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Asian Market Integration & Global Rebalancing

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Biographical information

Ramin Toloui

Mr. Toloui is an executive vice president in the Singapore office and co-head of the global emerging markets portfolio management team. Prior to joining PIMCO in 2006, Mr. Toloui spent seven years in the international division of the U.S. Department of Treasury, most recently as the director of the Office of the Western Hemisphere, managing a team of economists and advising senior U.S. government officials on financial policies in Latin America. He previously served as senior advisor to the Under Secretary for International Affairs during the crises in Brazil, Uruguay and Turkey in 2001-2003. Mr. Toloui has 11 years of finance experience. He holds an undergraduate degree from Harvard University and a master's degree in international relations from Oxford University, where he was a Rhodes Scholar.

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Thesis

More effective intermediation of capital within Asia is essential to sustaining continued strong growth in the region & supporting global rebalancing in an environment of structural impairment in the industrialized world.

Global Rebalancing is Straightforward on Paper...

“The Committee calls for sustained actions to implement the agreed policy strategy to underpin an orderly unwinding of global imbalances. The strategy involves: steps to **boost national saving in the United States**, including fiscal consolidation; further progress on **growth-enhancing reforms in Europe**; further structural reforms, including fiscal consolidation, in Japan; reforms to **boost domestic demand in emerging Asia**, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil producing countries.”

-- *Communique of the International Monetary and Financial Committee, September 17, 2006*

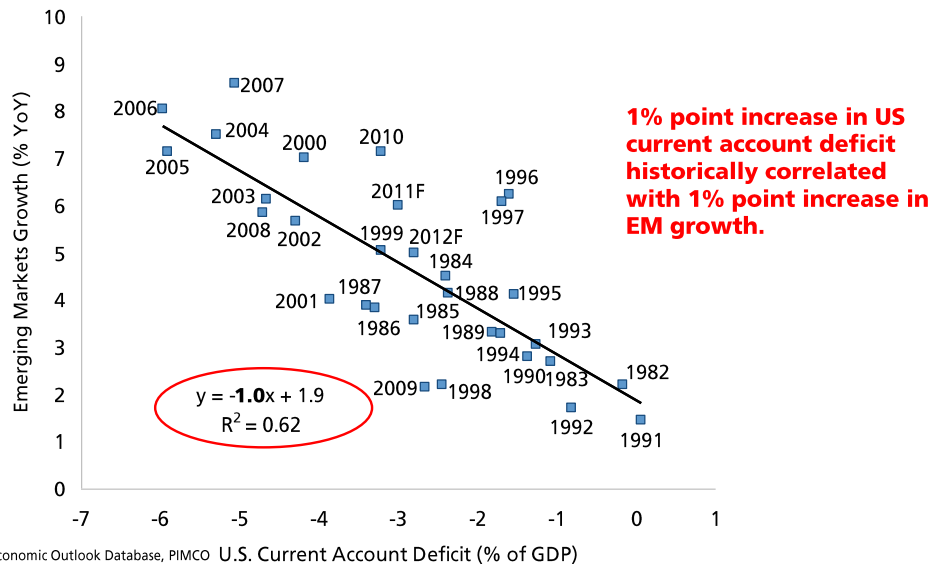
Rebalancing Agenda

- Encourage consumption by **transferring corporate savings** to households & boosting **social safety net**
- Enhance domestic **investment climate**
- Promote **small/medium & service enterprises** targeting domestic demand
- Embrace financial policies & **exchange rate adjustment**

-- *Asian Development Outlook 2009, ADB*

...But Evolving Away from Dependence on the U.S. Requires Profound Structural Changes in Global Economy

EMERGING MARKET GROWTH VS. U.S. CURRENT ACCOUNT DEFICIT

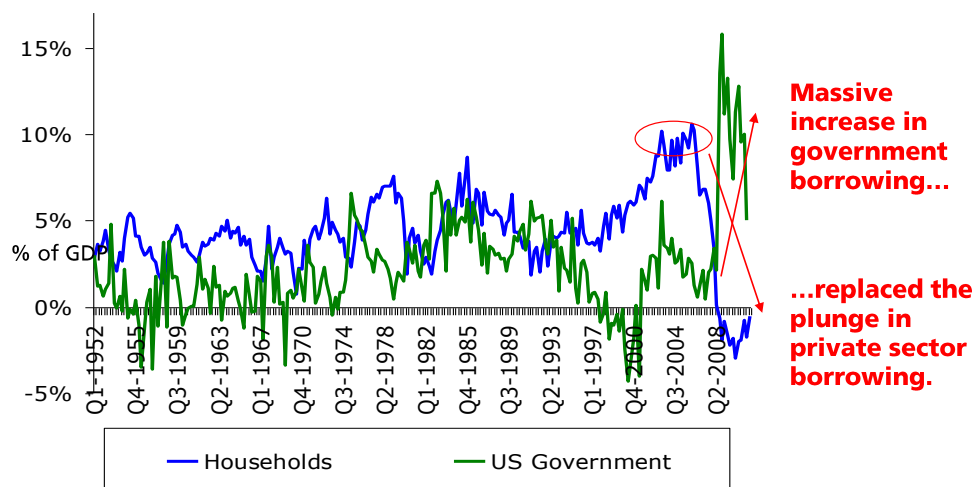


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In U.S., Finance Played an Extraordinary Role Prior to Crisis (Households)...and After Crisis (US Government)

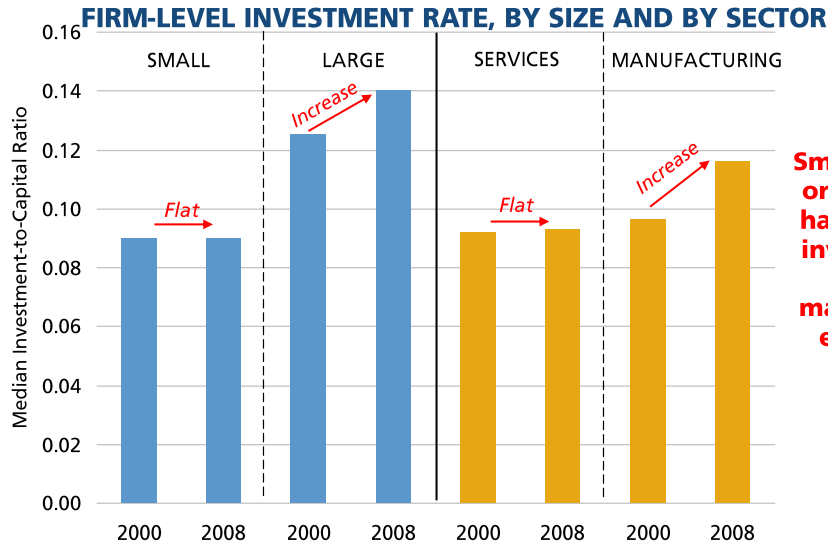
NET BORROWING IN THE UNITED STATES (% OF GDP)



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In Asia, Direct Investment & Expanded Access to Credit Can Catalyze Development of Labor-Intensive, Service Enterprises



Small & service-oriented firms have lagged in investment vs. large & manufacturing enterprises.

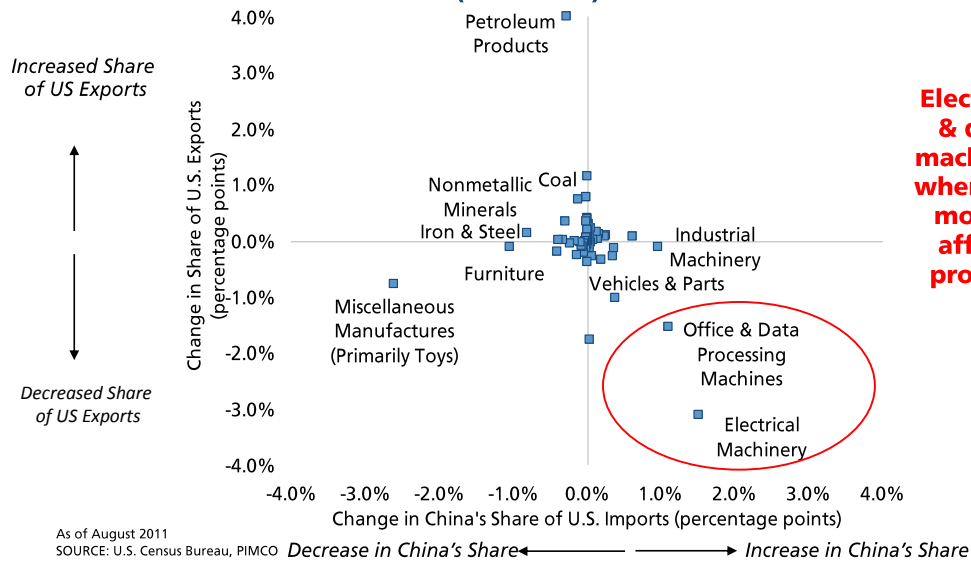
SOURCE: IMF Regional Economic Outlook, October 2010

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In the Globe, Exchange Rate Realignment from Capital Flows Can Shape Deployment of Factors of Production

UNITED STATES & CHINA: CHANGES IN EXPORT/IMPORT SHARES BY SECTOR (2006-2011)



Electrical machinery & data processing machines are sectors where exchange rate movements could affect location of production chains.

As of August 2011

SOURCE: U.S. Census Bureau, PIMCO

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Fundamental Factors in Investor Allocation Decisions Point Toward Movement of Capital to Emerging Markets...

IMF ASSET MANAGER SURVEY:
TOP FIVE FACTORS CONSIDERED IN COUNTRY ALLOCATION

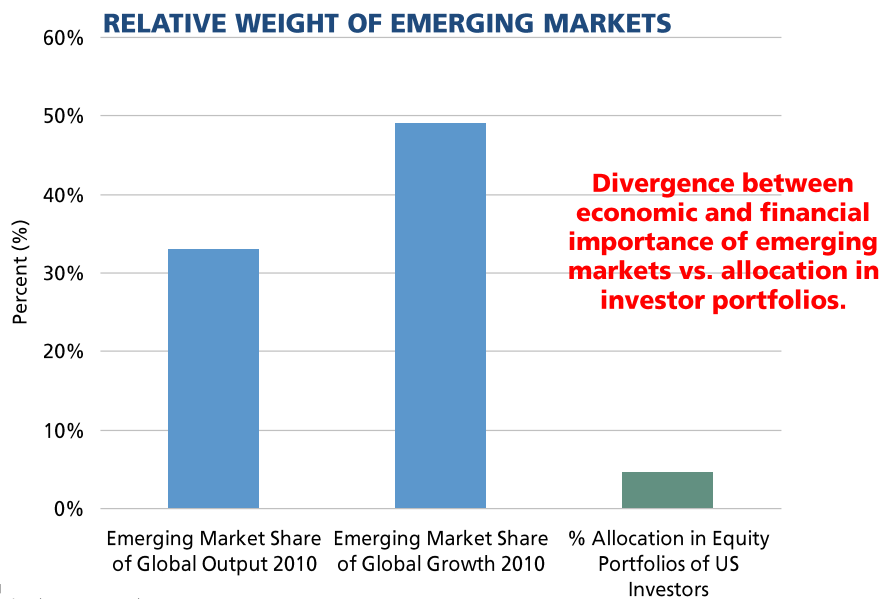
ASSET MANAGERS		
RANK	FACTORS	SCORE
1	Economic growth prospects	190
2	Sovereign debt issues	87
3	Inflation prospects	78
4	Interest rate differentials between countries	73
5	Industry- or sector-specific characteristics	62

As of September 2011
SOURCE: IMF Survey on Global Asset Allocation

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...While Existing Skew in Portfolios Toward Industrialized Country Assets Suggests Massive Reallocation Potential



As of April 2011
SOURCE: International Monetary Fund

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Policy Agenda for Promoting Regional Capital Market Development is Well-Known

- Market access
- Transparency
- Competition policy
- Corporate governance
- Legal institutions / bankruptcy procedures
- Regulatory harmonization

Addressing Basic Mechanical Market Infrastructure Issues Would Enhance Productivity of this Capital Reallocation

Considerations with Direct & Practical Impact on Country Allocation / Investment Decisions

1. Ability to Transact Foreign Exchange with 3rd Parties

Regulations – actual or perceived – that limit FX transactions to a single custodian acts as an inefficient deterrent to new investment while not advancing government policy interests

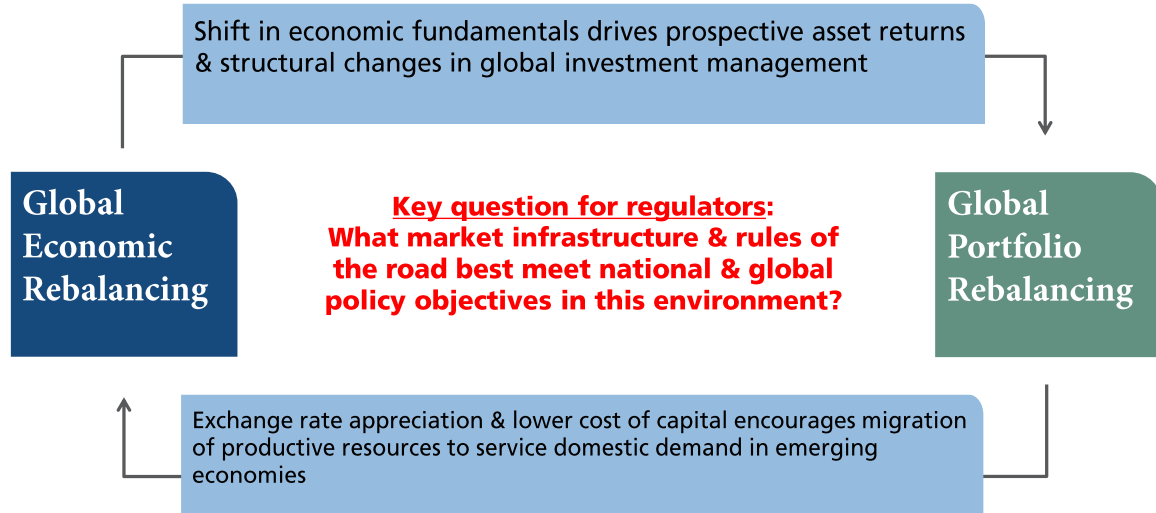
2. Withholding Taxes

Such taxes have a major impact on calculation of expected returns from alternative investments, thus distorting capital allocation in a material fashion

3. Predictability

Investment managers require higher expected returns (higher interest rates, lower equity PEs) to be compensated for policy-induced volatility – ex ante regulatory frameworks for dealing with capital flows are superior to ad hoc approaches

The Global Backdrop for Asian Market Integration



SOURCE: PIMCO
Example for illustrative purposes only.

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Appendix

Past performance is not a guarantee or a reliable indicator of future results.

CHARTS

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

OUTLOOK AND STRATEGY

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

RISK

Each sector of the bond market entails risk. Municipals may realize gains and may incur a tax liability from time to time. The guarantee on Treasuries, TIPS and Government Bonds is to the timely repayment of principal and interest, shares of a portfolio that invest in them are not guaranteed. Mortgage and asset-backed securities are subject to prepayment risk and may be sensitive to changes in prevailing interest rates, when they rise the value generally declines. With corporate bonds there is no assurance that issuers will meet their obligations. An investment in high-yield securities generally involves greater risk to principal than an investment in higher-rated bonds. Investing in non-Euro securities may entail risk as a result of non-Euro economic and political developments, which may be enhanced when investing in emerging markets.

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