



A Euromoney Institutional Investor company

Emerging Markets Investing: STICK OR TWIST?

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euromoney institutional investor
thought leadership



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PREFACE

Emerging Markets Investing: Stick or Twist? is a timely look at how global institutional investors are thinking about and positioning their investments in emerging economies. This report was commissioned by EMIS and produced in partnership with Euromoney Institutional Investor Thought Leadership. The report draws on the results of a global survey of senior investment professionals.

In total, 277 responses were received, mostly from chief investment officers and portfolio managers of asset managers, pension funds and banks across geographies, with assets under management from less than \$500 million to over \$500 billion. The vast majority of respondents were based in the Americas, Europe and Asia, with the remainder in the Middle East and Africa. All had investment exposure to emerging economies, with the highest proportion of respondents (38%) having less than 10% of their total assets under management invested. About a quarter have between 75%-100% invested in emerging economies and about a fifth have between 10%-25%. Portfolio managers and senior portfolio managers compose the highest proportion of respondents (36%), followed closely by CIOs (32%), those in senior management (10%), research analysts (8%) and investment directors (4%). The global survey was conducted by Euromoney Institutional Investor Thought Leadership's survey team. This report was published in February 2016.



EXECUTIVE SUMMARY

After more than a decade of remarkable economic growth and resilience, China's economic slowdown together with rising US rates, a stronger dollar, and a languishing oil price are conspiring to bring the first true test of the emerging markets growth story this millennia.

Over the long term the growth narrative of the emerging world still looks strong and compelling, but in the next 12 months at least emerging economies are expected to be tested by a multitude of macro-risks that threaten to flush out the last pockets of foreign capital.

Globally institutional investors are rightly concerned about the impact of these risks, and top among them is the potential of a hard landing for China.

China has of course been the engine and in many respects the saviour of the global economy over the past decade. And without it firing as it has done, the consequences for economic growth in emerging economies, and the global economy in turn, will likely be profound.

In the nearer-term, China's slowdown and a falling oil price have already this year knocked global markets sideways, fuelling fear and creating even more uncertainty that is heralding a darker more turbulent period than emerging economies have endured since the last century.

As a result, investors, even the most hardened emerging market specialists, have some tough investment decisions to make. Decisions which, at their most simplest, come down to whether or not they choose to either stick with or twist on their emerging market investments.

Uncertainty rarely inspires investor confidence, but then periods of market turbulence can be a terrible thing to waste. And for all the doom and gloom surrounding investing in emerging economies, there is confidence and conviction that these economies will bounce back stronger over time, opening up investment opportunities along the way.

That is at least the prognosis of over 250 senior investment professionals who took part in our global emerging markets survey, most of whom say there are ample reasons to keep the faith. High among them is the excitement and expectation behind the rise of India, Africa and Iran.

OUR TOP TEN FINDINGS

#1

China failing to hit its 7% economic growth target is the macro-risk that is considered most likely to cause a sharp sell-off in emerging market assets over the next 12 months, followed by rising rates in the US and a falling oil price.

#2

Local currency equities, government and corporate bonds are expected to be impacted most by rising rate volatility, particularly among the BRICS countries.

#3

Most respondents (36%) expect the combined economic growth rate of developing economies in 2016 to be flat to 4.3% in 2015. Some 34% of respondents expect it to fall, while 29% expect the growth rate to rise.

#4

India is the most preferred economy of the BRICS to invest in over the next 12-24 months, followed by China and South Africa. Russia is the least preferred, followed by Brazil.

#5

While there is concern about the Chinese equities sell-off, **a higher proportion of respondents are concerned or very concerned about the government's attempts to try and stem it.**

#6

Some **51% of respondents do not believe China will overtake the US as the world's largest overseas investor by 2020.** About 30% said that it would.

#7

Most respondents (29%) believe that the size of India's economy will not surpass China's anytime soon. Some 23% said it would happen in 20 years.

#8

Over the next 5-10 years, **68% of respondents see investment potential in Cuba,** closely followed by Iran (66%).

#9

Most respondents (67%) either agree or strongly agree that **the usual response of selling emerging markets assets during developed market crises should be re-assessed** by global asset managers.

#10

Some 60% of respondents either agree or strongly agree that **developed market risks are under-priced relative to developing market risks.**

THE MACRO-RISKS HOLDING EMERGING MARKETS HOSTAGE

If the “taper tantrum” of 2013 and similar tremors in 2015 showed just how sensitive emerging markets are to the idea of the US Federal Reserve raising rates, could the reality be even more brutal? The fear among investors is it could be. The reality may well be different.

What is certain is that institutional investors are preparing themselves for a fresh period of turbulence across emerging stocks, bonds and currencies in at least the next 12 months and the Fed’s move to raise rates on December 16 is seen as one of the main triggers for this.

That much is clear from the responses to our global survey, with 62% of respondents stating that rising rates is likely and highly likely to provoke a sharp sell-off in emerging markets assets over the next 12 months.

That however, may be described as a known known – investors have of course been preparing themselves for rising rates for some time. A known unknown, and all together greater concern for investors, is China and the pace at which its economy slows.

Some 66% of respondents to the survey said that a sharp sell-off is likely or highly likely to happen if China fails to hit its 2015 7% economic growth target. And investors were bang on – global markets tanked in the first few weeks of January, provoked largely by fears over China’s growth, which officially slipped to a 25-year low of 6.9% in 2015 versus 7.3% in 2014.

While slowing growth is a worry for investors, of increasing concern is whether or not they can actually trust the accuracy of China’s official economic data.

Depending on what methodology or economic indicators are used to calculate gross domestic product, China’s growth rate could either be as high as 6.9% or as low as 4.3%, according to some economists.

Certainly should more bad news on China’s economy emerge, markets will likely tank again and just as in January, that move could be exacerbated by another key macro-risk – a falling oil price.

Some 44% of respondents said they believe a sharp sell-off is likely or highly likely to happen “should the oil price fall (again)” and sure enough, in mid-January, the price

Which of the following macro-risks could provoke a sharp-sell off in EM assets over the next 12 months?

(Percentages based on the number of votes for likely or highly likely to happen)



Source: Euromoney Institutional Investor Thought Leadership

dropped below \$30 a barrel for the first time in over a decade, further fuelling the market rout.

Whether or not the oil price has further to fall is a guessing game, but there is a growing consensus that it could, and if it does, the combination of this with the fallout from rising rates in the US and China slowing could be particularly toxic.

But that’s not at all. Some of 36% of respondents believe a sharp sell-off is likely or highly likely to happen should a financial crisis snare Russia. What’s more, 23% of respondents believe that a sell-off will happen should there be a significant escalation in terrorist activity, and the same again said so if there is to be greater military intervention by western governments in the Middle East region.

On the more positive side however, only 17% of respondents believe that it is likely or highly likely that Greece exiting the Eurozone – a situation that has provoked severe bouts of risk aversion numerous times in recent years – will cause emerging markets to sell-off, which might suggest investors feel the risk of so-called Grexit has materially diminished. For now.

HEADWINDS CHILL LOCAL MARKETS AND BRICS

Emerging markets have taken a hammering from some severe headwinds in 2015 and those headwinds will continue blowing through 2016.

For investors this means generating positive returns will again be challenging, as it has been in the past year, evidenced by the performance of the benchmark MSCI EM and JPM EM (Global Diversified) stock and government bond indices.

The MSCI EM stock index finished down more than 16% in 2015 compared to 2014, while the performance of the JPM EM government bond index fell roughly 2% over the same period. Most survey respondents expected returns to have suffered, but not quite as much.

In particular, some 52% of respondents said that the MSCI EM index would fall, with most of them (22%) expecting it to drop between 5-10%. By comparison, 45% of respondents said the JPM EMBI would also fall, with most of them (24%) expecting it to drop between 2-5%.

As to where volatility from rising rates will hit hardest in the year ahead, local currency emerging market equities, government and corporate bonds are particularly vulnerable, and especially among Brazil, Russia, India, China and South Africa, according to the respondents.

Indeed, asked which asset-class is expected to be most affected by US rate volatility, most respondents (24%) said local currency equities, followed by local currency government bonds (19%) and then local currency corporate bonds (18%).

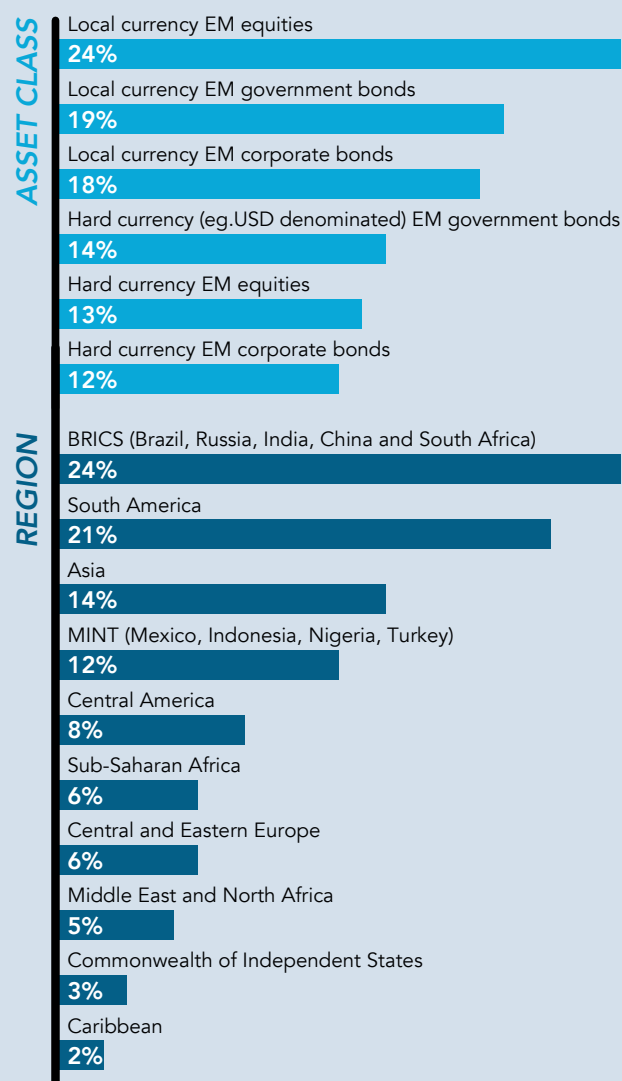
Geographically, most respondents (24%) said that they expected the BRICS to be most affected by the volatility, followed by South America (21%) and Asia (18%).

The BRICS are the most well-known and hyped of all emerging market investment themes and has been for most of the past decade. The downside however, is that the BRICS tend to be the first and hardest hit of the emerging world when investors are running scared.

Of course most of the BRICS do face some acute challenges, typified by Brazil, which is heading for its worst recession in over a century, compounded by a worrying deterioration of its fiscal accounts, high unemployment, and even higher inflation. As the largest economy of South America, its little wonder investors see the continent as particularly vulnerable too.

China's slowdown is at the heart of why Asia is also seen as vulnerable, but there are more specific concerns on countries from Malaysia and South Korea to Taiwan, which are devoid of economic balance, flagged by twin fiscal and current-account deficits, and material short-term debt liabilities. Corporate Asia's foreign currency borrowing binge is also a real worry.

Which of the following asset-classes and regions do you think will be most affected by volatility caused by rising US interest rates?



Source: Euromoney Institutional Investor Thought Leadership

DIVISIONS EMERGE OVER ECONOMIC OUTLOOK

Even though the combined economic growth rate of the world's emerging economies fell in 2015 to its lowest since the global financial crisis, most are still growing at rates governments in developed economies would be envious of.

Sure economic growth of 4.3% – down from an earlier World Bank forecast of 4.8% – for emerging economies in 2015 may not be as high as investors would want to see. But growth is forecasted to accelerate, potentially bouncing back to 5.3% in 2016-2017, according to the World Bank.

That's a healthy improvement, one that is partly supported by our survey. Combined, some 30% of respondents believe that the growth rate among emerging economies will rise in 2016 compared to 2015, with 23% of those optimists expecting the economic growth to hit 5%.

Broadly, such expectations for a pick-up in growth in the next two years – despite the slowdown in China – primarily reflects the belief that there might be a gradual improvement of growth in countries currently in economic distress, notably Brazil, Russia, and some countries in the Middle East.

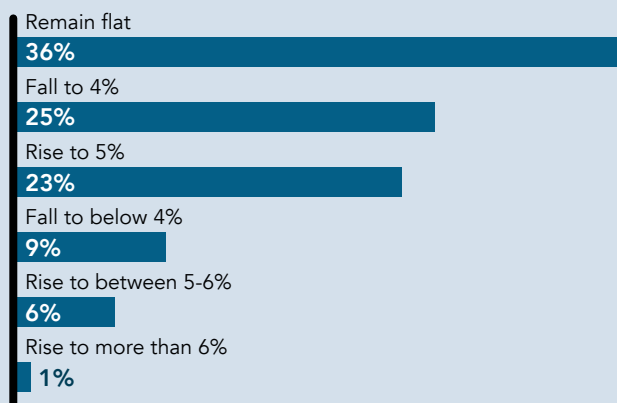
The trouble is, these expectations may be too healthy.

That's to say some 36% of our survey respondents believe the combined economic growth rate of the emerging world in 2016 will remain flat to the 4.3% in 2015. What's more, some 34% of respondents believe that growth will fall back from 4.3%, with 25% of those pessimists believing that the growth rate will fall to 4% in 2016. Some 9% believe it could fall even lower.

Clearly a strong consensus on the direction of growth for emerging economies is difficult, made so by their heterogeneity, and the impact from the substantial transitions they face.

The first of these transitions is the move into an era where the US dollar is stronger, thanks in large part to a combination of rising rates in the US and monetary expansion by other major central banks. This in turn is curbing capital flows to emerging economies, while local currency depreciation is raising concerns about dollar-denominated indebtedness in certain economies,

Emerging economies delivered a combined economic growth rate of 4.3% in 2015.
Given this, do you expect growth in 2016 to?



Source: Euromoney Institutional Investor Thought Leadership

especially those such as China that have recorded rapid post-crisis credit growth.

The second is the move into an environment where oil prices remain low for long. This has, to some extent, benefited oil importing economies. But for the oil exporting countries of the emerging world, such as Russia, Nigeria and Venezuela, among others, a lower oil price is having the effect of slamming the brakes on economic activity at the same time as increasing fiscal, exchange rate, and inflationary pressures.

All in all these transitions will impact emerging economies differently, in turn forcing divergences in economic performance regionally.

At the brightest end of the scale, for instance, is South Asia, where growth is expected to accelerate to beyond the 7% recorded in 2015. As a net importer of oil, it will benefit from lower global energy prices. At the same time, because of relatively low global integration, the region is shielded from growth fluctuations in other economies.

At the darker end of the scale, Latin America and the Caribbean region is expected to only recover modestly, with economic growth forecasted to be flat this year after shrinking by 0.9% in 2015. Unlike South Asia, the region is so much more vulnerable to the protracted decline of commodity prices, while domestic challenges weigh heavily on the largest economies, particularly Brazil.

ENTER THE TIGER – HAS INDIA'S TIME COME?

Given the headwinds emerging economies face and the transitions they need to make, even the most hardened and specialised investors will find investing more challenging and complex than it has been in at least a decade.

With this in mind, we asked investors which emerging economies and regions are most attractive to them and there was one clear winner – India.

Not only did some 77% of respondents say that India was the preferred and most preferred country of the BRICS to invest in, but about 34% of respondents – by far the highest proportion – said India was the emerging economy of them all they are most interested in (see chart on page 10)

It's little wonder why. Among the BRICS and wider global economy India is the standout performer. The country's growth rate hit 7.5% in 2015, outstripping China for the first time since 1999, at the same time making India the fastest growing large economy.

Improving economic fundamentals, even before prime minister Narendra Modi swept to power in 2014, have accelerated India's rise, in turn boosting the country's attractiveness to foreign investors.

A low oil price and healthy remittances, for instance, have strengthened its current account position, while inflation too is steadily improving under respected central bank governor Raghurman Rajan.

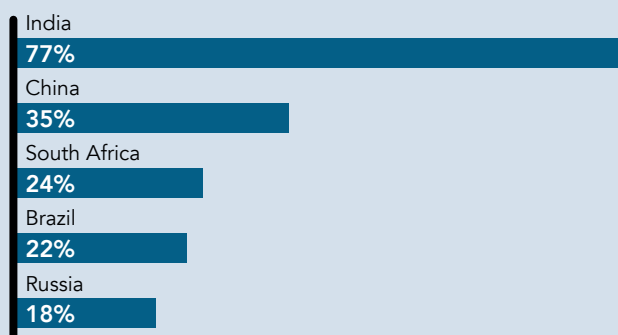
Importantly, India is also less dependent on exports to drive growth than many other emerging economies, with some 70% of GDP growth driven by domestic consumption.

It's not all positive however. The lack of progress on reforms continues to weigh on corporate investment sentiment, while public sector banks are faced with deteriorating asset quality and are not in a strong position to provide credit for much needed infrastructure projects.

For now, Indian growth is being driven by domestic consumption, but ultimately investors still need to see legislative changes to encourage private sector investment, productivity growth, and a sustainable economic growth.

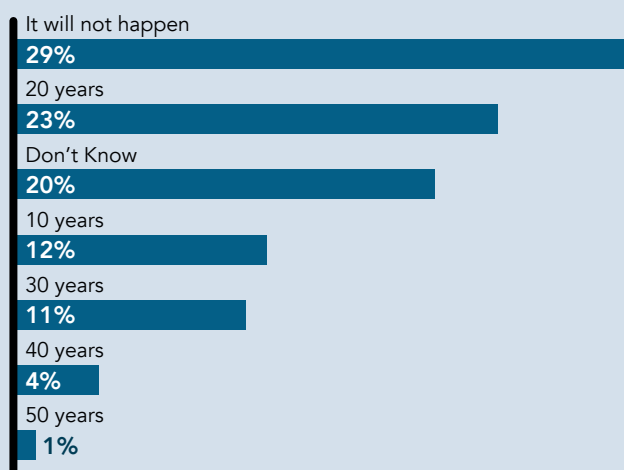
There is a stark divergence in growth prospects across the BRICS. Rate the BRICS in terms of investment preference in the next 12-24 months

(Percentages based on the number of votes for preferred and most preferred)



Source: Euromoney Institutional Investor Thought Leadership

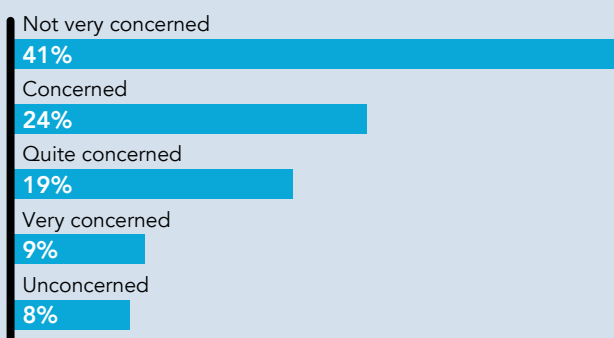
India's GDP growth rate in 2015 surpassed China's for the first time since 1999. How soon do you think the size of India's economy will surpass China's?



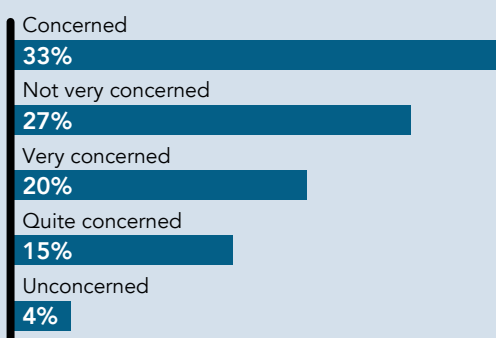
Source: Euromoney Institutional Investor Thought Leadership

How concerned are you about the following?

The sharp sell-off in Chinese equities during the summer of 2015?



The attempts by the Chinese government to try and stem the sell-off?



Source: Euromoney Institutional Investor Thought Leadership

China's slowdown, on the other hand, is making India look good, but it still remains an attractive in the context of the BRICS and the broader emerging markets universe.

Some 31% of respondents said that China was their preferred and most preferred country of the BRICS to invest in in the next 12-24 months, ahead of South Africa, Brazil and Russia, respectively.

With Brazil and Russia in the grip of fierce recessions, and South Africa's economy barely growing at all, it's little surprising these countries are ranked where they are.

But even though China is still growing, foreign investors have two main concerns: the potential for a hard landing for the economy; and the Chinese government's unorthodox intervention in the last 12 months to try and stem the market sell-off in Chinese equities.

Indeed, while most respondents (41%) said they were not very concerned by the volatility in Chinese equities, 53% said they were concerned or very concerned by the government's actions, which included banning listed company shareholders with big stakes from selling shares and using central bank money to bolster the market.

All in all this has not only meant that global investors have lost faith in China's mandarins. But within China itself, the reform-minded officials who have overseen the turmoil have also been widely discredited, denting their plans for market-oriented economic reforms.

Growth however, isn't everything. Size does matter. And on being asked when the size of India's economy might surpass China's most respondents (29%) said it will not happen, while 23% said in 20 years and 20% said they didn't know. Only 10% said in 10 years.

That India's economy is doing well has inevitably provoked talk of India taking China's mantle. But that, as showed by the survey responses, is overly optimistic.

At around \$11 trillion China's economy is still at least five times the size of India's, which means it is a very long way from having the economic power to add much to global growth in the way that China does.

BEYOND BRICS – WHERE TO NOW?

Outside of the BRICS, investor appetite varies widely but there are specific clusters of interest at the continental, regional and country level.

On asking which emerging or frontier economies are of most interest in the next 12-24 months, Africa including sub-Saharan Africa were of most interest at the continental and/or regional level, followed by Asia including Asean, and Central and South America.

Africa and sub-Saharan Africa in particular has been of interest to investors for a long time but it is only really in recent years that they have started to move in with any serious intent and conviction. High rates of economic growth are certainly attractive. But along with greater political stability, has also come policy continuity and improved governance – critical pieces for attracting and sustaining long-term institutional investment.

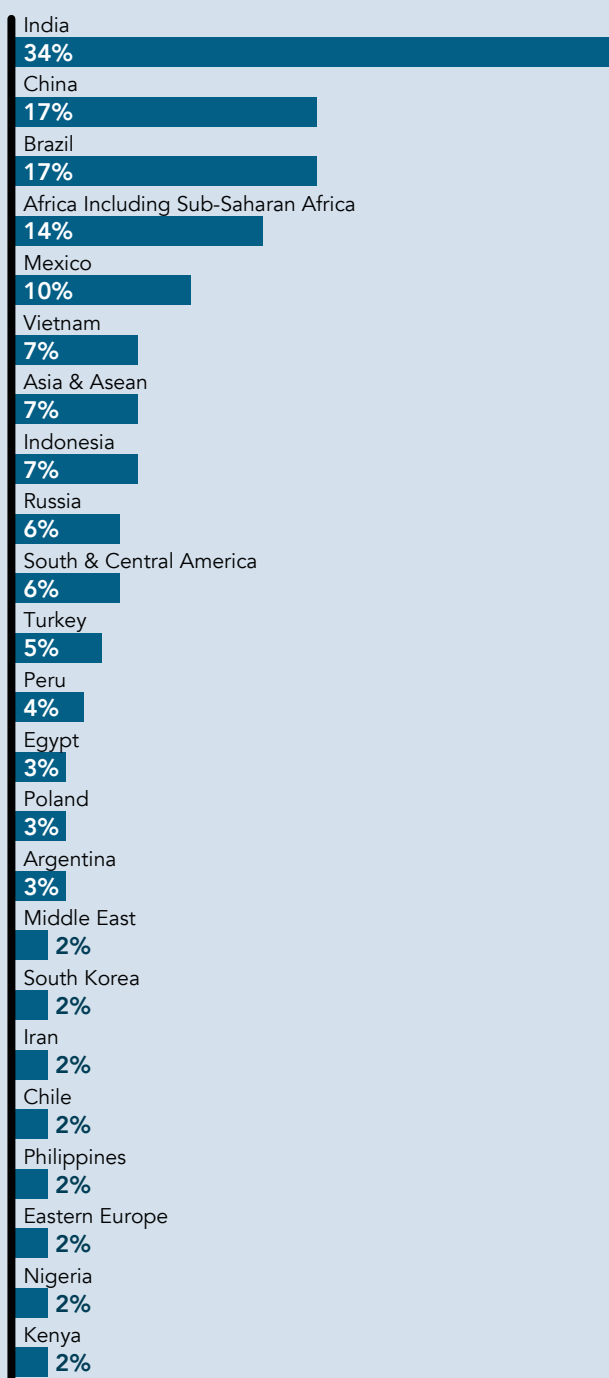
In particular, the top three African countries of most interest to investors are Egypt, Nigeria and Kenya, respectively. While Egypt is still recovering from the throws of political upheaval, its potential for growth and development is huge, supported by its location at the cross-roads of Europe, Africa and the Middle East, a large population and an expanding middle class. Nigeria, Africa's largest economy, and Kenya, Africa's fastest growing economy in recent years, have long been the darlings of investment on the continent. And despite some troubling economic headwinds slowing growth, their attraction seemingly hasn't dimmed.

In Asia, most respondents said that Vietnam, followed by Indonesia and the Philippines, are of most interest to them (excluding India and China) over the next 12-24 months, while in central and South America (excluding Brazil) their top three choices are Mexico, followed by Argentina and Peru.

Vietnam is already one of the fastest growing economies in Asia – it recorded growth of 6.7% in 2015 – and prime minister Nguyen Tan Dung is promising even faster growth in the region of 7% to 2020.

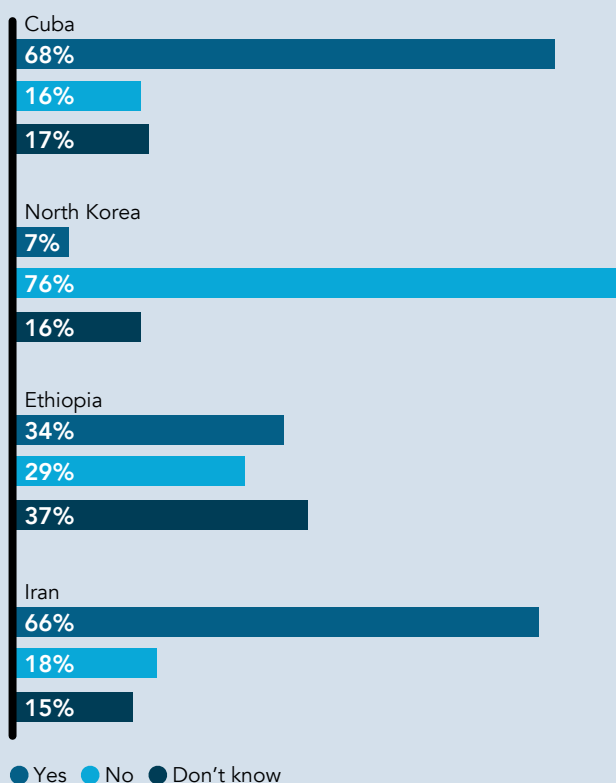
Such a strong economic performance is supported by low inflation, low unemployment and more robust foreign trade flows, which has come partly from diversifying its export structure away from lower value products into more high technology products, such as electronics and computers.

Which emerging market economies or frontier markets are of most interest to you in the next 12-24 months? (Markets by percentage of total votes)



Source: Euromoney Institutional Investor Thought Leadership

Over the next 5-10 years, do you see investment potential in any of the following countries?



Source: Euromoney Institutional Investor Thought Leadership

This, in turn, is supporting Vietnam's current account, boosting reserves and feeding into domestic demand, which generates greater investment as a result.

Across the Pacific Ocean, Mexico is by some margin of most interest to investors in central and South America over the next 12-24 months despite growth in the low single digits.

The country, just as the other large economies in the region, has been impacted by protracted decline of commodity prices and associated fiscal pressures. But economic growth is expected to pick up this year from around 2.5% in 2015, thanks to dividends from the implementation of structural reforms and strengthening demand from the US – Mexico's main trading partner.

Looking out longer, and between 5-10 years, we wanted to gauge the level of investor interest in four specific economies that are beginning to open up and offer investment opportunity, or at least might do at some point.

On asking whether or not investors see investment potential in Cuba, Iran, Ethiopia and North Korea, a substantial 68% of respondents said that they do see potential in Cuba, with 66% saying the same for Iran. Some 34% said that same for Ethiopia, while 7% – higher perhaps than could be reasonably expected – said they saw potential in North Korea.

The response to Cuba and Iran is somewhat to be expected, following two historic events last year that could help transform their fortunes after years in the economic wilderness. The first was the US' move to restore diplomatic and economic ties with Cuba after close to half a century. The second, the accord struck between United Nations Security Council and Iran last July to restrict its nuclear programme, which, in turn, has meant that long-held oil and financial sanctions on Iran have started to be lifted.

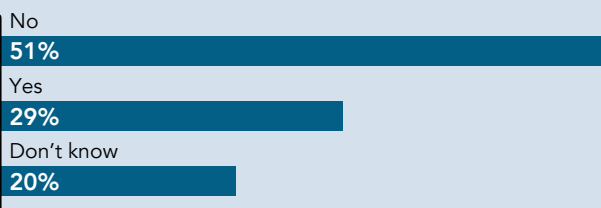
To be fair, Iran presents a far larger opportunity for foreign investors. Iranian president Hassan Rouhani has already said he expects about \$50bn of foreign investment to flow into Iran's \$400 billion economy this year, when growth is forecasted to race to over 4% from a dismal 0.8% in 2015.

Most investment is expected to be targeted at Iran's financial services sector, but it will likely be a trickle rather than a gush in the near-term.

CHINA'S RISE FROM ZERO TO HERO IN OVERSEAS INVESTMENT

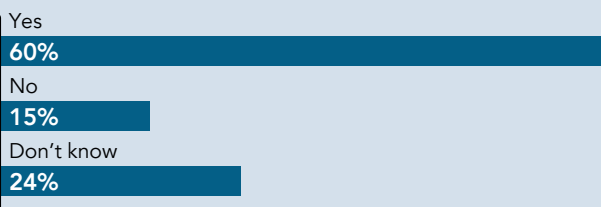
In close to a decade China's outbound foreign direct investment has rocketed from virtually zero to roughly \$100 billion a year, propelling it into the top three exporters of overseas investment globally and pushing it within touching distance of the US at the top.

China's overseas FDI has risen from virtually zero to \$100 billion a year in a decade. Given this, do you expect China to overtake the US as the world's largest overseas investor by 2020?



Source: Euromoney Institutional Investor Thought Leadership

Are some governments right to have concerns about the AIIB's compliance with accepted principles on good corporate governance, transparency and environmental sustainability?



Source: Euromoney Institutional Investor Thought Leadership

The Chinese government's desire to see Chinese companies boost their international competitiveness has underpinned this investment drive, which will accelerate, pushed by substantial infrastructure investments envisioned in the "One Belt, One Road" initiative.

Given this growth, and the expectation in some quarters that China will eventually surpass the US as the largest overseas investor, we asked investors if this could happen by 2020.

All in all, most (51%) respondents said that this would not happen in the next four years, but some 29% said that it could and 20% said they didn't know.

On where investors expect most Chinese overseas investment to be directed over the next four years, most respondents said Sub-Saharan Africa (19%), followed by South America and Asean, respectively. On which industries would be targeted, most respondents said natural resources (25%) would attract most investment, followed by infrastructure and agriculture.

What's interesting though, is that these findings don't yet reflect what is being dubbed China's 'third wave' of outbound direct investment.

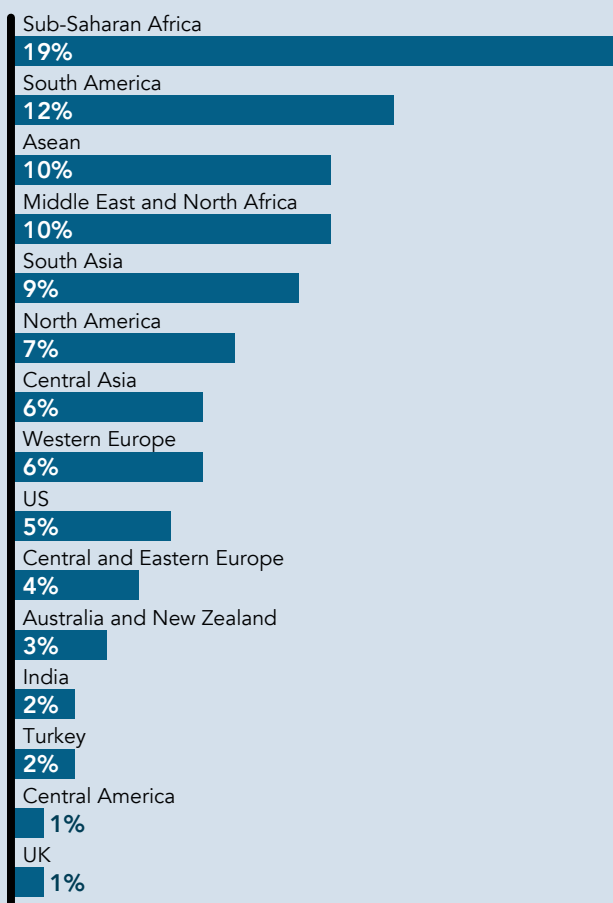
In previous waves, Chinese investment predominantly focused on natural resource and extraction industries in emerging economies.

This third wave focuses instead on agriculture, high-end manufacturing, consumer goods, real estate, services and brands in developed economies, and particularly the UK and Europe.

While at an early stage, growth rates in this third wave are rapidly accelerating. That's not to say China's investment in infrastructure such as roads, rail, shipping and ports in emerging economies will slow – far from it. Under the auspices of the New Development Bank and the Asian Infrastructure Investment Bank, infrastructure investment in emerging economies is expected to surge in the coming years, and China's contribution to this will be substantial.

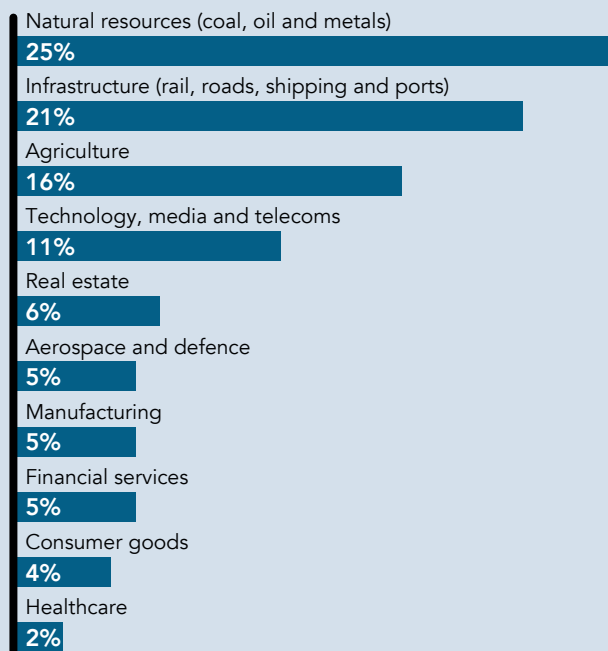
Investors do see the NDB and AIIB as a force for good in helping emerging economies address their huge infrastructure investment needs over the next five to 10 years, with 55% of respondents believing its important or quite important to that end. However, some 60% of respondents do believe there is a cause for concern over the AIIB's compliance with accepted principles on good corporate governance, transparency and environmental sustainability.

Which regions and countries do you expect China to focus most overseas direct investment on in the next four years?



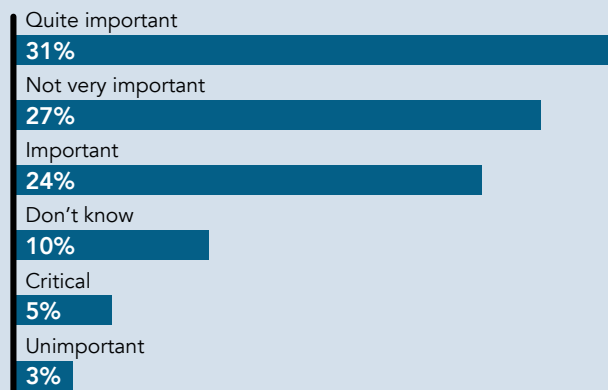
Source: Euromoney Institutional Investor Thought Leadership

Which industries do you expect China to focus most overseas direct investment on in the next four years?



Source: Euromoney Institutional Investor Thought Leadership

How important a role will the New Development Bank and Asian Infrastructure Investment Bank play in helping emerging economies address their infrastructure investment needs in the next 5-10 years?



Source: Euromoney Institutional Investor Thought Leadership

TIME TO RE-ASSESS EMERGING MARKETS INVESTING?

When bad news hits global financial markets, emerging market assets tend to get hit hard, fast and first. The deep rooted perception that they are risky and volatile makes such a response by investors the norm.

But what if this knee-jerk reaction were to be re-assessed? What if investors were to more carefully assess the validity of reducing their exposure to emerging market stocks and bonds on the first sign of trouble, and particularly trouble emanating from developed markets?

It's a change that respondents to our survey support. Specifically, asked if they believe the usual response of selling emerging market assets during developed market crises should be re-assessed, a resounding 67% of investors agree and strongly agree that this should happen.

If they were to have been asked the same question before the global financial crisis, the response would unlikely be so emphatic.

That's largely because since then, there has been a belated realization among investors that risks in developed markets have been under-priced.

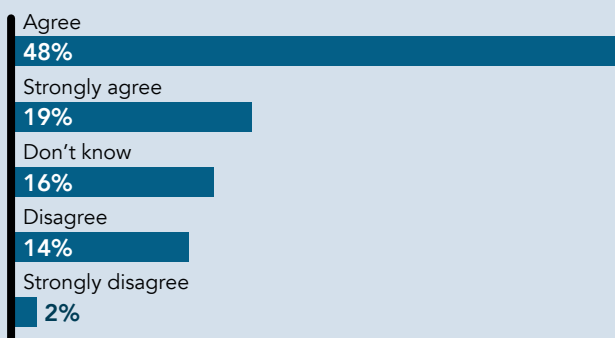
Seemingly low risk or 'risk-free' securities such as Eurozone government bonds have turned out to be anything but free of risk.

It's a realization reflected in the survey. Asked whether they agree or not that developed market risks are broadly under-priced relative to risks in emerging markets, some 60% of respondents said that they agree and strongly agree.

This has, in turn, forced many developed-market investors to deal for the first time with concepts such as sovereign credit risk, which for emerging market investors is almost standard practice. One manifestation of this is the lower liquidity and higher volatility seen in developed markets, traits normally associated with investing in emerging markets.

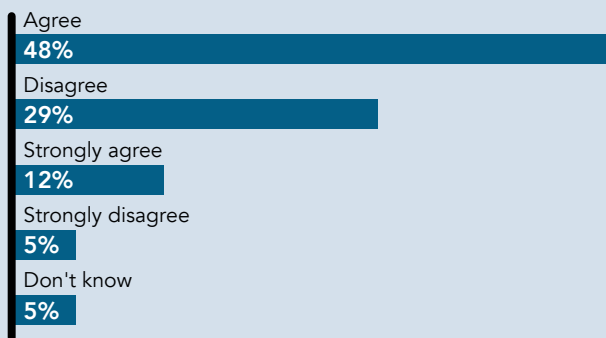
The problem however, is that many investors still think that irrespective of how risky the US and Europe are, emerging markets are by definition always riskier. The result is that when a bout of risk-aversion rises from trouble in developed markets, the typical reaction by investors is not only to sell emerging markets, but concentrate even more of their investment in developed markets. This response is hard-wired into market behaviour. But if the responses to our survey are anything to go by, those behaviours could be changing.

Do you believe the usual response of selling EM assets during developed market crises should be reassessed by the global asset management community?



Source: Euromoney Institutional Investor Thought Leadership

Broadly, do you agree that developed market risks are under-priced relative to risks in developing markets?



Source: Euromoney Institutional Investor Thought Leadership



CONCLUSION

Without doubt, the investment optimism that has helped shape and propel emerging economies for over a decade has evaporated, replaced instead by a pessimism that threatens to linger for some time to come.

China's economic slowdown together with rising rates in the US, a stronger dollar, and a low and languishing oil price are some of the main if only a few of the many factors to have forced emerging economies out of fashion.

For at least the next 12 months, investing in emerging economies is likely to remain so.

The change in mood is understandable. Last year, for instance, was the fifth successive year in which economic growth in emerging economies slowed. Two of the BRICS – Brazil and Russia – are in recession. Many are uncertain whether the Chinese authorities can engineer a soft landing for their economy, as it slows from the furious growth of previous decades. What's more, the advantage emerging economies had over more advanced economies – in terms of a faster growth rates – fell last year to its smallest since 2001, according to the IMF.

This is worrying, not least because a slowdown in growth in emerging economies has been accompanied by a rapid build-up of corporate debt. Slower growth will make it more difficult to repay that debt, while declining

local currencies in emerging economies will make it more difficult to repay the portion of that debt that is denominated in dollars. A big question for investors in emerging economies is whether a corporate debt crisis is looming? Time will tell.

But for all the doom and gloom, the longer term growth narrative of the emerging world still looks strong and compelling, creating a confidence and conviction that these economies will bounce back stronger over time, and opening up investment opportunities along the way.

That is at least the prognosis of over 250 senior investment professionals who took part in our global emerging markets survey, most of whom say there are ample reasons to keep the faith. High among them is the excitement and expectation behind the rise of India, Africa and Iran.

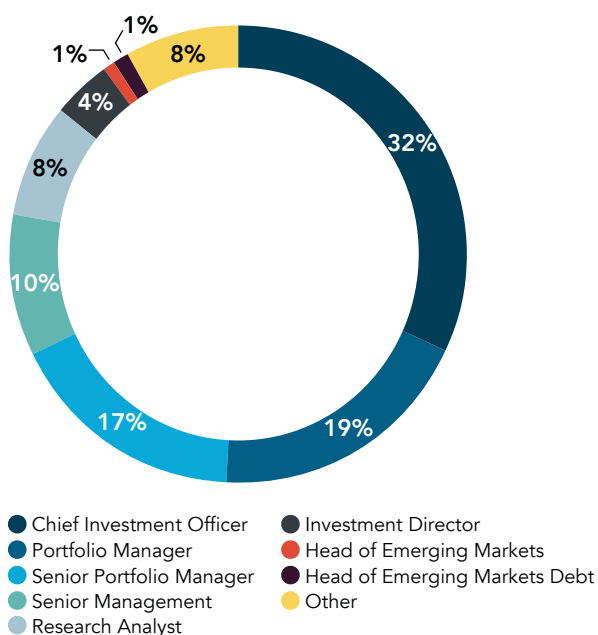
Investors will no doubt shift around and twist on their investments in emerging economies during this darker more turbulent period. But for those looking out over the longer-term, investing in emerging economies is still worth the gamble.

APPENDIX

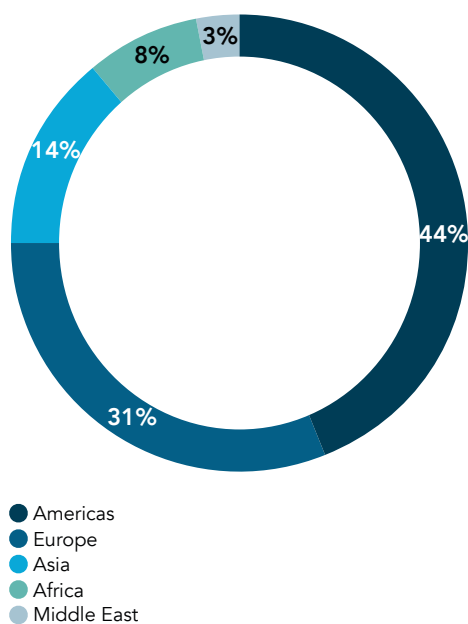
DEMOGRAPHIC BREAKDOWN OF RESPONDENTS

In total 277 responses were received from institutional investors globally

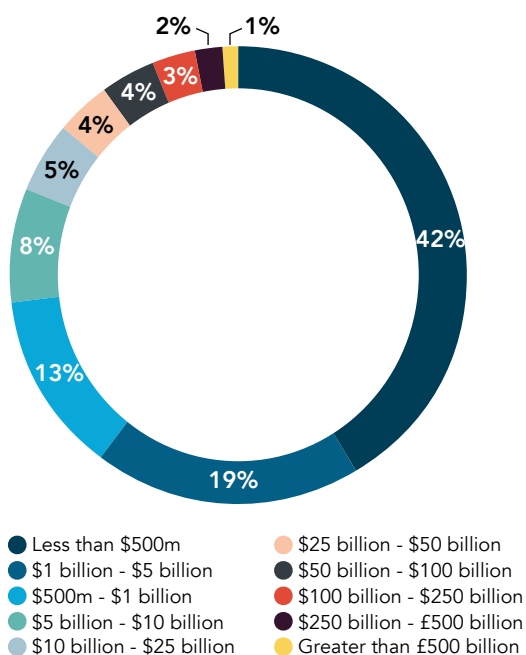
What is your role within your institution?



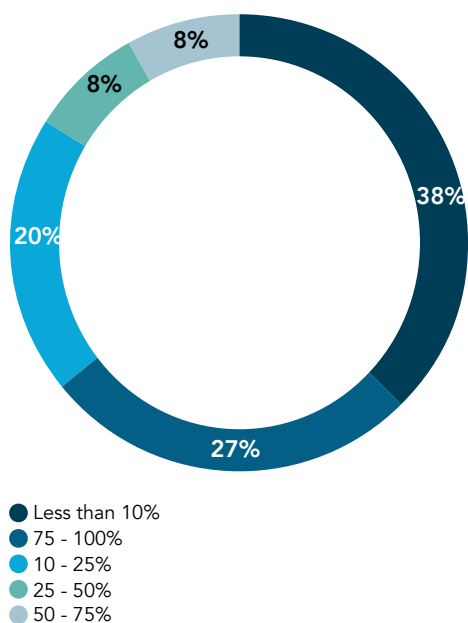
Where is your institution principally based?



What is the total value in US dollar terms of your firm's assets under management?



What proportion of your firm's total AUM is invested in emerging markets (across asset-classes)?

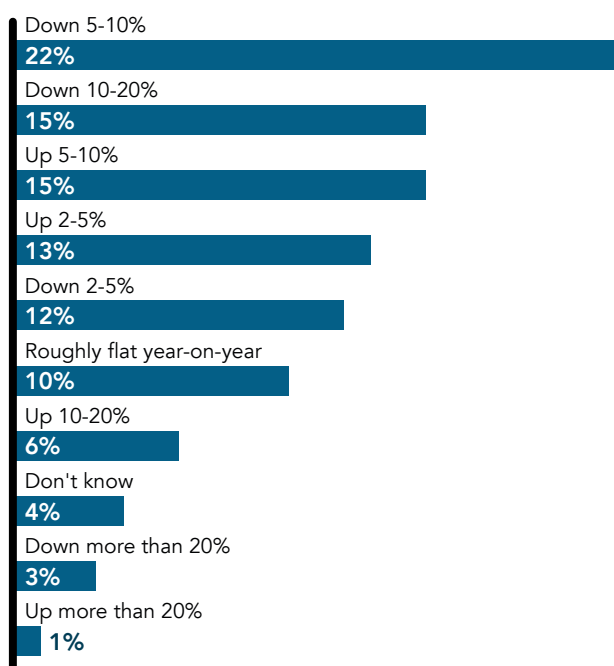


BREAKDOWN OF RESPONSES TO EACH OF THE SURVEY QUESTIONS

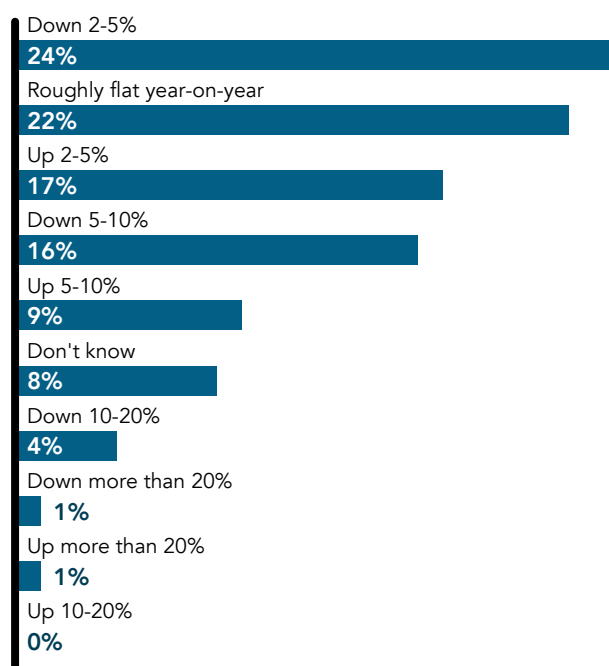
Q1

At the end of 2015, and relative to 2014, where do you expect the annual performance of the following indices to be?

MSCI Emerging Market Index

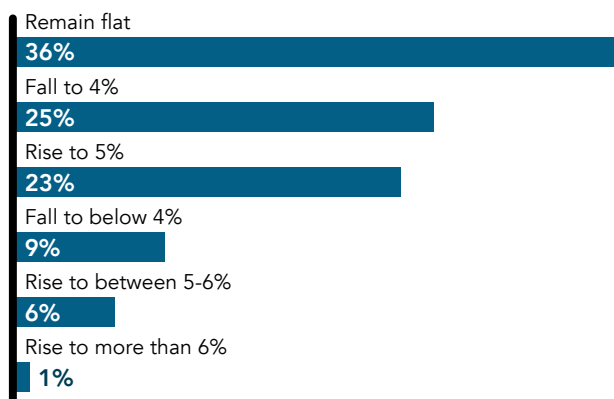


JP Morgan Emerging Market Bond Index Global



Q2

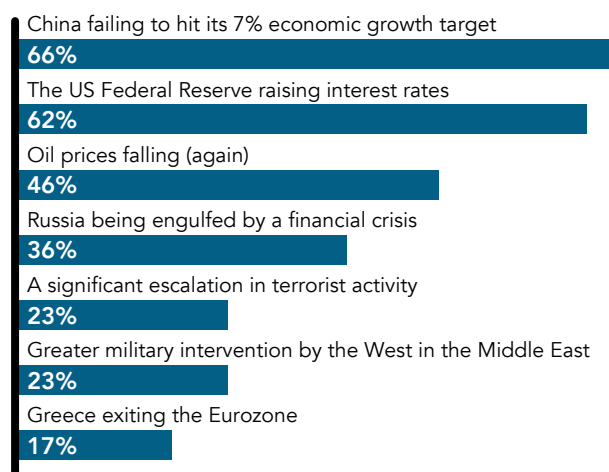
Emerging economies delivered a combined economic growth rate of 4.3% in 2015. Given this, do you expect the growth rates in 2016 to:



Q3

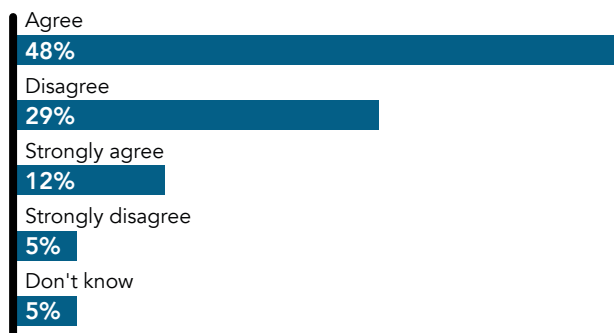
On a scale of 1-5 – where 5 is highly likely – rank the following macro-risks on the likelihood they could provoke a sharp-sell off in EM assets over the next 12 months:

(Percentages are based on the number of votes for 4 or 5 in each category)

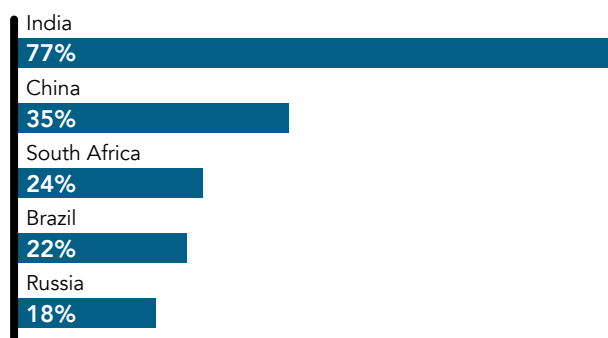


Q4

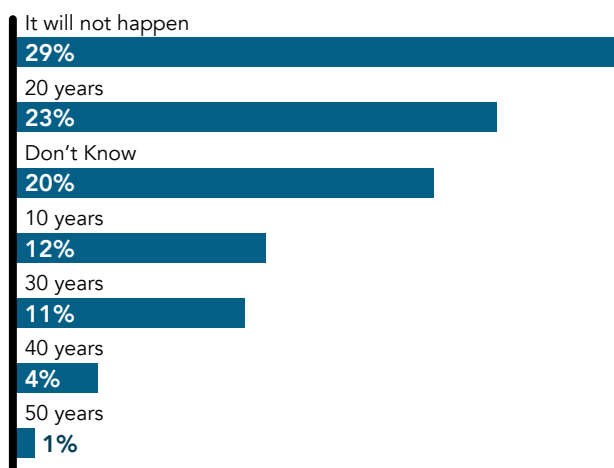
Broadly, do you agree that developed market risks are under-priced relative to risks in emerging markets?

**Q5**

There is a stark divergence in growth prospects across the BRICS. On a scale of 1-5 (5 being most preferred), rate the BRICS in terms of investment preference in the next 12-24 months:

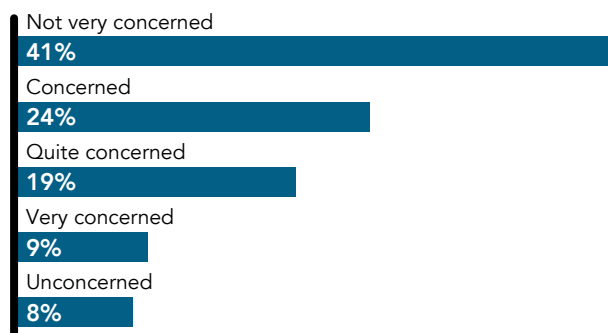
**Q6**

India's GDP growth rate in 2015 surpassed China's for the first time since 1999. How soon do you think the size of India's economy will surpass China's?

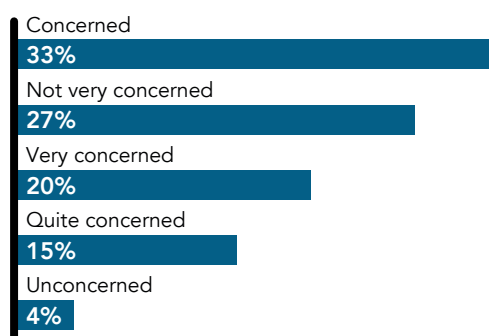
**Q7**

How concerned are you about the following?

The sharp sell-off in Chinese equities during the summer of 2015?



The attempts by the Chinese government to try and stem the sell-off?



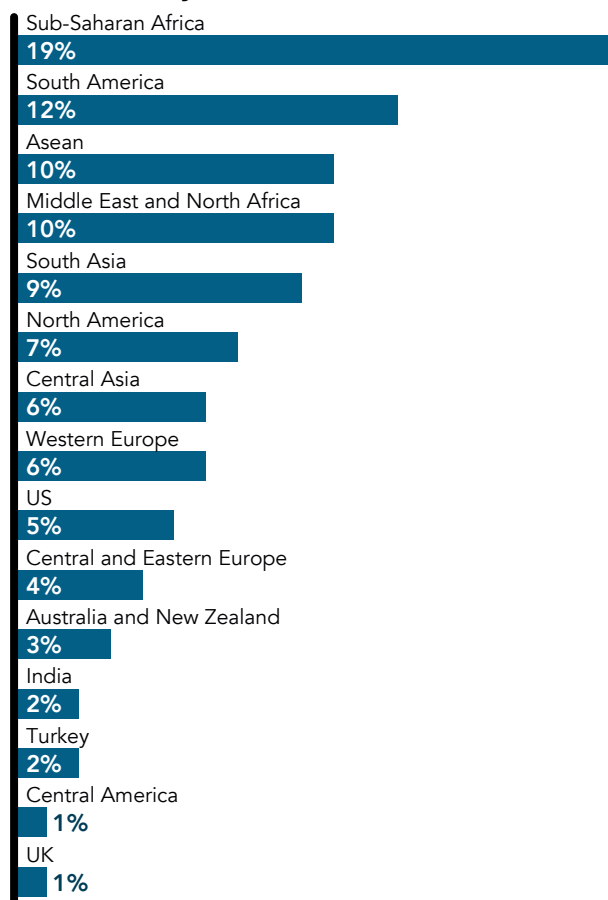
Q8

China's overseas FDI has risen from virtually zero to \$100 billion a year in a decade. Given this growth, do you expect China to overtake the US as the world's largest overseas investor by 2020?



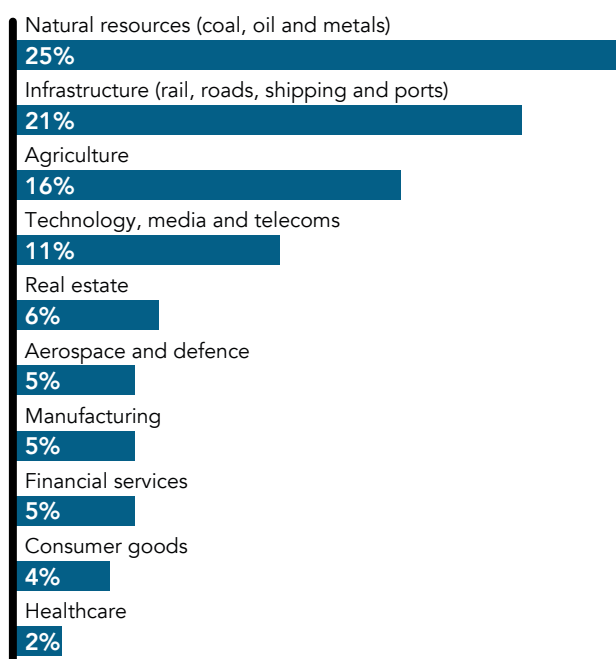
Q9

From the regions and countries below, select up to three which you expect China to focus most overseas direct investment on in the next four years:



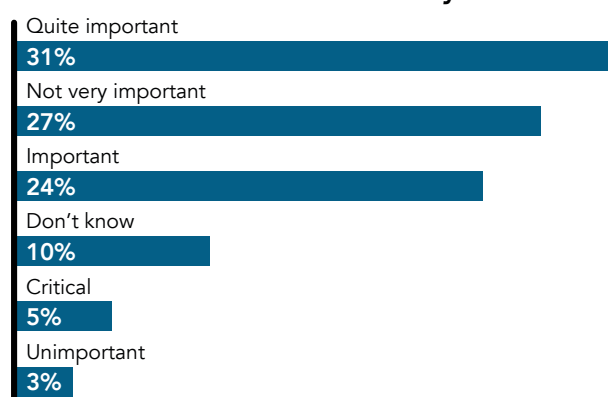
Q10

From the list of industry sectors below, select up to three which you expect China to focus most overseas direct investment on in the next four years:



Q11

How important a role will the New Development Bank and Asian Infrastructure Investment Bank play in helping emerging economies address their infrastructure investment needs in the next 5-10 years?



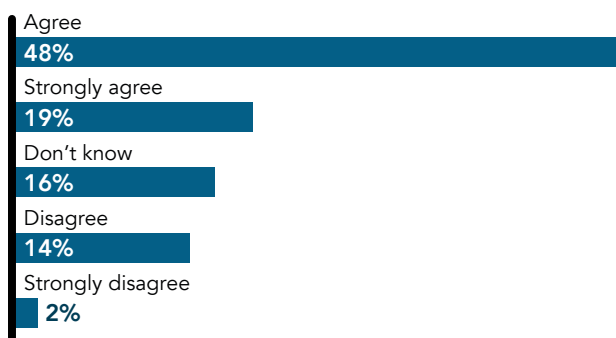
Q12

Are some governments right to have concerns about the AIIB's compliance with accepted principles on good corporate governance, transparency and environmental sustainability?



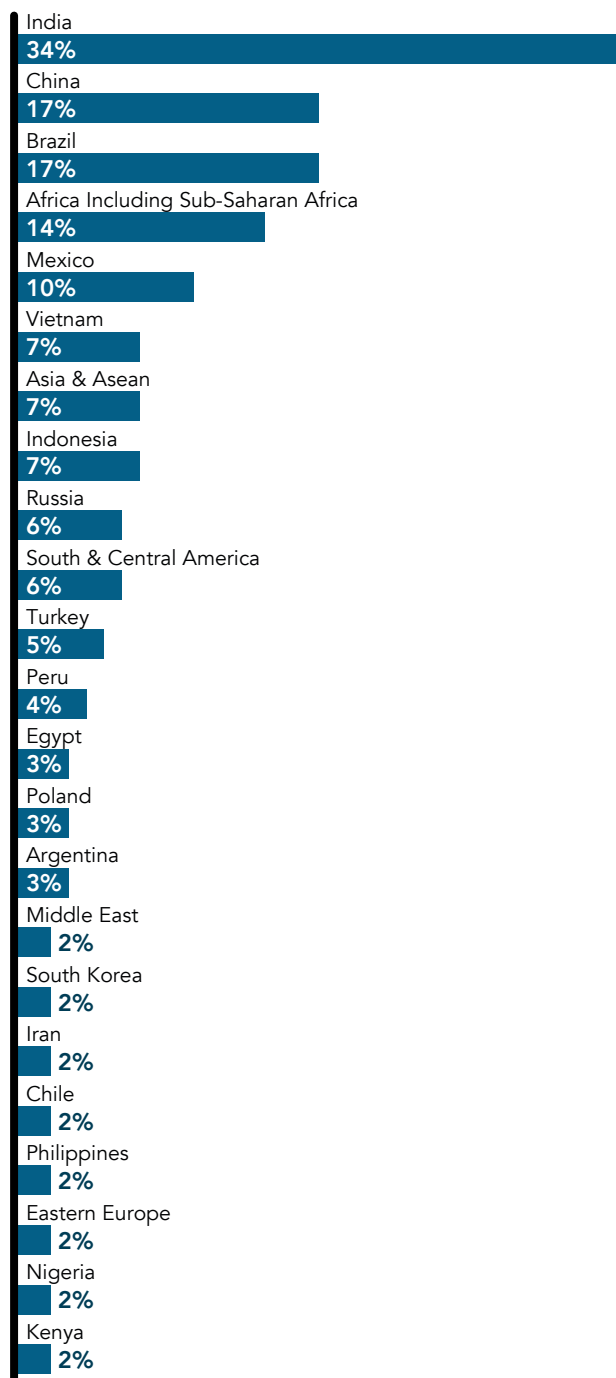
Q13

Do you believe the usual response of selling EM assets during developed market crises should be reassessed by the global asset management community?



Q14

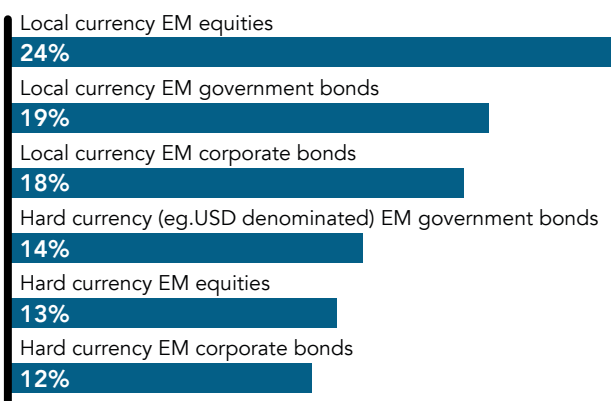
Which emerging market economies or frontier markets are of most interest to you as an investor in the next 12-24 months?



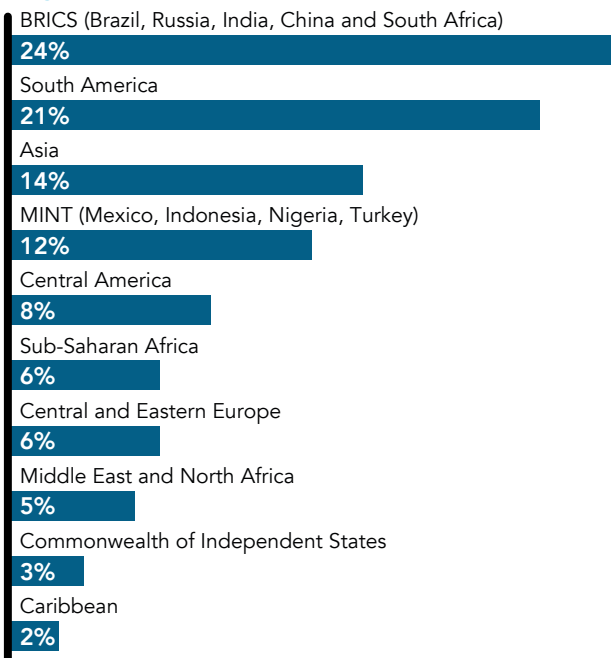
Q15

Which of the following asset-classes and regions do you think will be most affected by volatility caused by rising US interest rates?

Asset class



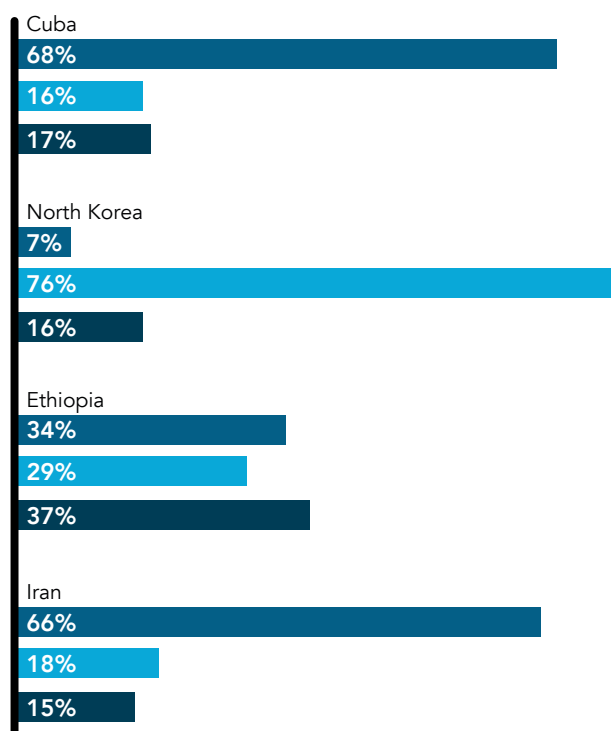
Region



Q16

Over the next 5-10 years, do you see investment potential in any of the following countries?

● Yes ● No ● Don't know





ABOUT



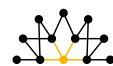
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