

Emerging Market Equities Showing Signs Of Life In 2014

Average Annual Total Returns & YTD

Index (USD)	2003 - 2010	2011 - 2013	YTD (5/20)
Ibovespa (Brazil)	37.90%	-19.41%	8.39%
Russian Trading System	25.12%	-2.70%	-9.92%
S&P BSE 500 (India)	30.42%	-9.33%	24.39%
Shanghai SE Composite (China)	14.47%	-4.00%	-7.84%
MSCI Emerging Markets	21.59%	-2.06%	3.47%
S&P 500	6.67%	16.16%	2.14%

Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. Those who invested in emerging market equities from 2003-2010, particularly in the BRIC countries (Brazil, Russia, India & China), enjoyed returns that were well above the historical norm (see chart).
2. As indicated in the chart, those eight years of prosperity were followed by three years of selling pressure.
3. The chart also shows that the returns posted by the MSCI Emerging Markets Index were not as dramatic to the upside or downside—supporting the merits of diversification, in our opinion.
4. Perhaps what is most interesting is what is not featured in the chart: mutual fund flows. Fund flows capture the sentiment of the retail investor and flows stayed positive from 2011-2013.
5. Morningstar's Diversified Emerging Markets category reported net inflows in 2011 (\$19.7 billion), 2012 (\$23.0 billion) and 2013 (\$39.0 billion). Y-T-D through April, inflows totaled \$4.2 billion.
6. This suggests that the majority of the selling came from institutional investors. The retail investor, at least for the time being, appears to be committed to the emerging markets growth story, in our opinion.
7. The International Monetary Fund is forecasting GDP growth rates of 5.1% and 5.4% for 2014 and 2015, respectively, for Emerging Market and Developing Economies, more than double the rate for Advanced Economies.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The Ibovespa Index is weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Russian Trading System Index is a cap-weighted composite index calculated based on prices of the 50 most liquid Russian stocks on the Moscow Exchange. The S&P BSE 500 Index is a free-float weighted index that represents nearly 93% of the total market capitalization on the BSE India exchange. The Shanghai Stock Exchange Composite Index is cap-weighted and it tracks the daily price performance of all A-shares and B-shares listed on the exchange.