Why Emerging Markets?

January 2024

Summary Points

- **Emerging Markets Main Points:**
  - You should not turn your back on emerging markets.
    - **Emerging Markets Are Large & Significant:**
      - 6.8B people live within emerging markets representing ~58% of global GDP(1)
    - **Emerging Markets Are Secularly Growing:**
      - Over the last decade emerging markets have contributed to +60% of global GDP growth and going forward will continue to grow ~2x developed economies(1)
      - Emerging markets are secularly growing as the world continues to embrace globalization as countries' comparative advantages will always exist. Certainly, there are periods of deglobalization, but the long-term secular trend is intact – in fact there has been a 143% increase in globalization since 1970 measured through the percentage of global exports of goods and services as a % of global GDP.(2)
    - **Emerging Markets Hold A Wealth of Opportunity**
      - Emerging markets EPS growth is ~4x developed markets going forward(3)
      - Emerging markets relative valuation compared to US equities is at a +50 year low(4)
      - We estimate a minimum opportunity of US$50 trillion as emerging markets increase in standard of living, modernize, and fulfill unmet needs.(1)
  - **Emerging Markets Supportive Points**
    - Since inception, EM markets have outperformed US markets though there are periods of underperformance and outperformance.
    - US markets are historically extremely concentrated, adding emerging markets exposure is prudent risk management. Indeed since 2011, emerging markets have underperformed US markets, but we do not see this trend continuing as there is a substantial economic opportunity ahead.
    - The Hang Seng Index's P/E is currently below the Nasdaq's P/B, and these two valuation ratios should not be anywhere close to each other. This discrepancy presents incredible opportunities
    - Ali baba trades at a P/S ratio as low as Cambell’s soup, but instead of selling soups, Baba has one of the largest cloud computing franchises in the world with over $11B USD of revenue and growing at a healthy rate

1. IMF, Letko Brosseau Estimates
2. Worldbank, Letko Brosseau
3. Bloomberg
4. Bank of America

You Should Not Turn Your Back On Emerging Markets[1]

6.8B
People within emerging markets[1]

58%
Emerging market's share of global GDP[1]

+60%
Contribution to past decade of Global GDP growth[1]

2x
EM long run GDP growth rate is more than double DM's long run growth rate[1]

143%
Increase in globalization and interconnected since 1970[2]

50+
Year historic low for EM equites relative price discount to US equities[3]

$50T+
Opportunity of emerging market GDP growth through addressing unmet needs[4]

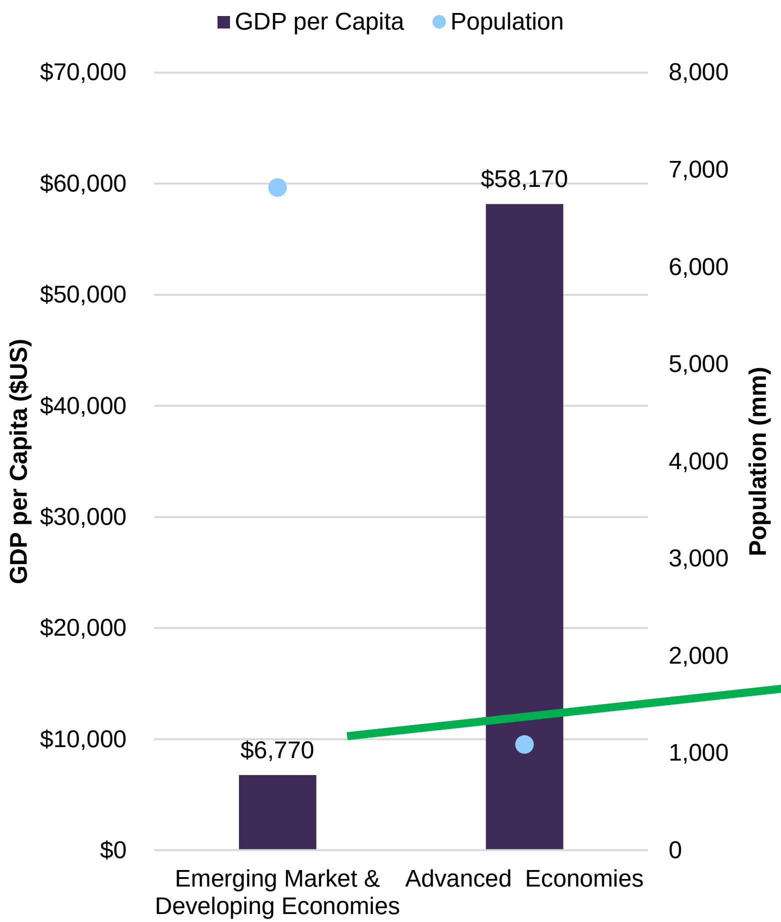
~4x
Emerging markets earnings per share growth rate versus developed markets[5]

Emerging markets are large, secularly growing, trade at attractive valuations, and hold a wealth of opportunity - US$50T+ of emerging GDP growth with 4x EPS growth

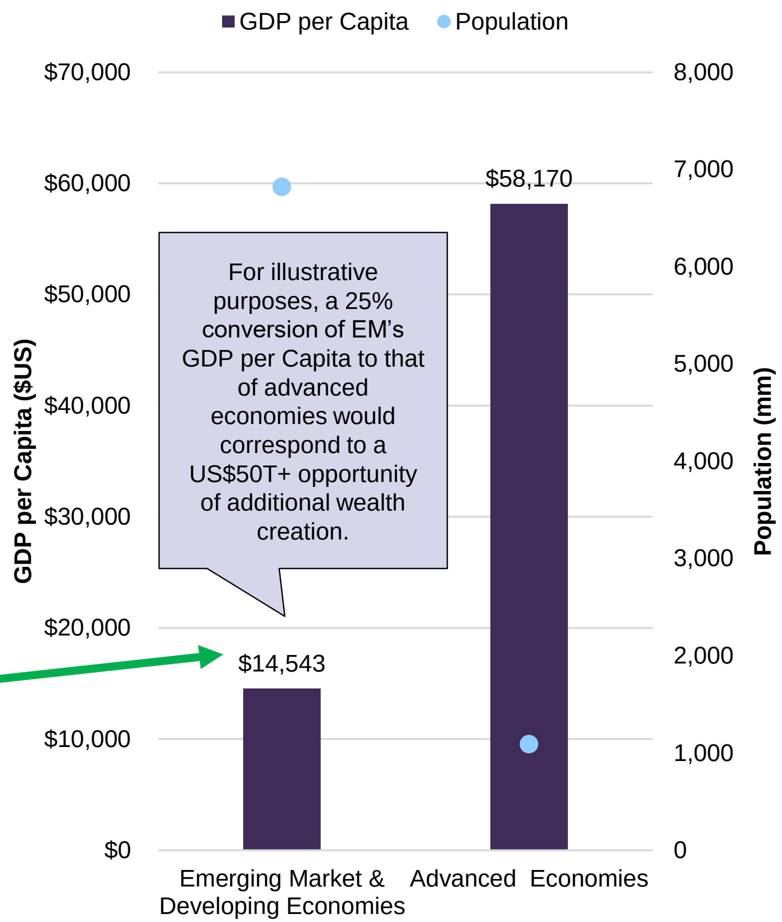
1. IMF, 2023. Contribution based on PPP; billions of international dollars, current prices.
2. Worldbank, percentage increase in global exports of goods and services as a % of GDP. This has increased on average 1.9% per year from 12.7% in 1970 to 31.0% in 2022.
3. Bank of America
4. Letko Brosseau estimates, IMF, US dollars, incremental GDP growth, assumes GDP per capita of emerging economies converge to a mere 25% of advanced economies.
5. Bloomberg, 2023-2025 total earnings per share growth estimates of the MXWO (MSCI World) and MXEF (MSCI EM) index.

The $50T Emerging Market Wealth Creation Opportunity

EM versus DM Population & GDP Per Capita (2023)[1]



A 25% GDP per Capita Conversion To Advanced Economies (20XX)



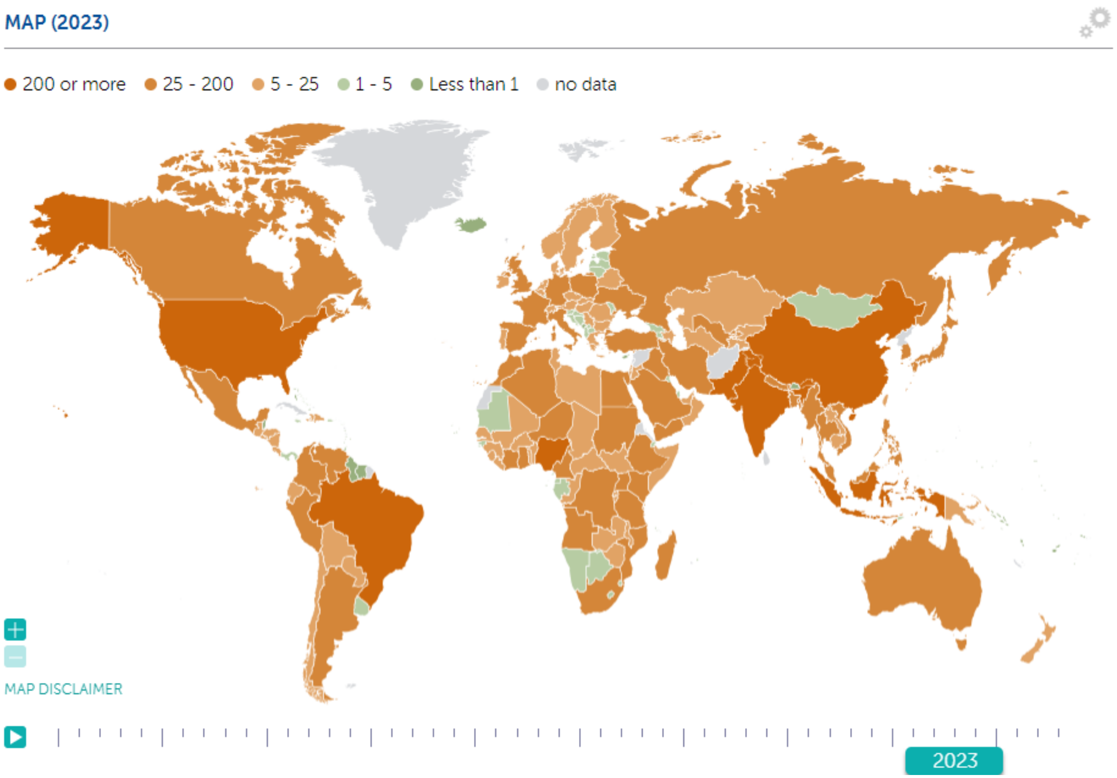
For illustrative purposes, converting 25% of EM's GDP per Capita to match that of advanced economies could unlock a wealth creation opportunity exceeding $50 trillion.

1. IMF, US dollars, LBA Estimates

Emerging Markets Encompass The Majority of Global Population(1)

Population

Millions of people



LIST (2023)

Country | Region | Analytical group

Analytical group	Value
World	7.84 thousand
Sub-Saharan Africa	1.14 thousand
Other advanced economies	175.99
Middle East and Central Asia	848.6
Major advanced economies (G7)	776.2
Latin America and the Caribbean	639.6
European Union	446.35
Euro area	347.31
Emerging market and developing economies	6.75 thousand
Emerging and Developing Europe	364.5
Emerging and Developing Asia	3.76 thousand
ASEAN-5	499.23
Advanced economies	1.09 thousand

Emerging market and developing economies represents 86% of global population

1. IMF

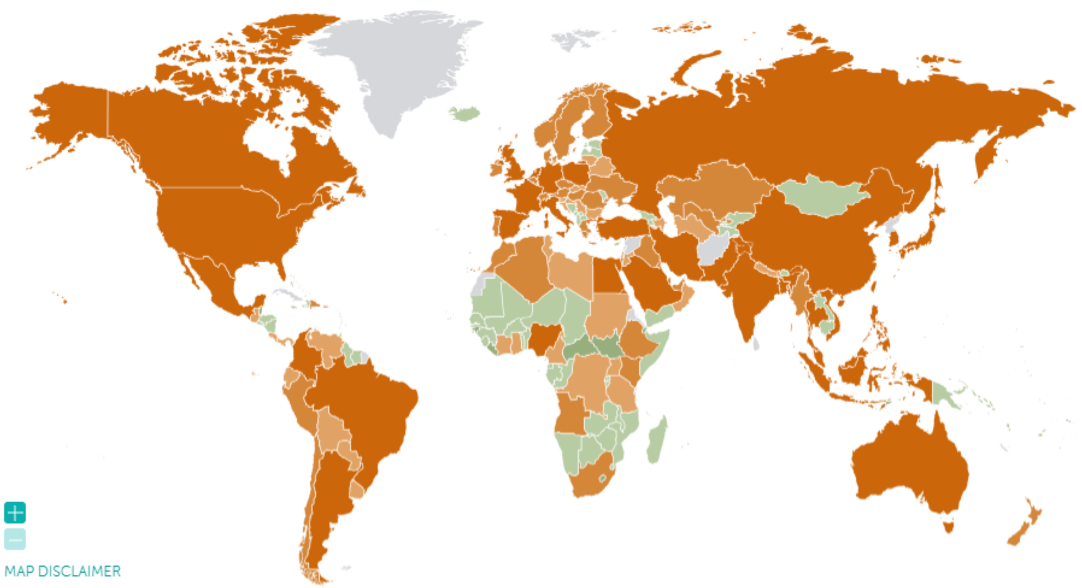
Emerging Markets Encompass Majority of Global GDP[1]

GDP, current prices

Purchasing power parity; billions of international dollars

MAP (2023)

● 1000 or more ● 250 - 1000 ● 100 - 250 ● 10 - 100 ● under 10 ● no data



MAP DISCLAIMER

2023

LIST (2023)

Country | Region | Analytical group

Analytical group	Value
Advanced economies	71.92 thousand
ASEAN-5	9.23 thousand
Emerging and Developing Asia	58.5 thousand
Emerging and Developing Europe	12.93 thousand
Emerging market and developing economies	102.87 thousand
Euro area	no data
European Union	25.43 thousand
Latin America and the Caribbean	12.81 thousand
Major advanced economies (G7)	52.3 thousand
Middle East and Central Asia	13.13 thousand
Other advanced economies	11.62 thousand
Sub-Saharan Africa	5.5 thousand
World	174.79 thousand

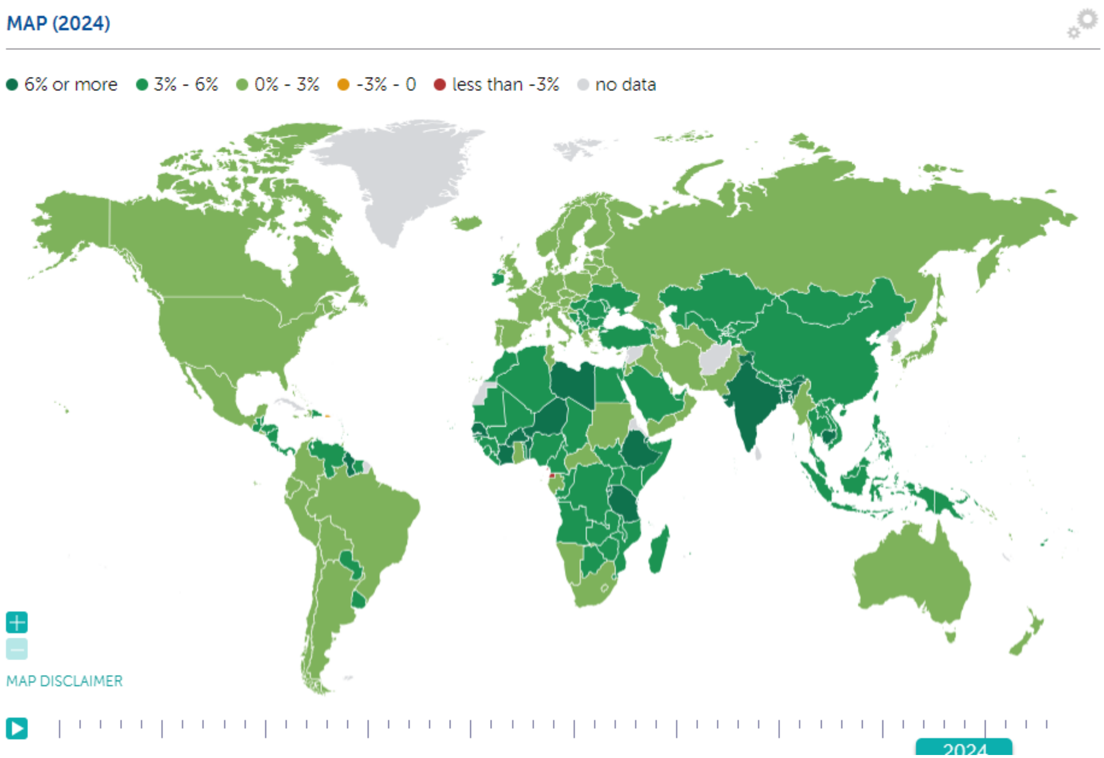
Emerging market and developing economies represents 58% global GDP

1. IMF, based on PPP, share of world)

Emerging Markets Have The Highest Long Term GDP Growth[(1)]

Real GDP growth

Annual percent change



LIST (2024)

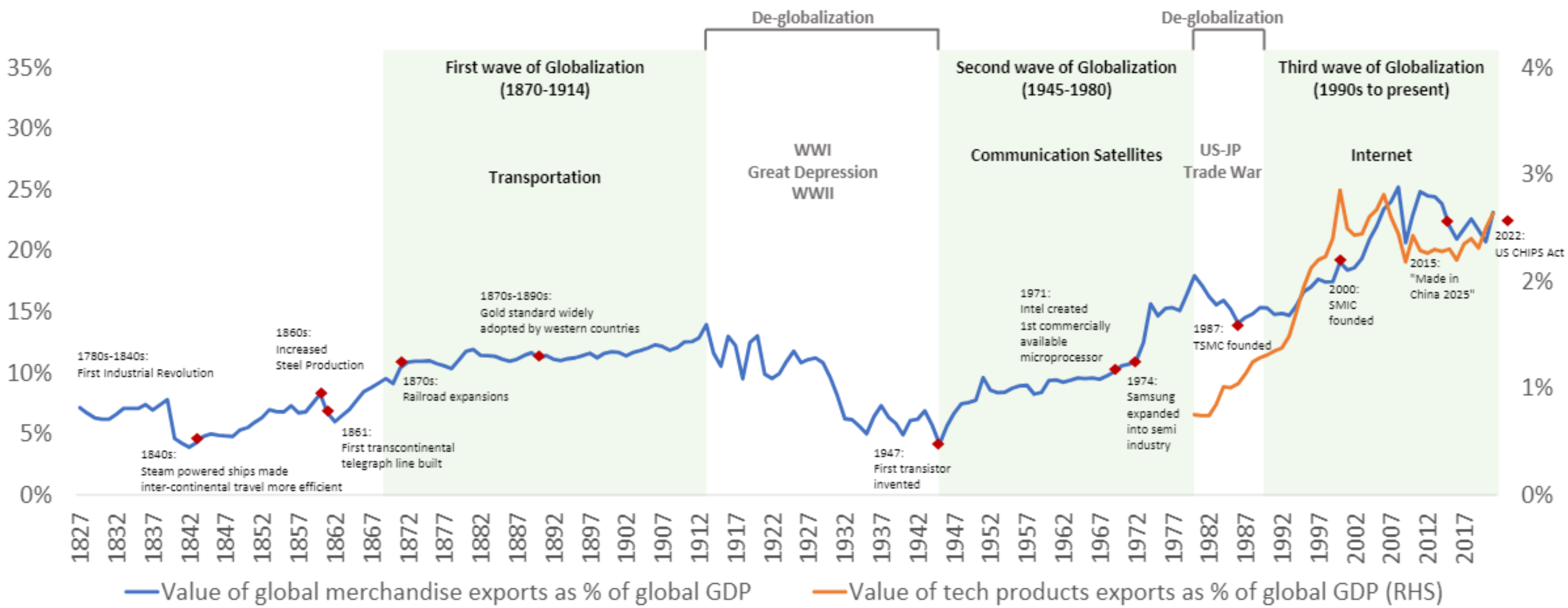
Country | Region | Analytical group

Analytical group	Value
Advanced economies	1.4
ASEAN-5	4.5
Emerging and Developing Asia	4.8
Emerging and Developing Europe	2.2
Emerging market and developing economies	4
Euro area	1.2
European Union	1.5
Latin America and the Caribbean	2.3
Major advanced economies (G7)	1.2
Middle East and Central Asia	3.4
Other advanced economies	2.2
Sub-Saharan Africa	4
World	2.9

Emerging market and developing economies long-term real GDP growth is +2x advanced economies

1. IMF

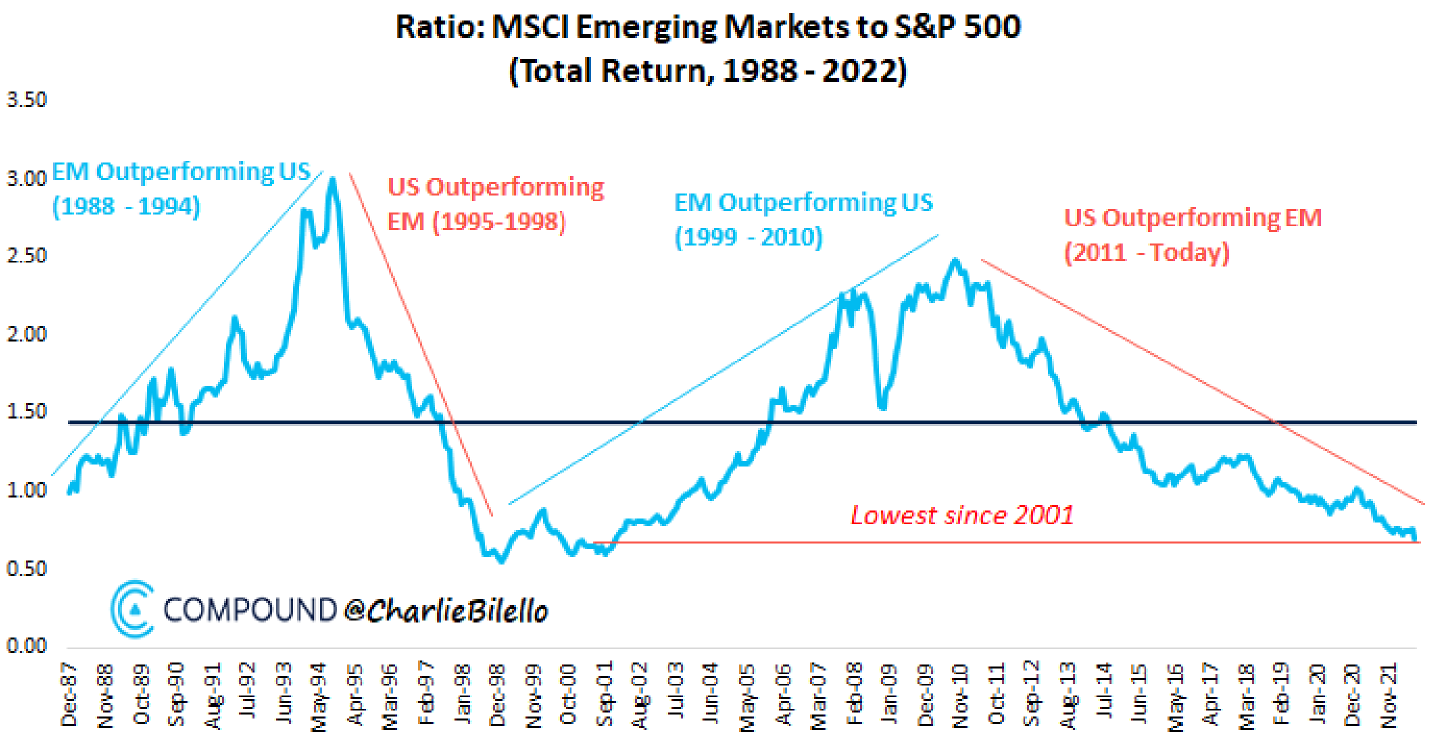
Globalization Is A Long-Term Secular Winner[1]



We see examples of deglobalization, but supply chains are complex, and countries do have comparative advantages (TSMC, Samsung, HK Hyneix) implying the world will continue to be interconnected.

1. WTO, Worldbank, CEPII, Morgan Stanley

EM Relative Performance Has Been Cyclical



Period	MSCI EM Total Return	S&P 500 Total Return	Differential
Jan 1988 - Sep 1994	599%	133%	466%
Oct 1994 - Jan 1999	-44%	202%	-246%
Feb 1999 - Sep 2010	392%	10%	382%
Oct 2010 - July 2022	28%	357%	-329%

Since inception, EM markets have outperformed US markets though there are notable periods of underperformance and outperformance.

1. Charlie Bilello, Bloomberg, US Dollars

US Markets Are Concentrated, Why Not Add Some EM?

US equity market concertation is close to a historic high, adding emerging markets exposure is a prudent risk management strategy.

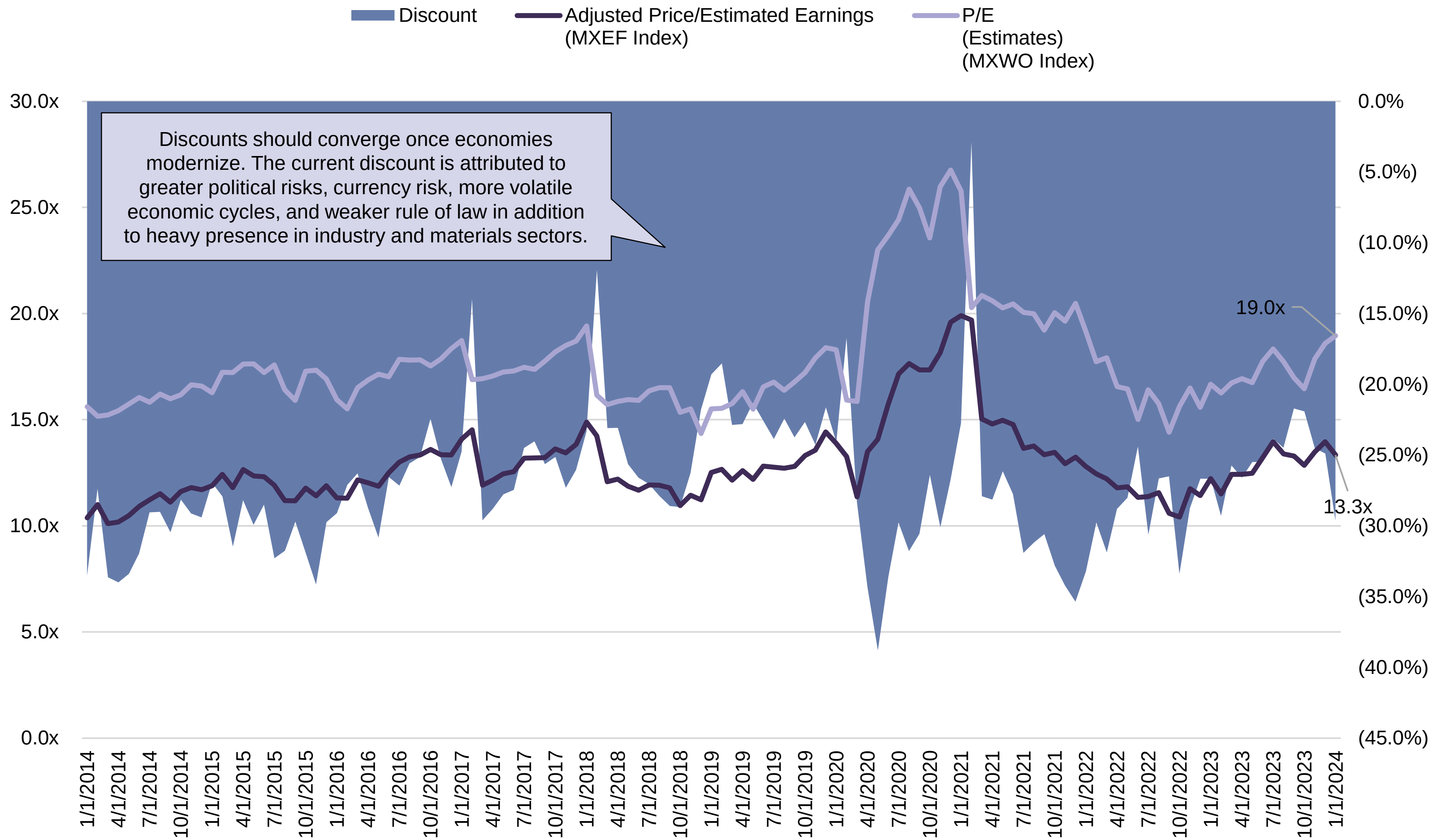
1. Michael A. Arouet

EM Stocks Are Incredibly Attractive[1]

EM Stocks are the cheapest they have been in 50+ years.

1. Barchart

EM Stocks Are Incredibly Attractive[1]



EM Stocks have historically traded at a 27% average discount to the MSCI World Index. Average PE of EM stock is 12.9x versus MSCI World at 17.7x.

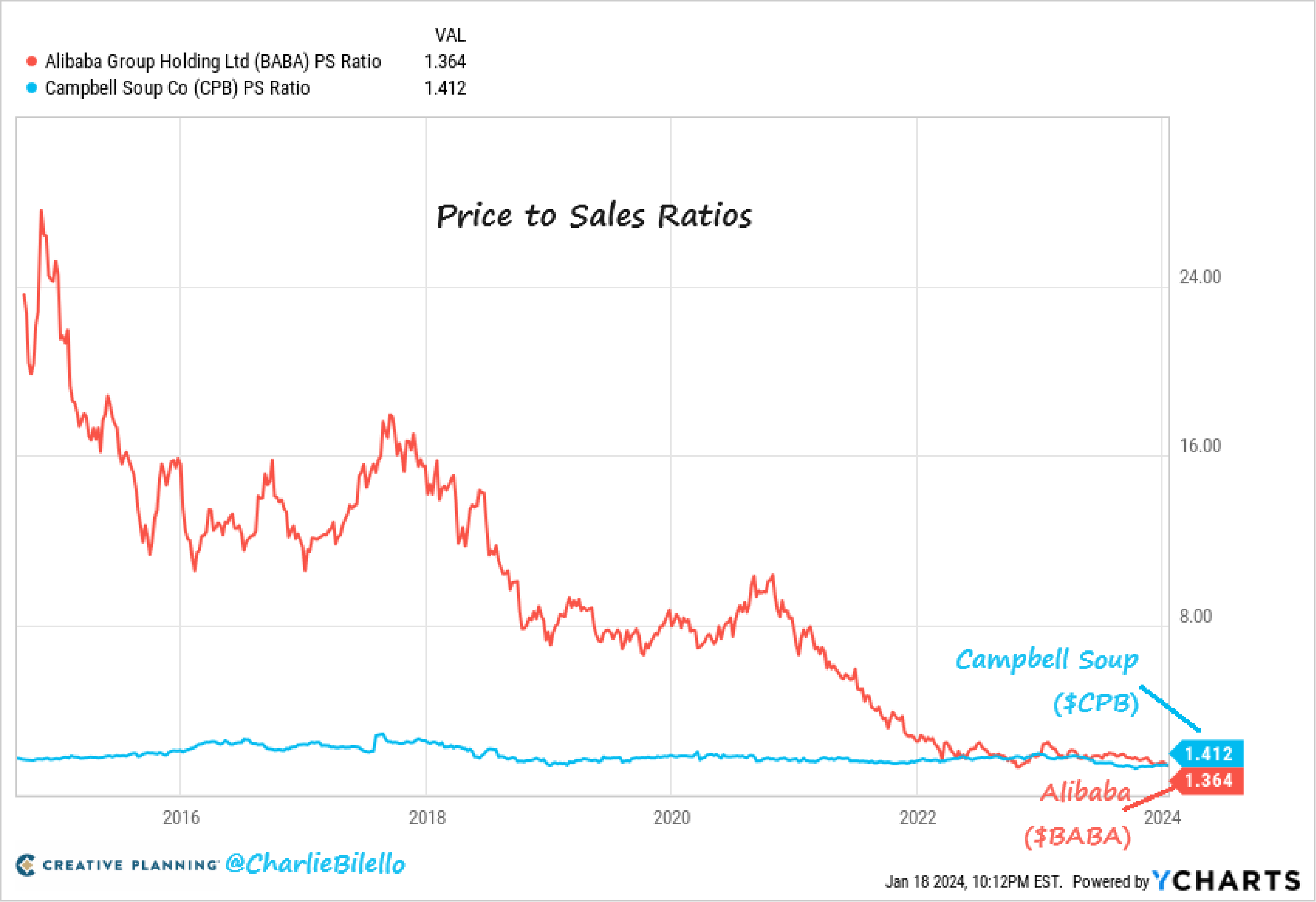
1. Bloomberg, LBA

Some Indexes Are Incredibly Attractive[1]

The Hang Seng Index's P/E is now below the Nasdaq's P/B. Those two valuation ratios should not even be anywhere close one another. There are incredible opportunities

1. Otavio Costa

Some Stocks Are Incredibly Attractive(1)



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1. Charlie Bilello

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