

A historical map of the world, likely from the 18th or 19th century, showing continents, oceans, and various geographical features. The map is rendered in a sepia or aged tone. Overlaid on the map is text in various colors and fonts. The main title is in large, bold, black serif font. Below it is a subtitle in a smaller, bold, black sans-serif font. Further down is a series of locations and dates in a blue sans-serif font. At the bottom is the speaker's name and affiliation in a black sans-serif font. The map background shows labels for various regions like 'Arabia', 'China', 'India', and 'Africa', along with geographical features like 'MARE' (sea) and 'Trop del Capricorno'.

Exploring The Frontier Emerging Equity Markets

**The Integration of Emerging Markets in the Global
Economy**

Travelling Conference Series:
Moscow, Warsaw, Munich, Frankfurt
October 25th-28th, 2010

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Caravan Capital Management, LLC

Overview

- What are they and how are they to be defined?
- Why should investors look at these markets?
- What are the rewards, the risks and the unique characteristics of these markets.
- How should investors approach investing in these markets? What are the challenges?
- How are these markets evolving? How were they impacted by the global financial & economic crisis?

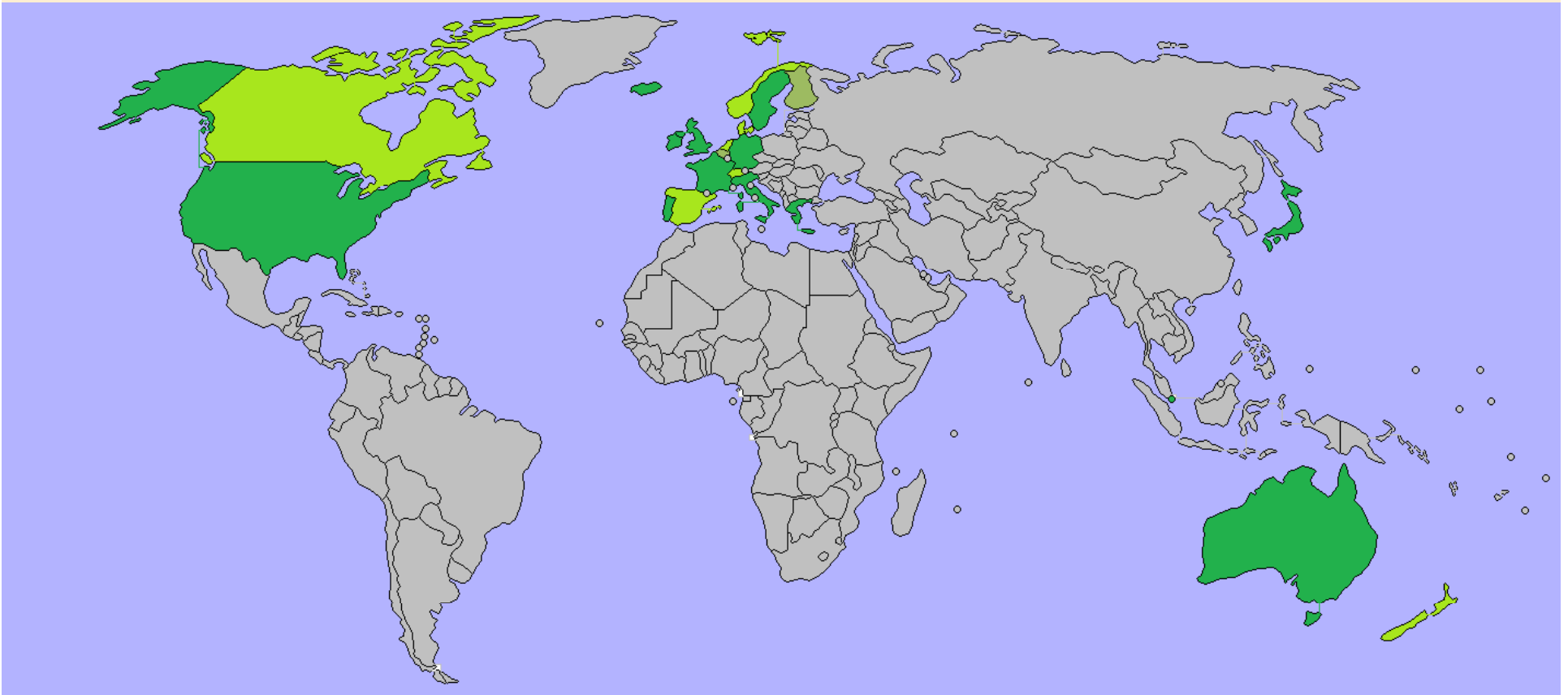


Definition of Frontier Markets

- S&P/IFC : “...markets that tend to be relatively small and illiquid even by emerging market standards.”
- MSCI: “...equity markets not included in the MSCI Emerging Markets Index...that do not belong to countries undergoing a period of *extreme economic and political instability*.”
- FTSE: “....screened...against the size requirements, basic governance and market infrastructure elements required by international institutional investors.”
- Merrill Lynch: “...untapped markets outside the mainstream,...the *emerging* emerging markets.”



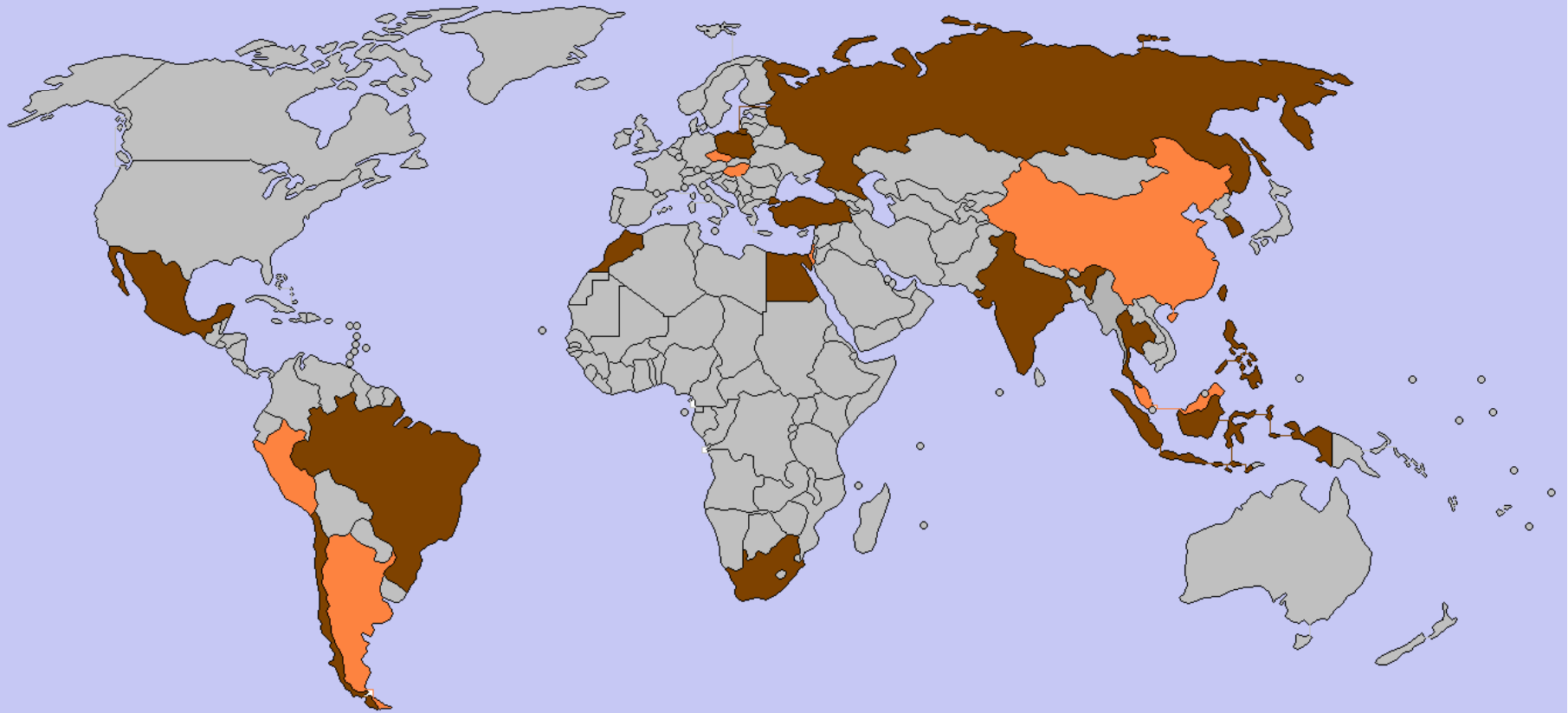
Developed Markets



US, Canada, UK, Ireland, Denmark, Norway, Sweden, Finland, Germany, Spain, France, Italy, Luxembourg, Netherlands, Belgium, Austria, Switzerland, Iceland, Portugal, Greece, Australia, New Zealand, Singapore, Japan, Hong Kong



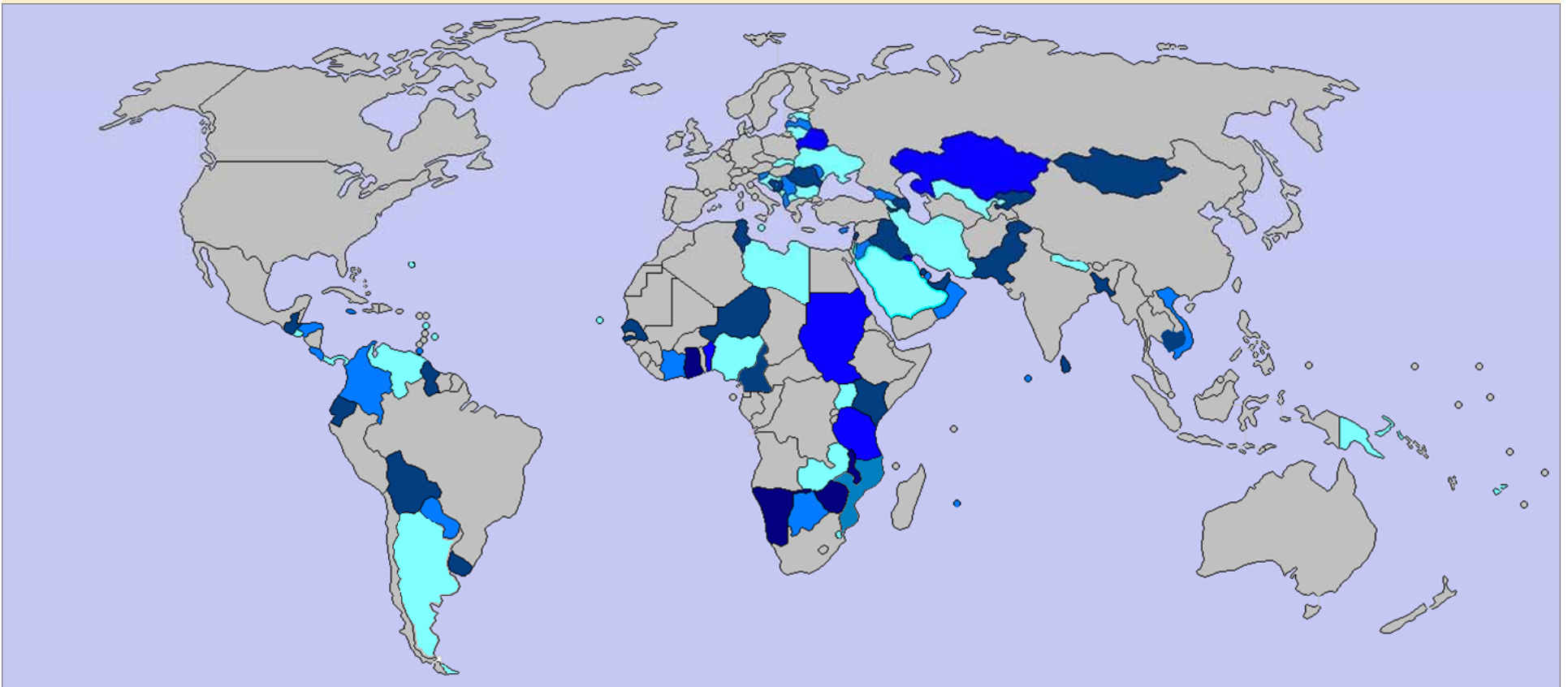
The Standard Emerging Markets



China, Russia, India, Mexico, Brazil, Peru, Chile, Morocco, Egypt, S. Africa, Hungary, Poland, Czech Republic, Turkey, Thailand, Indonesia, Malaysia, Philippines, Korea, Taiwan, Israel



The Frontiers: Expanding the Opportunities

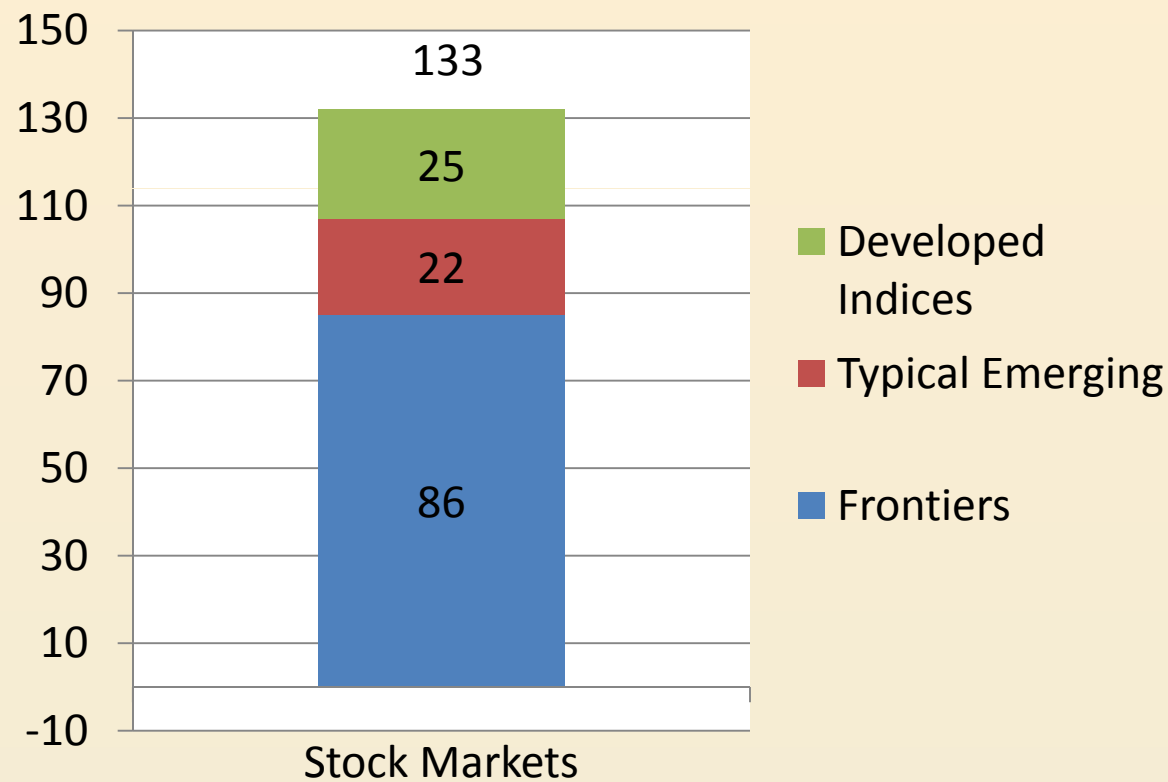


...and the rest...



Potential Frontier Market Universe

Stock Markets by Membership



Source: World Bank, The CIA Factbook, and the S&P Global Stock Guide. All countries with stock markets not included in the S&P Emerging or Developed market index are identified as Frontier Markets.



Frontier Market Universe

“Standard Frontiers” & “Exotic/Neglected Markets”

<u>Europe</u>	<u>Latin America</u>	<u>Sub-Saharan Africa</u>	<u>MENA</u>	<u>Asia</u>
Armenia	Argentina	<i>Benin</i>	Bahrain	Bangladesh
Azerbaijan	Barbados	Botswana	Iran*	Kazakhstan
Belarus	Bolivia	<i>Burkina Faso</i>	Iraq	Kyrgyz Rep.
Bosnia	Colombia**	Cameroon	Jordan	Maldives
Bulgaria	Costa Rica	Cape Verde	Kuwait**	Mongolia
Croatia	<i>Dominica</i>	Cote d'Ivoire	Lebanon	Nepal
Estonia	Ecuador	Ghana**	Libya	Pakistan
Georgia	El Salvador	Kenya	Oman	P. New Guinea
Latvia**	<i>Grenada</i>	Malawi	Palestine	Fiji
Lithuania	Guyana	Mauritius	Qatar	Sri Lanka
Macedonia	Jamaica	Mozambique	Saudi Arabia	Uzbekistan
Malta	Panama	Namibia	Sudan*	Vietnam
Moldova	St. Kitts and Nevis	Niger	Syria	
Montenegro	<i>St. Lucia</i>	Nigeria	Tunisia	<u>Upcoming</u>
Republika Srpske	Trinidad and Tobago	<i>Senegal</i>	UAE**	Angola
Romania	Uruguay	Swaziland		Ethiopia
Serbia	Venezuela	Tanzania		Cambodia
Slovakia		<i>Togo</i>		Laos
Slovenia		Uganda		Kurdistan (Iraq)
Ukraine		Zambia		
Cyprus		Zimbabwe		

Italics = Members of a regional exchange (BRVM in West Africa or ECSE in Caribbean.

•= Not Available to US investors

**=Not a member of FTSE's Frontier index

Bold = members of MSCI and/or S&P Frontier indices



Frontier Market Images: Perception *and* Reality



Angolan Car Wash



Angolan Mall



Mongolian Yurt



Downtown Ulaanbaatar



Kenyan Cattle Pen



Kenyan Coffee Shop



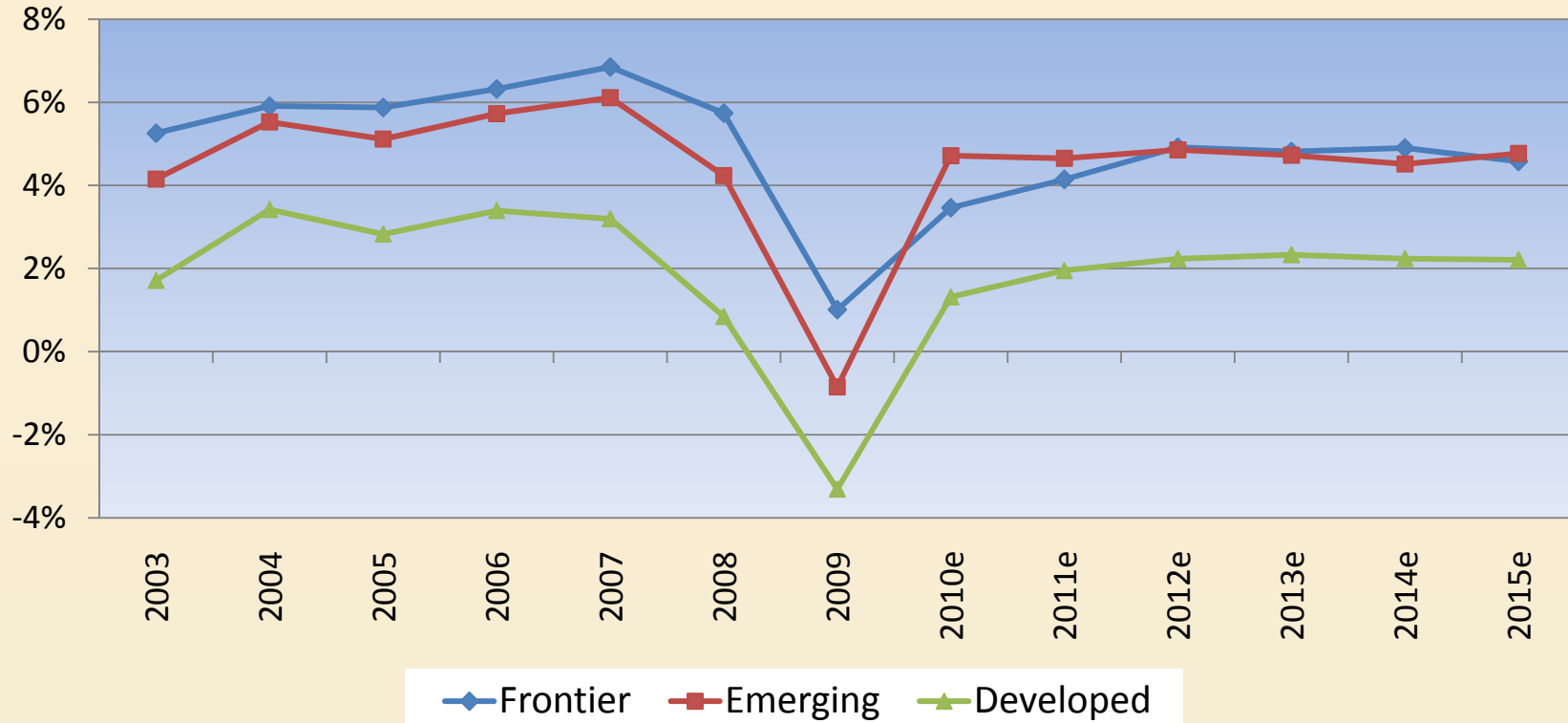
Why Frontiers?

- Growing economies
- High return potential
- Undercapitalized & Cheaper
- Low correlations
- Volatility is relatively low



Real GDP Growth by Year

Median by Group

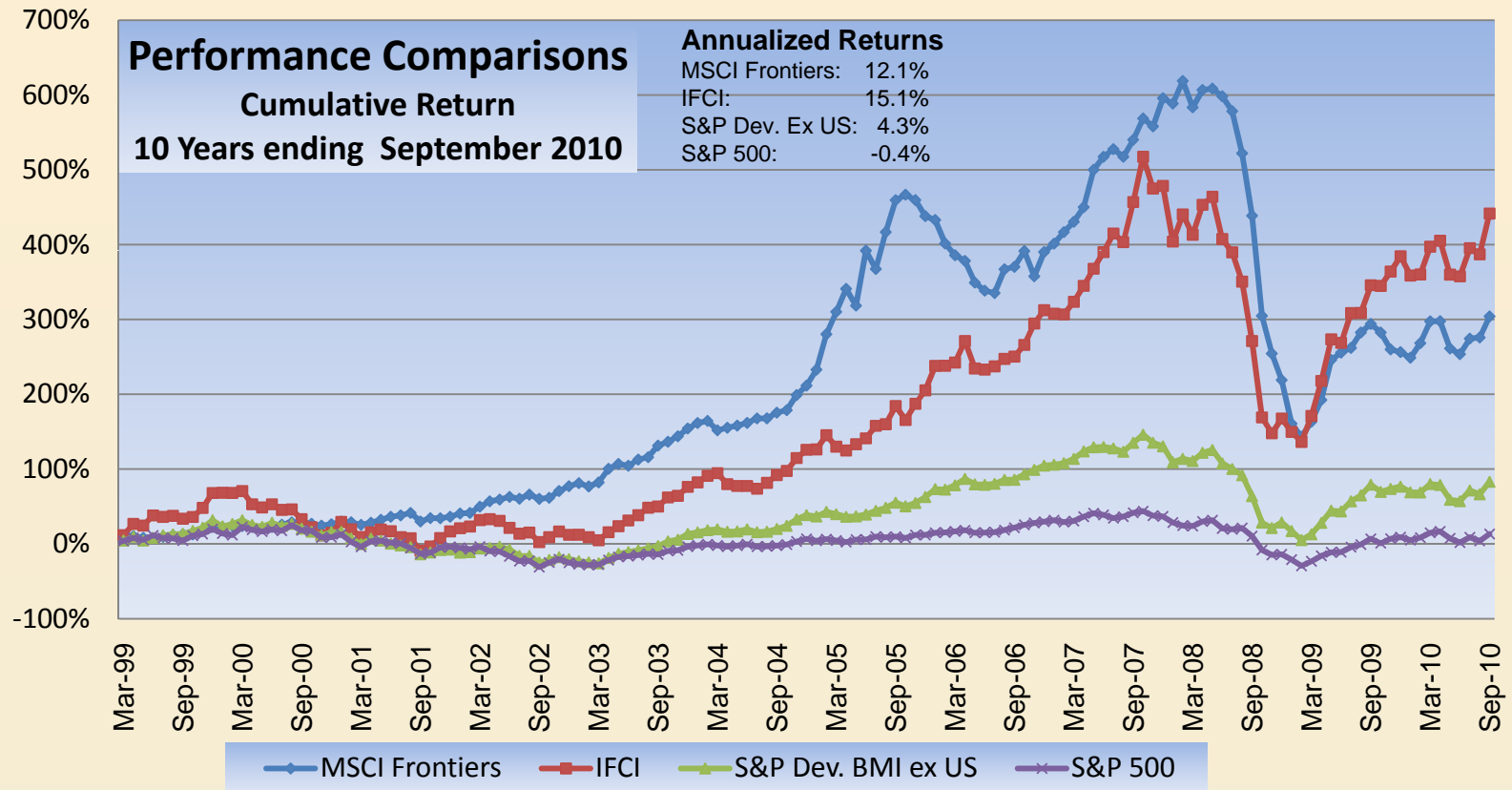


Source: Based upon IMF estimates and forecasts from the April 2010 World Economic Outlook Report of the IMF. The Frontier category represents the 84 frontier countries with markets covered by Caravan Capital universe, Emerging markets represents all countries contained in the S&P/IFCI Emerging Markets Composite and Developed markets represents the MSCI EAFE member countries plus US and Canada.



Cumulative Returns History

Frontiers have more room left to grow to recover back to pre-crisis levels.



Note: MSCI Frontier Markets Index, S&P IFCI (Emerging Markets) Composite, S&P Developed BMI ex. US, and the S&P 500 Index.

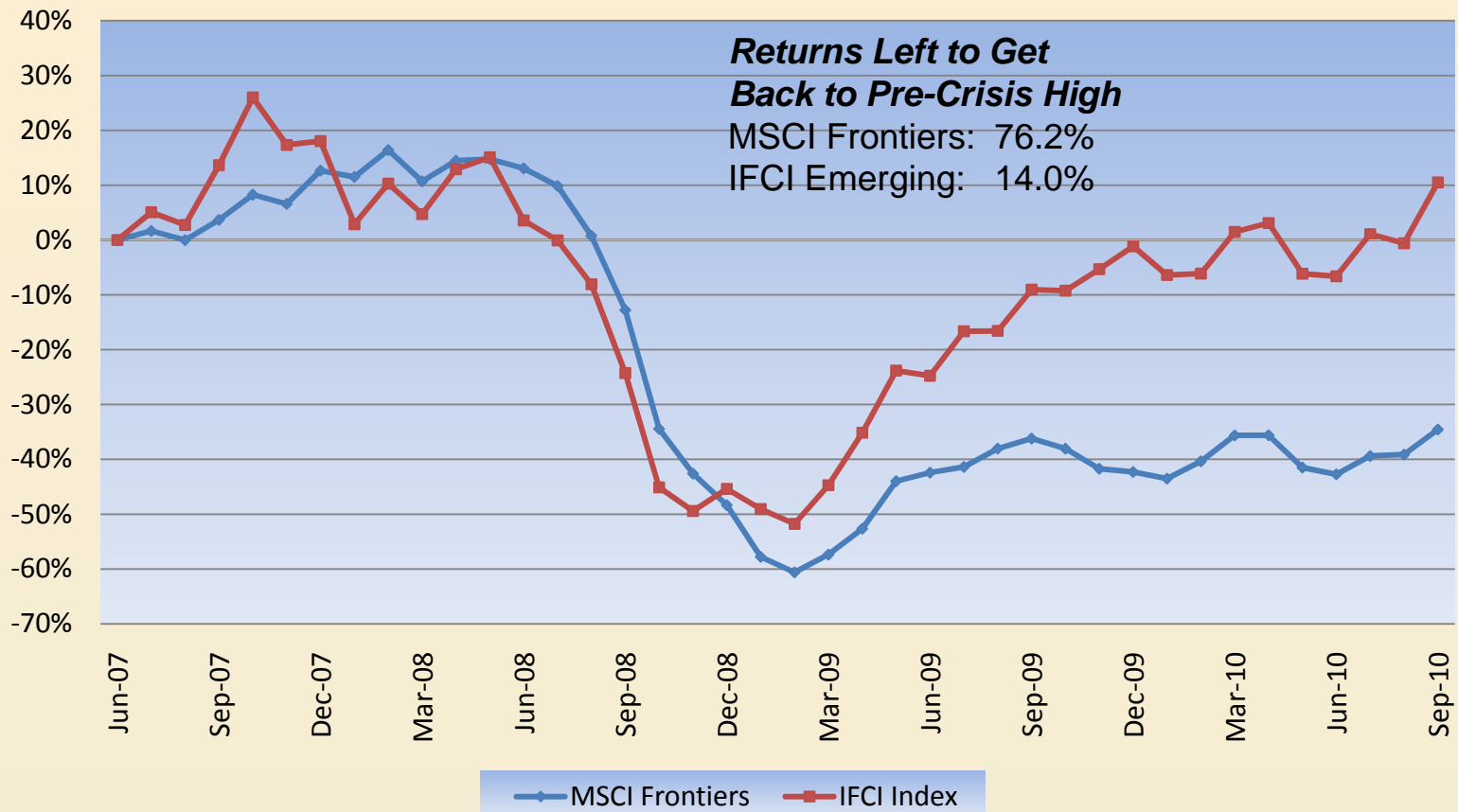
Cumulative returns calculated from index data provided by MSCI and S&P updated through 9/30/10.



The Impact of the Global Crisis

Cumulative Returns from Mid-2007 to Present

Emerging Markets back at Pre-Crisis Levels,
Frontiers Still have a ways to go

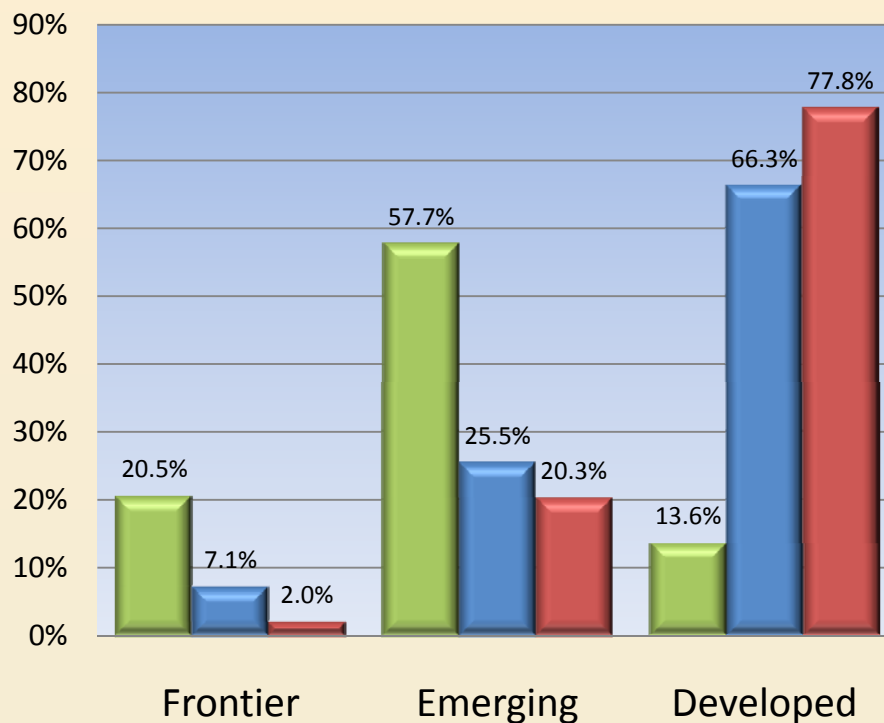


Note: Cumulative returns calculated from index data provided by MSCI and S&P, using data from 6/31/2007 through 9/30/10.

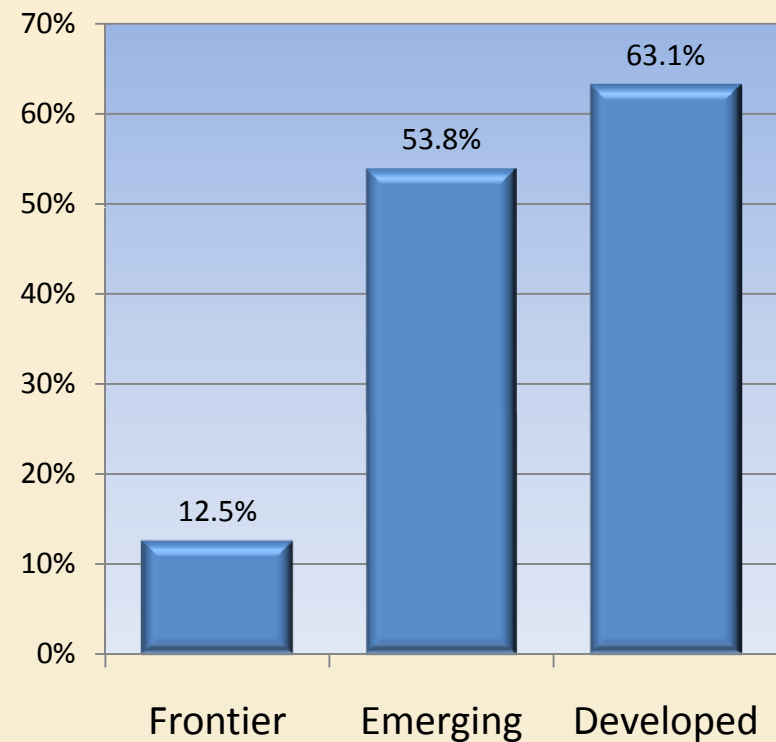


Frontiers are underdeveloped & undervalued relative to their share of World Population and GDP

Population, GDP, and Market Cap as % of World Total



Median Market Cap / GDP Ratio



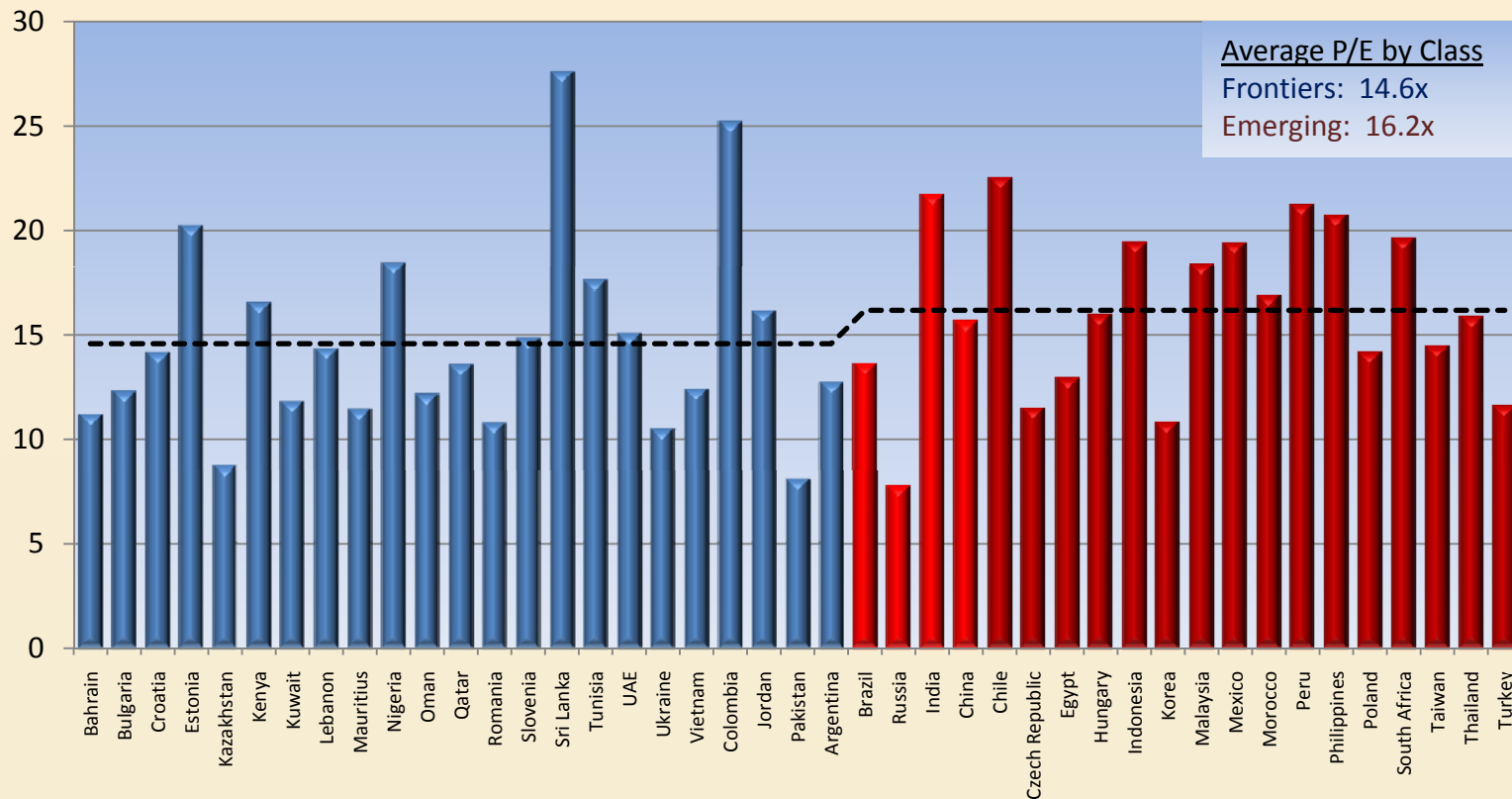
■ Population
 ■ GDP
 ■ Market Cap

Source: Market Capitalization data from Bloomberg and our proprietary database. Economic and demographic data from the IMF World Economic Outlook April 2010 data. Market Cap., GDP, and population data collected as of 12/31/2009.



Country Level Valuations

Frontiers cheaper than Emerging on a P/E basis



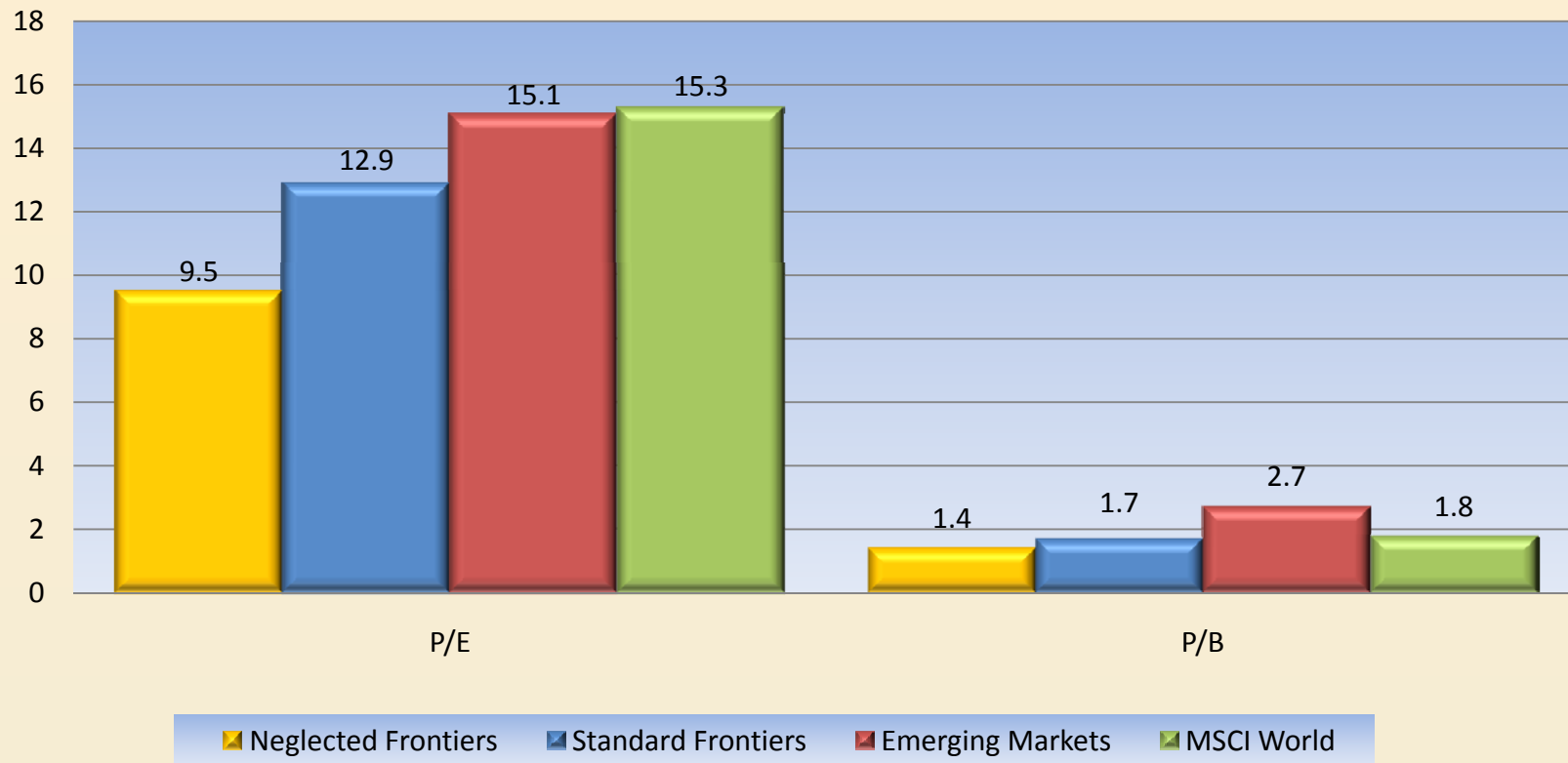
Notes: Ratios are based on trailing earnings. All data updated as of 9/10. The average P/E by class is calculated as a simple average of the country-level P/E ratios.

Source: Country market capitalization weighted P/E ratios based on MSCI country-level indices.



Valuations by Class

The outperformance of Emerging Markets during the recovery has left the Frontiers relatively undervalued.



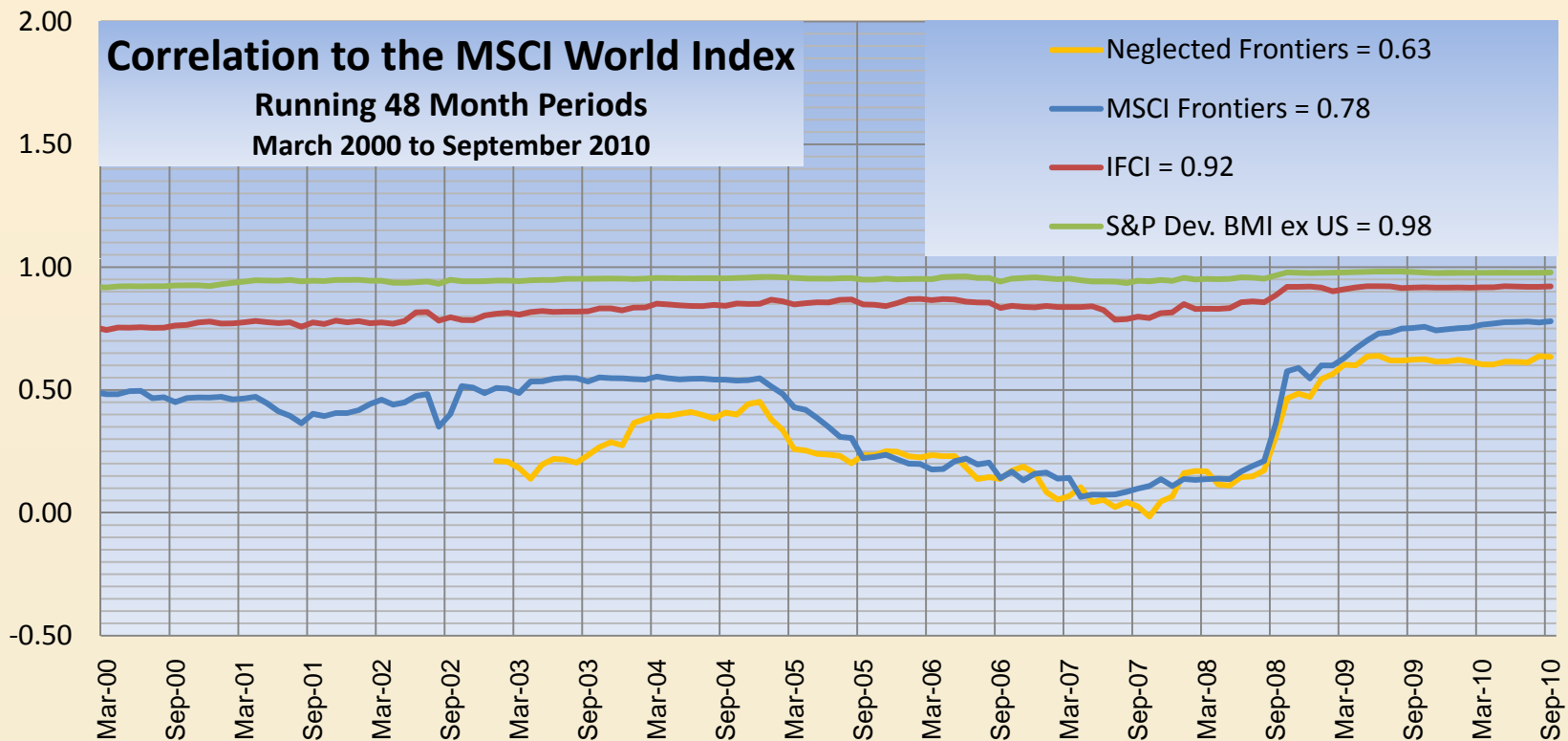
Notes: Ratios are based on trailing earnings and current book value. Index valuation data from Bloomberg. All data updated as of 9/10.

Source: MSCI Frontier Market Index, MSCI Emerging Markets Index, and the MSCI World Index. The Neglected Frontiers Index is a proprietary index of 28 early-stage frontier markets outside the standard frontier indices.



Correlation to the Developed Markets

While all correlations have spiked during the crisis, frontiers remain relatively uncorrelated, especially the neglected ones.



Note: Correlations calculated using 48 monthly periods ending 9/10.

Source: MSCI Frontier Market Index, Standard & Poor's IFCI (Emerging Markets) Composite, S&P Developed BMI ex. US and MSCI World. The Neglected Frontiers Index is a proprietary index of 28 early-stage frontier markets outside the standard frontier indices.



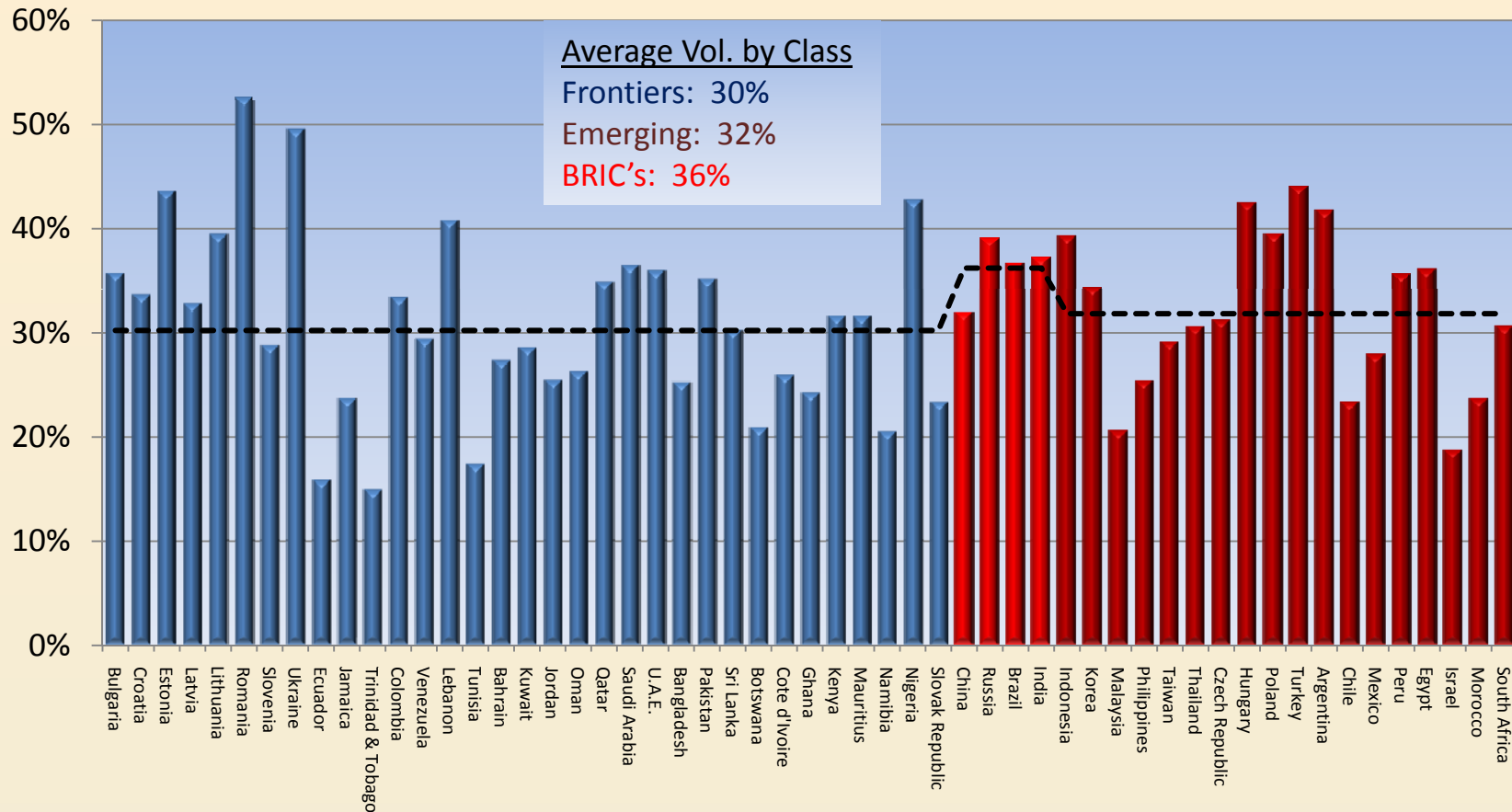
Risks of Frontier Markets

- Political
- Economic shocks
- Currency crises
- Liquidity
- Regulatory, operational risk
- Bubbles
- Inflation shocks



Average Country Volatility

Frontiers slightly lower than the Typical Emerging Market



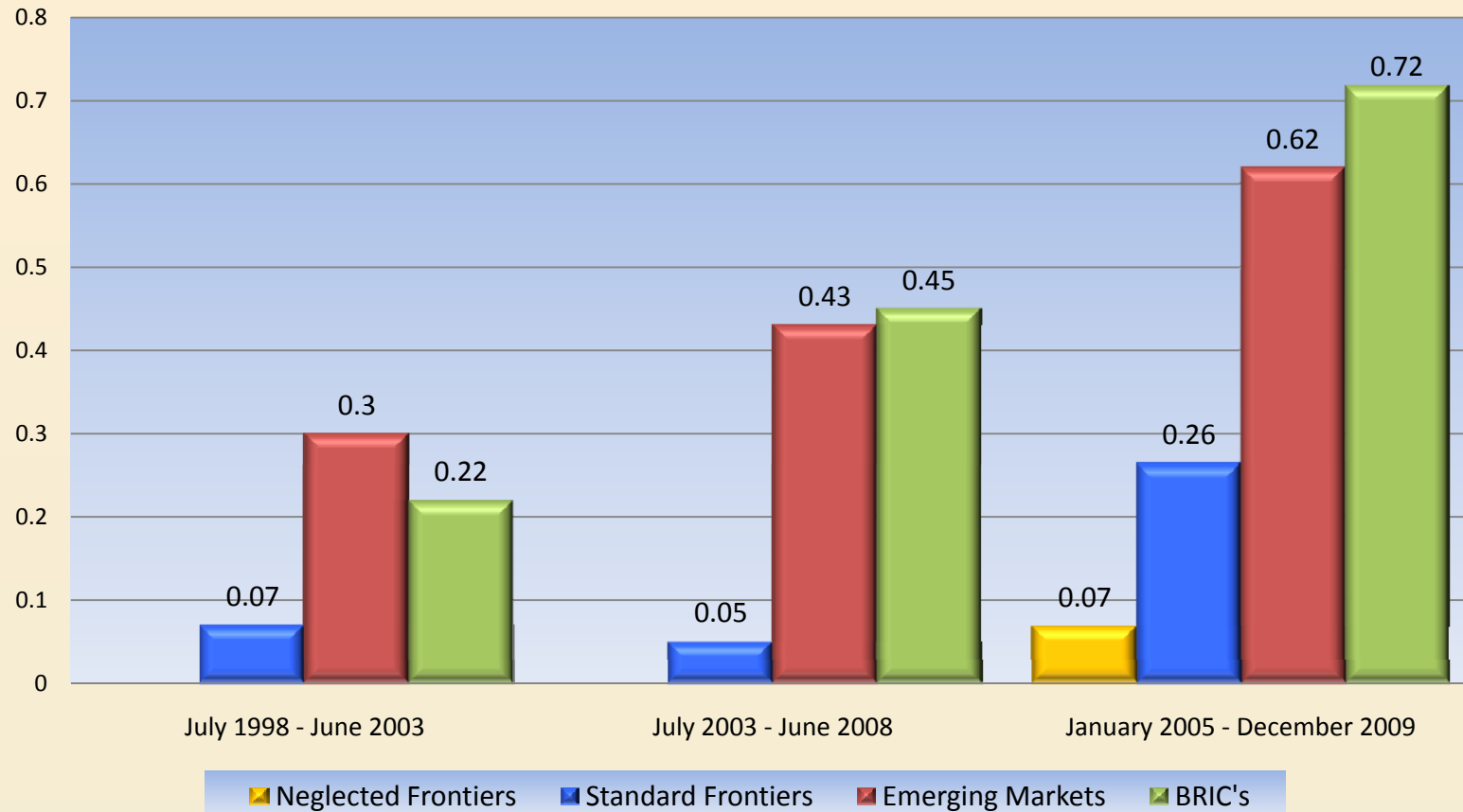
Note: Annualized standard deviation of monthly country returns over the 5 year period ending 9/10.

Source: Country return indices data provided by S&P, with the exceptions of: Vietnam, Kazakhstan, Nigeria, Bahrain, Kuwait, Jordan, Oman, Qatar, and Saudi Arabia, which are using data from MSCI.



Average Cross Correlations

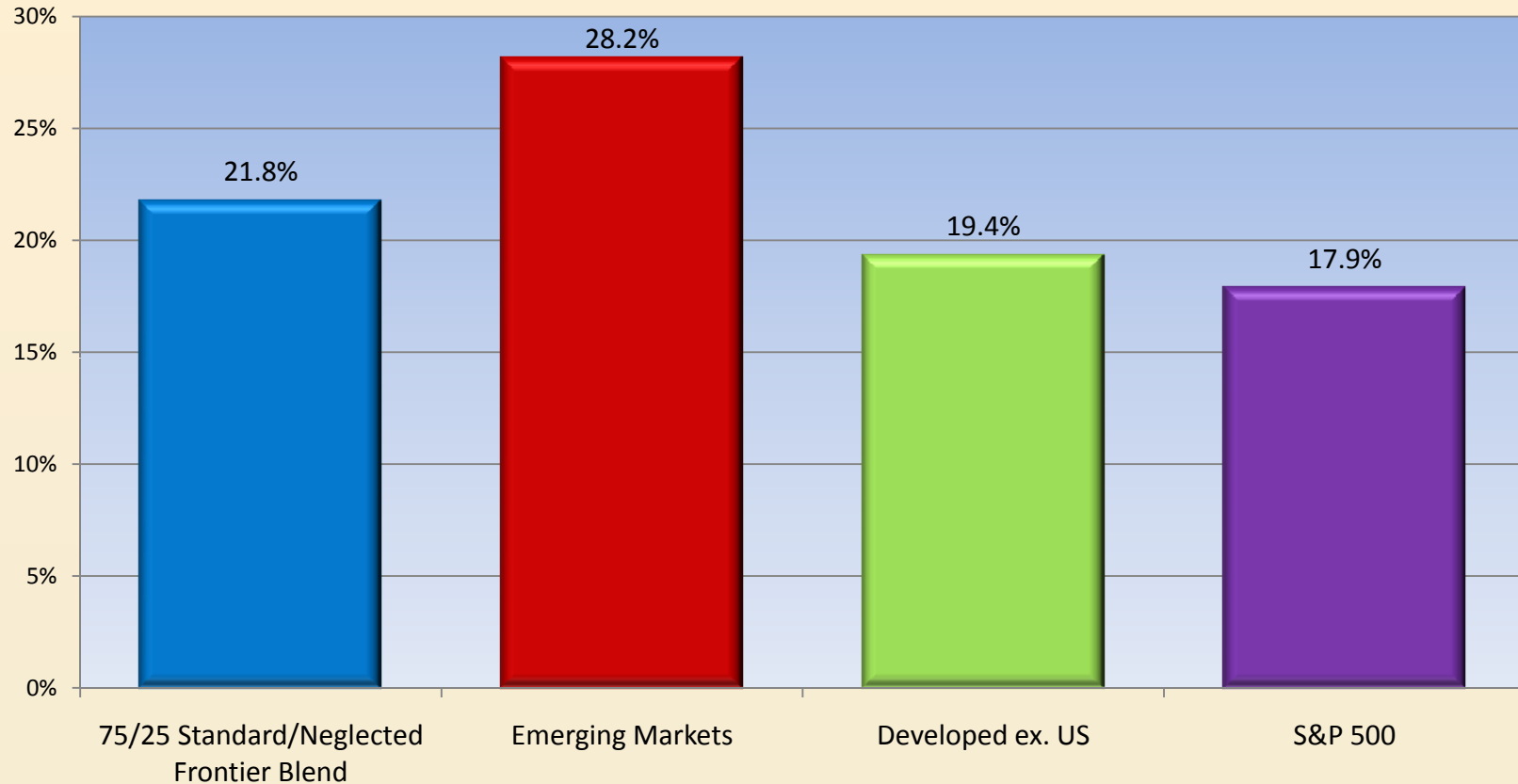
All have increased, but frontiers stay relatively low



Source: Cross correlations of returns calculated from S&P and MSCI country indices. The Neglected Frontiers country returns data collected manually for use in the proprietary Neglected Frontiers Index.



Index = “Portfolio” Level Volatility is Low



Note: Annualized standard deviation of index returns calculated for the 5 year period ending 9/10.

Source: Data from: Standard & Poor's IFCI (Emerging Markets) Composite, S&P Developed BMI ex. US and the S&P 500 index. The 75/25 Frontier Blend is a proprietary index with a 75% weight given to The MSCI Frontier Markets Index and a 25% weight given to the Neglected Frontiers Index, which is a proprietary index of 28 early-stage frontier markets outside the standard frontier indices. 27



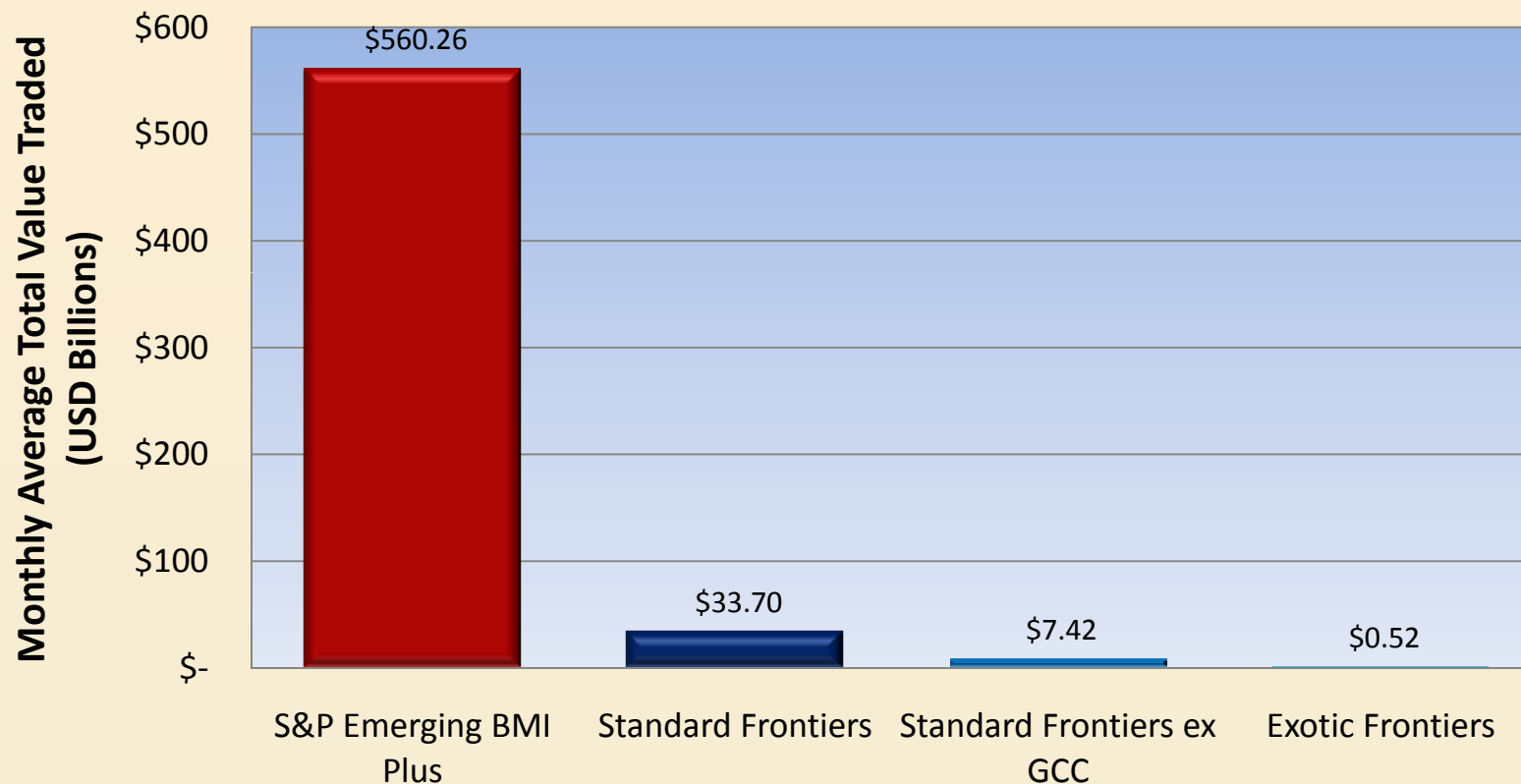
Unique Implementation Challenges

- Low liquidity & trading costs are high
- Custody costs & country registration require patience
- Limited brokerage and research coverage
- ETF's and typical beta plays not optimal for frontier markets that have become "mainstream" with regard to valuations
- Capacity constraints limit investment in some of the best of frontier opportunities
- Unique nature of markets means experience in these markets are essential: cannot just translate know-how from standard emerging markets



Monthly Average Trading Volumes

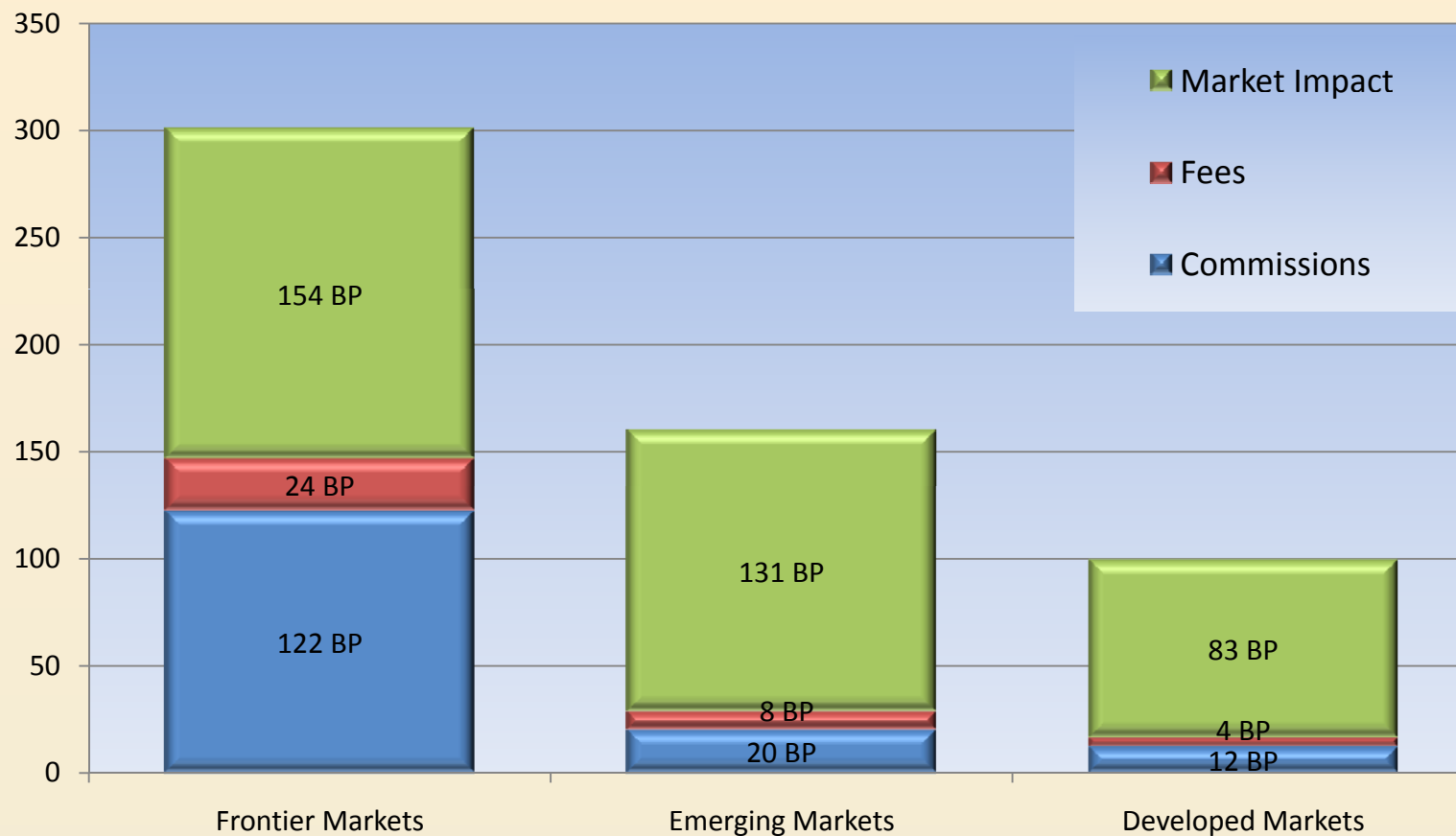
Some larger Frontiers offer Emerging-like liquidity, the Exotic Frontiers are significantly less liquid.



Note: Total value traded in billions of USD for the 6 month period ending 5/12/2010. The Emerging Markets category is represented by the S&P Emerging Broad Market Index Plus, whereas the frontier categories represent the entire universe of equities listed in those markets.



Trading Cost Comparison in Basis Points

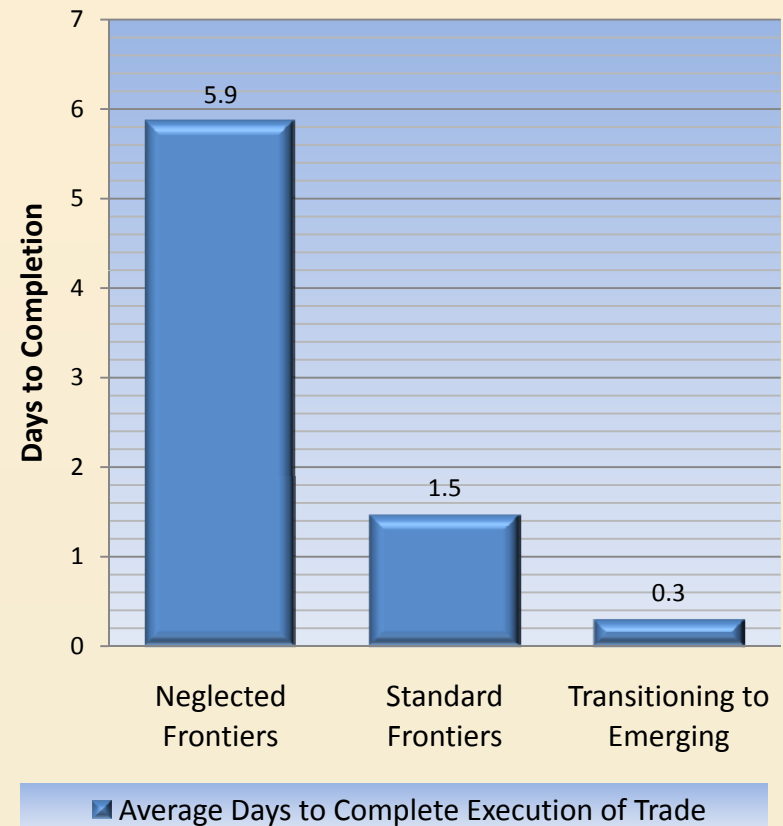
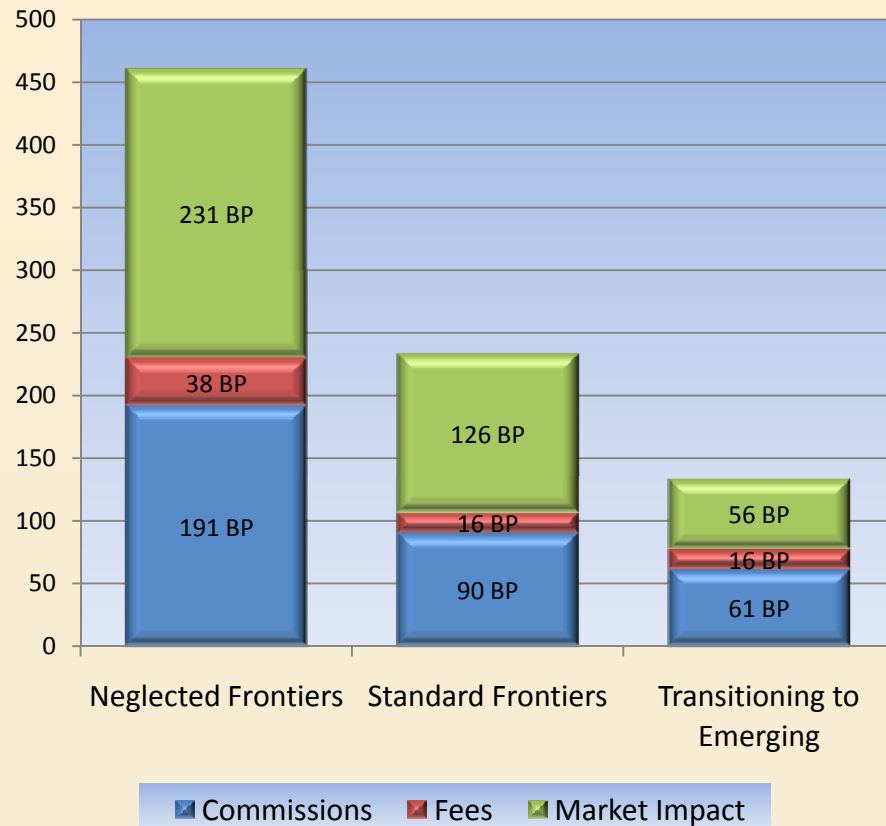


Source: Market impact data are implementation shortfall, Elkins McSherry, 4th Quarter 2009 for Emerging and Developed Markets. Frontier Market data from Emerging Frontiers Fund, LP market impact experience and commissions and fees from a survey of various brokers.



Time Delay and Cost Within the Frontiers

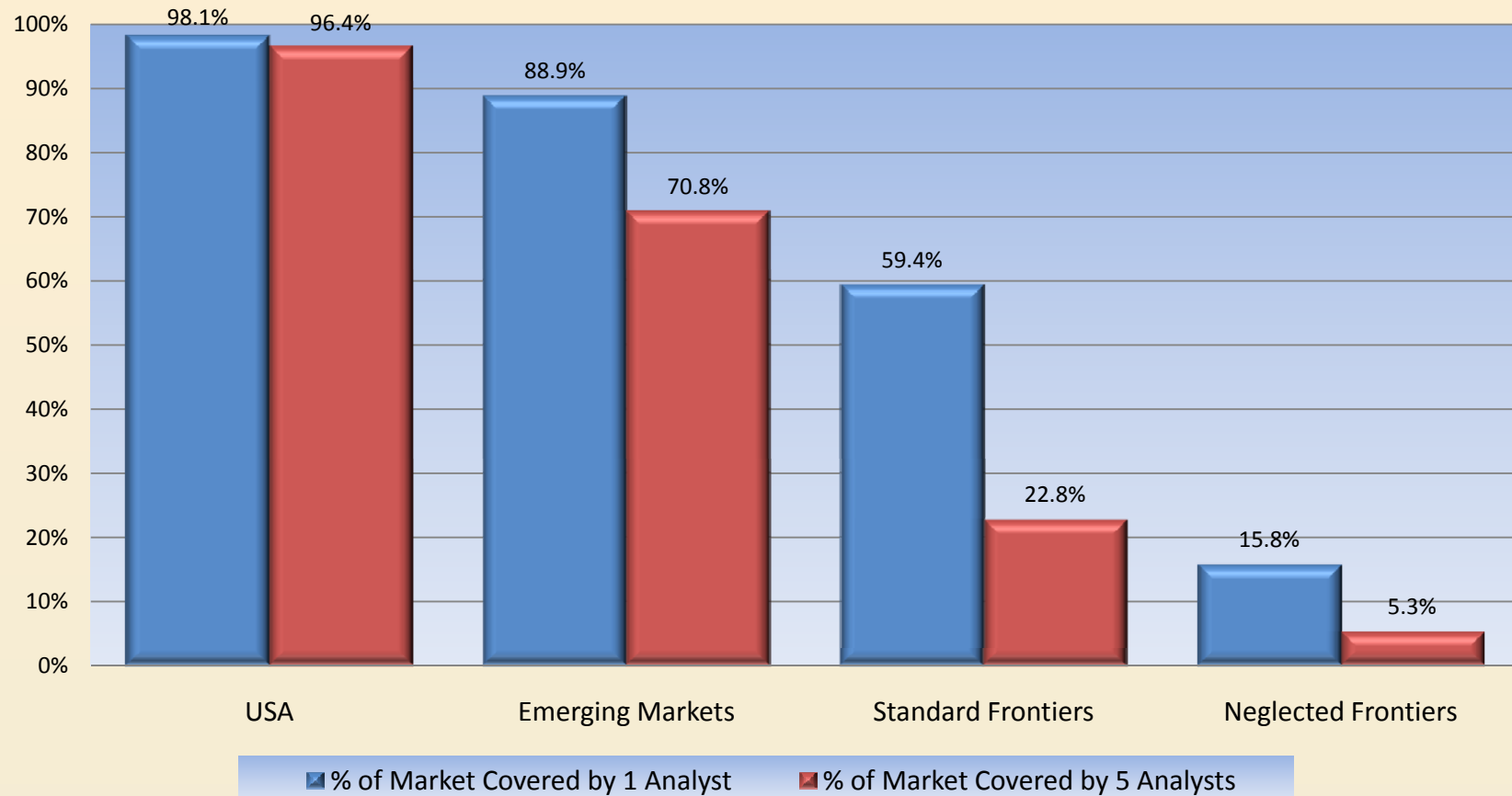
The less-developed frontier markets take longer to trade, cost more.



Source: Sample based on data from The Emerging Frontiers Master Fund LTD trading history, including 133 trades conducted in the 14 month period ending 8/31/2010. Total Market Impact calculated as the percentage difference between the portfolio manager's target price and the gross executed price in USD.

Analyst Research Coverage

Fewer frontier companies are covered by sell-side research analysts



Source: USA, Emerging Markets, and Standard Frontiers company data collected using a sample of companies primarily from Bloomberg, and may also reflect gaps in data coverage. The Neglected Frontiers sample company data collected manually. Percentages are market capitalization weighted.



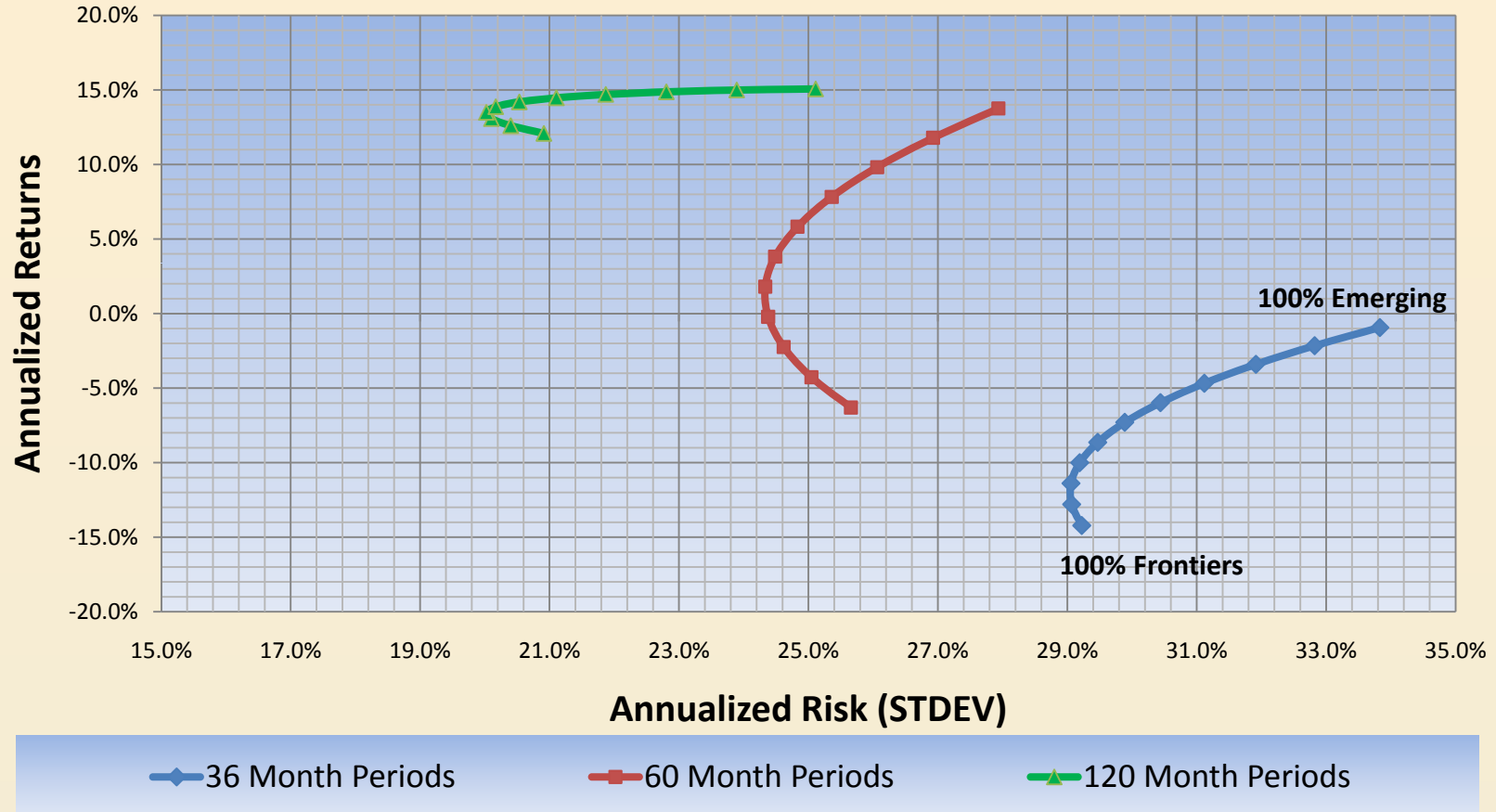
Implementation Strategy

- Take advantage of low correlations by building broad portfolios, avoid concentration.
- Limit turnover in illiquid markets.
- Trading is key.
- Seek out the frontiers ignored by the pack
- Distinguish among the markets, applying the right approach to each is key.



Return / Risk over Time Periods

In a Frontier / Emerging blend, the longer your investment horizon, the more should be allocated to Frontiers.



Note: Annualized returns and standard deviations of returns calculated using 36 month, 60 month, and 120 month periods ending 9/10, for the MSCI Frontier and the S&P IFCI (Emerging Markets) indices.



The Short-Run Impact of the Global Financial & Economic Crisis on Frontiers

- Most Frontier banks and insurers did not participate in SIV's
- Frontiers have gotten cheaper
- Property markets collapsed in many countries
- Overall negative psychology created linkages, raising correlations
- Commodity cycle was reversed changing the landscape of winners and losers
- Inflation moved to disinflation and deflation...going back?
- Geopolitical risk could increase in times of turmoil

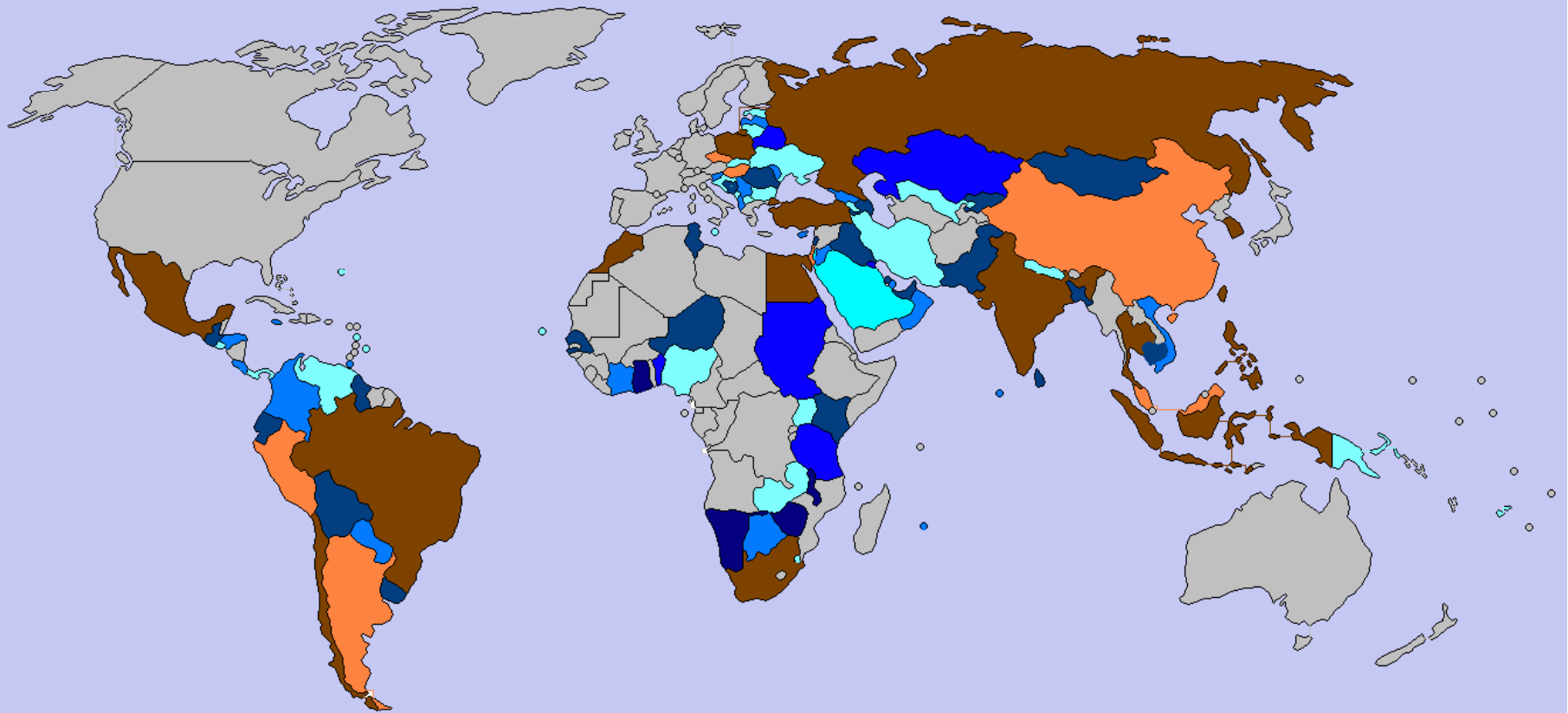


Long-Run Trends for Frontiers

- Increasing demand and investment flows
- Correlations increasing as linkages increase
- Narrow markets and institutional demand = harder to find cheap countries
- Geopolitical risks falling, economic freedom rising
- Cheaper technology improving information transfer and reducing costs
- Increased demand for sources of materials and low labor costs
- Middle classes growing, wealth effects spilling over borders
- Discovery cycle has shortened
- Improved liquidity and exit opportunities
- Index gaming opportunities now available
- Markets off radar offer great opportunities



A World of Opportunity



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