

Nomura Partners Funds, Inc.

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Nomura Partners Funds, Inc.
4 Copley Place, 5th floor
CPH-0326
Boston, MA 02116

Thailand – Comments

Thailand is once again in the grip of political unrest. Since 8th April, antigovernment supporters have been protesting to force Prime Minister Abhisit Vejjajiva to step down and restore the former leader, Thaksin Shinawatra. The ASEAN summit held in the seaside town of Pattaya on 11th April was forced to cancel as several hundred demonstrators stormed the venue of the summit.

The Prime Minister had declared a state of emergency last Sunday to quell the demonstrations, but protesters remain in control of several streets in Bangkok. The clash between Thailand's army and the protesters left at least two dead and almost 100 injured, probably one of more violent confrontations to date.

The Thai stock market is closed until this Thursday due to the Songkran Festival. The market is likely to react negatively to this event.

The implications for the real economy are negative. We have already seen the deterioration in exports. Government officials expect the GDP to shrink by as much as 4% this year. This political turmoil will dent foreigner's sentiment toward Thailand further, which is likely to undermine capital inflows from foreigners including Foreign Direct Investments and tourism revenues, key contributors to the domestic economy. The tourism industry has just started to recover from the damages done during the anti-Thaksin protests, which saw the shut down of Bangkok's airports late last year.

While it is difficult to predict the political outcome, it is unlikely that this political turmoil will end soon. The economic stimulus programs to support the domestic economy may come to a standstill.

Our current strategy is to overweight Thailand, with focus on domestic oriented, large cap stocks. The market is trading on 7X PER based on 2009 forecast earnings. Although valuations look attractive, further bad news will have a negative impact on the stock market. Therefore, we are looking to reduce our overweight exposure to Thailand.

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