PARVEST ASIAN CONVERTIBLE BOND

November 2009 Review

Fund performance in November 2009

The monthly performance, gross of fees, was +0.98% compared with +0.91% for the UBS Asian ex Japan Convertible Index. The monthly performance, net of fees (Classic shares), was +0.85%.

This month's positive performance was largely due to strength in consumer stocks in Hong Kong and China.

Current exposure and outlook

As at 30 November, 2009 exposure was as follows:

	Parvest Asian Convertible Bond	Benchmark
Portfolio delta	32.4%	31.7%
Yield curve exposure	1.19	1.45
Yield to best	1.6%	2.8%
Sector exposure		
Tech & Media	6%	7%
Cyclicals	71%	68%
Defensives	16%	16%
Financials	0%	0%
Infrastructure	2%	8%
Cash	5%	0%
Currency exposure		
USD	42%	55%
HKD	26%	16%
EUR	1%	0%
INR	4%	7%
IDR	1%	0%
JPY	2%	0%
MYR	0%	1%
SGD	20%	17%
TWD	0%	2%
CNY	2%	2%
AUD	2%	0%

BNPP AM is the source for all data reflected in this document as at 30 November, 2009 unless otherwise specified.

Main portfolio movements during the month

- We added **Enercoal Resources 5% November 2016 on weakness** to profit from the put option protection in favour of the investor.
- We switched from **Jaiprakash Associates 0% September 2012** to **Larsen & Toubro 3.5% October 2014.** Larsen & Loubro is also an Indian infrastructure company, but a stronger credit than Jaiprakash.
- We also added **Sesa Goa 5% October 2014**, and **Tata Steel 4.5% November 2014**, both in the Indian iron ore mining and steel sectors.
- We continued to take profits on **Golden Eagle 0% November 2011** and **IOI Resources 0% January 2013** due to richened valuations.

The Asian convertible bond market in November

- The market edged up over the month, mainly due to the strong performance of new Indian issues which have a relatively high equity sensitivity.
- The primary market was active with eight new issues:
  - Tata Power, India's biggest non-state power producer, issued US$300 million 5-year 1.75% November 2014 convertible bonds. The coupon was set at the higher end of the indicated range. The conversion premium was pre-fixed at 10%. The proceeds will be used to fund expansion projects which are aimed at doubling generation capacity in the next three years. *We did not participate in this issue, which we found unattractively priced.*
  - Tata Steel, the Indian car and commercial vehicle manufacturer, launched an exchange offer for its Tata Steel 1% September 2012. Of the US$875 million outstanding of the old convertible bond, the company received 56% acceptance for a new convertible bond. The new bond carries a 4.5% coupon and maturity is extended to November 2014. *We participated in the exchange offer and also increased our exposure by buying in the secondary market.*
  - STX Pan Ocean, a Korean shipping company providing bulk cargo carriers, issued US$200 million 4.5% November 2014 convertible bonds. The issue was priced at the mid range of the indicated range: 4.5% yield to put and a 25% conversion premium. *We did not participate in this issue due to its aggressive pricing.*
  - Vincom JSC, Vietnam's second-biggest listed property company, issued US$100 million 6% December 2014 convertible bonds, the first Vietnamese convertible bond in the market. The issue was priced at the higher end of the indicated coupon range to give a 6% yield to put with a put option after 2 years. The conversion premium was fixed at 5%, the lower end of the indicated range. The proceeds will be used to fund new real-estate ventures and for working capital. *We did not participate in this issue due to the high risk of the Vietnamese property market and uncertainties over government policy.*
  - Bumi Resources, one of the biggest coal miners in Indonesia, issued US$300 million 5% November 2010 convertible bonds. The coupon was fixed at 5%, the higher end of the indicated range, to give a 5.75% yield-to-put with a put option after only one year; and the conversion premium was fixed at 30%, the lower end of the indicated range. This is the fourth capital-raising this year, after a convertible bond issued in July, a "debt-like instrument" issued to China Investment Corp (CIC), and a straight bond issued in November. Through these transactions Bumi Resources has raised US$ 2.9 billion for acquisitions. *We did not participate in the issue because we found the terms too aggressive. But we bought the issue on the secondary market when the bond traded lower, offering a higher yield.*
  - Commonwealth Property Office, a property trust that invests in, manages and develops a portfolio of office buildings in Australia, issued AU$200 million 5.25% December 2016 convertible bonds. The issue is rated A- / A3 by S&P and Moody's, respectively. The proceeds are expected to fund two recent property acquisitions in Brisbane and Perth. The coupon was fixed at 5.25%, the higher end of the indicated rage, and the conversion premium set at 25%, the lower end of the indicated range. It was re-offered by primary market distributors at 98.5%, thus improving the yield-to-put to 5.6% (the bond is puttable in December 2014). *We did not participate in this issue because of the unattractive terms and outlook for Australian commercial property.*
  - United Microelectronics Corporation (UMC) issued dual tranche exchangeable bonds (EB), the first Taiwanese bonds in over a year. The UMC/Novatek Microelectronic EB raised US$80 million, and the conversion premium was set a 22%, towards the middle of the indicated range, while the premium for the US$127 million UMC / Unimicron tranche was set at

a 25% premium, which was the lower end of the range. Both tranches were offered at standard terms: five year maturity with a two year put option, although the 0% coupon and negative yield of -0.5% were unusual this year. Nevertheless, the deal was well received largely owing to an asset swap provided by the lead, and the BBB+ credit of the issuer. *We subscribed to this issue, but were given a zero allotment. The issue seems to have been placed mainly with investors who participated in the asset swap.*

- Some of last month's corporate activity:
  - Suzlon Energy is the issuer of Suzlon Energy 0% June 2012, Suzlon Energy 0% October 2012, Suzlon Energy 7.5% June 2012, Suzlon Energy 7.5% October 2012 and Suzlon Energy 0% July 2014 convertible bonds. Although its subsidiary Repower has won a large new order (worth 954 mega watts), today Suzlon is struggling to get new orders since the restructuring of its debt. Following the fire sale of its 35.2% stake in Hansen for £224 million at £95 per share, it is likely to complete a US$3 billion refinancing by the end of December 2009.This involves two foreign currency loans amounting to US$815 million and a 117 billion rupee facility. Although debt repayment risk has been postponed, and the bottom of the business cycle is in sight, the difficulty in filling the order book remains its biggest concern. According to management, Suzlon's order book as of 30 October, 2009, stood at 1,489 mega watts. This order book is 8% lower than management's lower end forecast for FY2010. *The fund sold all its Suzlon convertibles.*
- The credit spreads of both high grade and high yield bonds remained stable in November. After the spike up in the last few days of November due to the Dubai crisis, spreads returned to pre-Dubai levels. The Itraxx Asia IG was flat at 111.69 at the end of November, and the high yield bond credit spread, as illustrated by the Itraxx Asia HY, was at 437.5 at the end of November.

Outlook:

- The Dubai crisis shook the market at the end of November following the Dubai government's request of a standstill on its debt repayment. However, this was not another Lehman-like collapse as investors found the impact to be fairly limited, with the biggest creditors being some six banks and some bond holders. Nevertheless, the Sukuk terms have prompted investors to assess the protection for creditors in the event of a default. With the ongoing bond restructuring, any negative news impacting the market should be a good opportunity to buy.
- From a macro point of view, there are no signs of change in the liquidity outlook. In fact, the Bank of Japan has joined a Westerm initiative to embark on a quantitative easing programme against the threat of deflation. As we suggested in a previous letter, the biggest threat is from deflationary pressure rather than inflation. While the pace of recovery remains fairly slow, Ben Bernanke also reiterated warnings of "formidable headwinds" for 2010 which has removed some of the economic optimism derived from the better-than-expected jobless data for November.
- The Central Bank of Vietnam (SBV) hiked its base rate by 100bp and devalued the official currency (Vietnamese dong) by 10%. While the widening external deficit was blamed for the devaluation, it is unlikely the devaluation will revive the economy without a significant recovery in demand from the West. The Vincom deal last month was the first Vietnamese convertible bond issue, and may presage a growing Vietnamese convertible market.
- The central economic work conference held in Beijing on 5 December reaffirmed that the current fiscal policy and loose monetary policy introduced 12 months ago will remain unchanged in 2010. More importantly, the conference proposed six main ways to manage macroeconomic performance in 2010, although CPI inflation was not mentioned in this context. To us, this suggests that inflationary risk is no longer the top concern of Chinese policy makers for 2010. In addition, promotion of domestic demand is at the top of the agenda.
- We are convinced that the outlook for agricultural/soft-commodity, property, and energy related convertibles will remain among the themes for 2010.

Disclaimer

This document is issued by BNP Paribas Asset Management (BNPP AM)*, a member of BNP Paribas Investment Partners (BNPP IP)**, and is produced for information purposes only and does not constitute an offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or be taken as investment advice.

This document makes reference to a fund or funds (a “Fund” or the “Fund(s)”) authorised and regulated in its/their jurisdiction(s) of incorporation. No action has been taken which would permit the public offering of the shares in any other jurisdiction, except as indicated in the prospectus of the relevant Fund(s), where such action would be required, in particular, in the United States, to US persons (as such term is defined in Regulation S of the United States Securities Act of 1933). Prior to any subscription in a country in which a Fund is registered, investors should verify which compartments and which classes of shares are authorised for public sale there, as well as any legal constraints or restrictions there may be in connection with their subscription, purchase, possession or sale of the shares of the Fund(s).

The information contained in this document is provided without prior knowledge of your circumstances, including your financial position, risk profile and investment objectives, and does not constitute a personal recommendation nor investment advice. Investors are recommended to seek the advice of their usual financial adviser in order to assess the suitability of the Fund(s) as an investment.

Investors considering subscribing for shares should read carefully the most recent prospectus and consult the relevant Fund(s)’ most recent financial reports. Applications may only be made on the terms and conditions contained in the prospectus. The prospectus and the latest semi-annual reports are available from BNPP AM, local correspondents, if any, or from the entities marketing the Fund(s). Investors should consult their own legal and tax advisors prior to investing in the Fund(s).

Given the economic and market risks, there can be no assurance that the Fund(s) will achieve its/their investment objectives. Past performance is not a guide to future performance and the value of the investments in the Fund(s) may go down as well as up. Returns may be affected by, among other things, investment strategies or objectives of the Fund(s) and material market and economic conditions. Performance figures are shown net of management fees, but do not include subscription fees or taxes. Investors may not get back the amount they originally invested.

Opinions included in this document constitute the judgement of BNPP AM at the time specified and may be subject to change without notice, they are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient and are not intended to provide the sole basis of evaluation of any strategy or instrument discussed herein.

For further information, please contact an authorised distributor of the Fund(s). The list of authorised distributors is available from the registered office of the Fund(s) as detailed in the relevant prospectus(es).

* BNPP AM is an investment manager registered with the “Autorité des marchés financiers” in France under number 96-02, a simplified joint stock company with a capital of 62,845,552 euros with its registered office at 1, boulevard Haussmann 75009 Paris, France, RCS Paris 319 378 832. www.bnpparibas-am.com.

** “BNP Paribas Investment Partners” is the global brand name of the BNP Paribas group’s asset management services. The individual asset management entities within BNP Paribas Investment Partners if specified herein, are specified for information only and do not necessarily carry on business in your jurisdiction. For further information, please contact your locally licensed Investment Partner.