



Emerging Market Equities: Accessing The Next Driver Of Growth

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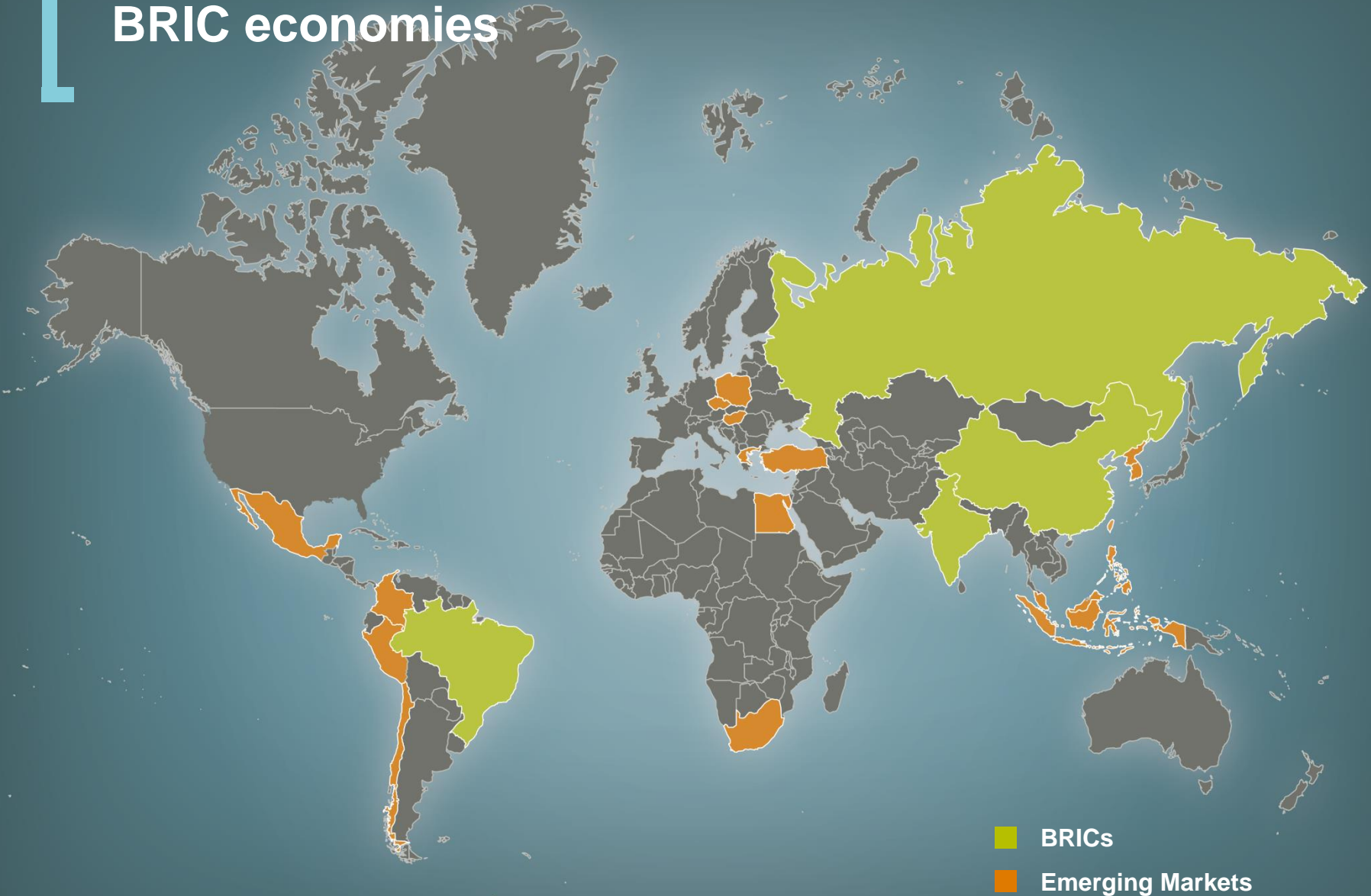
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Emerging Market opportunities go beyond the BRIC economies



Emerging Market opportunities go beyond the BRIC economies

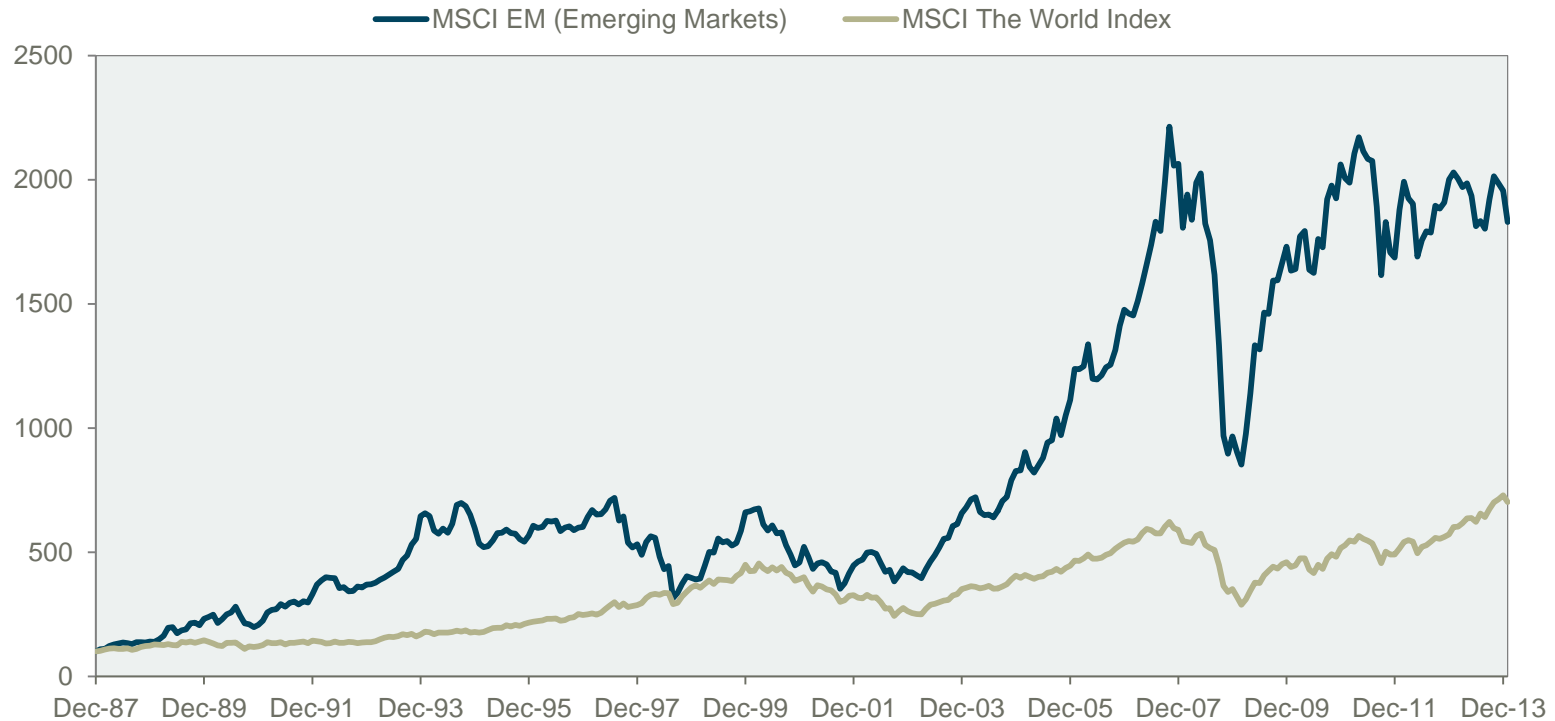


Long Term Relative Performance

As of March 2014

Performance since 1987

Performance (rebased to 100)



- Long term outperformance
- Increased volatility in returns since 2008

Long Term Earnings Comparison

As of March 2014

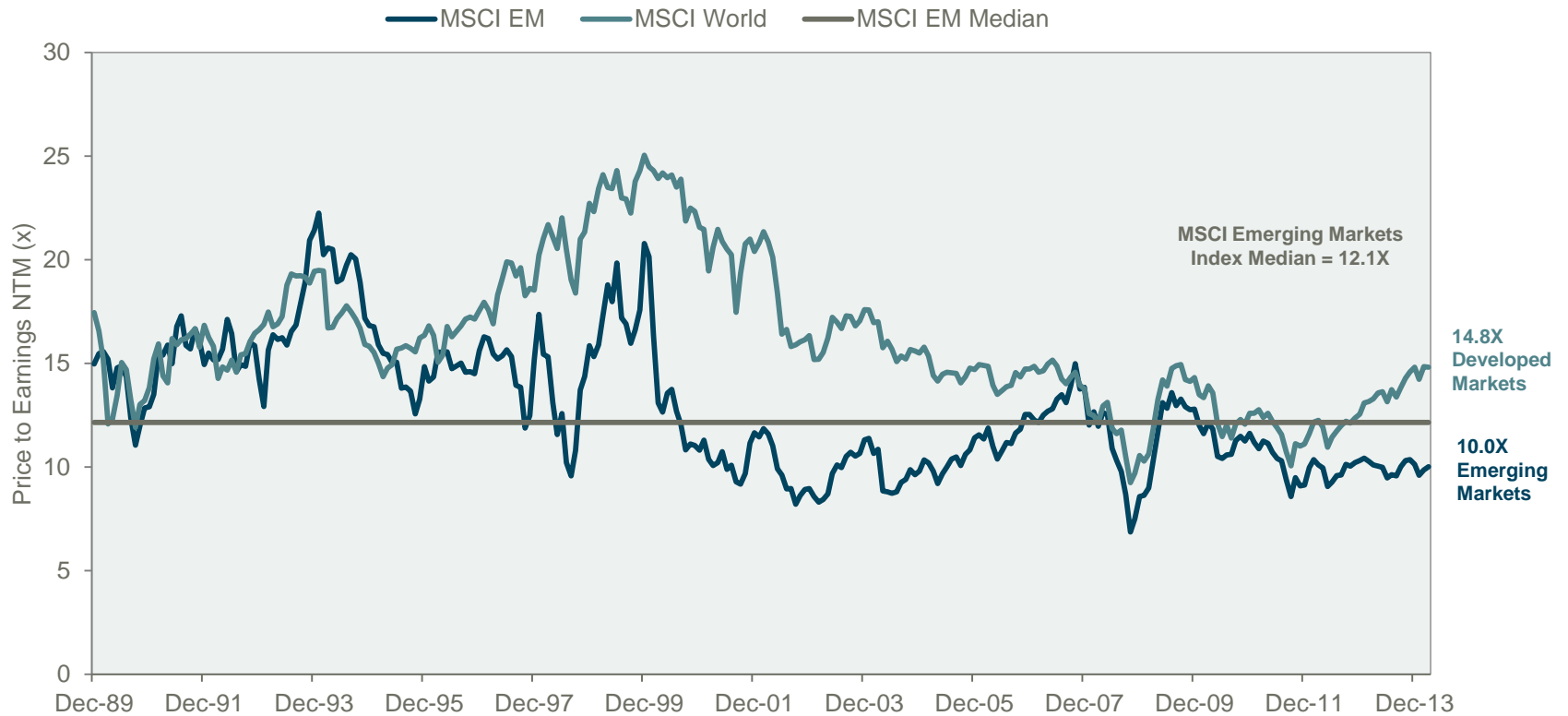


- Stronger earnings over the long term
- Developed market earnings stronger over the last few years

Equity Valuations Look Compelling

As of March 31, 2014

Price to Earnings



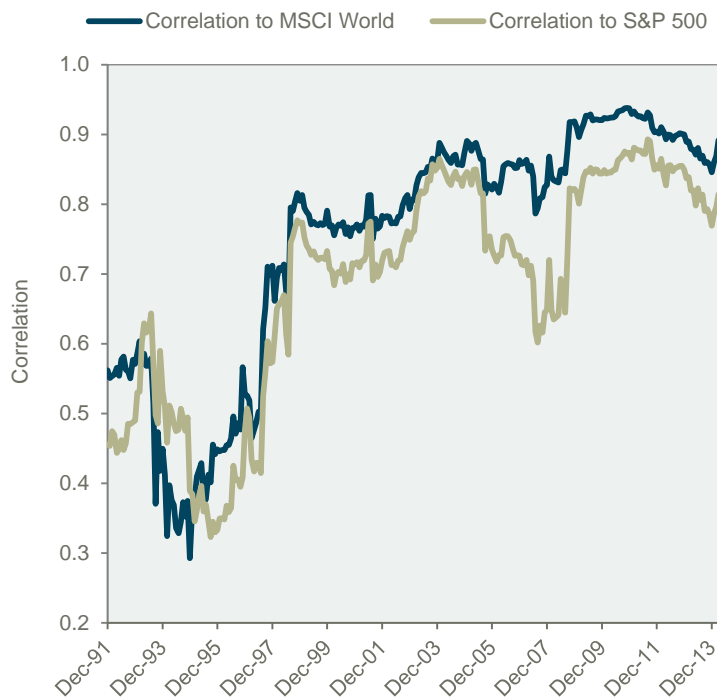
¹12 to 24 months forward consensus

Source: MSCI and FactSet

EM Equities at a Glance

MSCI Emerging Markets Correlations

December 1991 Through December 2013
36-Month Moving Windows



Correlations have risen, but diversification benefits exist and there is some potential for correlations to fall from these levels.

Standard Deviation of Returns

December 1991 Through December 2013
36-Month Moving Windows

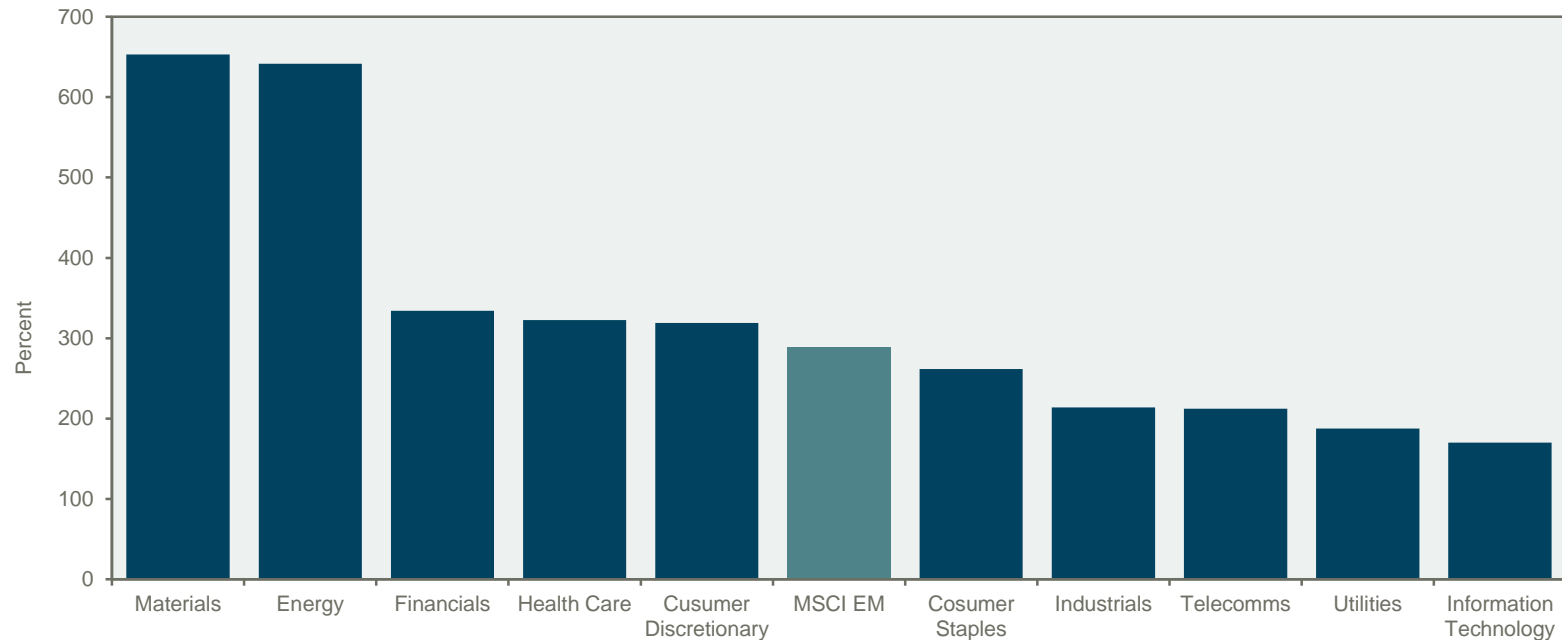


A more volatile asset class and likely to remain so for some time.

Decade Driven By Commodities

MSCI EM Sector % Returns

10 Years to Dec 2007

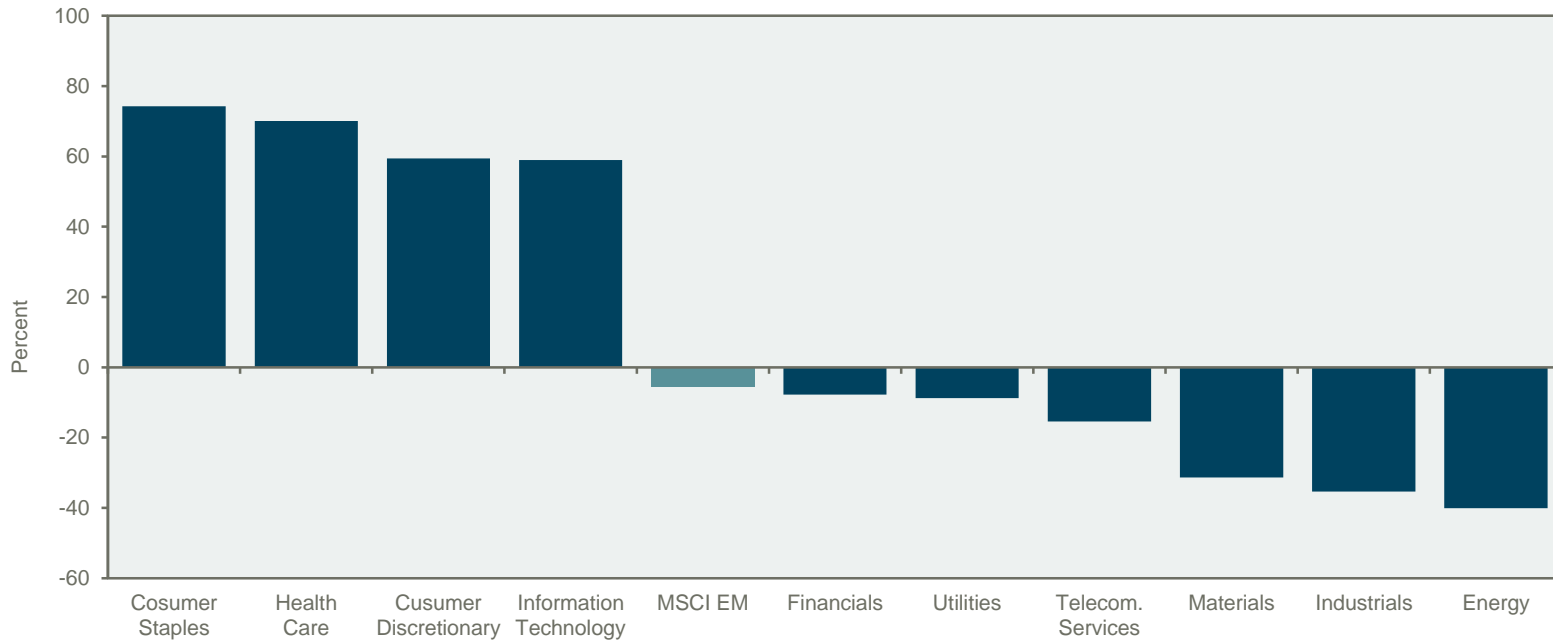


- Decade's returns (10 years through 2007) were driven by energy and commodities
- The two big tailwinds of 10%+ growth in China and secular bull market in commodities are behind us

Consumer To Be The Primary Driver Of Future Returns

MSCI EM Sector % Returns

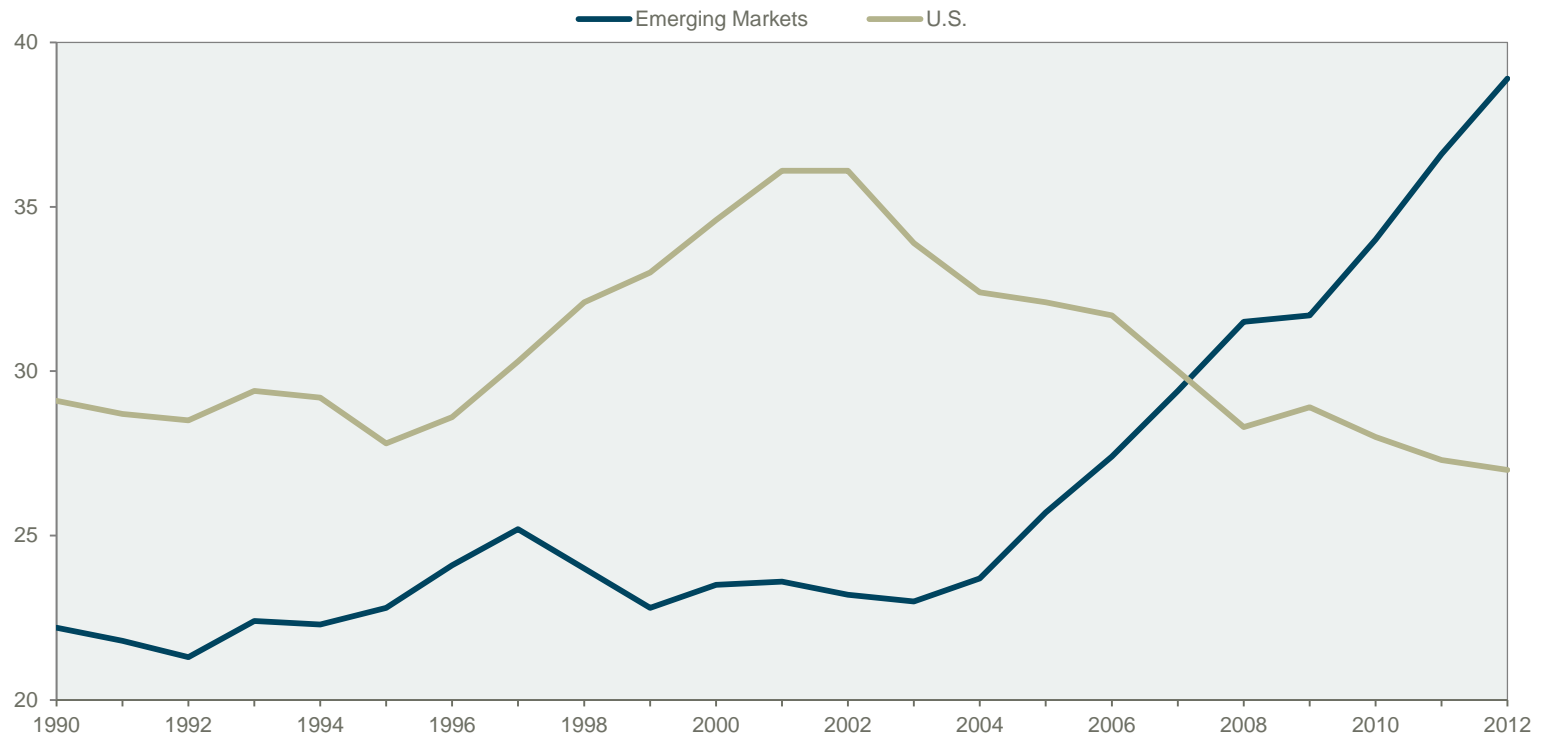
Jan 2008 to Mar 2014



- Is there potential for the emerging consumer to drive returns over the next 10+ years?

EM Consumption Has Already Overtaken The US

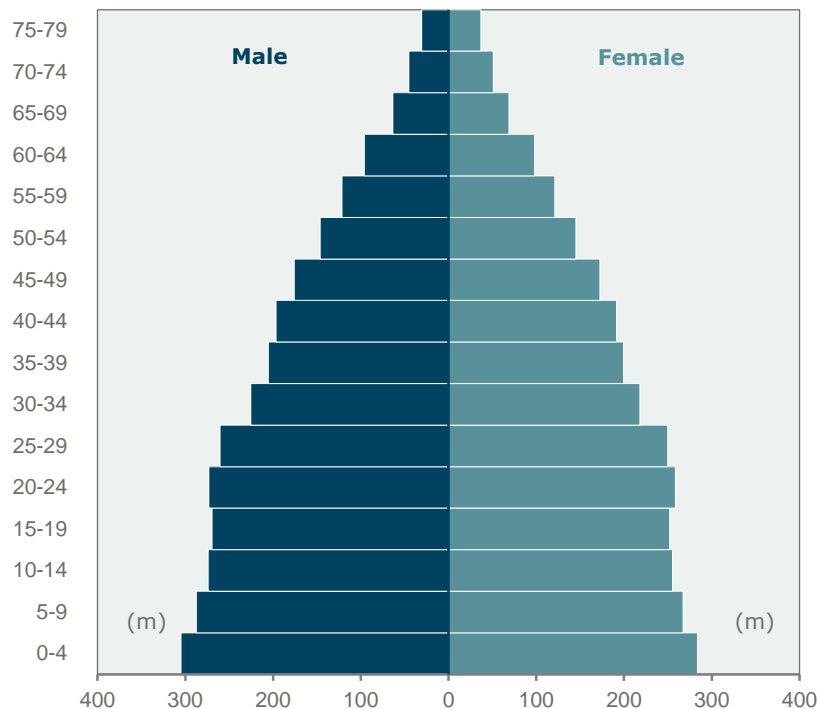
Share of Global Consumption
1990 – 2012



Factors That Continue To Support Consumption

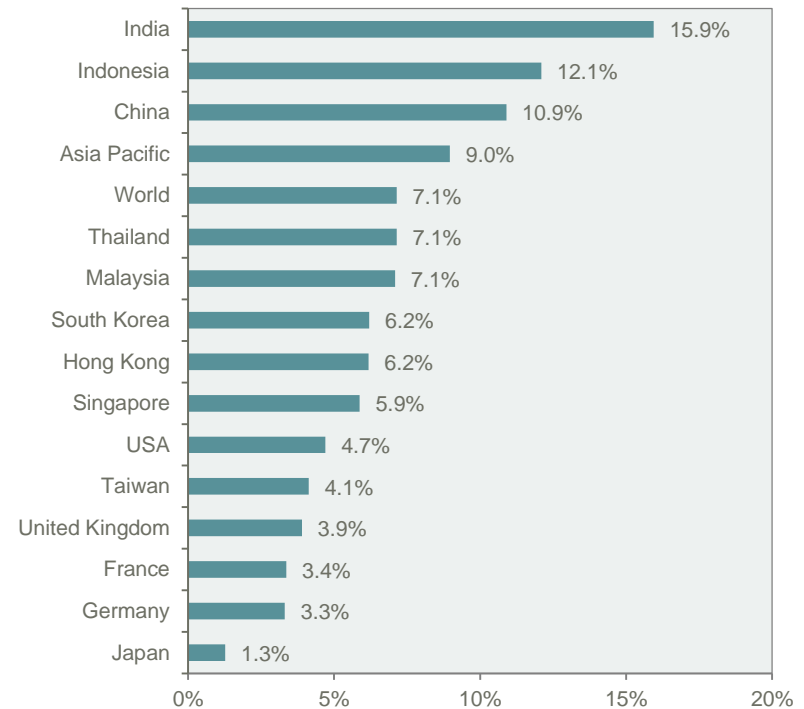
As of January 31, 2014

Developing Countries demographics (2013)



A large young population ensures a steady increase in the labor force: 50% is below 25 years of age

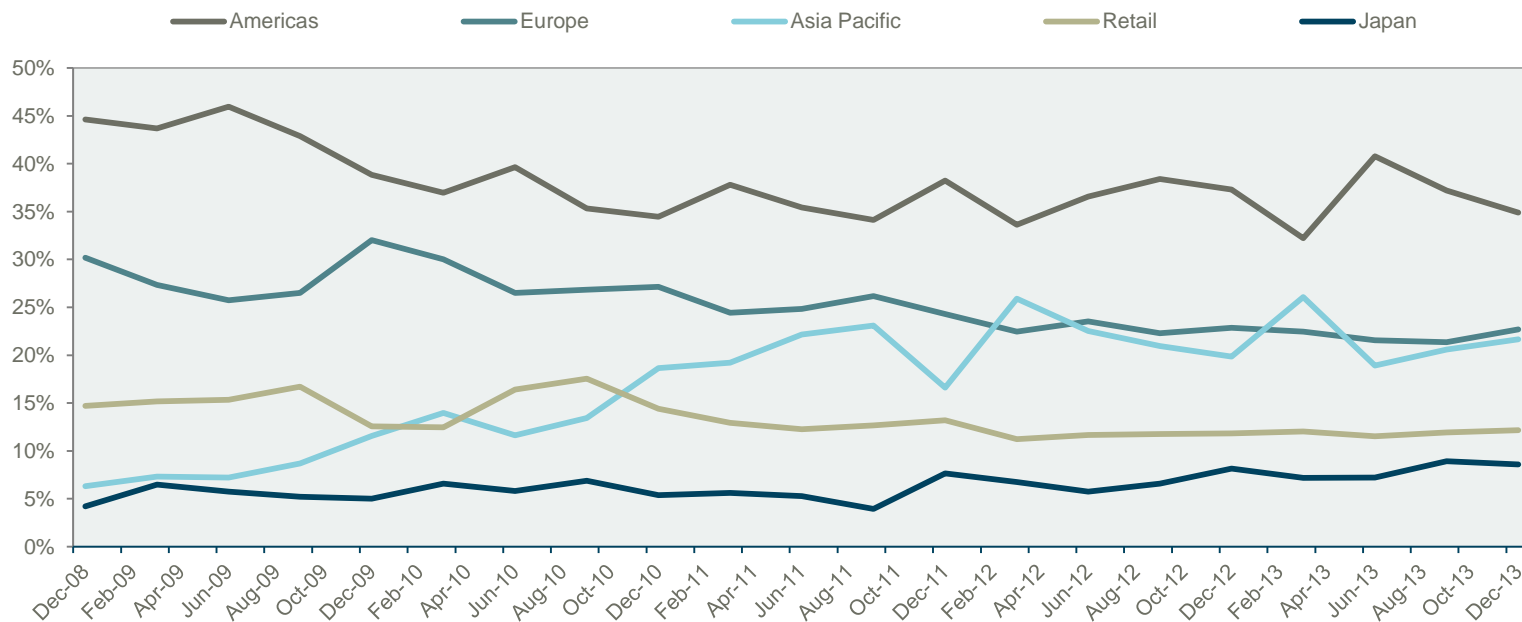
Per Capita Disposable Income Growth 2012-2020E



Income growth in emerging markets has expanded significantly and with it, the ability to spend

Accessing The EM Consumer Through DM Stocks

Apple Revenue Breakdown by Geography



Aspirational consumers demand high end products produced by developed market companies

Source: Apple Inc. Annual Report

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DM Companies Do Not Always Succeed In EM

Chinese Prefer “Do-It-For-Me”

- Home Depot misread the country’s appetite for do-it-yourself products
- Cheap labour has stunted the “do-it-yourself” ethos, and apartment-based living leaves scarce demand for products like lumber
- Home Depot has closed all seven of its remaining big-box stores in China after years of losses



Source: WSJ article September 14, 2012

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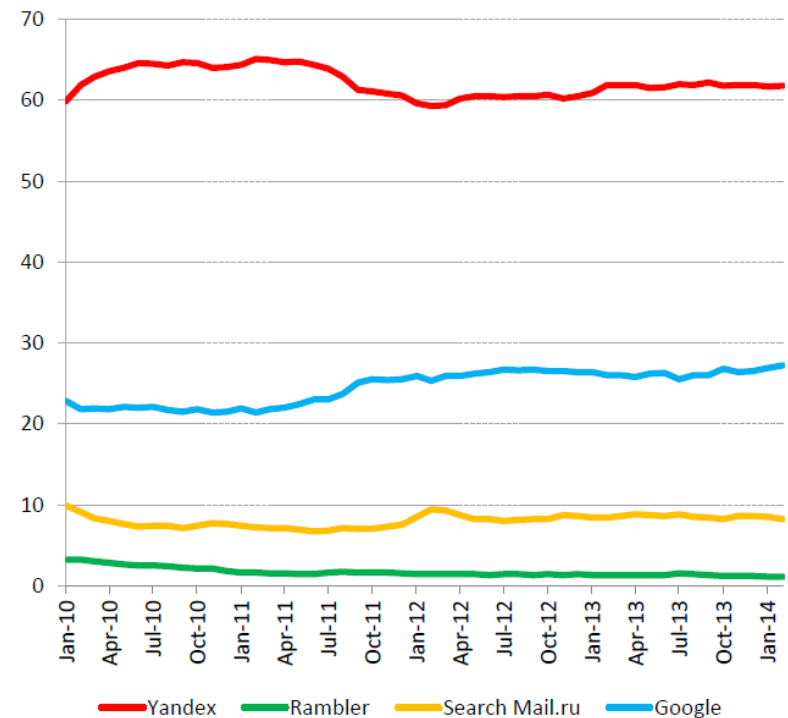
Russian Internet—Locals Have The Advantage

As of February 2014

Yandex has a competitive advantage:

- Russians are less willing to use international services and prefer to stick to local providers
- Going forward, 90% of growth in Internet penetration is coming from the Russian regions where smaller share of the population speaks English
- Sheer scale of Russia with nine time zones means local content is incredibly important

RUSSIAN SEARCH MARKET, %



Source: Yandex

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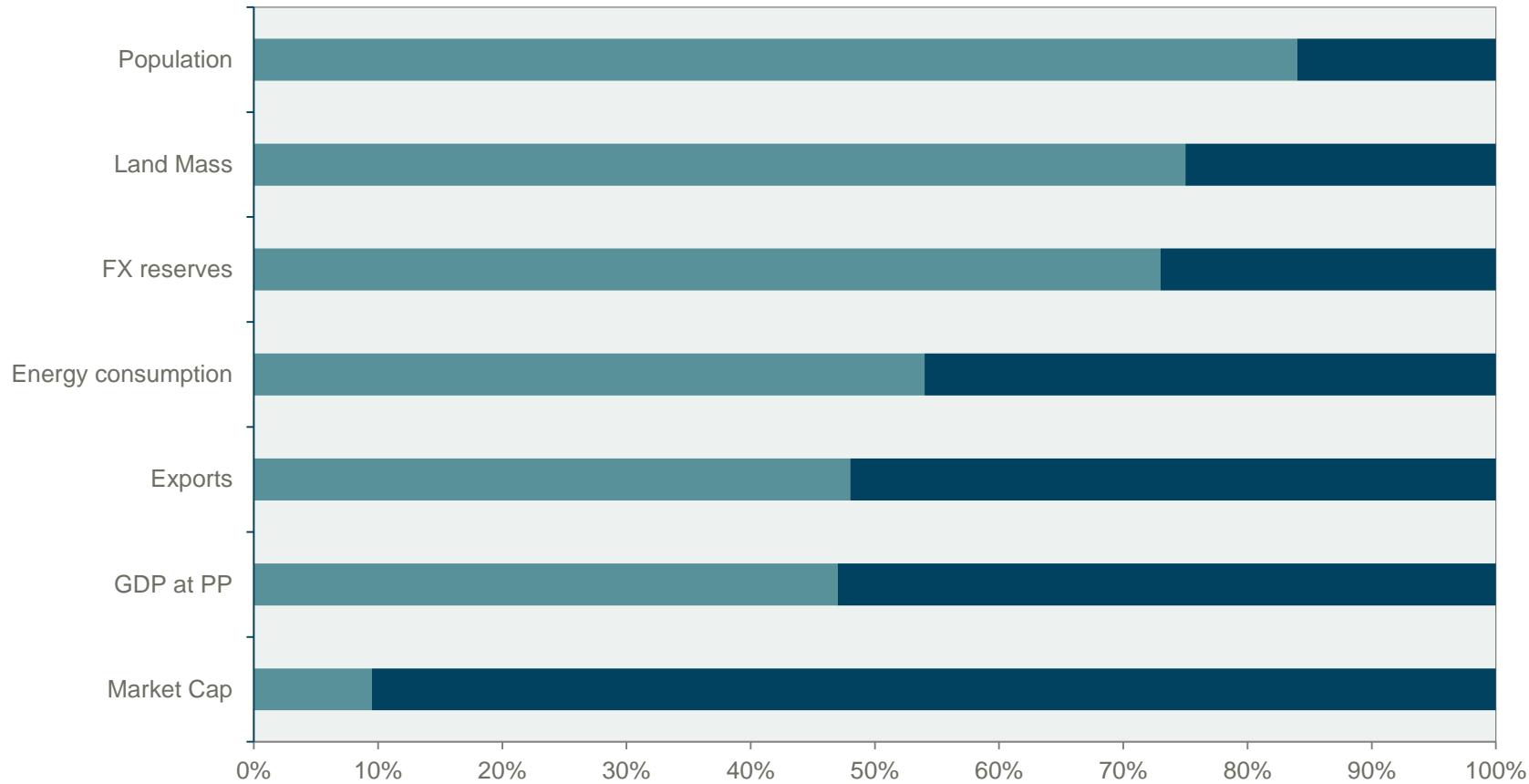
What Would We Like You to Takeaway From This Session?

- The long term case for Emerging Markets remains intact—do not be too bearish
- We expect continued growth in (1) opportunity set and (2) investors' interest in the Emerging Markets
- We believe the Emerging Markets consumer is a real, long-term secular growth theme
- Emerging Markets can be accessed directly or indirectly.
- In order to achieve meaningful exposure to domestic growth themes, we view direct access as the preferred approach.

Emerging Markets Representation In The World

As of December 2013

Emerging Developed



Source: Schroders, Merrill Lynch calculations, BP, CIA World Factbook and IMF World Economic Outlook

Implementation

- Active or Passive Management
- Global Emerging Market Equities
- Regional Equities or Single Country
- Frontier Markets
- Emerging Markets Small Cap
- Emerging Markets Multi-Asset

Thank you!

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