The Emerging Markets
The Evolving View From a Developed Perspective

CFA Society Pittsburgh
May 22, 2014

John Parsons
Partner & Manager, Institutional Marketing
MSCI Classification of Global Equity Markets

Source: Wilshire Atlas
Population | GDP | Equity Market Cap
--- | --- | ---
Frontier & Beyond | Emerging Markets | Developed International Markets | US
5% | 25% | 45%
9% | 45% | 23%
58% | 23% | 46%
28% | 7% | 9%

Emerging Markets Performance 2000 – 2013

Index Performance (cumulative)

Source: MSCI Barra, S&P (Data as of December 31, 2013)
EM Sovereign Bond Spread

Source: Bloomberg, data as of December 31, 2010
Please read the disclosures on the last page, which are an integral part of this presentation.
Equity Markets Performance May 2012 – March 2014

Source: MSCI Barra, S&P (Data as of March 31, 2014)
Fed Taper

Sensitivity of asset prices to Fed balance sheet expansion (average elasticity to QE1, QE2 and QE3)

China Taper

Chinese Fixed Asset Investment Year-Over-Year Growth

Source: Bloomberg, data as of July 31, 2014
Emerging Markets Valuation Discount at a 10-Year High vs DM


© BCA Research 2014
Emerging vs. Frontier Markets

Indices Since Inception (relative to 100)

Source: MSCI Barra, Wilshire Atlas (Data as of June 30, 2013)
Please read the disclosures on the last page, which are an integral part of this presentation.

**Frontier Versus Emerging Markets**

**Market Capitalization, 1988**
- Developed: 99%
- Emerging: 1%

**Market Capitalization, 2014**
- Developed: 90.1%
- Emerging: 9.5%
- Frontier: 0.4%

EXHIBIT 5: POPULATION DISTRIBUTION ACROSS DEVELOPED, EMERGING & FRONTIER COUNTRIES

* Source: United Nations, Department of Economic and Social Affairs, Population Division (2013).

Source: BlackRock, Crossing the Frontier: Accessing New Sources of Growth and Diversification with Frontier Markets, p. 8, 2/21/14.
Population Distribution

Source: U.S. Census Bureau, International Data Base (IDB). Data as of December 2010
Population Distribution

Source: U.S. Census Bureau, International Data Base (IDB). Data as of December 2010
GDP Growth Rates

Last 10 Years of Growth

Top Ten Countries by GDP Growth 2003-2012

- Macao
- Azerbaijan
- Qatar
- China
- Angola
- Turkmenistan
- Ethiopia
- Mongolia
- Bhutan
- Panama

Expected Annual GDP Growth 2011 - 2050

- Frontier Countries
- Emerging Countries

Source: World Bank, Citigroup: https://ir.citi.com/SBETdAQAynlg1TAJ39qgHy0vrBj%2BYF%2FYjPXm0ih7QZcKnimhExiD5A%3D%3D
EM Market Capitalization

Emerging Markets Countries by Market Cap
June 30, 2013

China
South Korea
Brazil
Taiwan
South Africa
India
Russia
Mexico
Malaysia
Indonesia
Thailand
Turkey
Chile
Poland
Colombia
Philippines
Peru
Egypt
Czech Republic
Hungary
Morocco

Source: MSCI Barra, data as of June 30, 2013.
## Economic Management: Debt

### General Government Gross Debt as a % of GDP (2011)

<table>
<thead>
<tr>
<th></th>
<th>Emerging Markets</th>
<th>Europe</th>
<th>Other Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“Good”</td>
<td>“Bad”</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>35</td>
<td>60</td>
<td>117</td>
</tr>
<tr>
<td>China</td>
<td>19</td>
<td>70</td>
<td>102</td>
</tr>
<tr>
<td>India</td>
<td>72</td>
<td>82</td>
<td>87</td>
</tr>
<tr>
<td>Indonesia</td>
<td>26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>35</td>
<td>60</td>
<td>117</td>
</tr>
<tr>
<td>China</td>
<td>19</td>
<td>70</td>
<td>102</td>
</tr>
<tr>
<td>India</td>
<td>72</td>
<td>82</td>
<td>87</td>
</tr>
<tr>
<td>Indonesia</td>
<td>26</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, World Economic Outlook Database, October 2010

Please read the disclosures on the last page, which are an integral part of this presentation.
Stock Market Penetration

Market Capitalization to GDP by Country

Risks - Corruption

“Any time you go into Emerging Markets, you are trading the rule of law for growth.” – Sam Zell

Source: [http://www.nigerianmuse.com](http://www.nigerianmuse.com); Corruption Perceptions Index 2011 Released
No Clear Correlation Between Long-Term GDP Growth and Equity Returns

Source: BCA Research, The Bank Credit Analyst, November 2012
Quality & Growth Characteristics EM vs. Developed Companies

Revenue Perspective of the MSCI ACW Index

MSCI ACW Index as of December 31, 2012

- Developed Europe
- Emerging Markets
- Asia/Pacific
- Canada
- United States

Portfolio Weights versus Estimated Sources of Revenues by Geography
December 2012

North America
- Index Weight by Domicile (%): 52
- Portfolio Weight by Domicile (%): 57
- Portfolio Weight by Revenue (%): 40

Europe & Middle East
- Index Weight by Domicile (%): 23
- Portfolio Weight by Domicile (%): 22
- Portfolio Weight by Revenue (%): 23

Asia Pacific
- Index Weight by Domicile (%): 13
- Portfolio Weight by Domicile (%): 11
- Portfolio Weight by Revenue (%): 12

Emerging Markets
- Index Weight by Domicile (%): 13
- Portfolio Weight by Domicile (%): 10
- Portfolio Weight by Revenue (%): 25

Revenues are calculated based on Harding Loevner’s estimates of percentage geographic revenues for companies held in the portfolio for the latest fiscal year. Portfolio weights are calculated based on MSCI classification of stocks by country/region at June 2013. Since revenues/region for the MSCI All Country World Index are not available, this analysis does not include a comparison of Portfolio vs Index revenues/region.
Emerging & Frontier Markets Correlations

Figure 51. 40w correlation with MSCI World Index, since 1988

Rolling 40-week correlations of weekly USD returns. Source: Datastream

Source: Citigroup: https://ir.citi.com/SBETdAQAynlg1TAJ39qqHy0vrBj%2BYF%2FYjPXm0ih7QZcKnimhExiD5A%3D%3D
Risk – Developed Markets, EM & Frontier

Contributions to Total Projected Risk

Source: Wilshire Atlas (Data as of March 31, 2014)
Expected Returns

GMO 7-Year Asset Class Real Return Forecasts*

As of March 31, 2014

Source: GMO

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. US inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.
Some Considerations for Emerging Markets Allocations

Default assumption: MSCI ACW Index Weight 10.5% of Equities

+ Growth
  + GDP Growth/Demographics
  + Stock market penetration
  - EM Revenues of Multinationals

- Risks
  +/- country economic management (reserves, currencies, inflation)
  - Political risk
  - Volatility

+ Expected Long-Term Returns
  + Valuations (current)
  + Opportunity for Alpha

0/+ Portfolio Construction
  0 EM high correlations
  + Frontier low correlations

Client risk tolerance & timeframe
Disclosures

Investing in stocks entails the risks of market volatility. The value of all types of stocks may increase or decrease over varying time periods. To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Index consists of 21 emerging market countries. The MSCI Frontier Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance of frontier markets. The Index consists of 26 frontier markets countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The Index consists of 21 developed market countries. The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 44 developed and emerging market countries. The S&P 500 Index is an unmanaged index commonly used to measure performance of US stocks. You cannot invest directly in these Indices.

Harding Loevner Global Equity Model Strategy Sources of Revenues are shown as supplemental information only and complement the fully compliant Global Equity Composite GIPS Presentation, which is available on request.

MSCI Barra and S&P do not make any express or implied warranties or representations and shall have no liability whatsoever with respect to any GICS data contained herein.