BostonPartners

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Entry Points | Emerging Markets Equities Offer Opportunity for Investors with a Long-term Outlook

Podcast Transcript

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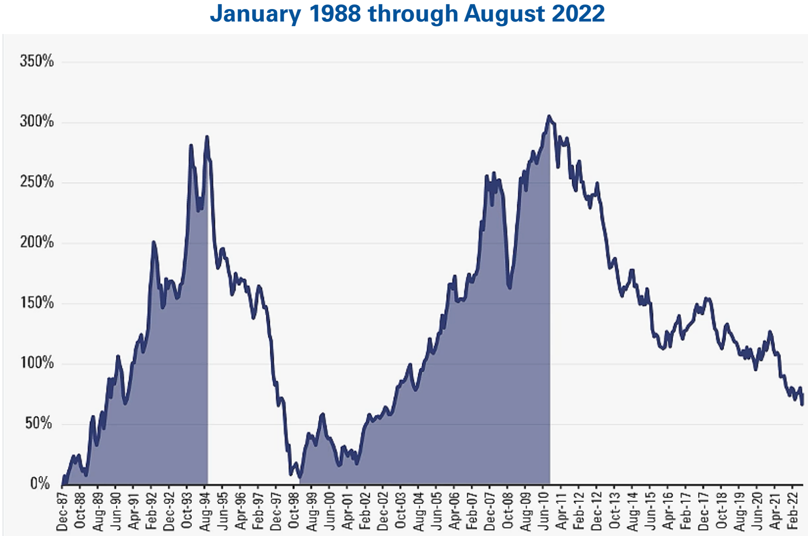
Portfolio Analyst

Emerging market equities have been overshadowed by the performance of developed market equities and particularly U.S. equities over much of the past decade. This has led many U.S. investors to focus all their attention on U.S. markets only and in many cases not invest in emerging markets at all.

Hi, I'm Mike McCune, portfolio analyst at Boston Partners. And today we're going to discuss the investment benefits and opportunities for emerging markets investing.

First, lets take a look at the longer term performance. The graph that you're looking at now illustrates the performance of the MSCI Emerging Markets Index over the MSCI World Index going back to 1988, when the blue line is moving up. It means that the MSCI Emerging Market Index is outperforming the MSCI World Index. And when it's moving down, it means that the MSCI World Index is outperforming the MSCI Emerging Markets Index. Essentially, there's two takeaways from this graph. Number one is when you go all the way to the right hand side, at the end of the day, which is through the end of August, the MSCI Emerging Markets Index has outperformed the MSCI World Index by 67%. Most people don't realize that because they're only focused on the returns over the past ten years. And the other takeaway is that there's a lot of volatility in the performance of this graph. However, the higher volatility doesn't diminish the diversification benefits of allocating to emerging markets.

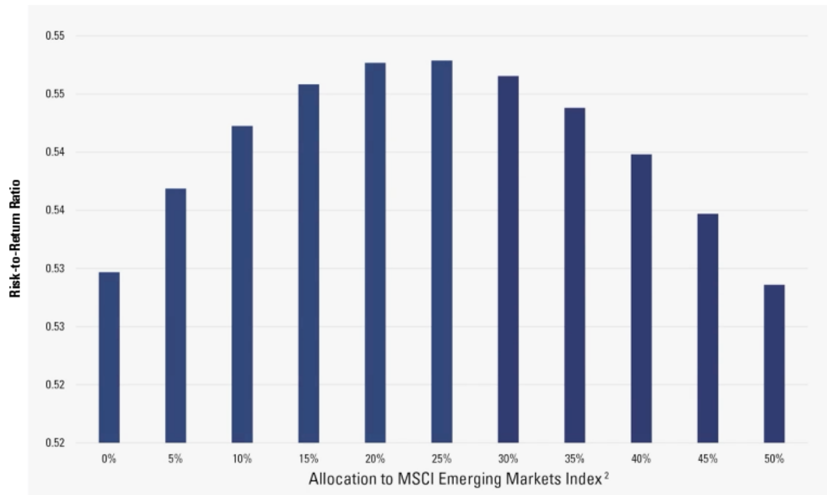
MSCI Emerging Markets Index less MSCI World Index Cumulative Relative Performance
January 1988 through August 2022



Data as of August 31, 2022.
Source: MSCI, Boston Partners Global Investors.
Past performance is not an indication of future results. Please refer to the end of this document for other important disclosures.

The graph here illustrates that an allocation all the way up to 25% in emerging markets improves the return to risk ratio of improving only in developed markets only. And one commonality between emerging markets and developed markets over the past several years has been this overoptimism in Internet and technology names.

Return-to-Risk Ratio[1] with Increasing Emerging Market Exposure



Data as of August 31, 2022.

Source: MSCI, Boston Partners Global Investors.

[1]Return-to-Risk ratio is calculated as annualized return divided by annualized standard deviation from January1988 through August 2022.

[2]Percentage represents allocation to MSCI Emerging Markets Index wit the remainder allocated to tthe MSCI World Index.

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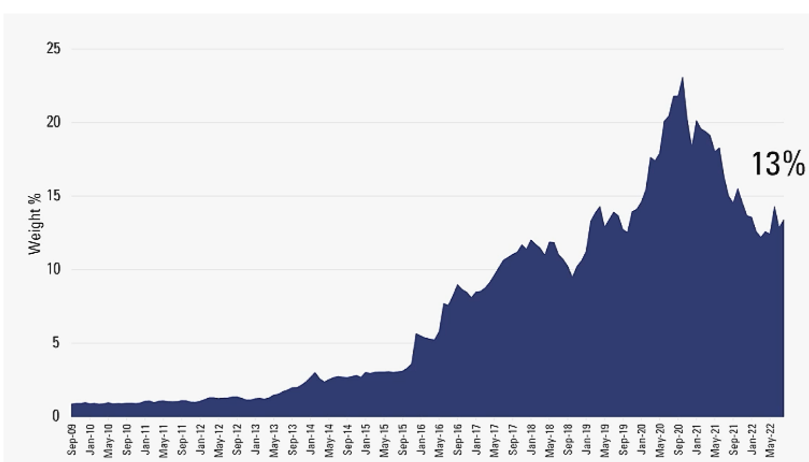
And this graph here illustrates some of that overoptimism that you've seen in emerging markets with the presence of these Internet companies. So if you go back to 2009, essentially Internet companies had a very nascent allocation in the emerging markets index, and that increased all the way to 23% in the 2000 teens, and now it's back down to 13% at this point. So just as you had that overoptimism for tech in Internet in the United States, you also saw similar optimism represented in the emerging market space as well. And what that meant over the longer term time period was added, and that certainly coincided with an increasing valuation for these Internet companies in the emerging market space, to the point that really we just had an underweight allocation to them because they were just too overpriced for us.

Internet Stocks* Weight in the MSCI Emerging Markets Index



Data as of August 31, 2022.

Source: MSCI, Boston Partners Global Investors.

* Trimmed Weighted Average at the 1st and 99th percentile. Internet stocks include constituents of Internet Software &Services Industry, Internet Catalog & Retail industry, Interactive Media & Services Industry, and Entertainment industry.

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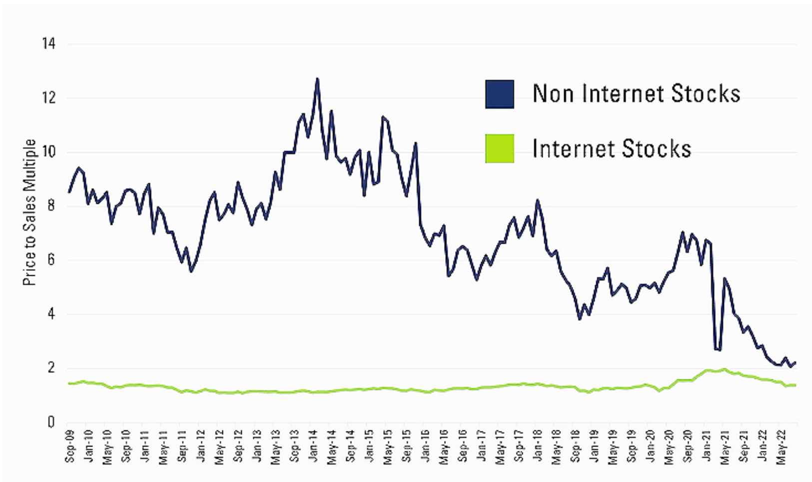
Now we've seen that valuation come down quite a bit in the recent period to the point that actually the valuation of these Internet companies is in line with the overall MSCI Emerging Markets Index and is actually an increasing opportunity for that in emerging markets, because not only do you have individual company names and sectors, but you also have region of countries that come into play. So ironically, we're actually finding a lot of attractive opportunities in these Asian Internet companies today, and arguably they deserve a higher multiple than the index overall. And then on top of that, we're actually seeing improving profitability among these firms. And what that means is that they're focusing on the profitability of each customer that they have, as opposed to expanding their customer base, regardless of the costs or profitability associated with that.

Price to Sales Multiple*
MSCI Emerging Markets Internet and Non-Internet Stocks
September 2009 through August 2022



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At Boston Partners, we have two approaches to investing in emerging markets. We have a traditional long-only active all cap strategy that focuses on traditional value drivers. In addition to our long only approach, we also offer a dynamic, low beta approach which offers additional sources of alpha. This portfolio. At the end of the day, it's going to deliver a similar return to the MSCI Emerging Markets Index, but with significantly lower volatility and risk.

Mike McCune
Portfolio Analyst

Mr. McCune is a portfolio analyst for Boston Partners and has extensive experience with all of the firm's strategies. He began his career at Boston Partners in 2003 as a quantitative analyst, and later became a portfolio manager with the WPG Partners' Quantitative Equity Group. Additionally, Mr. McCune has spent time as the U.S.-based Client Portfolio Manager for Robeco's fundamental Emerging Markets and quantitative strategies. Prior to joining Boston Partners, Mr. McCune was a quantitative analyst at Deutsche Asset Management. Mr. McCune holds a BSc degree in finance from Villanova University and an M.B.A. from New York University. He holds the Chartered Financial Analyst designation. Mr. McCune has twenty-eight years of industry experience.

Definitions

MSCI EM (Emerging Markets) Index: Captures large and mid cap representation across emerging markets countries covering approximately 85% of the free float-adjusted market capitalization in each country.

The **MSCI world index**, which is part of The Modern Index Strategy, is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI world index does not offer exposure to emerging markets.

A low beta value means that the stock is considered less risky but will likely offer low returns as well.

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