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3RD ANNUAL

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*Dissecting the Opportunities
and Honing Your Strategy*

VALUE INVESTMENTS IN EMERGING MARKETS
LEARNING FROM TEN MYTHS

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May 2013
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Ten Myths about EM investments

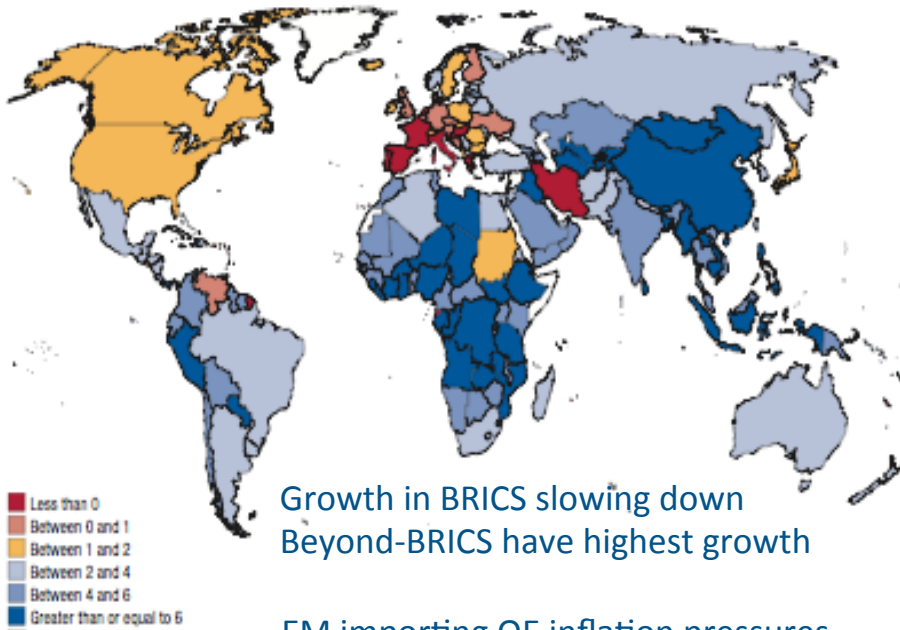
- 1) BRICS are leading EM growth and development
- 2) BRICS represent best-performing EM equity markets
- 3) EM are categorized as niche or alternative markets
- 4) EM imbalances have mostly been resolved
- 5) EM are highly correlated and offer no diversification
- 6) EM value style investment adds substantial alpha
- 7) EM investments can be replicated through multinationals
- 8) EM performance is mostly driven by currency movements
- 9) US managers create substantial alpha in EM investments
- 10) Local managers cannot compete with global managers.

Note: these ten myths are shown to be false despite popular belief

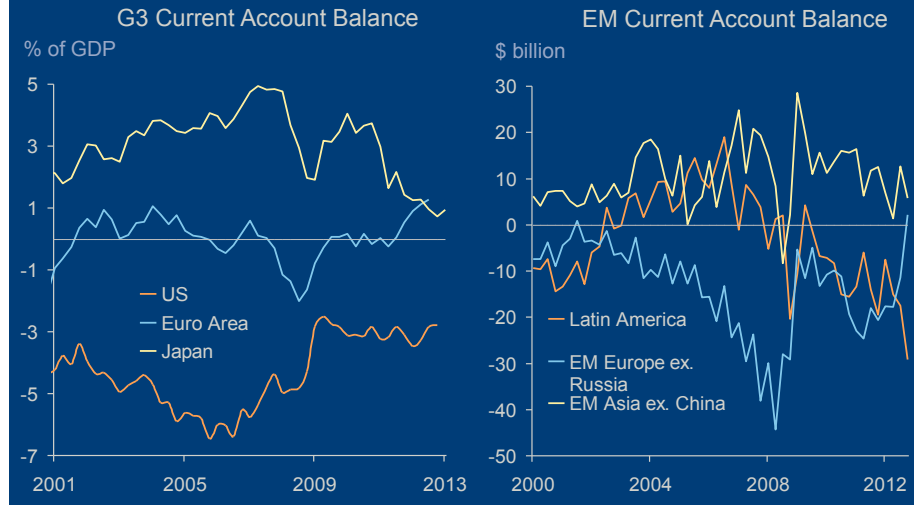


1. BRICS are not leading EM

Sources: IMF World Economic Outlook, IIF Global Economic Monitor, April 2013

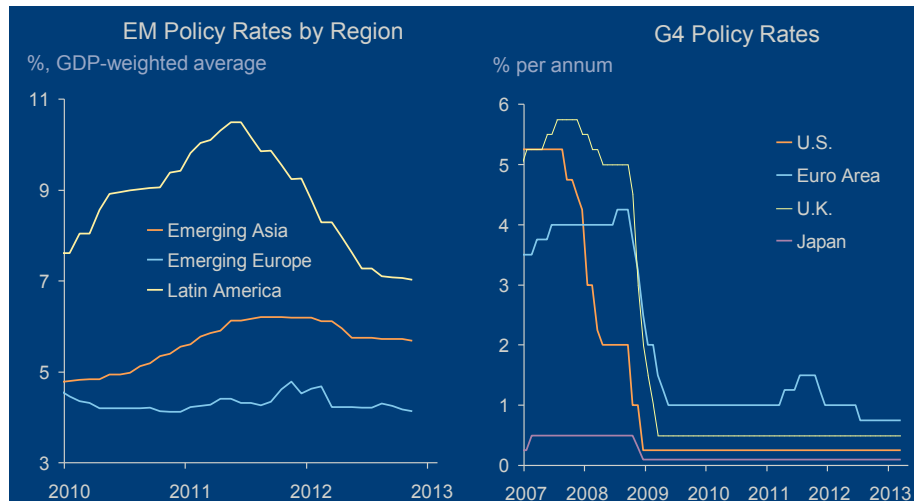
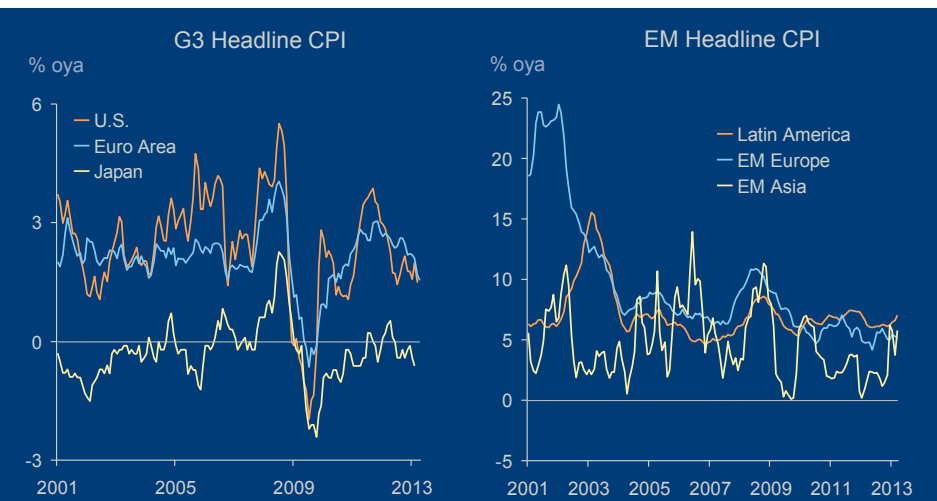


EM importing QE inflation pressures



Currency Strength leads to EM Current Account Deficits

Real interest rates still positive in most EM



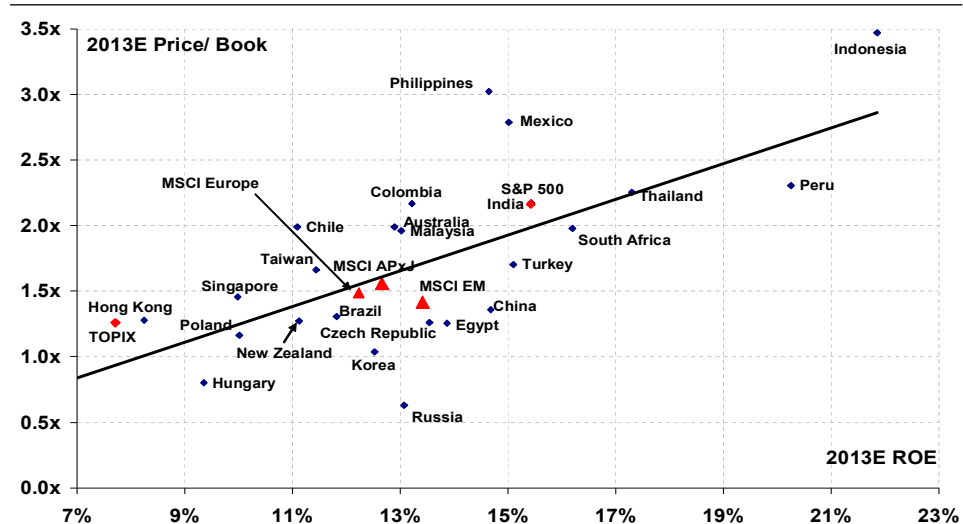


2. BRICS are not best performing EM

MSCI EM NET	3 Yr	5 Yr	10 Yr
CHINA	0.0%	-1.4%	18.8%
INDIA	-3.6%	-3.1%	19.6%
INDONESIA	13.8%	13.9%	29.1%
KOREA	4.1%	0.8%	14.5%
MALAYSIA	12.7%	8.9%	15.9%
PHILIPPINES	29.8%	19.0%	23.3%
TAIWAN	5.1%	-0.4%	8.5%
THAILAND	27.7%	14.1%	22.9%
ARGENTINA	-13.8%	-14.1%	10.0%
BRAZIL	-6.8%	-6.0%	23.1%
CHILE	6.4%	5.6%	19.6%
COLOMBIA	14.3%	16.3%	37.1%
MEXICO	10.9%	4.2%	19.7%
PERU	6.4%	2.0%	25.6%
HUNGARY	-13.2%	-11.8%	8.3%
POLAND	-1.2%	-8.4%	12.4%
RUSSIA	-3.1%	-10.9%	10.6%
TURKEY	7.3%	8.1%	21.9%
EGYPT	-13.8%	-14.4%	26.1%
NIGERIA	14.0%	-8.7%	15.0%
S.AFRICA	4.9%	3.6%	16.5%
EMEA	0.7%	-3.3%	13.8%
EMLATIN	-1.2%	-2.4%	21.2%
EMASIA	3.9%	0.7%	14.9%
EMERGING	2.2%	-0.8%	15.8%
EUROPE	4.8%	-3.1%	8.5%
USA	10.7%	4.3%	7.2%
WORLD	7.8%	1.2%	8.1%

- ❖ EM growth 5.3% vs 1.2% for DM in 2013
- ❖ Laggards are Brazil, Russia, South Africa
- ❖ Leaders are China, Nigeria, Peru, Indonesia
- ❖ Investment strongest in Malaysia & Chile
- ❖ Trade deficits rising in India, Turkey, Egypt
- ❖ Overvaluation in Brazil, Colombia, Turkey
- ❖ Best equity returns in Philippines & Thailand
- ❖ BRIC equity returns all negative over 5 year
- ❖ Cheapest Russia - Most Expensive Indonesia.

Valuations: Country Scatter for 2013 Consensus Price / Book vs. ROE



Sources: IMF, IIF, Morgan Stanley, MSCI indices



3. EM are not niche but mainstream

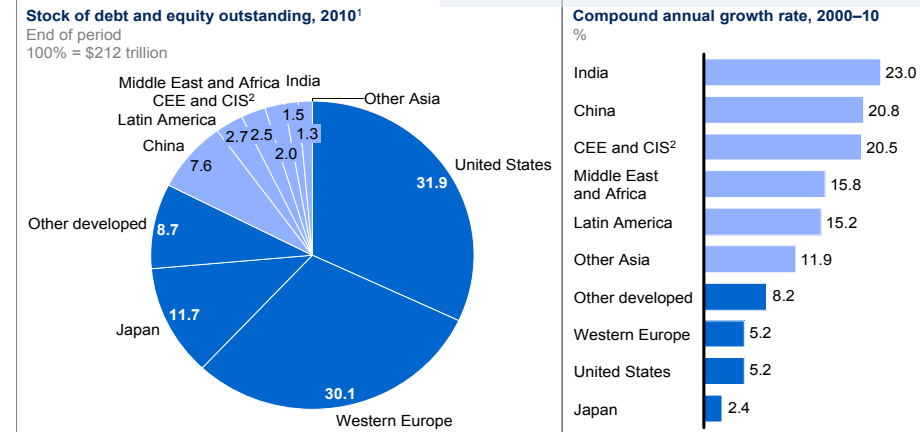
Source: Mapping global capital markets, McKinsey Global Institute, August 2011

Emerging markets account for the smallest share but also the fastest growth in the global financial stock

■ Developed countries
■ Emerging markets

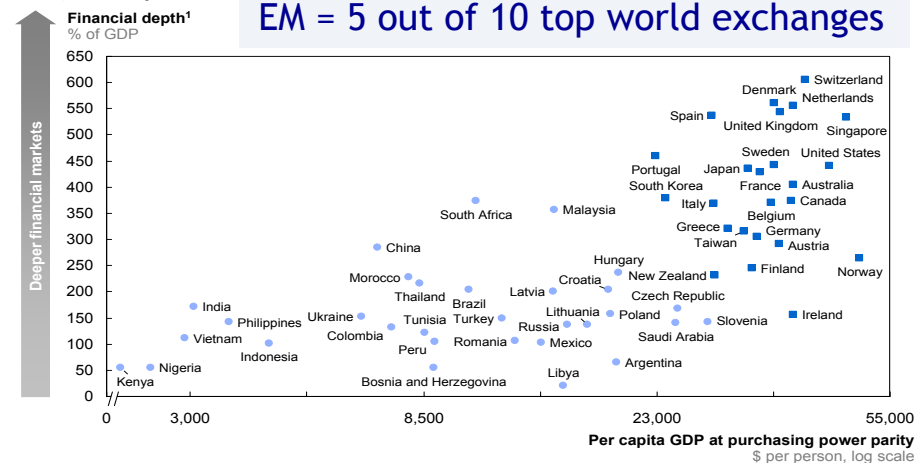
Stock of debt and equity outstanding, 2010¹
% of total, end of period

EM = 18% of capital markets

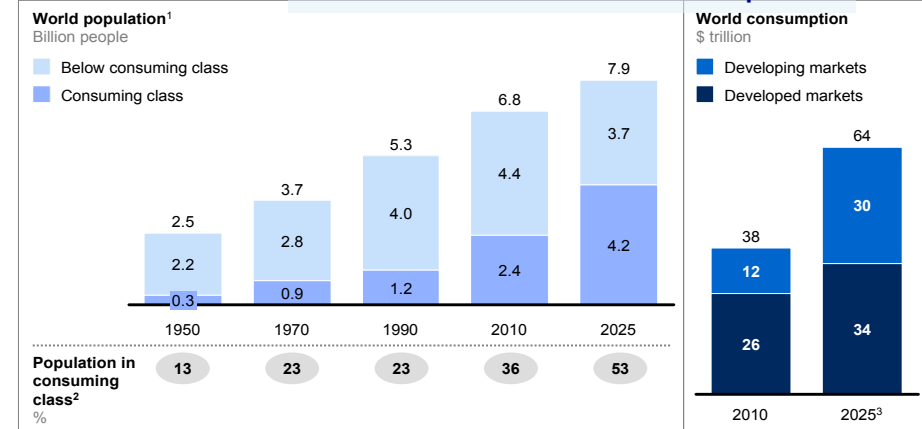


Financial markets in developing countries still have significant room for growth

2010, end of period



Demand shift: By 2025, half of global consumption will be in emerging markets
EM = 50% of world consumption



1 Historical values for 1820 through 1990 estimated by Homi Kharas; 2010 and 2025 estimates by McKinsey Global Institute.
2 Defined as people with daily disposable income above \$10 at PPP.

3 Estimate based on 2010 private consumption share of GDP per country and GDP estimates for 2010 and 2025; assumes private consumption share of GDP remains constant.

NOTE: Numbers may not sum due to rounding.

SOURCE: Homi Kharas (Wolfensohn Center for Development, Brookings Institution); Angus Maddison (founder of Groningen Growth and Development Centre); McKins

2011 (as at June 2011)

Stock exchanges	Market cap of exchange (US\$bn)	No. of IPOs	IPO Value (US\$bn)
NYSE Euronext (US)	13,791	49	24.21
NASDAQ OMX	4,068	37	5.56
London Stock Exchange	3,750*	57	14.98
Tokyo Stock Exchange	3,655	13	0.30
Shanghai Stock Exchange (Shanghai A)	2,804	24	8.8
Hong Kong Stock Exchange	2,712	48	24.0
Toronto Stock Exchange (TSX Group)	2,231	32	1.36
Deutsche Borse (Frankfurt Prime)	1,622	10	1.75
BM&FBOVESPA	1,553	10	4.17
Bombay Stock Exchange	1,506	22	0.78
India – National Stock Exchange	1,471	22	0.78
Australian Securities Exchange	1,444	42	0.51
Korea Exchange	1,200	32	2.54
MICEX	1,023	1	0.78
Singapore Exchange	669	9	7.01

1 Calculated as a country's debt and equity outstanding divided by country's GDP.

SOURCE: Bank for International Settlements; Dealogic; SIFMA; Standard & Poor's; McKinsey Global Banking Pools; McKinsey Global Institute analysis

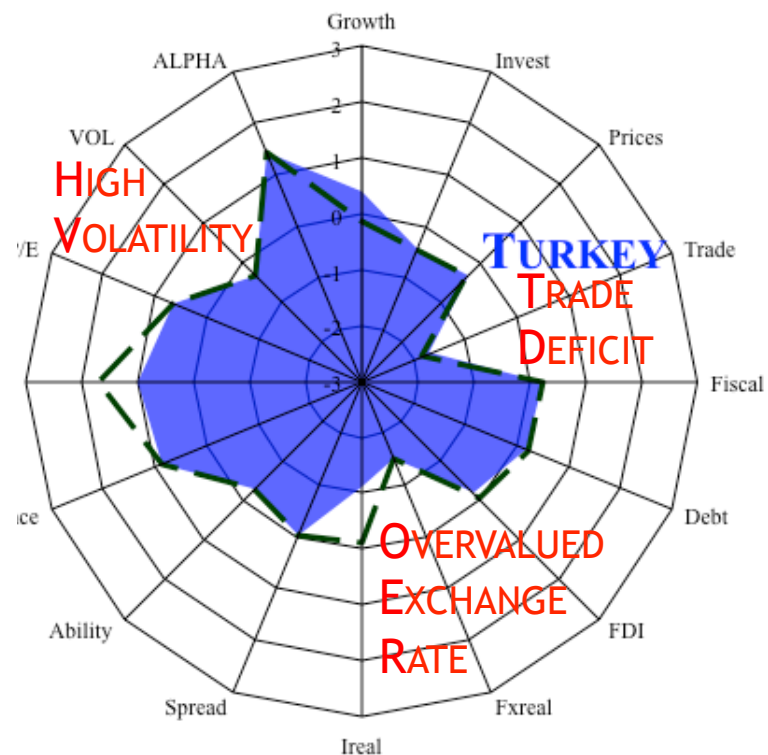
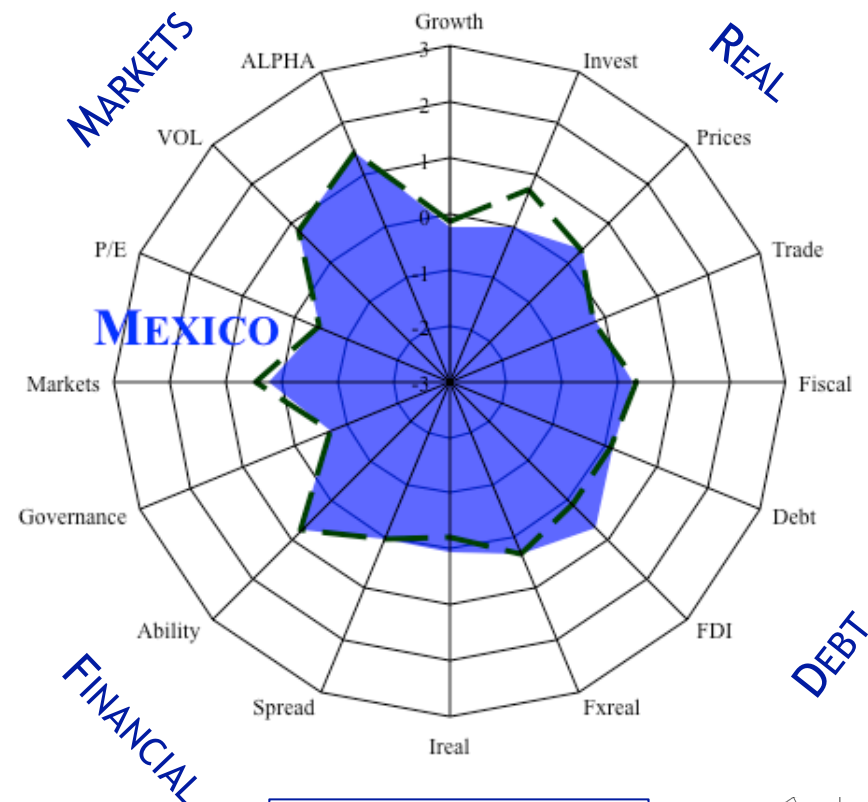


4. EM imbalances are not resolved

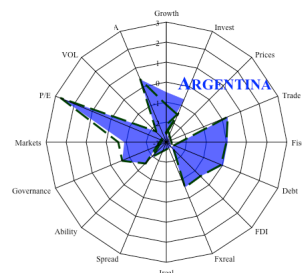
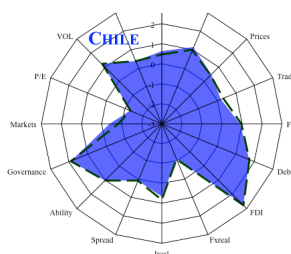
Source: EM Leaders Country Credit Webs © April 2013

Mexico has consistently strong profile

Turkey has evolving weaknesses



0 = EM AVERAGE
[-3 ... +3] = STDEV
LARGE AREA = BEST

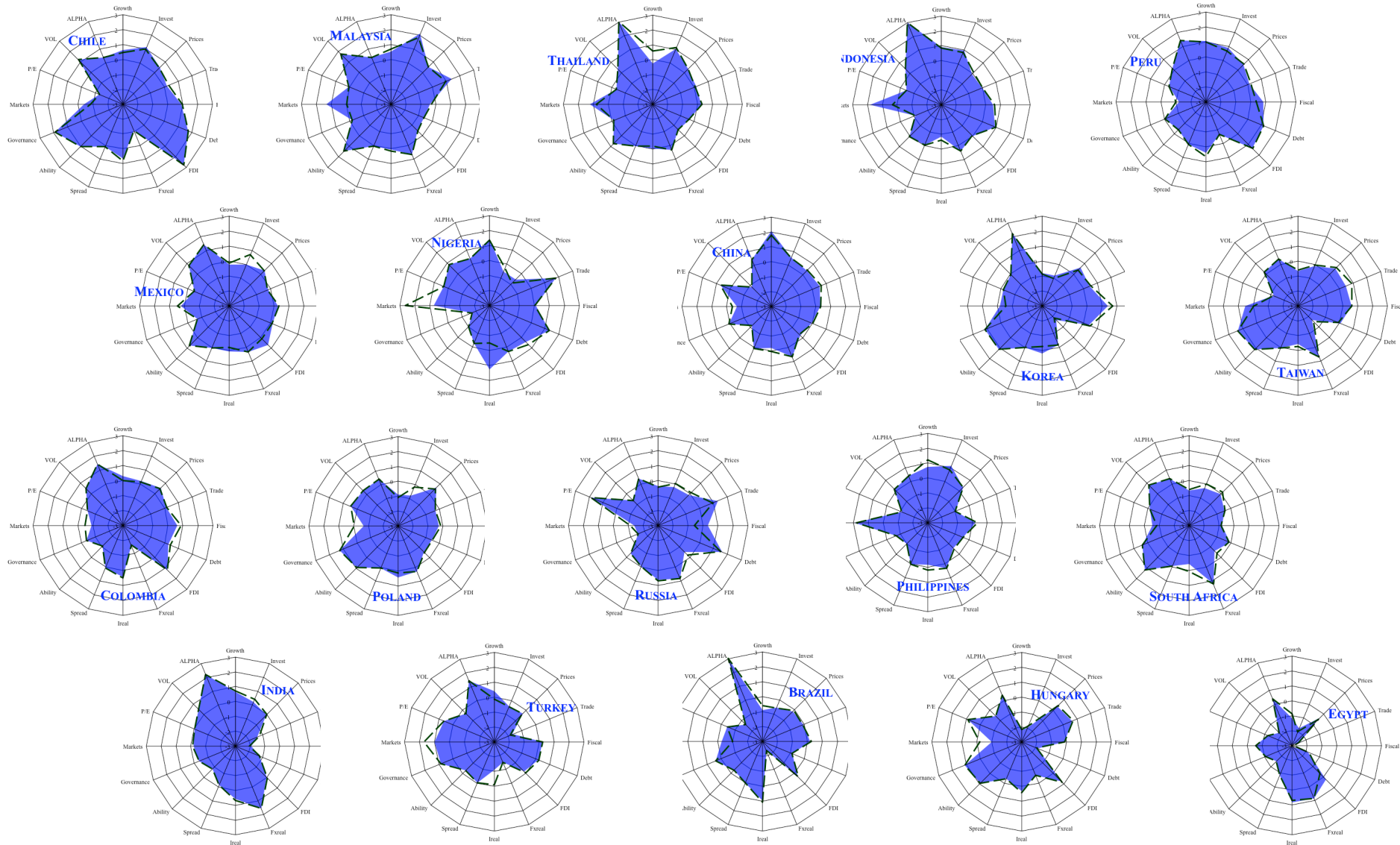


Strong Chile vs.
Weak Argentina



5. EM diversification benefits are large

Source: EM Leaders Country Credit Webs © April 2013





6. EM value style adds little alpha

- ❖ EM ETFs have been flat over 5 years
- ❖ MSCI EM index has been above ETFs
- ❖ Risk Weighted EM style adds 700 alpha
- ❖ Value Investment style adds 50 alpha

- ❖ EM include 25% energy and materials
- ❖ Materials subindex 600 bps below index
- ❖ EM include 16% consumer disc&staples
- ❖ Consumer staples 1400 bps above index

Range	04/04/2008	- 04/26/2013	Period	Weekly	No. of Period	264 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. M4EERWGT Index	USD	46.53%	46.53% **	47.66%	7.84%	
2. EEM US Equity	USD	-9.98%	-1.13%		-0.22%	
3. NUVEEMVN Index	USD	2.62%	2.62% **	3.75%	.51%	

** No dividends or coupons

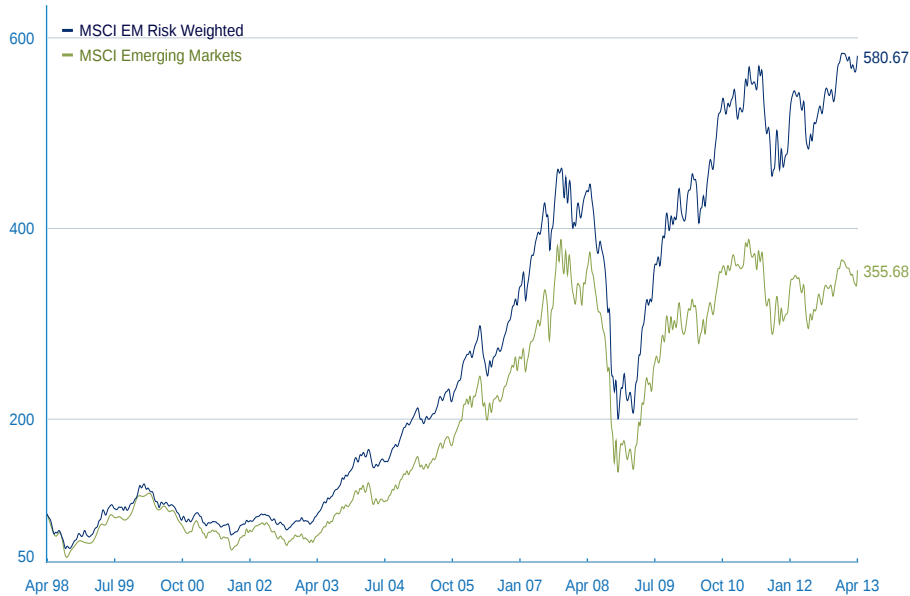


Range	04/04/2008	- 04/26/2013	Period	Weekly	No. of Period	264 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. MXEFOCS Index	USD	73.69%	95.31%	93.58%	14.14%	
2. MXEF Index	USD	-10.73%	1.73%		.34%	
3. MXEFOMT Index	USD	-37.61%	-27.00%	-28.73%	-6.03%	





Risk Weighted beats Value

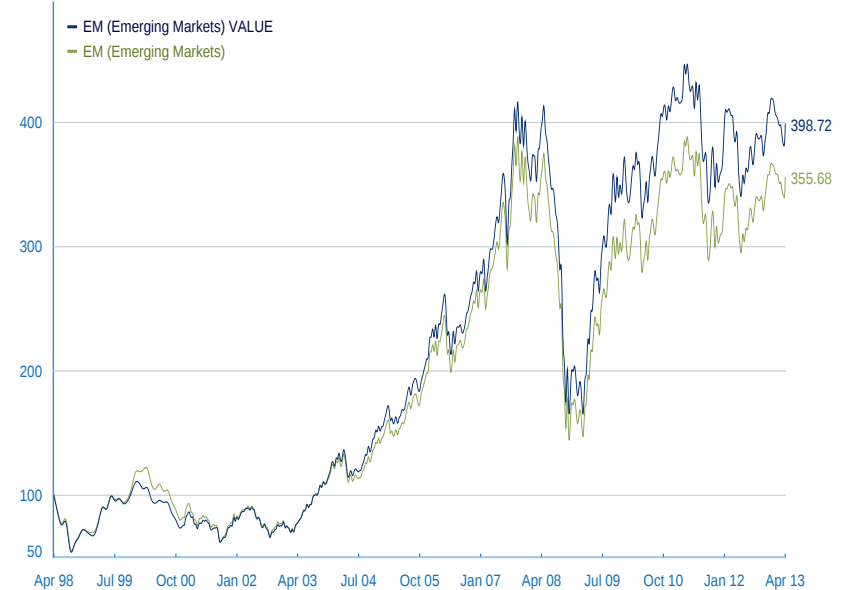


Index Performance — Gross Returns (%) (April 30, 2013)

	1 Mo	3 Mo	1 Yr	YTD	Annualized		
					3 Yr	5 Yr	10 Yr
MSCI EM Risk Weighted	1.57	0.03	8.90	1.10	8.55	5.80	19.24
MSCI Emerging Markets	0.79	-2.15	4.34	-0.79	3.44	-0.02	16.50

Index Risk and Return Characteristics (May 31, 1995 – April 30, 2013)

	Beta	Tracking Error	Turnover (%)	Annualized Std Dev (%)		
				3 Yr	5 Yr	10 Yr
MSCI EM Risk Weighted	0.81	0.07	27.24	18.80	25.43	21.08
MSCI Emerging Markets	1.00	0.00	4.71	21.11	27.98	23.97



Index Performance — Gross Returns (%) (April 30, 2013)

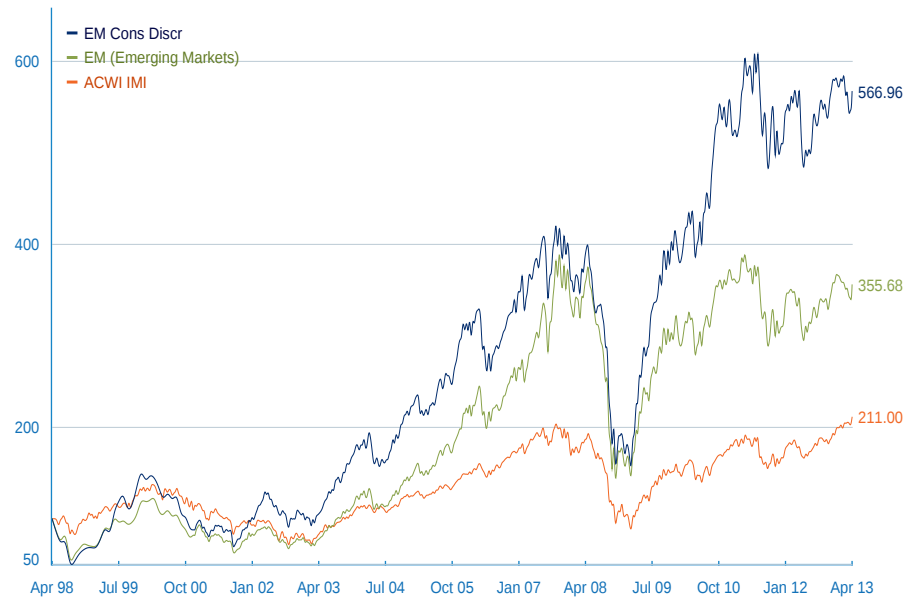
	1 Mo	3 Mo	1 Yr	YTD	Annualized		
					3 Yr	5 Yr	10 Yr
EM (Emerging Markets) VALUE	0.09	-3.89	1.82	-2.24	2.40	0.24	17.79
EM (Emerging Markets)	0.79	-2.15	4.34	-0.79	3.44	-0.02	16.50

Index Risk and Return Characteristics (December 31, 1996 – April 30, 2013)

	Beta	Tracking Error	Turnover (%)	Annualized Std Dev (%)		
				3 Yr	5 Yr	10 Yr
EM (Emerging Markets) VALUE	0.99	0.04	28.57	21.23	28.05	23.98
EM (Emerging Markets)	1.00	0.00	4.71	21.11	27.98	23.97



Consumer beats Materials

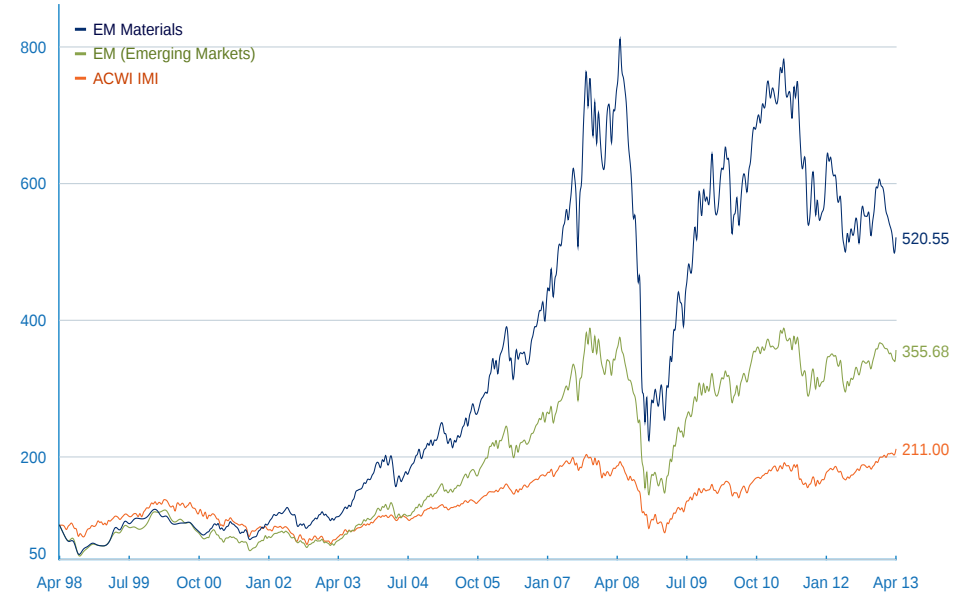


Index Performance — Gross Returns (%) (April 30, 2013)

	1 Mo	3 Mo	1 Yr	YTD	Annualized		
					3 Yr	5 Yr	10 Yr
EM Cons Discr	0.09	-0.55	-0.54	-2.11	8.78	7.87	18.37
EM (Emerging Markets)	0.79	-2.15	4.34	-0.79	3.44	-0.02	16.50
ACWI IMI	2.72	4.96	15.82	9.94	9.43	2.58	9.78

Index Risk and Return Characteristics (December 30, 1994 – April 30, 2013)

	Turnover (%)	Annualized Std Dev (%)		
		3 Yr	5 Yr	10 Yr
EM Cons Discr	6.51	21.86	30.99	25.62
EM (Emerging Markets)	4.71	21.11	27.98	23.97
ACWI IMI	2.56	17.19	21.57	16.84



Index Performance — Gross Returns (%) (April 30, 2013)

	1 Mo	3 Mo	1 Yr	YTD	Annualized		
					3 Yr	5 Yr	10 Yr
EM Materials	-2.76	-11.82	-10.25	-12.38	-6.29	-6.60	16.71
EM (Emerging Markets)	0.79	-2.15	4.34	-0.79	3.44	-0.02	16.50
ACWI IMI	2.72	4.96	15.82	9.94	9.43	2.58	9.78

Index Risk and Return Characteristics (December 30, 1994 – April 30, 2013)

	Turnover (%)	Annualized Std Dev (%)		
		3 Yr	5 Yr	10 Yr
EM Materials	3.08	26.44	34.41	29.66
EM (Emerging Markets)	4.71	21.11	27.98	23.97
ACWI IMI	2.56	17.19	21.57	16.84

Source: MSCI EM indices factsheets



7. Multinationals cannot replicate EM

- ❖ EM ETFs have been flat over 5 years
- ❖ GE and AVP lost 30%+ over that period
- ❖ AVP earns over 50% of revenues in EM
- ❖ GE is showcase multinational firm

- ❖ CAT high-end investments in China
- ❖ CAT volatility in part from EM troubles
- ❖ DE closest alignment but worse in crisis
- ❖ PG outperformed EM with 500 bps

Range	04/04/2008	- 04/26/2013	Period	Weekly	No. of Period	264 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. GE US Equity	USD	-40.87%	-27.92%	-26.79%	-6.26%	
2. EEM US Equity	USD	-9.98%	-1.13%		-.22%	
3. AVP US Equity	USD	-46.15%	-36.38%	-35.26%	-8.55%	



Range	04/04/2008	- 04/26/2013	Period	Weekly	No. of Period	264 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. CAT US Equity	USD	8.80%	25.30%	14.08%	4.56%	
2. DE US Equity	USD	-.29%	11.22%		2.12%	
3. PG US Equity	USD	9.21%	28.31%	17.10%	5.05%	





8. EM assets are not mostly driven by FX

- ❖ Asian currencies with 2% appreciation pa
- ❖ Brazilian Real strong 3% appreciation pa
- ❖ Similarity between BRL and EM index
- ❖ 50% of LAC crisis losses from currencies
- ❖ EM debt earned 10% return over 5 years
- ❖ EM equities remained flat over 5 years
- ❖ EM currencies lost 3% over 5 years
- ❖ EM equity and currency correlation LOW

Range	05/16/2008	- 04/26/2013	Period	Weekly	No. of Period	258 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. BZF US Equity	USD	-23.64%	16.71%	23.12%	3.17%	
2. MXEF Index	USD	-17.57%	-6.41%		-1.33%	
3. CYB US Equity	USD	3.23%	8.99%	15.40%	1.76%	



Range	04/04/2008	- 04/26/2013	Period	Weekly	No. of Period	264 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. JPEIGLBL Index	USD	62.52%	62.52% **	60.79%	10.07%	
2. MXEF Index	USD	-10.73%	1.73%		.34%	
3. FXJPEMCI Index	USD	-13.33%	-13.33% **	-15.06%	-2.79%	

** No dividends or coupons





9. US fund managers add small alpha

- ❖ EM ETFs have been flat over 5 years
- ❖ Median US manager lost 120 bps alpha
- ❖ GMOEX underperformed index 150 bps
- ❖ Very high correlations & high volatility

- ❖ EM include 25% energy and materials
- ❖ 3rd largest EM manager added 50 bps
- ❖ 2nd largest EM manager added 150 bps
- ❖ ODMAX largest manager added 480 bps

Range	04/04/2008	- 04/26/2013	Period	Weekly	No. of Period	264 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. GMOEX US Equity	USD	-44.22%	-8.29%	-7.17%	-1.70%	
2. EEM US Equity	USD	-9.98%	-1.13%		-0.22%	
3. BBOEEEUS Index	USD	-18.60%	-7.00%	-5.87%	-1.42%	

* Bloomberg Active Indices for Funds (BAIF)



Range	04/04/2008	- 04/26/2013	Period	Weekly	No. of Period	264 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1. ODMAX US Equity	USD	-22.23%	25.66%	18.57%	4.62%	
2. NEWFX US Equity	USD	-.34%	7.09%		1.36%	
3. DFEVX US Equity	USD	-28.93%	1.65%	-5.43%	.32%	





10. Local fund managers overperform

- ❖ Five-best US-managers add 650 alpha
- ❖ 20-best EM-local managers add 900 bps
- ❖ Local manager volatility 2% below index
- ❖ Two-largest EM-ETFs (US) remain flat
- ❖ 20-upper-quartile EM local managers added 1,300 bps alpha over 5 years

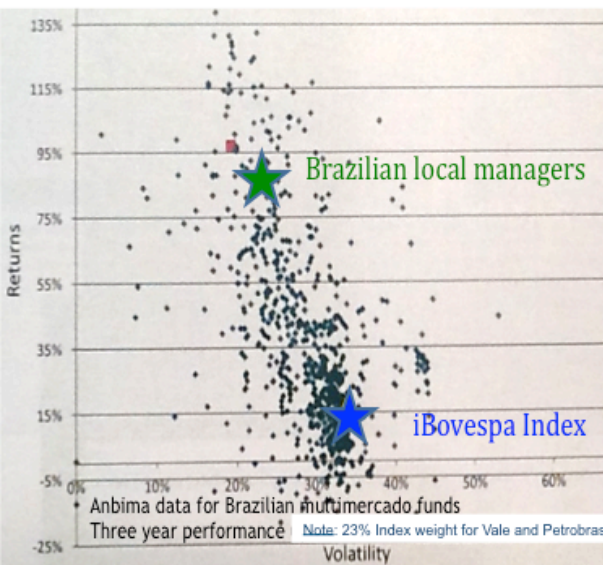




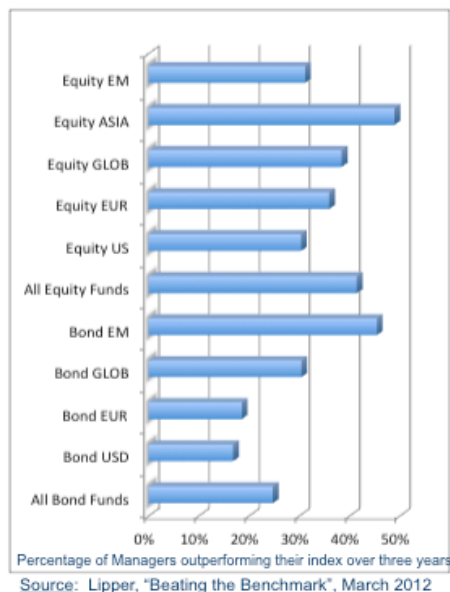
São Paulo beats New York

Sources: Andima, Lipper, FT 2012

**70% of Brazilian managers
Outperform i-Bovespa Index**



**30% of Global EM managers
Outperform Equity Indices**



- ❖ 300 bps advantage of median local manager over US median
- ❖ 600 bps advantage of top-quartile local managers over US top-tier
- ❖ 900 bps alpha for set of leading EM local managers over index
- ❖ Volatility staying below index and liquidity remaining good
- ❖ Diversification with 20 local EM managers and annual rebalancing

FIGURE 3 AVERAGE PROPORTION OF FUNDS' ROLLING RETURNS OUTPERFORMING BENCHMARKS, 31/12/1991 TO 31/12/2011

	1 YEAR PERIODS	3 YEAR PERIODS	10 YEAR PERIODS
ALL EQUITY FUNDS	42.8%	41.4%	39.7%
ALL BOND FUNDS	31.6%	24.7%	17.4%
EQUITY ASIA PAC EX-JAPAN	48.4%	48.9%	54.4%
EQUITY EMG MKTS GLOBAL	38.5%	31.1%	24.6%
EQUITY EUROPE	37.7%	35.9%	27.0%
EQUITY GLOBAL	42.2%	38.4%	32.5%
EQUITY NORTH AMERICA	36.2%	30.3%	20.8%
EQUITY UK	46.4%	47.6%	47.4%
BOND EMG MKTS GLOBAL	45.8%	45.4%	--
BOND EUR	25.8%	18.5%	6.3%
BOND GLOBAL	34.4%	30.4%	23.1%
BOND USD	25.9%	16.8%	6.4%

Note: past performance is illustrative only and cannot guarantee future results
Source: set of 3000 BAIF open-end equity growth funds, April 2013

FINANCIAL TIMES

End to 'alpha' spells trouble
for fund managers

10 September 2012

By Dan McCrum in New York

It is no secret that investors of all stripes have struggled to beat the market since the financial crisis. The majority of hedge funds, for instance, have trailed both global stocks and bonds since the start of 2010, meaning that they have not added value to the simplest of portfolios.

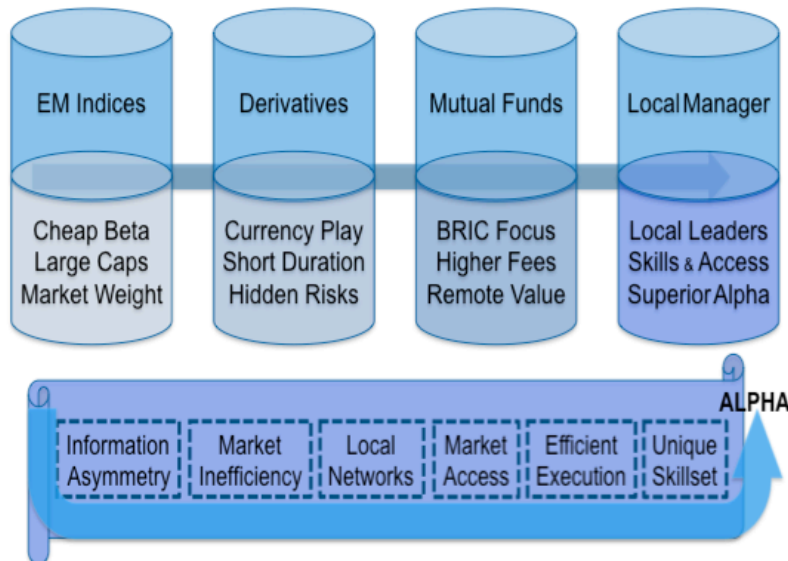
Mutual funds are not performing as badly as last year, when just 27 per cent offered better returns than the benchmark they choose to track, according to research group Lipper. But, again, the majority still trail in 2012.



EM Leaders

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Local managers produce alpha from specific local advantages



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