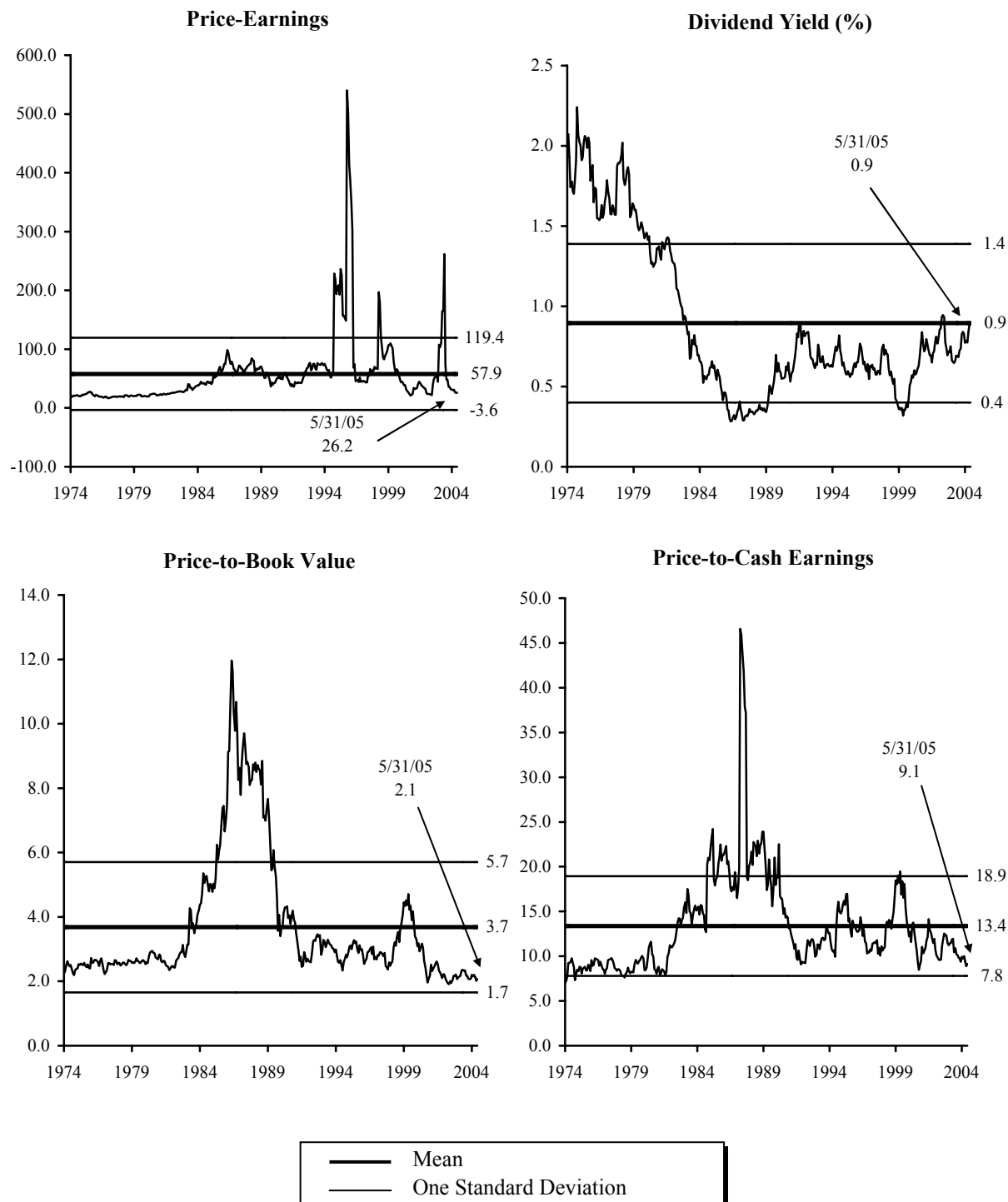
Sources: S&P/Citigroup Global Equity Indices and Standard & Poor's.

Notes: S&P/Citigroup Indices are part of the S&P/Citigroup Global Broad Market. Australia, Hong Kong, Japan, Korea, New Zealand, and Singapore constitute the S&P/Citigroup BMI Asia Pacific Index.

Table M

MSCI JAPAN GROWTH VALUATIONS

December 31, 1974 - May 31, 2005

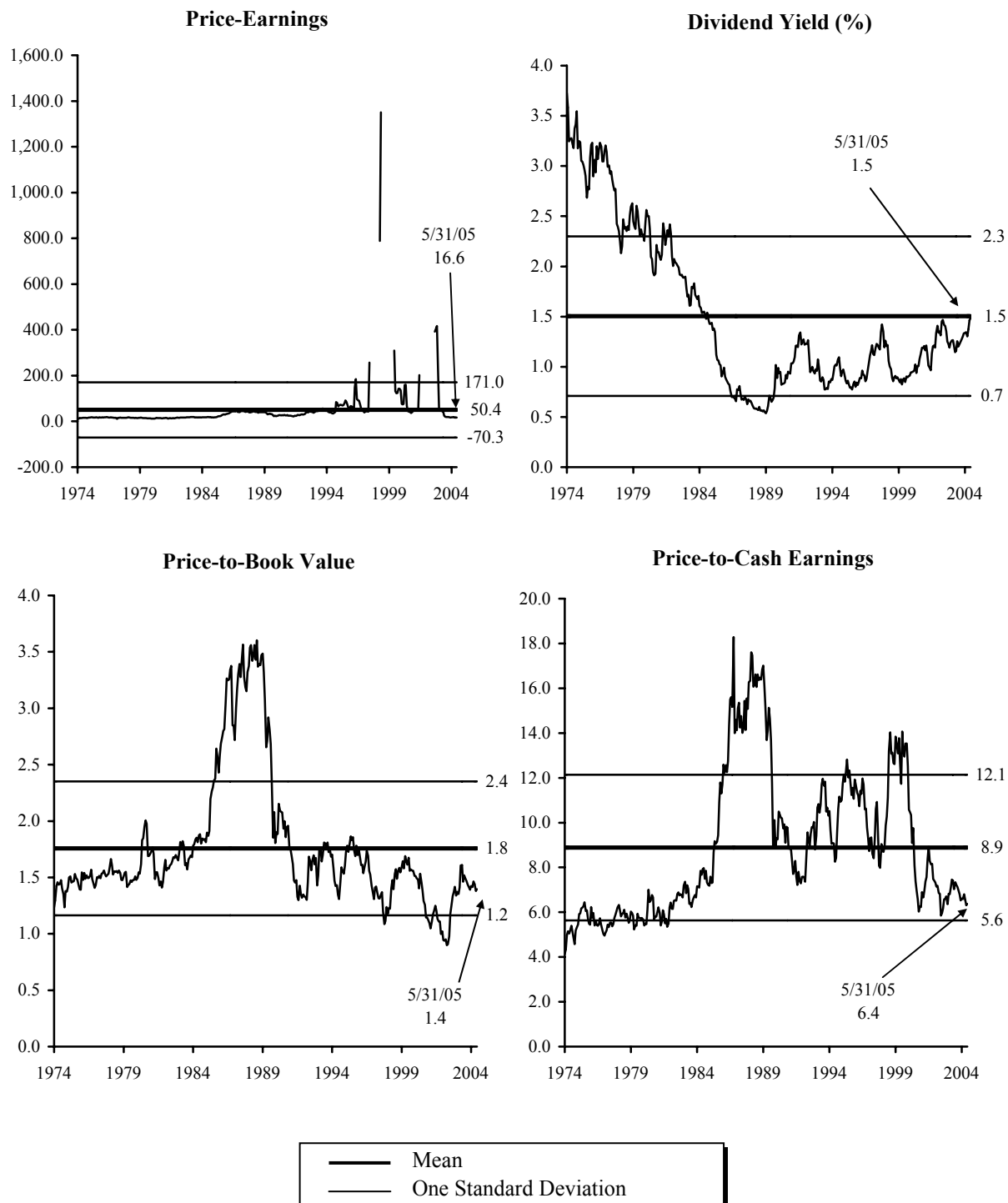


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table N

MSCI JAPAN VALUE VALUATIONS

December 31, 1974 - May 31, 2005



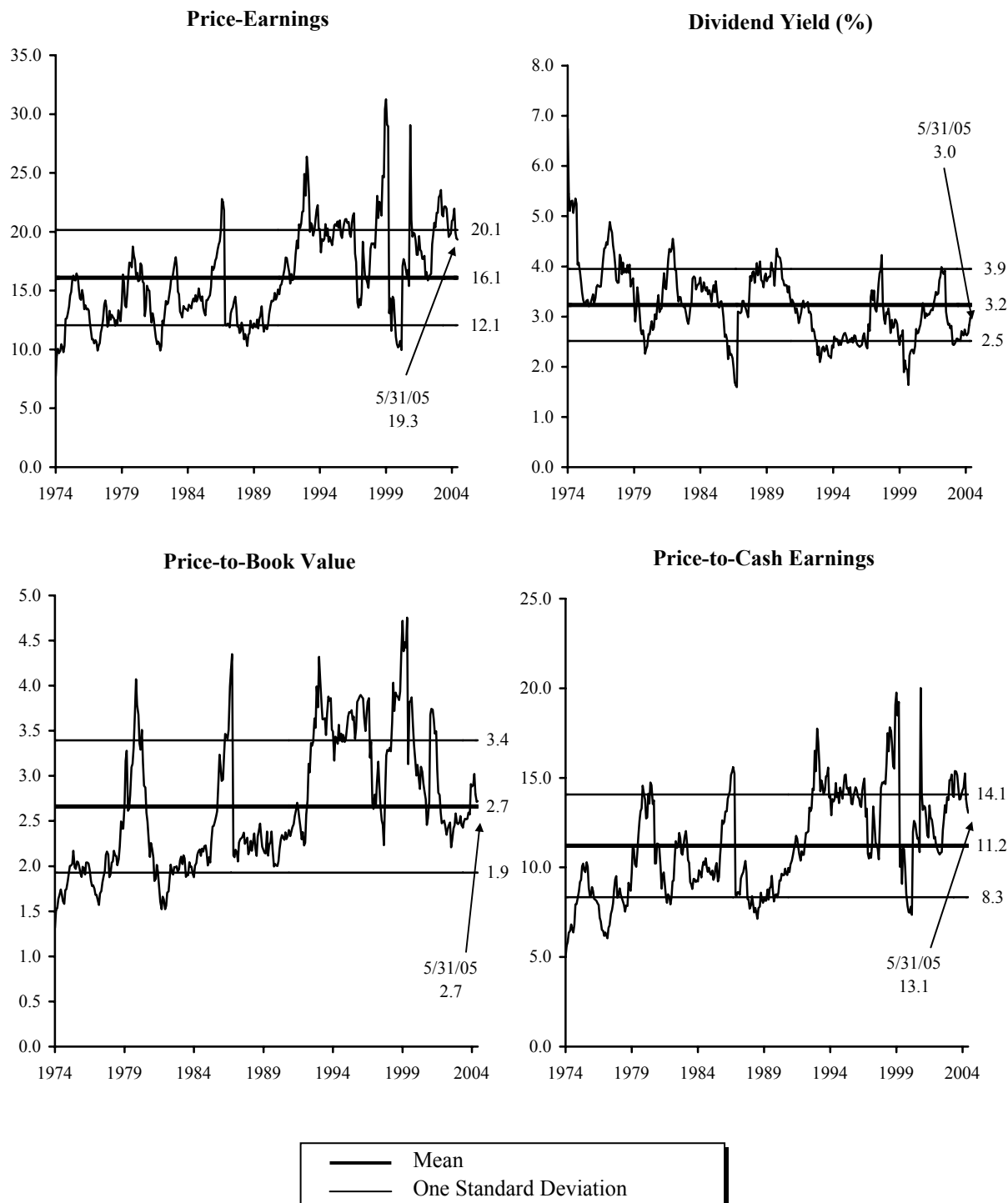
Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Gaps in the P/E graph represent periods for which negative P/Es have been removed.

Table O

MSCI PACIFIC EX JAPAN GROWTH VALUATIONS

December 31, 1974 - May 31, 2005

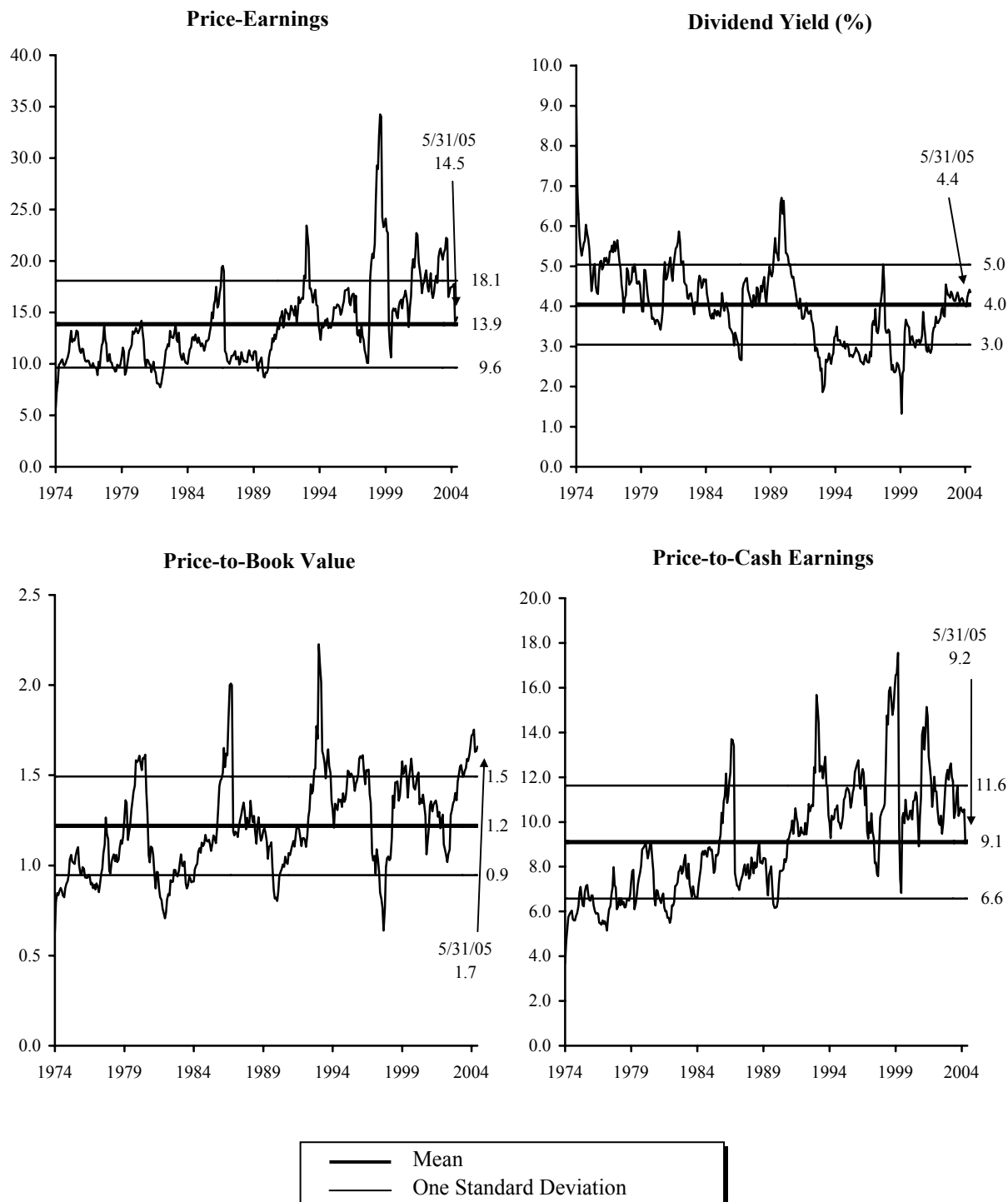


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table P

MSCI PACIFIC EX JAPAN VALUE VALUATIONS

December 31, 1974 - May 31, 2005

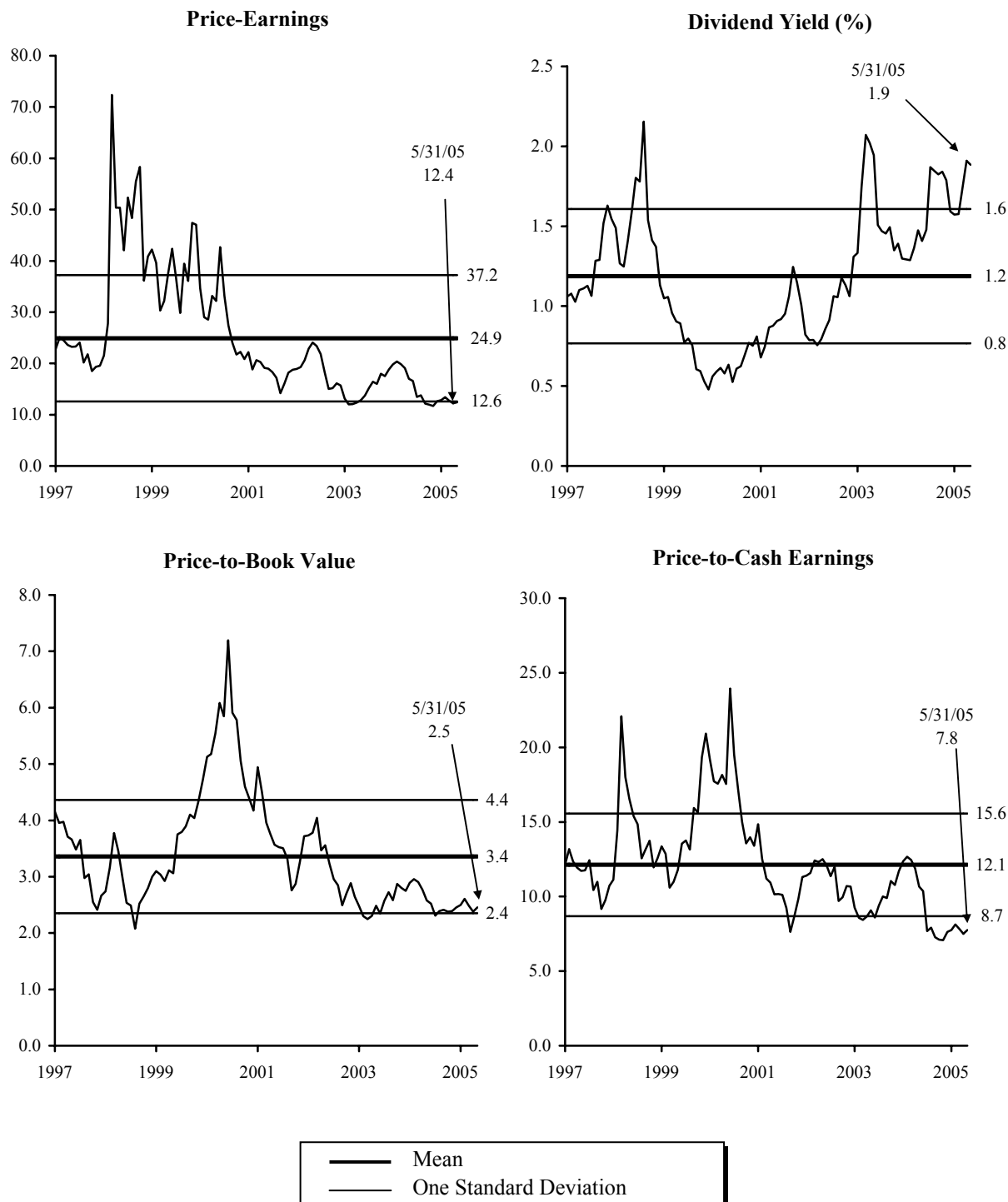


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table Q

MSCI EMERGING MARKETS ASIA GROWTH VALUATIONS

January 31, 1997 - May 31, 2005

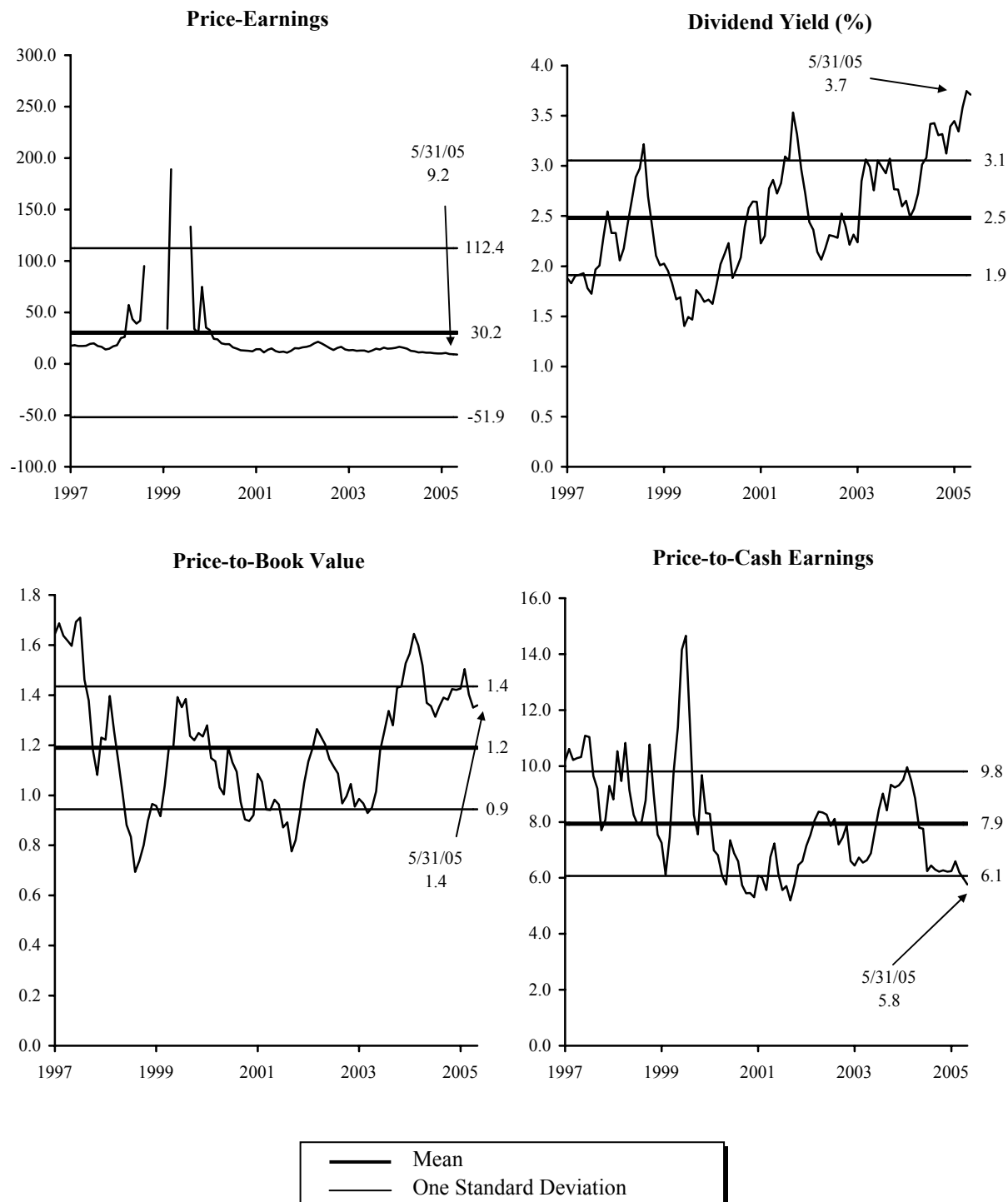


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table R

MSCI EMERGING MARKETS ASIA VALUE VALUATIONS

January 31, 1997 - May 31, 2005



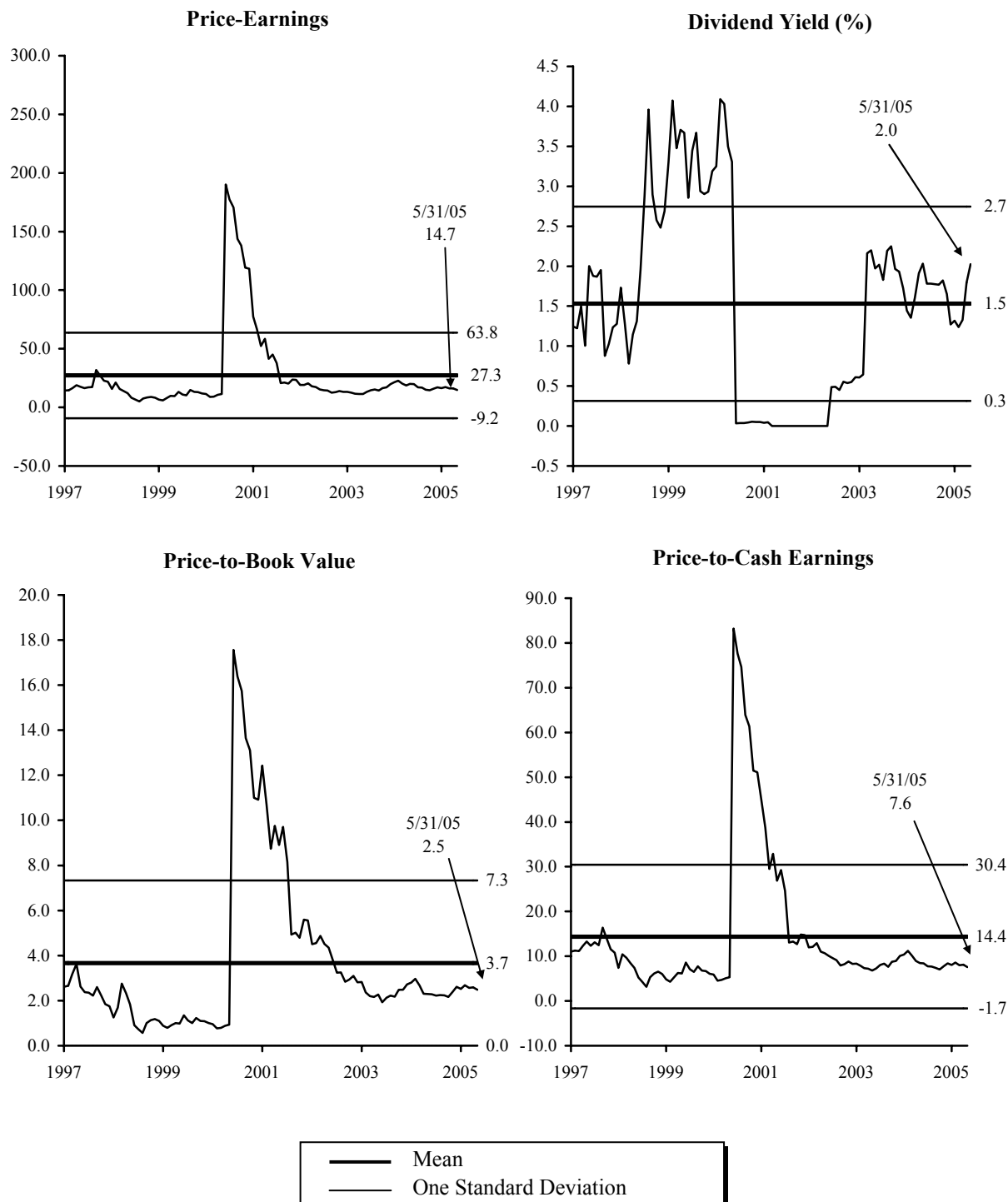
Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Gaps in the P/E graph represent periods for which negative P/E's have been removed.

Table S

MSCI CHINA GROWTH VALUATIONS

January 31, 1997 - May 31, 2005

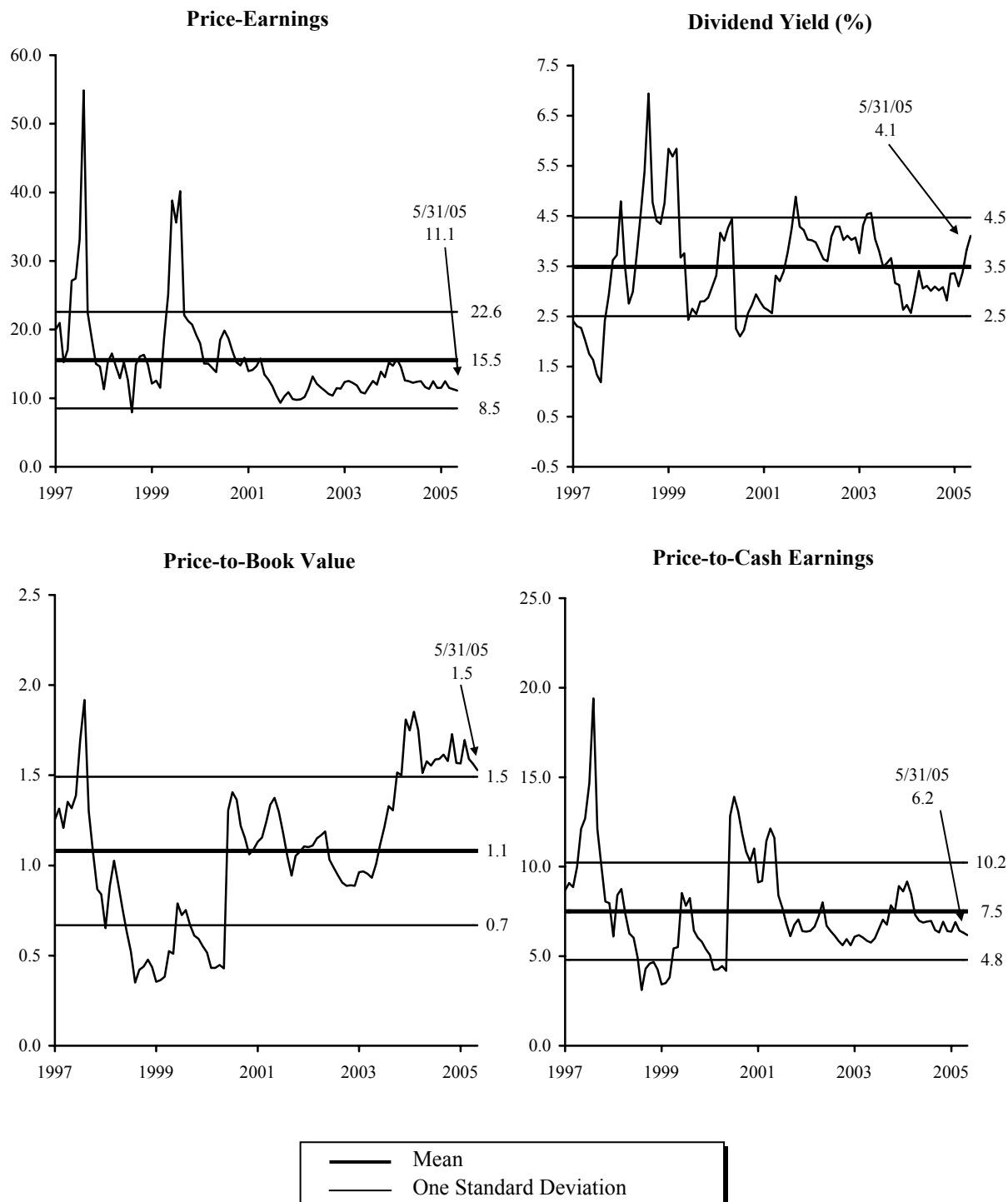


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table T

MSCI CHINA VALUE VALUATIONS

January 31, 1997 - May 31, 2005

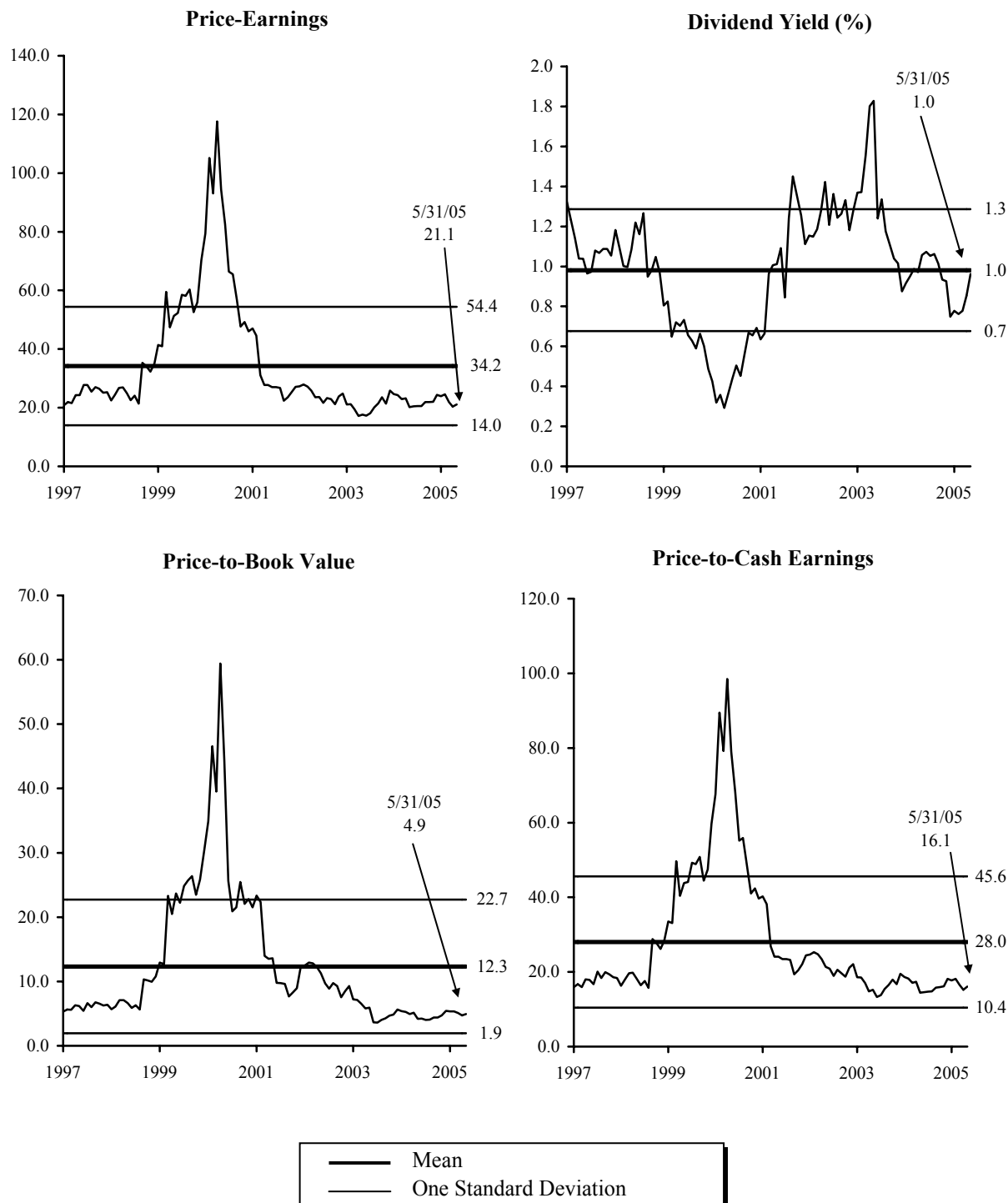


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table U

MSCI INDIA GROWTH VALUATIONS

January 31, 1997 - May 31, 2005

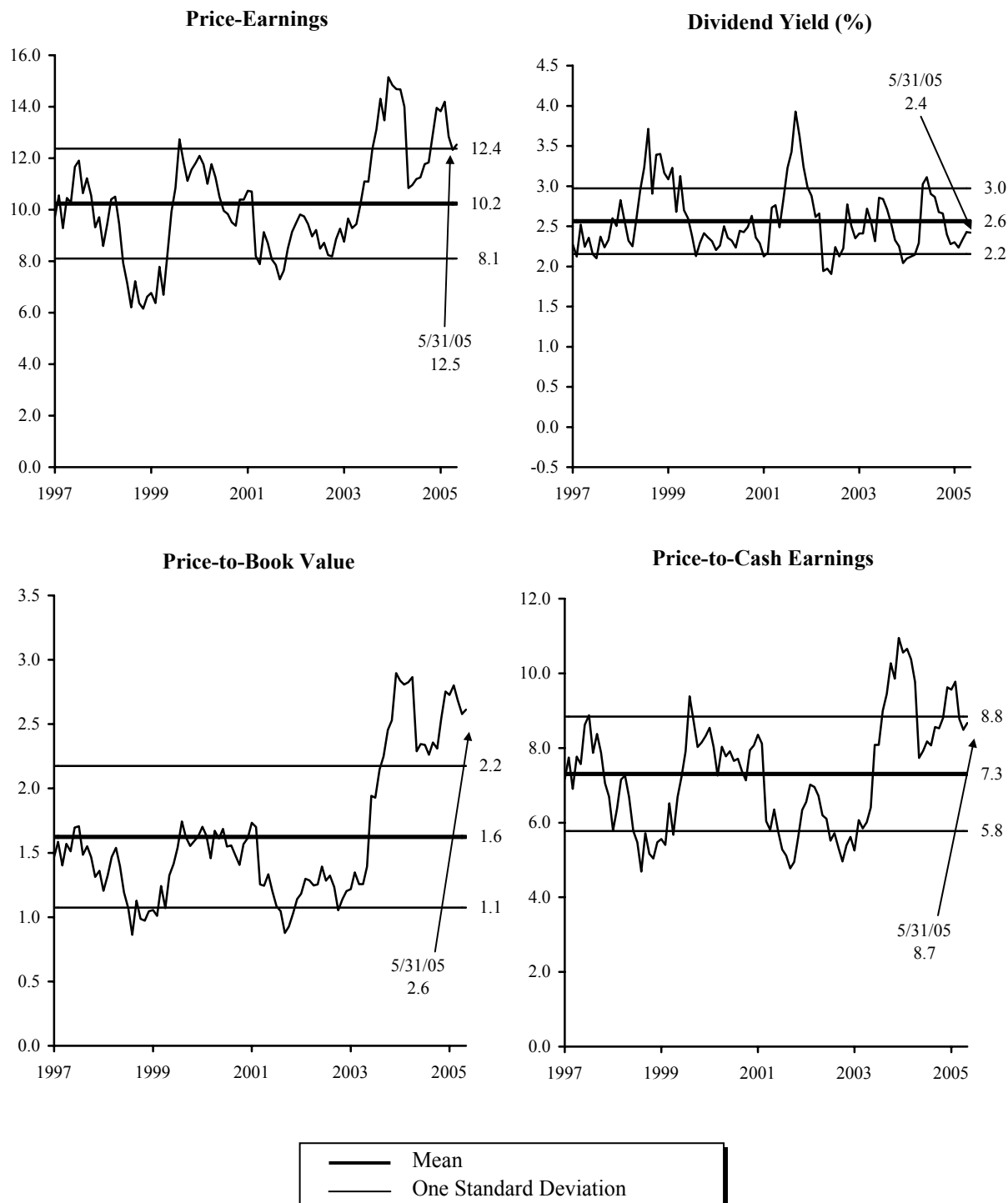


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table V

MSCI INDIA VALUE VALUATIONS

January 31, 1997 - May 31, 2005

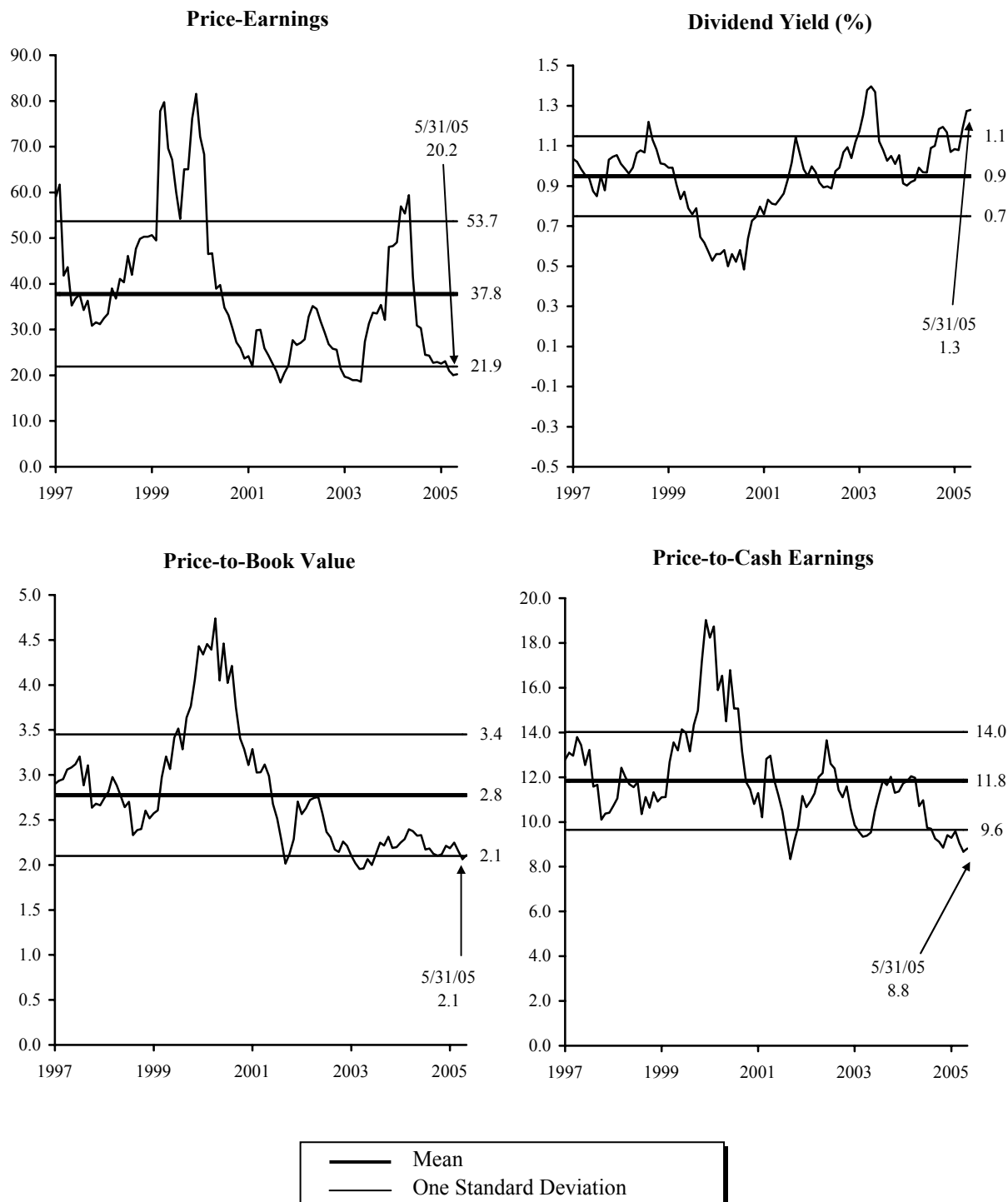


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table W

MSCI ALL COUNTRY FAR EAST GROWTH VALUATIONS

January 31, 1997 - May 31, 2005

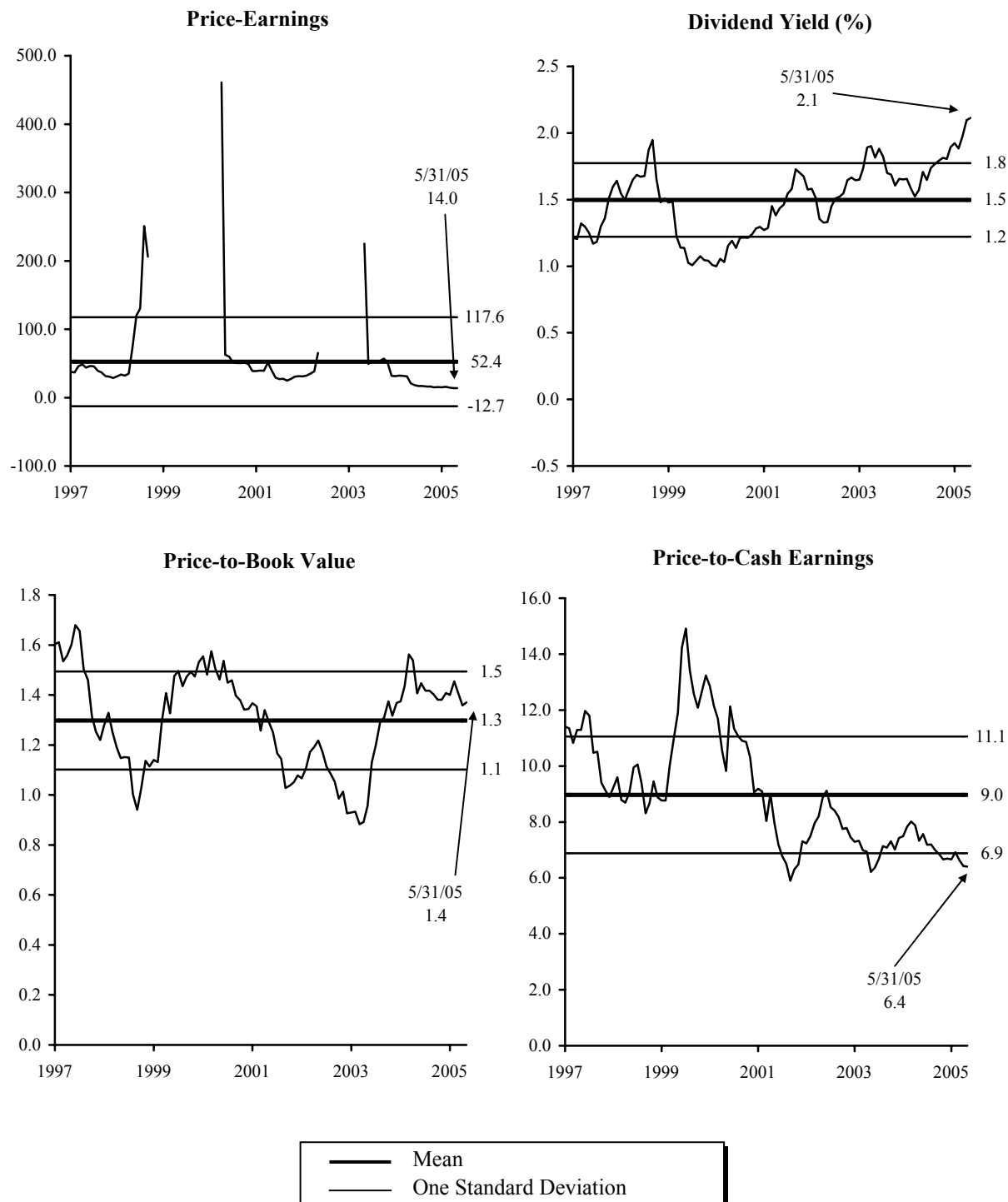


Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Table X

MSCI ALL COUNTRY FAR EAST VALUE VALUATIONS

January 31, 1997 - May 31, 2005



Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

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