

## **The attraction of Emerging Markets for the Long Term Investor**

By David Gorman, Director, Equity Strategy, Standard Bank Jersey Limited

Of course many of us are simply looking for the best investment opportunities and where better than focus at least some energy in emerging markets (EM) which historically have delivered consistently superior investor results than the developed economies. As an example, the EM benchmark (the MSCI Emerging Markets Index) in 2009 rose 85.3% compared with the developed world (the MSCI World Index (USD)) which climbed just 30%. The positive EM dynamics mean they are forecast to contribute the majority of world consumption growth this year. China on its own is expected to contribute 30% of global consumption growth which is more than twice that of the US. (Goldman Sachs Economist, 2010)

Furthermore, the range of options from the well known regions (e.g. BRIC- Brazil, Russia, India and China) or countries to Frontier Markets is substantial. The seldom discussed Frontier Markets (generally defined as being less developed and liquid than emerging markets) number 30 different countries according to the Morgan Stanley Capital Indices including such places as Bahrain, Jordan and Nigeria. No one can say that these are investments without risk but by utilizing skills of professional fund managers with 'on the ground' experience, many of the pitfalls can be avoided. Sensible, prudent selection of specialist funds together with those of a more general emerging exposure can fit in well to part of an investor's long-term investment thinking. It is important to realize that emerging markets now make up over 8% of the world equity index – too big a percentage to ignore.

One important question for investors to consider is how best to achieve exposure to this important equity allocation. Firstly, individual acquisition of direct companies is normally out of the question due to risk, liquidity and lack of information available to most investors. Sensible alternatives include the purchase of general or specialist funds depending upon the investor risk profile that is determined. Another prudent route is to utilise an Exchange Traded Fund (ETF) which offers instant liquidity at a low cost – these are particularly useful where it is not possible to choose a Fund that is acceptable – either in performance terms or of other criteria such as size. A slight disadvantage of the ETF is that their aim is to only match the performance of a Benchmark index but very often they fall shy of the index or market return due to complexities in replication of the market or indeed costs.

Finally, there is one important cautionary factor to ponder upon. Of utmost concern is not the level of economic and corporate profit growth of emerging markets, but the price you are paying for it and, while historically EMs used to trade at a discount to the developed markets due to their instability, this is now no longer the case. On this basis it is essential for the investor to take professional advice so as not to overpay for assets which provides representation of this exciting but volatile sub class of equity assets.

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