

Volatility































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What has globalization achieved?

Over the past 20 years, EM has changed substantially due to globalization and development within the Emerging Markets.

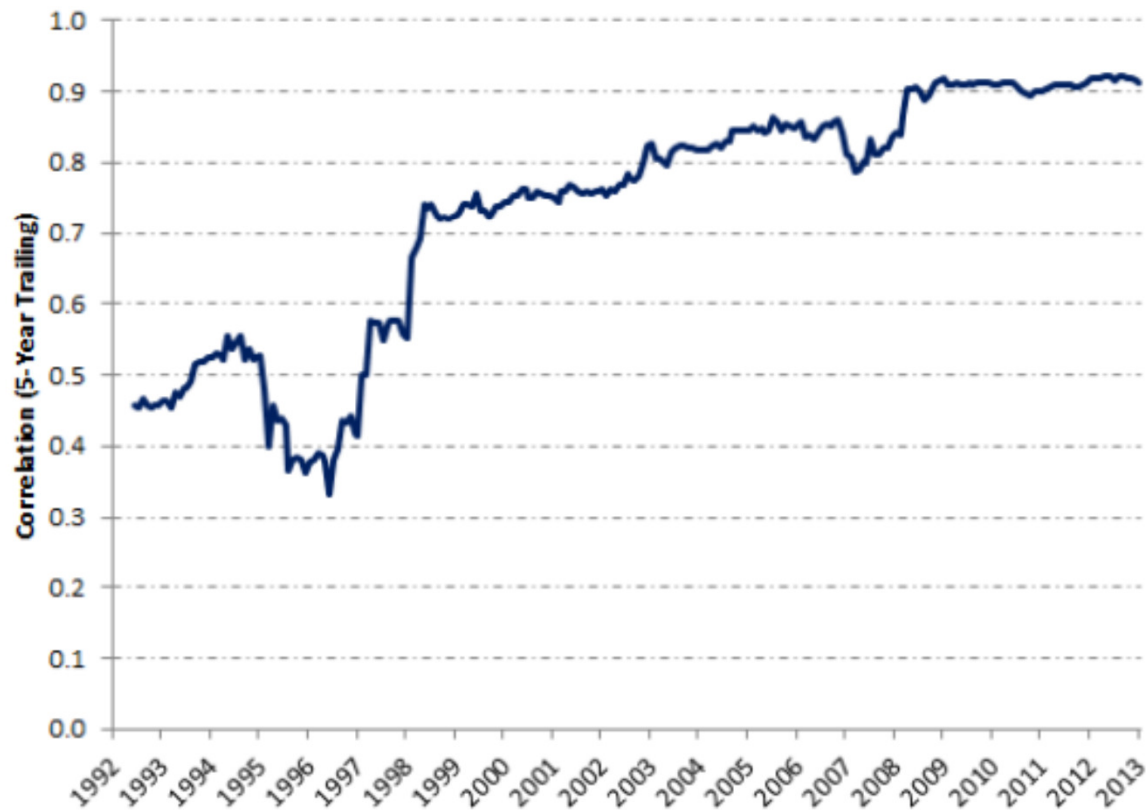
Country shares of global GDP, 1820 - 2030

RANKING	1820	1870	1950	1990	2013	2030
1	 China 33%	 China 17.1%	 US 27.3%	 US 21.4%	 US 23.9%	 China 27.9%
2	 India 16.1%	 India 12%	 Russia 7.5%	 Japan 8.6%	 China 20.1%	 US 17.8%
3	 Russia 5.4%	 UK 9%	 UK 6.5%	 China 7.8%	 India 7.6%	 India 11.1%
4	 UK 5.2%	 US 8.9%	 Germany 5%	 Russia 7.3%	 Japan 6.9%	 Japan 4.2%
5	 France 5.1%	 Russia 7.5%	 China 4.6%	 Germany 4.7%	 Germany 5%	 Brazil 3.6%

Sources: University of Groningen and OECD

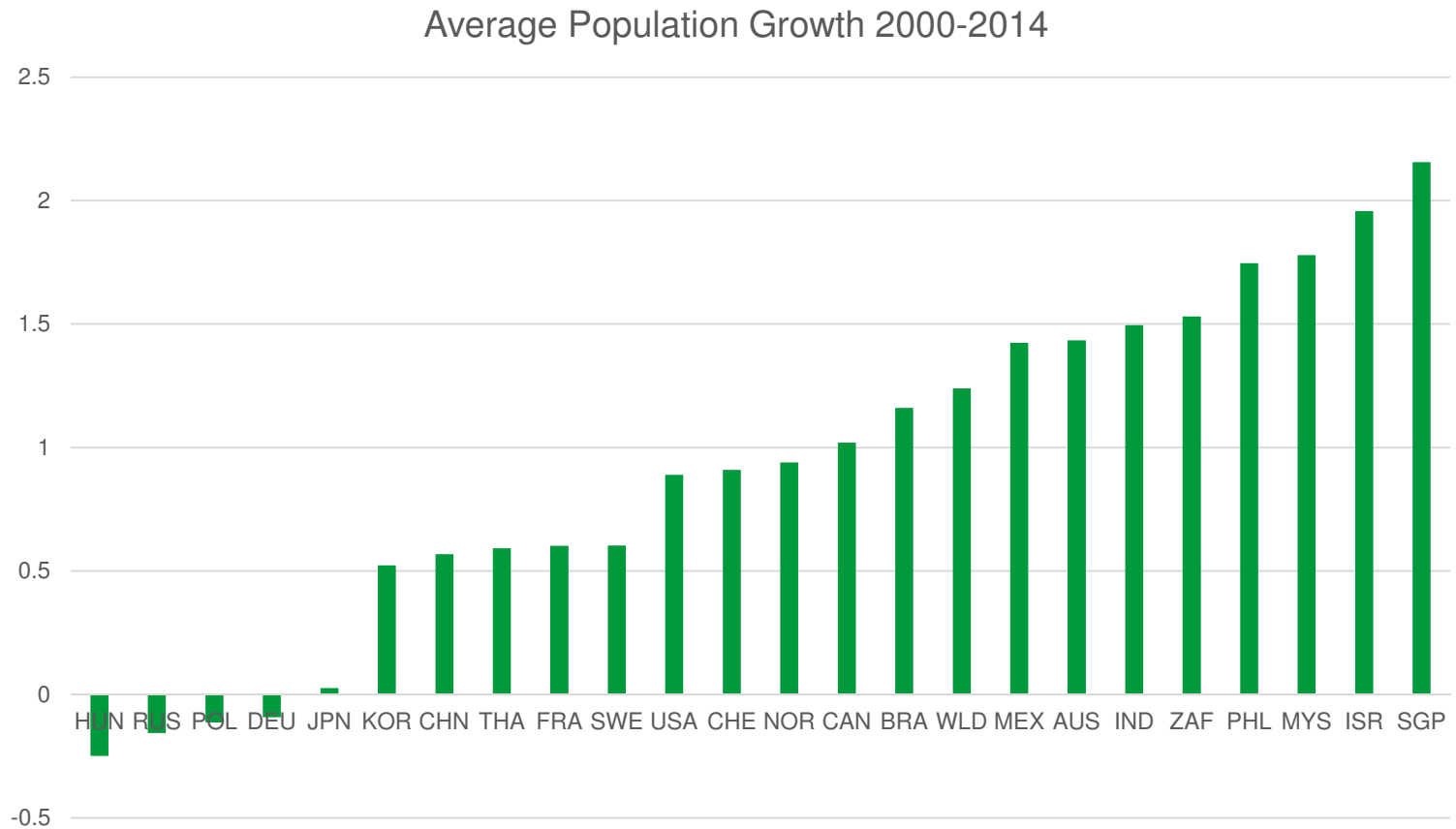
What has globalization achieved? Convergence

Exhibit 12: Emerging Markets Have Become More Correlated with Developed Markets



Source: MSCI

Does EM = Growth? Average Population Growth 2000-2014



Source World Development Indicators

Current EM Definition

- There is no single definition of Emerging Markets. However, we do have some commonly accepted definitions such as MSCI EM (\$1.4T benchmarked)
- According to MSCI EM, a country must meet the requirements of each of the below 3 criteria as described in table below:

Criteria	Frontier	Emerging	Developed
A Economic Development			
A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
B Size and Liquidity Requirements			
B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap) ** Security size (float market cap) ** Security liquidity	2 USD 516 mm USD 37 mm 2.5% ATVR	3 USD 1032 mm USD 516 mm 15% ATVR	5 USD 2065 mm USD 1032 mm 20% ATVR
C Market Accessibility Criteria			
C.1 Openness to foreign ownership	At least some	Significant	Very high
C.2 Ease of capital inflows / outflows	At least partial	Significant	Very high
C.3 Efficiency of the operational framework	Modest	Good and tested	Very high
C.4 Stability of the institutional framework	Modest	Modest	Very high

* High income threshold for 2011: GNI per capita of USD 12,475 (World Bank, Atlas method)

** Minimum in use for the May 2013 Semi-Annual Index Review, updated on a semi-annual basis

What is MSCI EM?

What does MSCI give you? A mixed bag

- Truly emerging (China, India, Brazil)
- Economically developed but financially emerging (Korea and Taiwan)
- Demerging (Greece)

Should we care about things like accessibility?

Why let country of domicile drive what you invest in?

What about actual revenue and business exposure to EM?

What is MSCI EM?

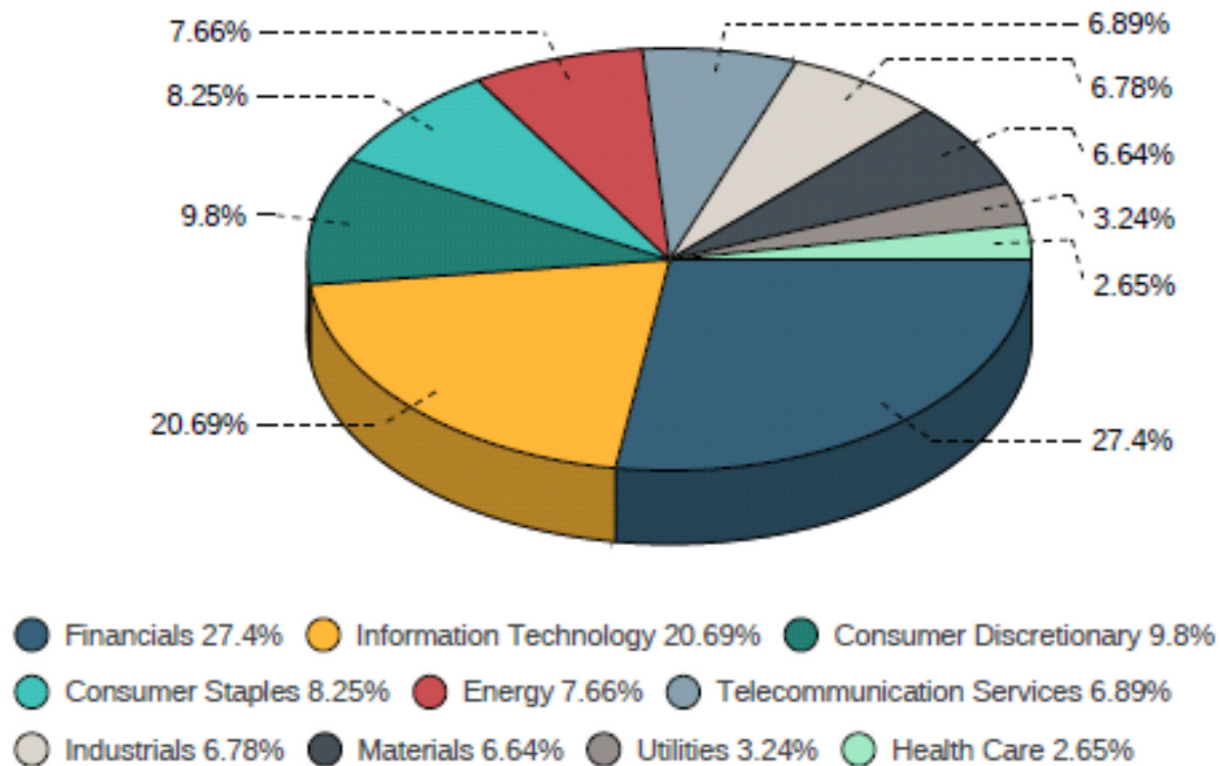
TOP 10 CONSTITUENTS

	Country	Mkt Cap (USD Billions)	Index Wt. (%)	Sector	Sector Wt. (%)
SAMSUNG ELECTRONICS CO	KR	126.74	3.49	Info Tech	16.9
TAIWAN SEMICONDUCTOR MFG	TW	124.00	3.41	Info Tech	16.5
TENCENT HOLDINGS LI (CN)	CN	105.60	2.91	Info Tech	14.0
CHINA MOBILE	CN	68.46	1.88	Telecom Srvcs	27.3
NASPERS N	ZA	55.86	1.54	Cons Discr	15.7
CHINA CONSTRUCTION BK H	CN	53.70	1.48	Financials	5.4
ICBC H	CN	41.28	1.14	Financials	4.1
ALIBABA GROUP HLDG ADR	CN	39.13	1.08	Info Tech	5.2
HON HAI PRECISION IND CO	TW	37.93	1.04	Info Tech	5.0
INFOSYS	IN	33.81	0.93	Info Tech	4.5
Total		686.50	18.89		

► Source MSCI March 31 2016

What is MSCI EM?

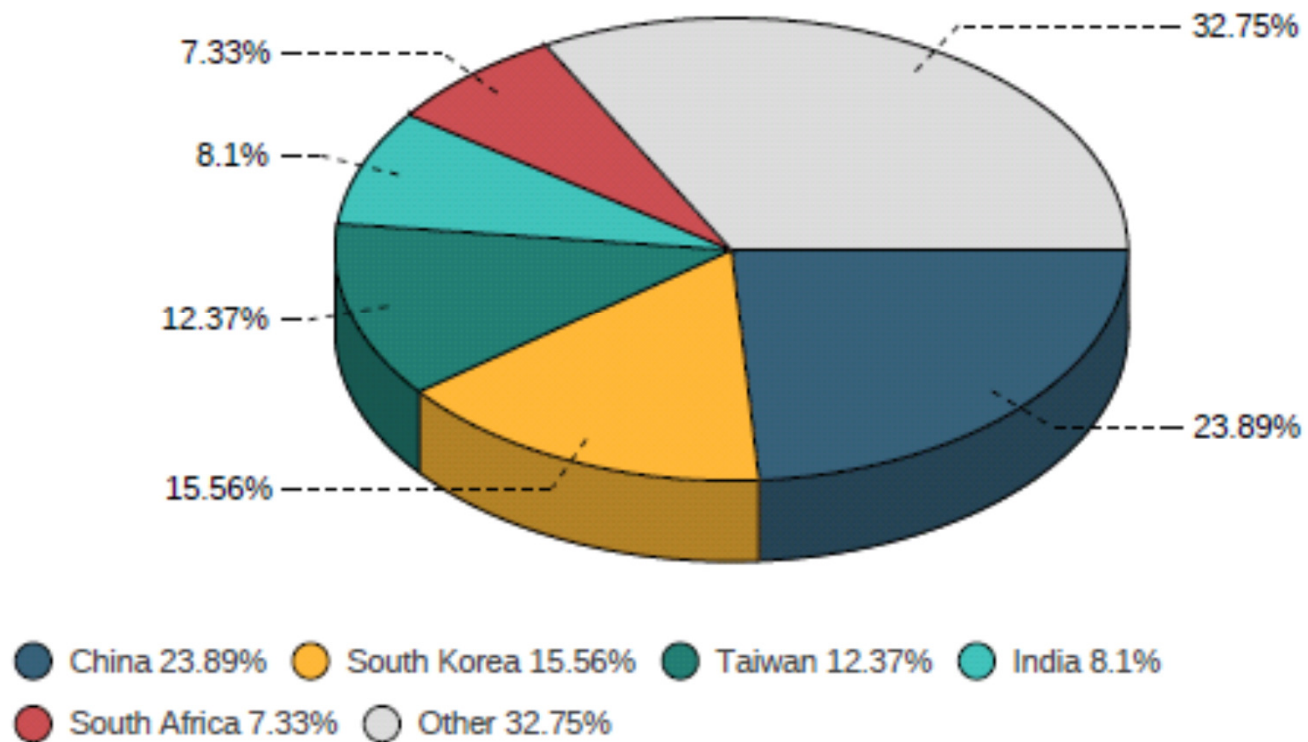
SECTOR WEIGHTS



► Source MSCI March 31 2016

What is MSCI EM?

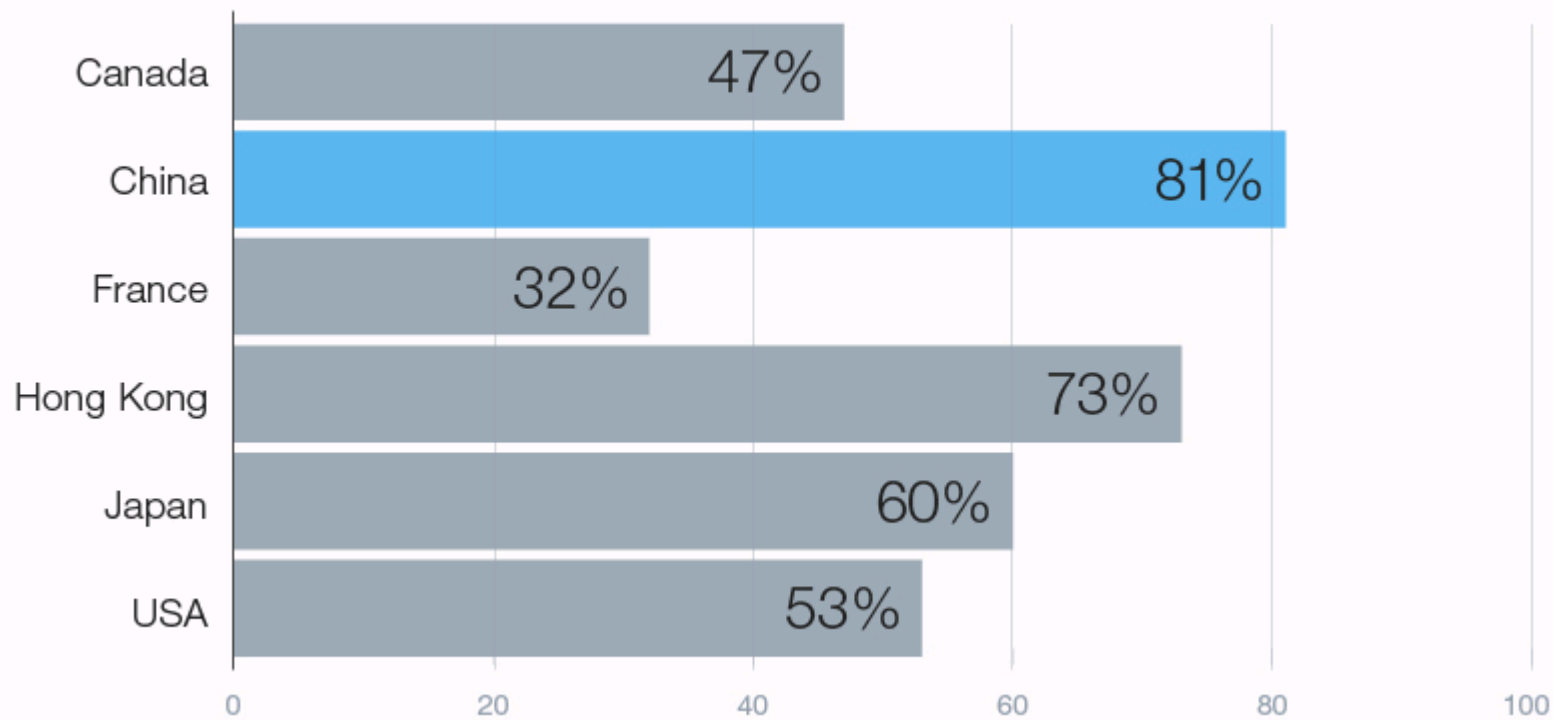
COUNTRY WEIGHTS



► Source MSCI March 31 2016

What makes China different? Retail, 85% of the volume*

Percent of retail investors who trade at least once a month



SOURCE: STATE STREET

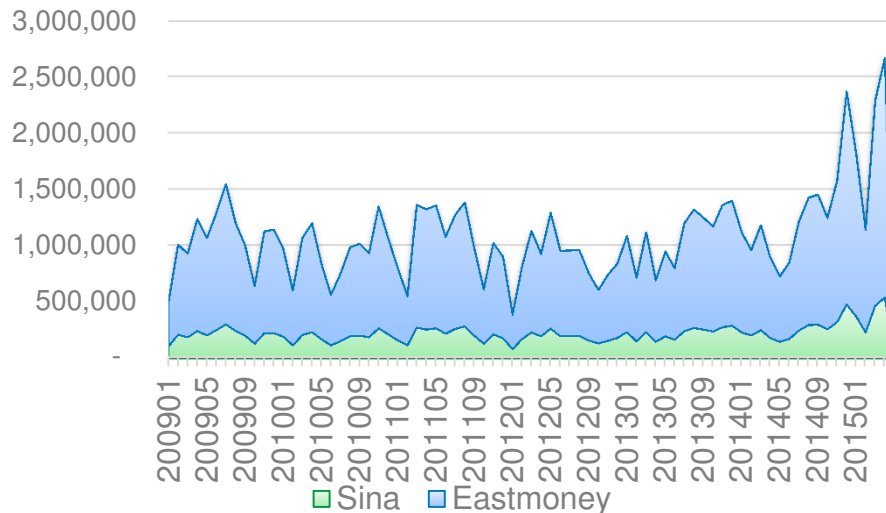
► *Source <http://www.reuters.com/article/us-china-stocks-idUSKCN0PI04Q20150708>

What matters to Chinese Retail

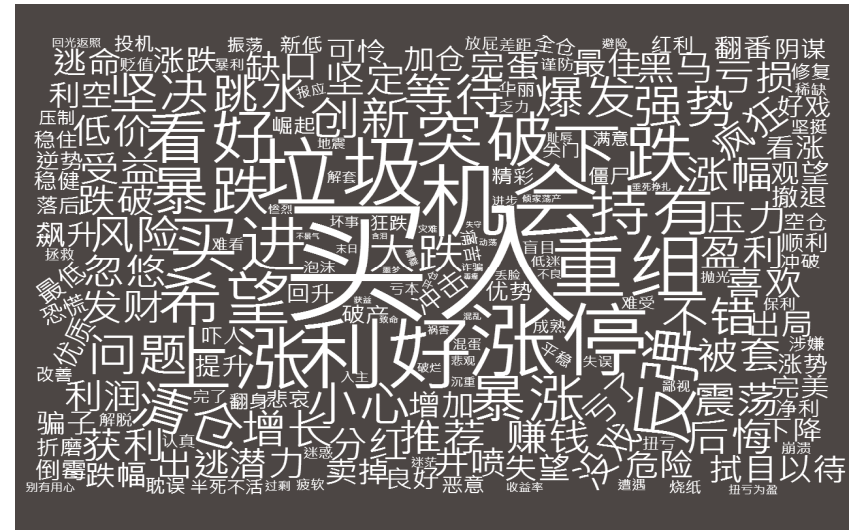
Exact alpha from China's social media

- ▶ Over 2 million blog posts per month
- ▶ Abnormal blog activities are usually followed by reversal
- ▶ Blog language reveals retail investor sentiment
 - Words used on blogs are different from analyst reports

Blog activity by retail investors in China



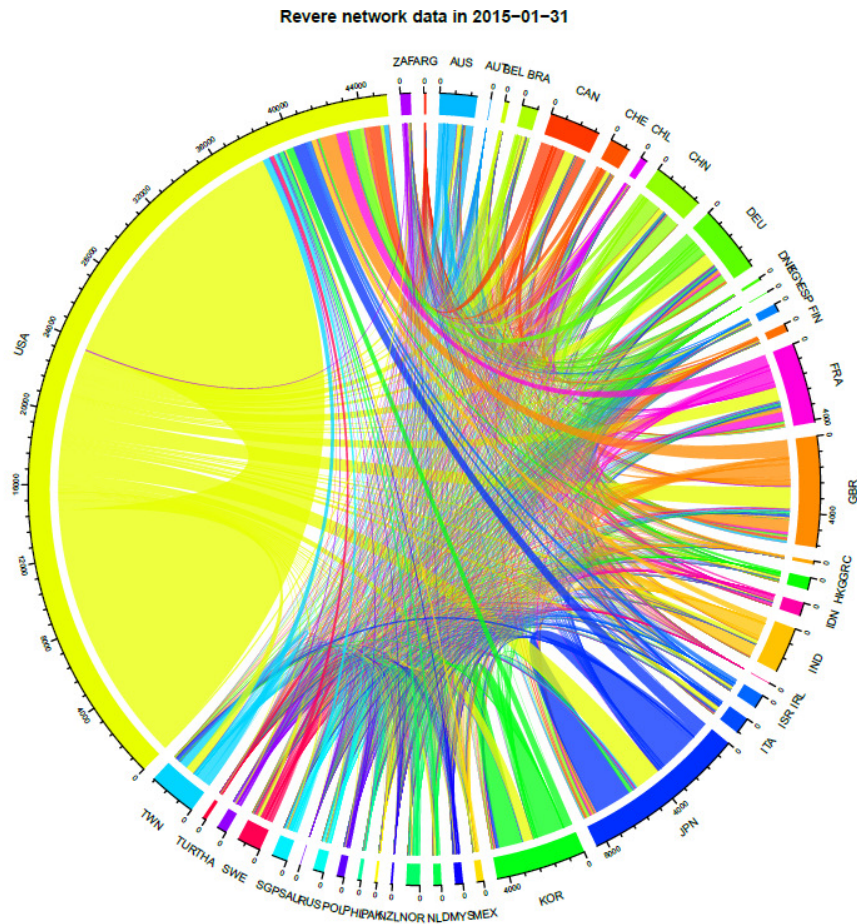
Source: BlackRock, for illustration purposes only; worldcloud as of June 30, 2015



Text analysis helps to read investor's mind

What are retail investors talking about?		What are analysts talking about?	
买入	Buy in	强烈推荐	Strongly recommend
利好	Good news	欲扬先抑	Price fall before rise
上涨	Price increase	正面	Positive news
发财	Make a fortune	稳健	Stable
垃圾	Garbage	反弹	Bounce back
快跑	Run away fast	价格战	Price war
骗子	Liar	十分艰巨	Very difficult
下跌	Price fall	下滑	Fall down

Supply Chain Links by Country-we're all connect



Source Revere
Major Customer Disclosures

Risk Management In EM, ignore, hedge, pray?

FX – hedge where you can

- Costs are time varying can be in excess of 10% a year

Liquidity

- Flows (composition of the market and investor base)
 - retail, institutional, domestic, foreign
 - Passive
- Regulation
 - Trading halts
 - China July 2015 total suspensions 1,300 stocks – 45% of the market
 - Short selling bans

Policy/Politics

- Russia, Brazil, China
 - News flow, social media, twitter

Globalization

- Supply chains

Information

- Go local, language, source, understand the local rules

Potentially Interesting Questions

Is the EM vs DM classification still relevant?

Role of flows?

- Cross Asset Class
- FX
- Passive vs Active

Role of Investor Sentiment?

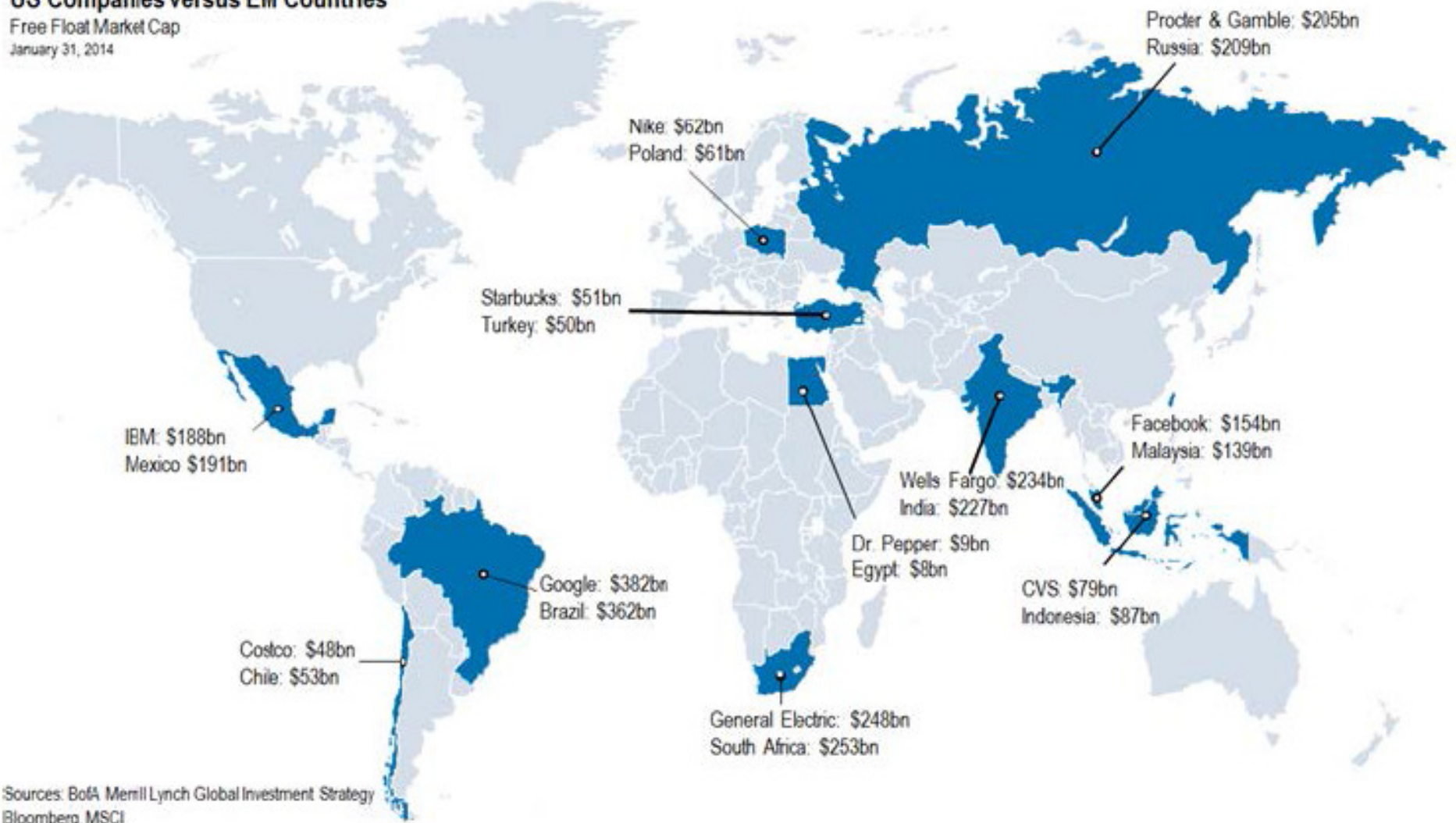
Alternative Risk Measures?

- Text based
- Attention measures

Perspective on EM stock markets

US Companies versus EM Countries

Free Float Market Cap
January 31, 2014



Important Notes

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