

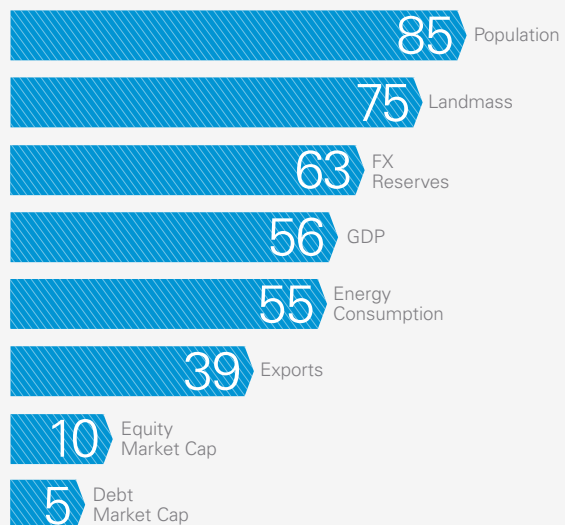
# AROUND THE EMERGING WORLD

Emerging markets have displayed significant evolution in terms of economic development and capital markets' deepening in the last twenty-five years. Despite sideways equity markets since the 2008–2009 crisis, this area of global capital markets remains, in our view, a compelling opportunity for investors of all types.

## Emerging Markets in a Global Context

Over the last quarter century emerging markets have evolved to command a larger share of the world in many respects, such as GDP and total exports. However, their capital markets are still in development: Emerging markets equity and debt indices represent approximately only 10% and 5% of global benchmarks, respectively.

Emerging Markets Indicators as Share of the World (%)



Population, GDP (PPP), and Exports as of 2013 based on data released by the IMF World Economic Outlook in October 2014; landmass as of 2014; FX reserves as of December 2013; energy consumption as of 2013; equity market capitalization (float adjusted) based on MSCI ACWI IMI as of December 2014; and debt market capitalization based on sum of J.P. Morgan GBI-EM GD, EMBI GD, and CEMBI indices as share of Barclays Capital Global Aggregate Bond Index as of December 2014.

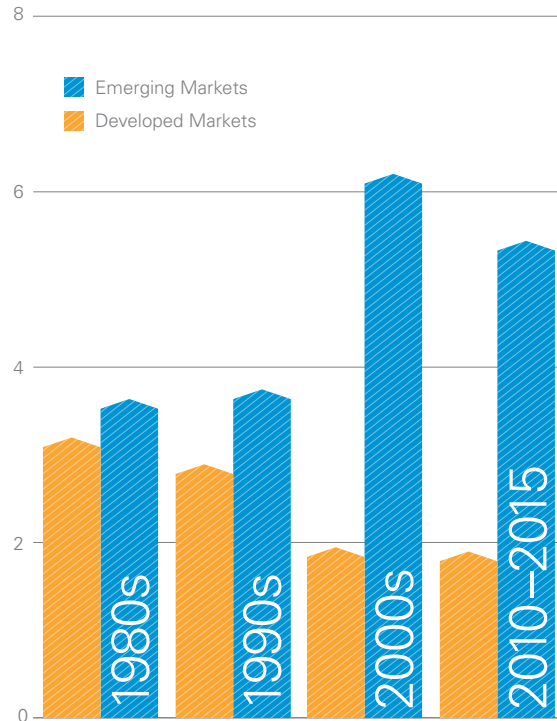
Source: IMF, World Bank, CIA The World Fact Book, BP, MSCI, J.P. Morgan, Barclays, Lazard

## Demographics and Economic Growth—Generally Favorable in EM

Although there has been a global slow-down in economic growth following the financial crisis, emerging markets are still forecast to outpace developed countries in terms of real GDP growth. We believe that, along with demographics, faster economic growth can be a favorable secular trend.

Importantly, populations in the emerging world are young in most countries, and are in a so-called demographic “sweet spot.” That is, the “dependency ratio” (i.e., the ratio of those outside the 15–64 age range to those aged 15–64 years) is still in a downward trend for many large emerging countries.

Average Real GDP Growth (%)



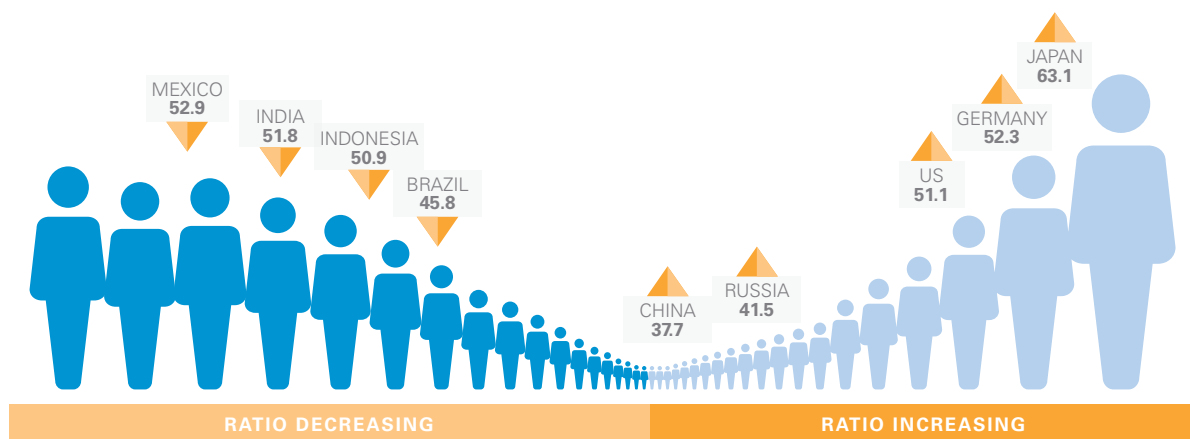
As of 20 January 2015

Estimated or forecasted data are not a promise or guarantee of future results and are subject to change. Data are based on IMF country classification.

Source: IMF, Haver Analytics

2014 Dependency Ratios (%)

Population outside ages 15–64/Population between ages 15–64



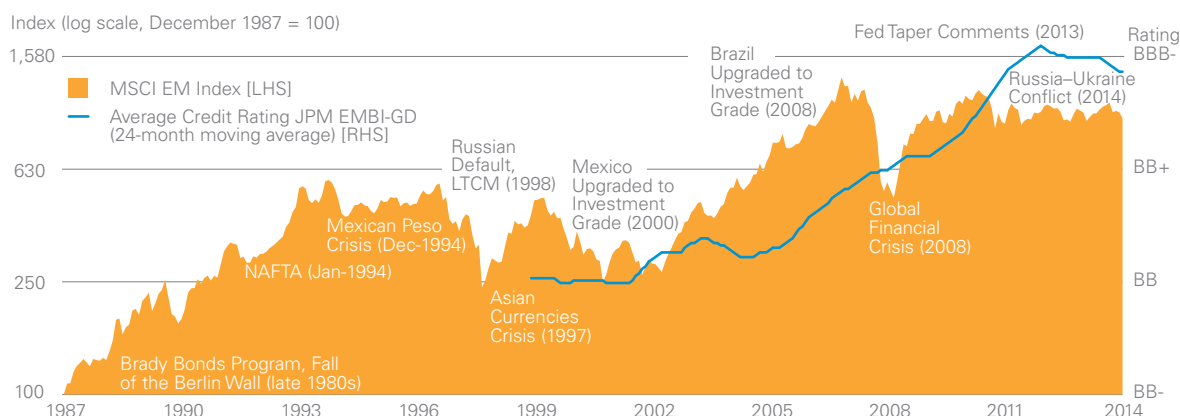
As of January 2014

Estimated or forecasted data are not a promise or guarantee of future results and are subject to change.

Source: United Nations, Haver Analytics

# How Did We Get Here?

## Key Points in Emerging Markets History



As of 31 December 2014

The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

Source: MSCI, Haver Analytics, J.P. Morgan

## Investor Interest... However, Overall Underinvestment

While cumulative net flows have grown significantly in the last decade, emerging markets remain a very small fraction of global invested assets—the asset class still shows plenty of room to grow.



**4%** EM equity mutual fund assets as share of the total equity mutual fund assets



**3%** EM debt mutual fund assets as share of the total debt mutual fund assets

As of 31 December 2014

Data are based on Morningstar's mutual fund universe and categories. For asset percentages we used Diversified Emerging Markets and Latin American Equity as share of US and International Equity categories; for debt, we used Emerging Markets Bonds as share of Taxable Bond category.

Source: Strategic Insight, Morningstar

## A Case for Active

Many investors often choose to enter emerging markets through passive vehicles. We believe this approach to emerging markets has several drawbacks; two of the most prominent are:

- Passive products track popular benchmarks, which constrain the opportunity set.
- The cap-weighted nature of benchmarks may lead to unwanted country and sector concentrations.



**32%** Number of companies in MSCI EM (834) as share of broader, MSCI EM IMI (2,637)



**49%** of the MSCI EM weight is concentrated in three countries (China, Taiwan, Korea)



**56%** of the MSCI EM weight is concentrated in three sectors (financials, IT, consumer discretionary)

As of 31 December 2014

Source: MSCI

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