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CAMBRIDGE ASSOCIATES LLC

EMERGING MARKETS EQUITY INVESTING

2005

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CONTENTS

ABSTRACT

1. While emerging markets equities have remained quite volatile in recent years, many countries have made structural improvements that should serve to temper future downturns. Further, the recent strength in many emerging currencies versus the US$ has meant a boost to returns for US$-based investors, a reversal of past circumstances when solid returns were often wiped out through currency depreciation. Thus, many investors are asking whether emerging markets have fundamentally changed and should be considered a lower risk/lower return asset class than in the past, or whether recent events are simply another case of things looking brightest when the market is at or near a peak. While we acknowledge that conditions have improved dramatically in many countries, and do not believe equity prices fully reflect this improvement, we are nonetheless skeptical that emerging markets' infamous volatility is gone for good. We therefore continue to believe emerging markets equities should be part of a diversified portfolio, but *only for investors able to stick with them when the going gets tough.*

2. Certain economic and financial improvements have been widespread, such as the strengthening of balance sheets by emerging markets governments and companies, thus making them less susceptible to the whims of foreign investors. Indeed, since 2000, emerging markets have actually been paying back external debt, and are now less dependent on outside capital than ever before. Further, many companies have taken advantage of recent economic conditions to reduce their dependence on external *and* local debt. In addition, many of the largest emerging markets, such as Brazil, Korea, and Taiwan, have stepped up their efforts to be friendlier to companies and their shareholders.

3. Still, emerging markets equities remain low-quality assets and deserving of a discount to developed markets shares, at least for now, as they are more opaque, more volatile, and more exposed to macro risks than those in developed markets. Further, while restructuring efforts to date have been encouraging, corporate governance remains weak, and recent events in Russia and Argentina, to name just two examples, have highlighted the political risks still abundant in emerging markets. Investors in emerging markets must also consider that the fallout from exogenous events, such as terrorism or a financial market accident, is likely to be far greater in emerging markets that lack the infrastructure and other support systems found in most developed nations.

4. Fluctuation in currency values is another area of concern. Most emerging markets' currencies float on international exchanges, rather than being pegged to the US$ or some other major currency as was the case in the recent past. This is a positive development, as pegs often mask budding problems that would otherwise manifest themselves in currency markets. Still, many emerging markets have a past littered with currencies rendered worthless by rampant inflation brought on by ill-conceived government and central bank policies. Overall, while currency instability must be treated as a major risk for emerging markets investors, it is likely less so today than in the mid- to late 1990s, when pegged currencies virtually invited speculators to bet against them.

5. Market concentration is also a major issue for emerging markets investors, as most countries have few investable firms. Indeed, this problem has actually gotten worse in recent years. As of May 31, 2005, the top ten companies in the International Finance Corporation Investable Index represented 16.5% of the index, an increase from 11.2% experienced in 1998, and only a few percentage points lower than the concentration level that prevailed in 1993. Further, country concentration within the index has also worsened. Among individual countries, eight of the 22 index constituents had more than 85% of their market cap concentrated in the top ten stocks as of May 31, 2005.

6. While emerging markets' strong growth has reduced their reliance on outside capital, they nevertheless continue to borrow heavily: 2004 was a record year for gross emerging markets debt issuance. Thus, despite the progress made over the past six or seven years, emerging markets remain quite vulnerable to a drying up of liquidity in global markets, particularly if such an event were to coincide with a global economic slowdown and/or a downtick in commodity prices.

7. Somewhat surprisingly, the dramatic turn of events in emerging markets over the past few years has *not* led to a concomitant rise in valuations. Indeed, compared to their post-1994 averages, price-earnings ratios are low and dividend yields high. While some of the recent growth in emerging markets earnings is likely cyclical, a portion may also be secular due to structural improvements in the way capital is allocated in these markets. Relative valuations also look attractive, as emerging markets equities continue to trade at a substantial discount to developed equities despite faster earnings growth and a higher return on equity.

8. With regard to implementation, we generally favor active managers, preferably those who live and work in the countries in which they invest. Further, due to the relative illiquidity of emerging markets, particularly in times of crisis, we also prefer smaller managers. We would, however, add a caveat: a few select managers have shown themselves capable of successfully running large emerging markets funds. Thus, while *ceteris paribus* smaller funds are preferable, size is not necessarily a deal-killer. We hold a similar view of long/short managers: while some do offer value, many funds are merely long-only products with hedge fund fees.

9. In a world virtually devoid of attractive investment options, emerging markets equities stand out for their reasonable valuations and strong upside potential. Still, the multitude of risks cited above is real and must be taken into account when considering an investment in this asset class. In sum, low valuations, high dividends, and robust growth make the risk-reward trade-off in emerging markets today more favorable than in many developed markets subject to higher price risk.

SUMMARY

Introduction

Emerging markets equities have been extremely volatile over the past decade and a half. Indeed, while the MSCI Emerging Markets Index (MSCI EM) has returned an average of 11.8% a year since our data series began in 1989, it has also registered a standard deviation of 27.4%. (Developed markets, as represented by MSCI World, have returned 6.9% a year with a standard deviation of 16.1%. All returns represent total returns in US$ unless otherwise noted.) Such hair-raising volatility has kept many investors away from emerging markets, as the asset class seems to boom and bust on an epic scale. Yet recent structural changes in many emerging countries have led some to ask whether emerging markets have fundamentally changed such that they should be considered a lower risk/lower return asset class than in the past. While we acknowledge dramatic improvement in many countries, we also recognize that fundamentals often improve when economic growth is strong and capital is plentiful, and believe it would be premature to presume that the risk/return dynamic for emerging markets has permanently shifted downward. Overall, the current environment for emerging markets equities is reasonably attractive, as equity prices do not fully reflect improvement in fundamentals.

The Strategic Case for Emerging Markets Equities

Investors have typically made allocations to emerging markets for two main reasons. First, they hope to achieve high returns relative to developed markets sufficient to compensate for the additional risk, and second, they expect to reap diversification benefits due to the relatively low correlations between emerging markets equities and those of developed markets.

Historically, emerging markets equities have outperformed developed markets equities, but with significantly higher risk and periods of underperformance lasting as long as five years (Exhibits 9 through 13). For the five-year periods ended 2001 and 2002, for example, emerging markets equities underperformed developed markets equities by a wide margin: the MSCI EM Index underperformed the MSCI World Index by 1,111 basis points (bps) annually during the period ended 2001, and 247 bps annually during the period ended 2002. Equity returns are abnormally distributed, of course, and this is particularly so in less developed markets where all the action is crammed into the “fat tails” at each end of the distribution—the MSCI EM’s 74.8% return in 1993 and its -18.8% average annual return of 1997-98 are prime examples. As a result, it has been difficult for investors to maintain emerging markets equity allocations through the difficult periods.

The argument for diversification, on the other hand, is well grounded in historical evidence. While correlations are unstable, from January 1, 1989, when our data series begins, through June 30, 2005, emerging markets equities have had a correlation of roughly 0.6 with developed markets equities (Exhibit 14). Indeed, except in short-term periods of crisis, like October 1987 and August 1998, when all equity market correlations tend toward 1.0, emerging markets equities have provided diversification benefits to portfolios. However, these benefits can only be realized if investors maintain their allocations, even when times get tough, and rebalance portfolios to target allocations.

The key to successful emerging markets investing has been to maintain allocations through thick and thin, investing in countries with good long-term prospects when conditions are most attractive. Some of the more important conditions are reasonable and improving market breadth and depth; reasonable equity market valuations; stable macroeconomic and political environment; stable currency; high levels of sustained GDP and GDP per capita growth; steady increase in productive capacity and high levels of capacity utilization (so that capital can be profitably invested); improved equity market transparency, banking, and capital markets regulation; legal infrastructure; and competitive advantages for locally based emerging markets companies, (e.g., low labor and capital costs). Many of these conditions currently exist and appear to be improving, with the most significant developments discussed below.

This Time Things Are Different

The case to be made for emerging markets is a strong one. Many of the largest emerging markets have made significant strides in recent years, with countries such as Brazil, Korea, and Taiwan stepping up efforts to be friendlier to companies and their shareholders. In Brazil, for example, the government of President Luiz Inàcio Lula da Silva has pushed for business-friendly initiatives such as across-the-board tax cuts, while Taiwan has so improved investor access issues that MSCI recently phased out the country's "limited investability factor" and gave Taiwan a full weighting in the index. Eastern European countries such as Poland and Turkey, meanwhile, continue to attract companies and jobs by offering a low-tax, light-regulation, and low-wage alternative to "old Europe."

Fundamentals also continue to improve in Asia, which makes up more than half of the MSCI EM Index, although the region cannot be said to be completely out of the woods yet. Loan-to-deposit ratios, for example, seem finally to have bottomed after a precipitous fall following the 1997 Asian crisis, an indication the region *could* be in the early stages of a new credit expansion. Indeed, despite concerns that the Asian revival is simply due to the impact of China, much of the recovery appears homegrown and thus *potentially* sustainable even if China and/or the United States stumble. CLSA Asia-Pacific, for example, forecasts per capita GDP for Thailand, Indonesia, Malaysia, and the Philippines to grow 50% by the end of the decade, and expects the foreign direct investment (FDI) gap with China, which currently attracts twice as much FDI as Southeast Asia as a percentage of GDP, will narrow significantly.

Certain economic and financial improvements seem broadly applicable, such as the widespread strengthening of balance sheets by emerging markets governments and companies that makes them less susceptible to the whims of foreign investors. Indeed, one of the consistent rubs on emerging markets is that they are overly reliant on outside capital—so-called "hot money"—and thus vulnerable to severe busts if and when this capital takes flight. Since the turn of the century, however, emerging markets have actually been paying back external debt, and are now less dependent on outside capital than ever before. Further, many companies have taken advantage of recent economic conditions to strengthen their balance sheets, and thus are not only less dependent on external debt, but on *local* debt as well. (This is particularly true of the large number of closely held companies in emerging markets.) As of year-end 2004, meanwhile, emerging economies were growing at more than 7%, due in large part to their expanding share of world trade.

According to Bridgewater Associates, 23 countries have gained market share in terms of percentage of world exports since 1999; 21 are emerging markets. By comparison, U.S. market share has dropped more than 4 percentage points, or more than US$200 billion, over the same period.

Still, many observers were quite positive on emerging markets in 1997, right before the bottom fell out. Then, restructuring efforts were cited as long-term positives, while money flowing into emerging markets was viewed as a vote of confidence from the international investment community, not as speculative flows that could quickly and easily reverse. While we believe the current situation is more stable, emerging markets do have a history of drawing in outside investors with promises of future improvements, only to fall apart and leave such investors holding the bag. In addition, improvements in fundamentals have by no means been uniform, as countries such as Argentina, Russia, and Venezuela continue to struggle.

Risk Factors

Indeed, while much has changed in recent years, on balance emerging markets equities remain low-quality assets and deserving of a discount to developed market shares, at least for now, as they are more opaque, more volatile, and more exposed to various risk factors than those in developed markets. Further, while restructuring efforts to date have been encouraging, corporate governance remains weak. The following represent the major risks to emerging markets equity investors.

Political Issues

While citizens of developed nations spend countless hours debating the pros and cons of various political candidates, and investment banks provide detailed forecasts of market reaction to one or the other party prevailing, the reality is that politicians make little difference to the performance of developed markets. This is due, of course, to highly evolved economies and political processes that are quite resilient and not easily compromised.

In emerging economies, by contrast, residents tend to (rightly) view small steps toward government controls as but the first step down a very slippery slope, with many people prepared to make good on plans to leave if things head in the wrong direction. Indeed, many wealthy Russian citizens have recently begun to move funds out of the country due to fears that the Putin government will accelerate its attacks on the private sector. Most emerging markets do not have sophisticated financial markets or economies on which to lean, while many have a history of socialistic tendencies that come to the fore when conditions turn south. Thus, investors in emerging markets must consider not only return *on* capital, but also return *of* capital. Russia and Venezuela provide two recent examples, as economic strife has led to increased government control that will almost certainly leave the nations yet more impoverished. Indeed, while the consensus view today is that capitalism has triumphed over socialism, and that free markets are slowly but surely creeping into all corners of the globe, this is far from certain. Jim Rogers, for example, co-founder (with George Soros) of the Quantum Fund and author of *Adventure Capitalist,* an illustrative account of his recent trip around the world, notes in his book that many countries are backsliding into protectionist and socialist policies, a sharp contrast with his prior trip around the world in the early 1990s: "When I returned home, I realized I had closed as many accounts on the trip as I had opened, in contrast to my previous trip, when I had opened several and closed none."[1]

Thus, investors tend to get nervous (and rightly so) when Russian government officials talk of "the people's oil," or leaders such as Venezuela's Hugo Chavez begin to nationalize formerly private assets. Again, return *of* capital becomes the vital concern. Unfortunately, as stated earlier, there is no way to quantify such risks. We simply cannot predict with any sort of certainty the likelihood that Vladimir Putin will suddenly decide to seize all oil and gas properties, or that India's recently elected Congress Party will slide back toward socialism, or even that labor unions might force the reversal of Brazil's recent reforms. Recent events in Russia and Argentina, to name just two examples, have highlighted the political risks still abundant in emerging markets. As Edward Baker[2] recently noted: "Enforcement is just as important as rules, and in many countries weak or corrupt judicial systems create the principal barrier to keeping managements in line."

Even in countries where conditions appear to be improving, significant risks and hurdles remain. Take Brazil, where despite recent reforms roughly half of the country's workers are employed outside the formal economy due to punitively high corporate tax rates and stifling regulatory burdens. As William Lewis, founding director of the McKinsey Global Institute, points out in his recent book *The Power of Productivity:* "Most people don't recognize the destructive power of big government on economic development. Big governments demand big taxation. When part of the economy is informal, and untaxed, the burden falls heavily on legitimate businesses."[3] In other words, Brazil's government, which spends an amount equal to 39% of GDP—by comparison, the U.S. government spent 8% of GDP in 1913, when the country was at a similar level of development—forces costs up for legitimate businesses, which opens the door to less efficient but untaxed "black market" operations.

Other political risks, while difficult to quantify, are no less serious. Korea and Taiwan, for example, which together make up more than 30% of MSCI EM, are routinely cited as the two markets most likely to be upgraded to developed markets status, as their economies and markets have evolved significantly in recent years. Yet both must deal with aggressive and unpredictable neighbors in North Korea and China, respectively. Investors cannot simply ignore the risk of China invading Taiwan, but the likelihood of such an event (not to mention its impact on equity markets) is impossible to quantify. Similarly, investors in Korea must acknowledge that sharing a border with an unstable and nuclear-armed regime *could* present significant downside risk to equities. While recent events have demonstrated that terrorism and other risks can affect any and all markets, the fallout from such an exogenous event is likely to be far greater in emerging markets that lack the infrastructure and other support systems found in most developed nations. Such issues illustrate the difficulty investors encounter when attempting to accurately value such assets.

[1] Jim Rogers, *Adventure Capitalist,* Random House, 2003.
[2] Mr. Baker, who heads Alliance Capital's Emerging Markets group, is co-chair of the Equity Advisory Group at the Institute for International Finance.
[3] William Lewis, *The Power of Productivity,* University of Chicago Press, 2004.

Political risks arguably represent the major impediment to investing in emerging markets equities. It is said that markets abhor uncertainty, and there is little that is certain about immature economies with limited rule of law, unstable and unpredictable governments, and a history of turning to socialism as a cure for their economic ills.

Currency Matters

Fluctuation in currency values is another area of concern for investors in emerging markets. Most emerging markets today have currencies that float on international exchanges, rather than being pegged to the US$ or some other major currency as was the case in the recent past. Still, investors should be cautious about viewing emerging markets equities as a hedge against the US$, as a weakening US$ would not necessarily be good for emerging markets currencies, and could conceivably inflict collateral damage on emerging economies if the U.S. import market were to dry up. Further, many emerging markets have a past littered with currencies rendered worthless by rampant inflation brought on by ill-conceived government and central bank policies, eventualities that would render a US$ decline largely irrelevant.

One area in particular that has shown itself open to abuse is currency pegs, which, while less prevalent than ten years ago, still exist and can cause problems for investors. Indeed, pegs frequently end with a country exhausting its foreign currency reserves in a desperate attempt to prop up its own currency, and ultimately being forced to devalue. Mexico (the 1994 “Tequila crisis”), Thailand (1997 Asian crisis), and Argentina (2002 devaluation) are three recent examples of this phenomenon, and should serve as cautionary tales to investors considering investments in countries with pegged currencies. While pegs can stabilize growth, inflation, and markets in the short term, they cannot be sustained forever, and often mask budding problems that would otherwise manifest themselves in currency markets. Further, governments that use a peg must eventually decide when the artificially low currency has boosted the economy sufficiently to become self-sustaining, a delicate balancing act that is inordinately difficult, if not impossible, to achieve. In short, pegs are a *temporary* fix to what are generally long-term problems, and can result in enormous damage if and when countries are forced to abandon them.

One recent exception to this rule has been China, which pegged its currency against the US$ for several years, and has now decided to peg the *renminbi* (RMB) against a basket of currencies. Still, despite the inordinate amount of ink spilled on this topic of late, we would caution investors against paying too much attention to the issue. While the RMB is likely undervalued, it has been a far smaller factor in China’s rise to prominence on the global manufacturing scene than the country’s extraordinarily low labor costs, and even an increase of 50% in the currency’s value would be unlikely to have much of an impact on China’s competitiveness. Further, it could be argued that, were currency controls completely lifted, the value of the RMB would actually *fall* as Chinese investors sought to move money out of the country’s dysfunctional banking system.

In sum, currency instability must be treated as a major risk for emerging markets investors, although it is less so today than in the mid- to late 1990s, when pegged currencies virtually invited speculators to bet against them.

Concentration

An additional concern for emerging markets investors is that indices tend to be heavily concentrated, as most countries have a small number of investable firms. Indeed, this problem has actually gotten worse in recent years. In 1998, the top ten companies in the International Finance Corporation Investable Index represented only 11.2% of the index; as of May 31, 2005, the figure was 16.5%, only a few percentage points lower than the concentration level that prevailed in 1993 (Exhibit 16). Further, *country* concentration within the index has also worsened. In 1998, the top three countries in the index (South Africa, Mexico, and Brazil) made up roughly one-third of the index's market cap; the top five (adding Korea and Taiwan) made up slightly more than half. As of May 31, 2005, the top three (Korea, Taiwan, and South Africa) made up nearly half of the index by themselves, while the top five (adding Brazil and China) made up more than 60%. Thus, a problem in just one of these countries would have a dramatic impact on overall index performance. Individual country indices, meanwhile, are even worse: as of May 31, 2005, eight of the 22 index constituents had more than 85% of their market cap concentrated in the top ten stocks.

In addition, Korea and Taiwan have recently been mentioned as candidates to "graduate" from emerging markets indices to developed markets status. Such an event would have far-reaching implications, as the two currently make up more than 30% of the MSCI EM Index.[4] The most significant changes would be a much heavier weighting for Latin American equities, and a sharp decrease in the weights of technology and energy shares.

Finally, the larger and more globally focused emerging markets companies become, the less likely they are to act as a proxy on their home economy. Cemex, for example—the world's third-largest cement producer, with operations on four continents—is based in Mexico. Yet due to its status as a world-class cement company, the firm is arguably more of a play on cement prices and demand than it is on the Mexican economy. Still, the company makes up more than 15% of the MSCI Mexico Index, and is certainly capable of moving the index due to factors having little to do with Mexican fundamentals.

Credit Issues

One of the positive aspects of emerging markets, as stated earlier, is their declining reliance on outside capital. In particular, conditions have improved in Latin America, which is generally seen as quite vulnerable to rising global rates. For example, according to the Institute of International Finance, the region's external debt totaled 150% of exports at the end of 2004, down from 195% in 2002 (and 232% in 1998), largely due to strong economic growth. Further, the region's interest payments on external debt have shrunk from 12.6% of exports in 2002 to 9.4% at the end of 2004. (As of year-end 1994, these payments soaked up 16.3% of exports.)

Yet even as these countries clean up their balance sheets, they have been unable to resist the lure of record-low spreads for emerging markets debt. Indeed, according to the Bank for International Settlements,

[4] For more details, please see our March 2004 Global Market Comment: *Emerging Equity Indices: Changes Afoot.*

gross emerging markets debt issuance for 2004 totaled US$167 billion, breaking the record of US$163 billion in 1996.

In and of itself, this is not particularly troubling. Record-low spreads *should* induce borrowers to step up issuance, particularly when budget and current account deficits are falling and credit ratings rising (as they have been of late). Yet the fact remains that a true global credit crisis would hit emerging markets equities (as well as debt) extremely hard, and the overextended nature of the global economy makes the risk of such a crisis higher than normal. In other words, despite the progress made by emerging markets economies and markets over the past six or seven years, they remain quite vulnerable to a drying up of liquidity in global markets, particularly if such an event were to coincide with a global economic slowdown and downtick in commodity prices.

Even in the absence of a crisis, individual countries can take actions that undermine their status with global financiers. In Russia, for example, recent actions by President Putin to consolidate power have unnerved outside investors, many of whom are concerned the state will attempt to nationalize oil and gas properties, and potentially extend its reach to other industries as well. Debt markets themselves can also have a direct impact on equity holders, particularly since many investors view emerging markets debt as an equity substitute. Simply put, when emerging debt dangles the prospect of equity-like returns (in other words, when spreads over U.S. Treasuries reach extreme levels), some investors move out of equities and into debt, and vice-versa when spreads tighten.

At the company level, firms that are unable to finance themselves through debt markets, or are forced to refinance debt at onerous rates, are likely to see their equity shares suffer. Likewise, some companies are forced into a currency mismatch between assets and liabilities due to the lack of credit availability in certain markets, although this is less of a problem than it used to be. Still, the issue tends to crop up for companies that do most of their business in local markets (and thus local currency), but are forced to borrow abroad. These companies are therefore exposed not only to normal business risks, but also to the risk that they may at some point be forced to pay back externally denominated loans in a rapidly depreciating local currency. This is true not only for rapidly growing concerns—e.g., those looking to use fresh debt for expansion purposes, or even companies looking to strengthen their balance sheets by locking in long-term fixed rate debt—but also for established firms that appear to be in good financial health. As an aside, we would note that based on the extraordinarily volatile history of emerging markets debt and equity markets, any company that has survived for a reasonable amount of time should be held in high regard. To paraphrase an old Frank Sinatra song, if a company can make it in an emerging market, it can make it anywhere.

Valuations

Somewhat surprisingly, the dramatic turn of events in emerging markets over the past few years has *not* led to a concomitant rise in valuations. Indeed, compared to their post-1994 averages, price-earnings (P/E) ratios are low and dividend yields high. The main reason for this is that earnings have expanded at a faster than normal pace in emerging markets (as they have in most equity markets) as the global recession and subsequent recovery enabled companies to realize significant earnings growth. This cyclical growth has also pushed up commodity prices, which has further improved profits. While some of the recent growth in emerging markets earnings is likely cyclical, however, a portion may also be secular due to structural improvements in the way capital is allocated in these markets. Indeed it is arguably the case that emerging markets return on equity (ROE) has been artificially depressed in the past due to antiquated market structures—not to mention meddlesome governments—that substantially hindered the free movement of capital. In short, many emerging markets have a history of providing capital not to businesses that were likely to invest it profitably, but rather to those with political connections, or those deemed "too big to fail." Outside investors, meanwhile—who might have been willing to fund promising businesses—have been prevented from making investments through a variety of roadblocks ostensibly set up to "protect" local economies, but which (predictably) had the opposite effect. Thus, many profitable businesses have been forced to raise money at punitively high rates, while state-owned and related enterprises, many of which swim in red ink, were treated to funds at a far lower price.

The secular bull market in commodities should support profits in the long term, although commodities are cyclically extended at the moment. Further, while price-to-book (P/B) ratios look rich, the recent rise in P/B ratios has, somewhat paradoxically, been driven by the same factors keeping P/Es low. In other words, the sharp rise in emerging markets' earnings over the past few years—and the related rise in equity prices—has not been accompanied by a similar rise in book value, due in large part to the recent rise in commodity prices (i.e., corporate earnings have grown along with rising prices for the things they sell, without requiring large capital expenditures).

Relative valuations also look attractive, as emerging markets equities continue to trade at a substantial discount to developed equities despite faster earnings growth and higher ROE. Indeed, emerging markets currently trade at a 30% discount to developed markets on a P/E basis. Even more striking, emerging markets trade at a 21% discount on a P/B basis, even after the recent sharp rise in emerging P/B, while dividends on emerging markets equities are 37% higher than those on developed equities. We would also note that while post-1994 data show emerging markets equities trading at a persistent discount to developed markets, this has not always been the case. Indeed, the recent discount has been due at least in part to unusually high valuations for developed markets. From 1988 to 1993, on the other hand, emerging markets traded at a *premium* to developed equities, likely due to expectations of stronger earnings growth. While several crises since this point have no doubt scared off many investors, it is hardly a given that emerging markets equities must always trade at lower valuations than those of developed nations. Indeed, if the reforms outlined earlier in this paper take root, thus making future crises both less likely and less damaging, it seems quite possible emerging markets will again trade at a premium to their developed peers.

Implementation

As a general rule, we would recommend active emerging markets investment strategies over passive ones, for a variety of reasons. To begin with, emerging markets continue to offer inefficiencies that can be exploited by skillful managers. Further, investors who choose passive strategies are likely to have limited exposure to small- and mid-cap companies, which have historically done very well. Finally, due to the relative paucity of large-cap names, indices tend to become overly concentrated in a few large companies and countries.

For investors who choose active management, we prefer managers who live and work in the countries in which they invest. While this presents communication challenges to decision-making processes, local presence appears to provide a strong advantage in understanding companies. Some combination of local presence and ability of decision makers to work closely together would be ideal, but is rarely found in practice. We also generally prefer managers that limit their assets under management, largely due to the relative illiquidity of emerging markets, particularly in times of crisis. We would, however, add a caveat: a few select managers have shown themselves capable of successfully running large emerging markets funds. Thus, while *ceteris paribus* smaller funds are preferable, size is not necessarily a deal-killer. We hold a similar view of long/short managers: while some do offer value, many funds are merely long-only products with hedge fund fees. Further, the effort and expense of shorting in many emerging markets can create a significant drag on returns. Thus, investors should be careful to compare long-only managers and long/short products on a net-of-fees basis. As always, we recommend avoiding long/short practitioners who simply expose investors to market beta while charging hedge fund fees. Finally, *caveat emptor:* many hedge funds that market themselves as emerging markets products are actually high-risk macro products that take outsized bets within currency and credit markets.

Conclusion

In a world virtually devoid of attractive investment options, emerging markets equities stand out for their reasonable valuations (Exhibits 5 through 8) and strong upside potential. Emerging countries across the globe have engaged in aggressive restructuring efforts, slashing tax rates and sharply reducing reliance on foreign capital—the bane of emerging markets in the past. At the company level, ROE has soared over the past few years due to sharply rising earnings, while P/E multiples have remained well below the lofty levels of developed markets. Further, the recent strength in many emerging currencies versus the US$ has boosted returns for cross-border investors, a reversal of past circumstances when solid returns in local currency were often wiped out by currency depreciation.

Still, the multitude of risks cited above is real and must be taken into consideration when considering an investment in this asset class. The worst-case scenario for emerging markets would be a global financial crisis that sends investors fleeing to the safety of high-grade debt and other "safe havens" such as gold. Even barring such a damaging scenario, emerging markets could be undone by a simple stalling of the global economic recovery, or a general rise in risk aversion among cross-border investors. Further, while fundamentals have improved, much work remains to be done. The lack of credit availability in many local debt markets, for example, can create a severe currency mismatch between assets and liabilities that could lead to problems down the road, although this is less of an issue than in the past. Finally, there is always the risk that government officials will use improved conditions as a pretext for putting off or forgoing important reforms to appease politically powerful groups, thus setting the stage for economic problems in the future.

In sum, low valuations, high dividends, and robust growth make the risk-reward trade-off in emerging markets today more favorable than in many developed markets subject to higher price risk.

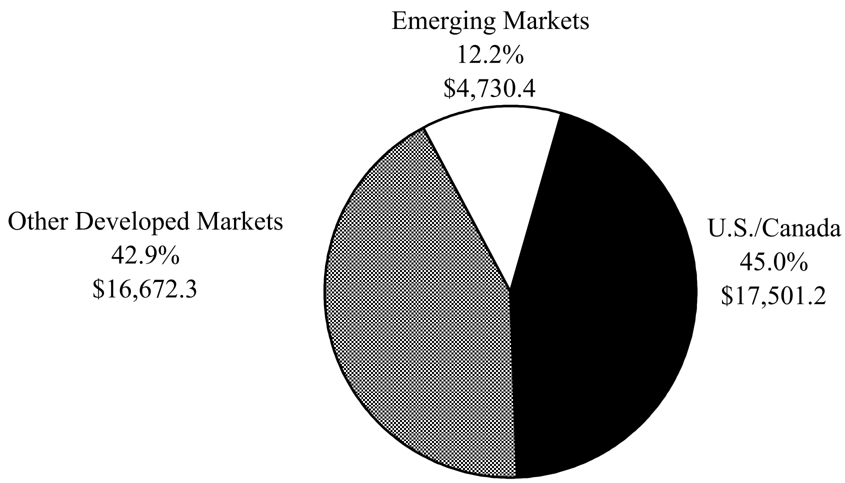
EXHIBITS

Exhibit 1

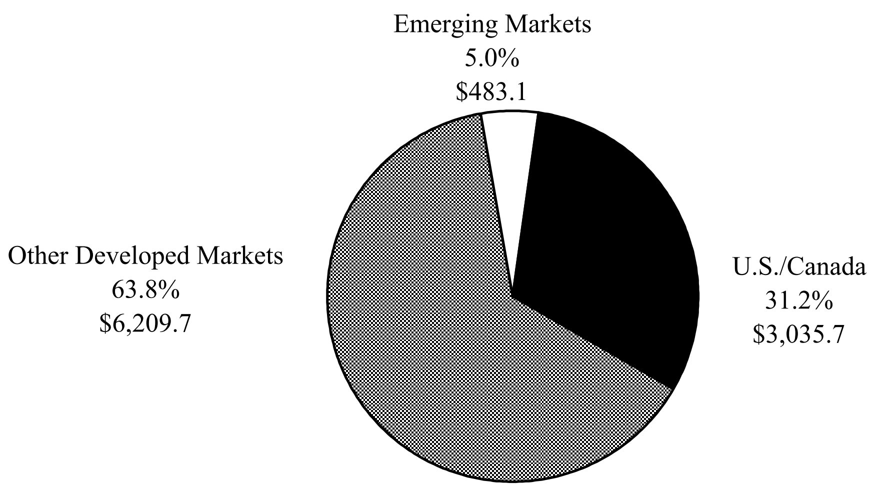
WORLD EQUITY MARKET CAPITALIZATION

(US$ billions)

2004
Total Market Capitalization
$38,904.0



1988
Total Market Capitalization
$9,728.5



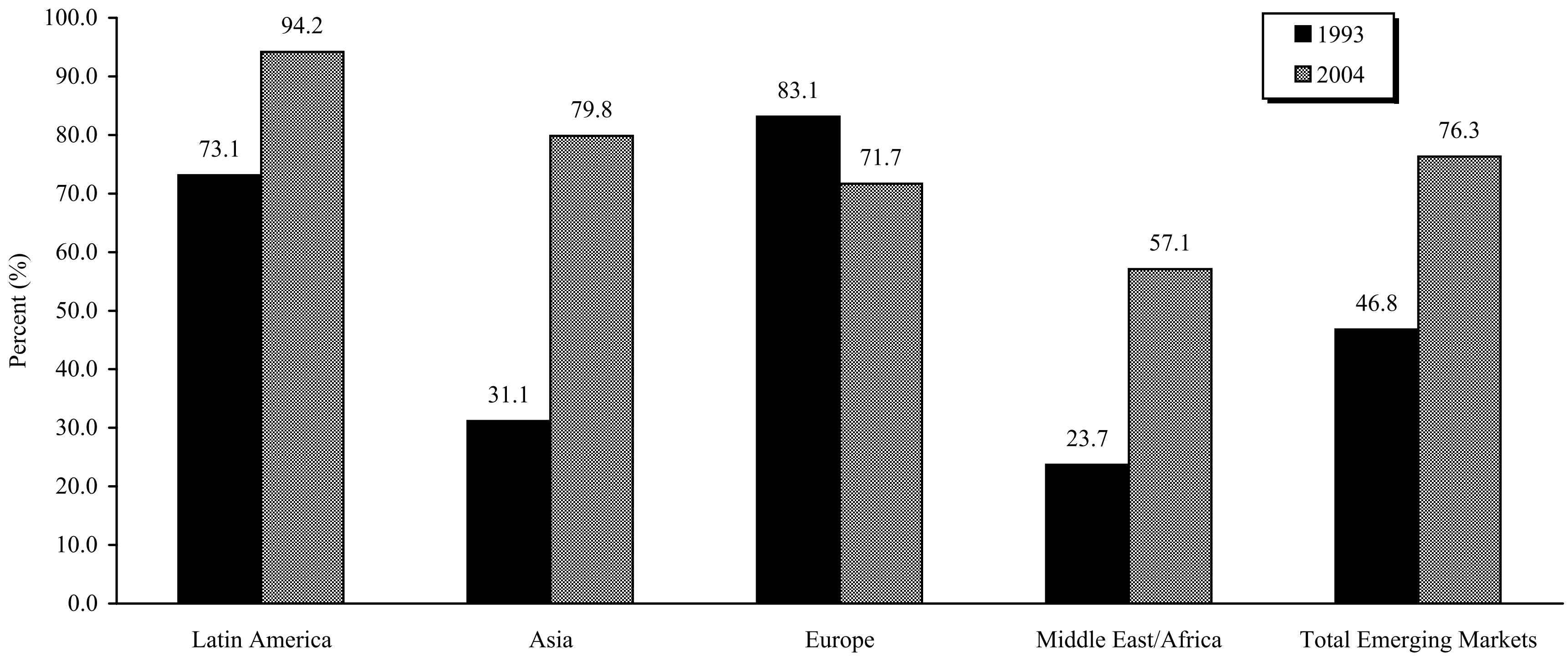
Source: Standard & Poor's Emerging Markets Database.

Notes: Percentages may not total due to rounding. Data for 2004 are through December 31.

Exhibit 2

PERCENT OF EMERGING MARKETS OPEN TO FOREIGN INVESTORS

1993-2004



Sources: International Finance Corporation and Standard & Poor's Emerging Markets Database.

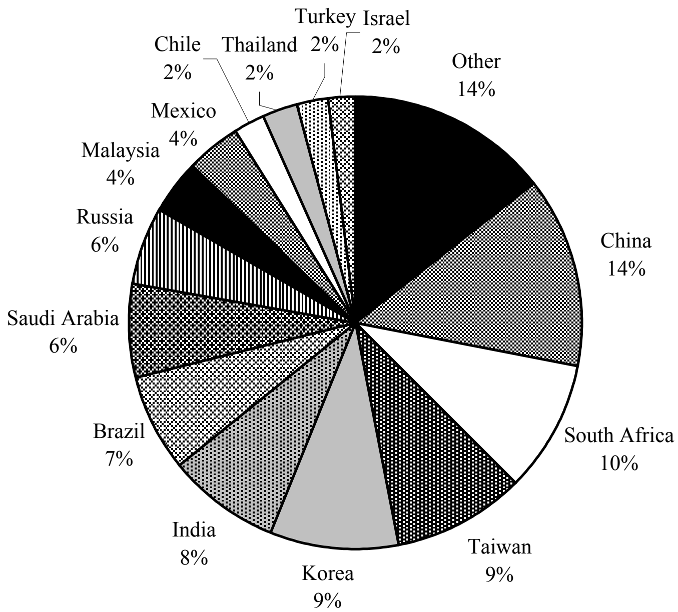
Note: The percent of emerging markets open to foreign investors is calculated by taking the S&P/IFC Investable Index as a percentage of the S&P/IFC Global Index.

Exhibit 3

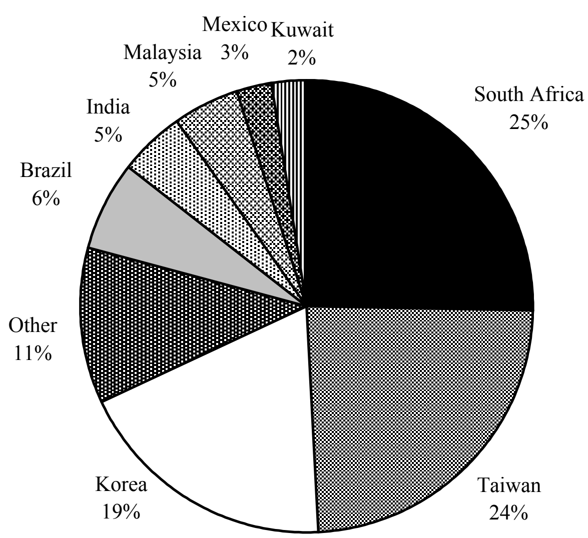
EMERGING EQUITY MARKETS CAPITALIZATION

Total and Investable Market Capitalization
(US$ millions)

2004
Total Market Cap: $4,730,418



1988
Total Market Cap: $500,409



Source: Standard & Poor's Emerging Markets Database.

Notes: Percentages may not total due to rounding. "Other" consists of those countries that make up less than 2% of the total market capitalization.
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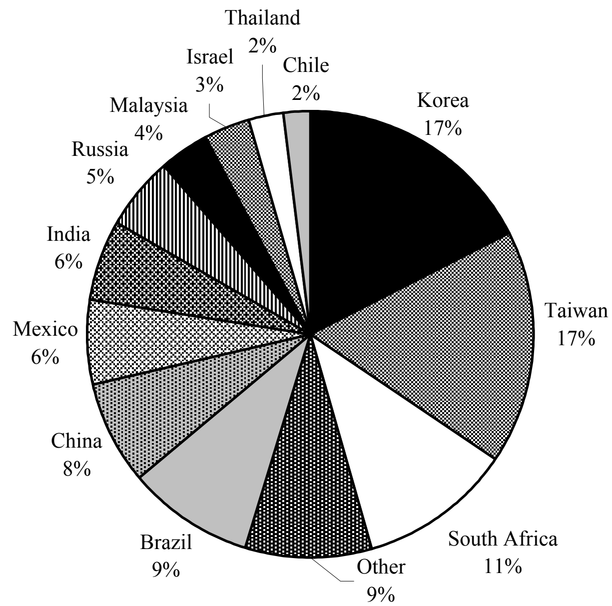
Exhibit 3 (continued)

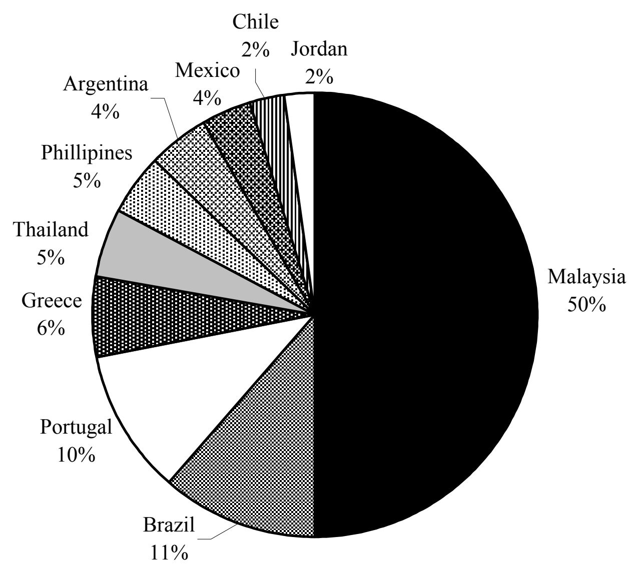
INVESTABLE EMERGING EQUITY MARKETS CAPITALIZATION

Investable Market Capitalization*
(US$ millions)

2004
Total Market Cap: $1,379,652



1988
Total Market Cap: $26,320



Sources: International Finance Corporation and Standard & Poor's Emerging Markets Database.

Notes: Percentages may not total due to rounding. "Other" consists of those countries that make up less than 2% of the total market capitalization.
* Investable as defined by the S&P/IFC Investable Index.

Exhibit 4

ANNUAL EMERGING EQUITY MARKETS CAPITALIZATIONS

Periods Ended December 31
(US$ millions)

Country	1988	1990	1992	1994	1996	1998	2000	2002	2004
Argentina	2,025	3,268	18,633	36,864	44,679	45,332	166,068	103,434	46,432
Bahrain	---	---	---	---	---	6,770	6,624	6,855	13,513
Brazil	32,149	16,354	45,261	189,281	216,990	160,887	226,152	123,807	330,347
Chile	6,849	13,645	29,644	68,195	65,940	51,866	60,401	47,584	117,065
China	---	---	18,255	43,521	113,755	231,322	580,991	463,080	639,765
Colombia	1,145	1,416	5,681	14,028	17,137	13,357	9,560	9,664	25,223
Czech Republic	---	---	---	5,938	18,077	12,045	11,002	15,893	30,863
Egypt	1,760	1,765	3,259	4,263	14,173	24,381	28,741	26,094	38,516
Greece	4,285	15,228	9,489	14,921	24,178	79,992	110,839	---	---
Hungary	---	---	562	1,604	5,273	14,028	12,021	13,110	28,711
India	23,623	38,567	65,119	127,515	122,605	105,188	148,064	131,011	387,851
Indonesia	253	8,081	12,038	47,241	91,016	22,104	26,834	29,991	73,251
Israel	5,458	3,324	29,634	32,730	35,934	39,628	64,081	45,371	95,505
Jordan	2,233	2,001	3,365	4,594	4,551	5,838	4,943	7,087	18,383
Korea	94,238	110,594	107,448	191,778	138,817	121,157	148,649	248,533	428,649
Malaysia	23,318	48,611	94,004	199,276	307,179	98,557	116,935	123,872	190,011
Mexico	13,784	32,725	139,061	130,246	106,540	91,746	125,204	103,137	171,940
Morocco	446	966	1,909	4,376	8,705	15,676	10,899	8,591	25,064
Nigeria	960	1,372	1,221	2,711	3,560	2,887	4,237	5,740	14,464
Oman	---	---	---	1,705	2,662	4,392	3,463	3,997	6,325
Pakistan	2,460	2,850	8,028	12,263	10,639	5,418	6,581	10,200	29,002
Peru	---	812	2,630	8,178	12,291	11,645	10,562	13,363	20,115
Philippines	4,280	5,927	15,282	55,519	80,649	35,314	51,554	39,021	28,948
Poland	---	---	222	3,057	8,390	20,461	31,279	28,750	71,102
Portugal	7,172	9,201	9,213	16,249	24,660	62,954	---	---	---
Russia	---	---	218	151	37,230	20,598	38,922	124,198	267,957
Saudi Arabia	---	---	54,960	38,686	45,861	42,563	67,171	74,855	306,248
Slovak Republic	---	---	---	1,093	2,182	965	1,217	1,904	4,410
South Africa	126,094	137,540	103,537	225,718	241,571	170,252	204,952	184,622	455,536
Sri Lanka	471	917	1,439	2,884	1,848	1,705	1,074	1,681	3,657
Taiwan	120,017	100,710	101,124	247,325	273,608	260,015	247,602	261,474	441,436
Thailand	8,811	23,896	58,259	131,479	99,828	34,903	29,489	46,172	115,400
Turkey	1,135	19,065	9,931	21,605	30,020	33,646	69,659	33,958	98,299
Venezuela	1,816	8,361	7,600	4,111	10,055	7,587	8,128	3,962	6,117
Zimbabwe	774	2,395	628	1,828	3,635	1,310	2,432	15,632	1,941
S&P/IFC Index Markets	488,573	604,121	956,372	1,891,842	2,225,110	1,818,667	2,557,675	---	---
United States	2,793,816	3,059,434	4,485,040	5,067,016	8,484,433	13,451,352	15,104,037	11,052,403	16,323,726
All Emerging Markets	500,409	613,621	981,617	1,883,406	2,223,740	1,774,489	2,580,418	2,419,060	4,730,418
Developed Markets	9,228,064	8,795,239	9,950,909	13,233,217	18,006,922	25,126,595	29,581,175	21,039,479	34,173,600
Total	9,728,473	9,399,659	10,932,526	15,116,623	20,230,662	26,901,084	32,161,593	23,458,539	38,904,018
Emerging Markets as a % of Total	5.1%	6.5%	9.0%	12.5%	11.0%	6.6%	8.0%	10.3%	12.2%
U.S. Market as a % of Total	28.7%	32.5%	41.0%	33.5%	41.9%	50.0%	47.0%	47.1%	42.0%

Sources: International Finance Corporation and Standard & Poor's Emerging Markets Database.

Notes: Czech Republic was added to the IFC indices in 1995. Egypt, Morocco, Russia, and Slovakia were added in 1996. Israel was added in 1997. Bahrain and Saudi Arabia were added in 1998. As of 2002, S&P no longer reports total market capitalization for S&P/IFC Index Markets.

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Exhibit 5

COMPARATIVE VALUATIONS OF EMERGING EQUITY MARKETS (S&P/IFCG)

	Price-Earnings Ratio					Price-Book Value Ratio					Dividend Yield (%)				
Market	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Argentina	32.6	Loss	21.1	27.7	31.7	0.6	0.8	2.0	2.2	2.5	7.8	0.5	1.4	1.0	1.6
Bahrain	34.5	20.5	21.3	21.5	24.2	1.0	1.2	2.0	2.0	2.3	7.2	5.2	2.3	1.2	2.2
Brazil	8.8	13.5	10.0	10.6	8.7	1.2	1.3	1.8	1.9	1.8	6.6	4.4	4.2	4.2	5.6
Chile	16.2	16.3	24.8	17.2	16.6	1.4	1.3	1.9	0.6	2.0	8.2	3.0	3.0	4.6	5.1
China	22.2	21.6	28.6	19.1	19.6	2.3	1.9	2.6	2.0	2.1	1.4	1.4	2.3	1.8	2.5
Colombia	20.9	Loss	13.0	19.2	24.8	0.6	0.8	0.9	1.6	2.0	5.2	4.7	5.9	5.4	3.7
Czech Republic	5.8	11.2	10.8	25.0	17.0	0.8	0.8	1.0	1.6	1.7	10.5	1.8	5.0	4.2	4.2
Egypt	6.5	5.6	11.7	21.8	43.0	1.0	1.0	2.1	4.4	8.7	7.7	10.3	4.9	1.5	1.2
Greece	12.5	---	---	---	---	2.1	---	---	---	---	3.1	---	---	---	---
Hungary	13.4	14.6	12.3	16.6	12.4	1.8	1.8	2.0	2.8	2.8	1.6	1.7	0.9	1.7	2.3
India	12.8	15.0	20.9	18.1	19.4	1.9	2.0	3.5	3.3	3.6	2.4	3.0	1.7	1.7	1.7
Indonesia	Loss	22.0	39.5	13.3	17.6	1.7	1.0	1.6	2.8	3.1	2.7	3.1	3.4	3.4	4.1
Israel	Loss	254.0	75.6	39.7	22.0	2.1	2.0	2.6	2.6	2.5	1.3	0.7	1.2	1.8	2.1
Jordan	18.8	11.4	20.7	30.4	55.7	1.5	1.3	2.1	3.0	5.4	2.8	2.8	2.4	1.5	3.4
Korea	28.7	21.6	30.2	13.5	15.1	1.2	1.1	1.6	1.3	1.4	1.8	1.5	2.1	2.3	2.6
Malaysia	50.6	21.3	30.1	22.4	16.7	1.2	1.3	1.7	1.9	1.9	3.3	3.2	3.0	3.5	4.3
Mexico	13.7	15.4	17.6	15.9	12.8	1.7	1.5	2.0	2.5	2.4	3.0	1.8	2.1	1.9	2.1
Morocco	11.7	9.5	25.2	24.6	21.9	2.0	1.6	1.7	2.1	2.4	4.5	5.3	4.7	2.7	4.2
Nigeria	12.6	16.4	18.5	23.5	21.6	3.7	4.0	2.5	3.2	2.9	5.3	5.4	4.1	3.7	4.2
Oman	24.4	52.7	15.2	14.2	35.1	0.8	1.1	1.5	1.8	2.8	9.2	3.0	5.4	3.3	2.4
Pakistan	7.5	10.0	9.5	9.9	10.4	0.9	1.9	2.3	2.6	2.8	12.5	9.2	7.5	7.0	6.4
Peru	21.3	12.8	13.7	10.7	11.0	1.4	1.2	1.8	1.6	1.6	4.3	2.4	2.8	3.1	4.3
Philippines	45.9	21.8	21.1	14.6	15.8	0.9	0.8	1.1	1.4	1.7	1.4	2.3	2.1	1.8	2.4
Poland	6.1	88.6	Loss	39.9	8.8	1.4	1.3	1.8	2.0	1.3	2.6	1.4	1.4	1.2	2.0
Russia	5.6	12.4	19.9	10.8	10.1	1.1	0.9	1.2	1.2	1.3	1.0	2.4	1.8	1.2	1.8
Saudi Arabia	22.2	23.4	27.2	50.6	84.4	2.4	2.8	3.6	6.5	10.8	3.9	3.9	2.6	2.1	1.5
Slovakia	7.8	3.1	7.8	9.5	---	0.4	0.4	0.6	0.8	---	35.3	5.1	0.1	6.8	---
South Africa	11.7	10.1	11.5	16.2	11.8	2.1	1.9	20.6	2.5	2.4	5.1	3.6	4.0	3.1	3.6
Sri Lanka	14.4	15.6	15.0	18.1	23.3	0.9	1.1	1.6	1.9	2.5	6.2	3.1	3.6	4.7	3.3
Taiwan	29.4	20.0	55.7	21.2	13.1	2.1	1.6	2.2	1.9	1.8	1.1	1.2	1.5	2.7	2.9
Thailand	163.8	16.4	16.6	12.8	9.6	1.3	1.5	2.8	2.0	1.9	2.6	2.2	1.6	2.2	3.6
Turkey	72.5	37.9	14.9	12.5	11.5	3.8	2.8	2.6	1.7	1.5	1.1	0.7	1.2	3.0	2.9
Venezuela	Loss	Loss	14.4	6.0	4.7	0.5	0.5	1.1	1.2	0.9	10.8	8.4	9.9	12.3	11.3
Zimbabwe	11.0	9.4	5.5	7.6	22.2	4.3	4.1	3.1	3.8	11.0	2.5	2.9	3.8	4.1	1.2
S&P/IFCG Composite	17.8	18.0	21.7	16.5	15.1	1.6	1.4	2.0	1.9	2.1	2.8	2.3	2.3	2.3	2.7
S&P/IFCI Composite	15.9	16.3	19.9	15.3	13.2	1.6	1.4	2.0	1.9	1.9	3.0	2.3	2.3	2.2	2.8
MSCI U.S.	33.3	22.6	21.6	19.4	18.7	3.4	2.6	3.1	3.0	2.9	1.4	1.8	1.6	1.7	1.8
MSCI Europe ex U.K.	18.9	22.2	24.0	16.9	16.4	2.6	1.7	2.2	2.2	2.3	2.3	3.0	2.6	2.6	2.7
MSCI EAFE	21.3	24.3	24.0	17.4	16.4	2.1	1.6	2.0	2.1	2.1	2.2	2.8	2.4	2.5	2.6
MSCI Japan	39.8	Loss	66.0	22.9	19.5	1.5	1.3	1.7	1.7	1.7	0.9	1.1	1.0	1.1	1.2
MSCI U.K.	19.6	14.7	16.0	14.7	14.1	2.2	1.8	2.1	2.3	2.4	2.7	3.6	3.2	3.2	3.3

Sources: Morgan Stanley Capital International, Standard & Poor's Emerging Markets Database, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data for 2005 are through June 30.
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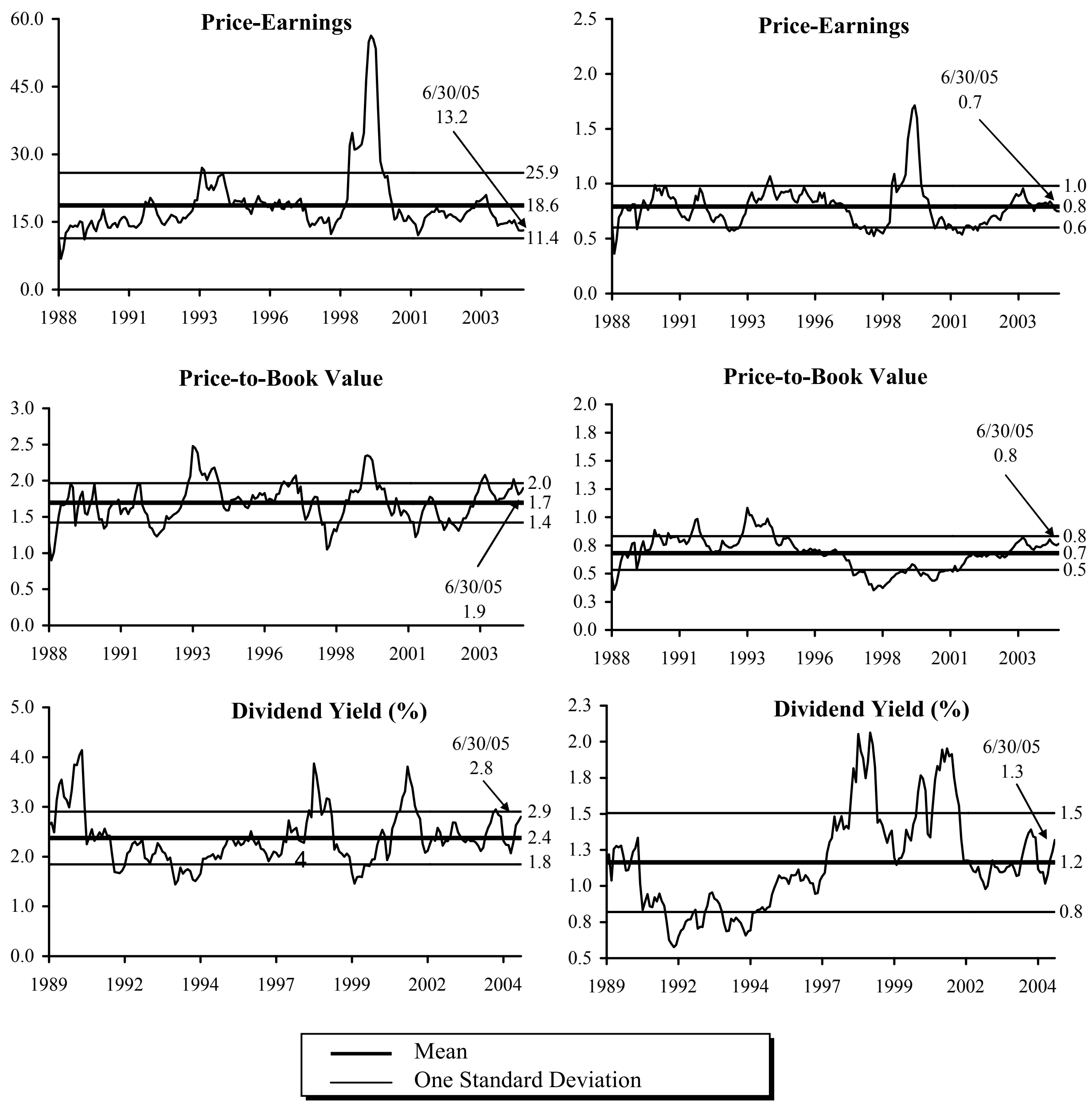
Exhibit 6

S&P/IFCI INDEX EMERGING EQUITY MARKETS VALUATIONS

December 31, 1988 - June 30, 2005

S&P/IFCI Index | **S&P/IFCI Index Relative to MSCI World Index**



Sources: International Finance Corporation, Morgan Stanley Capital International, Standard & Poor's, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

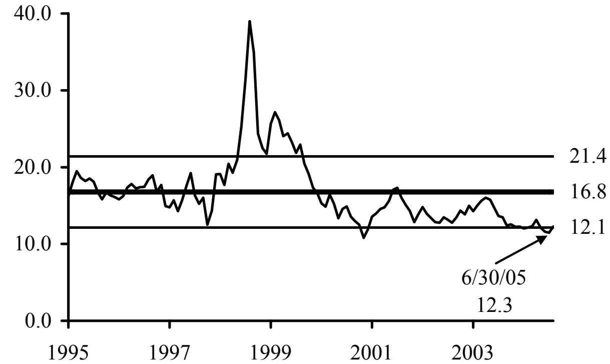
Note: Dividend yield data begins November 30, 1989.

Exhibit 7

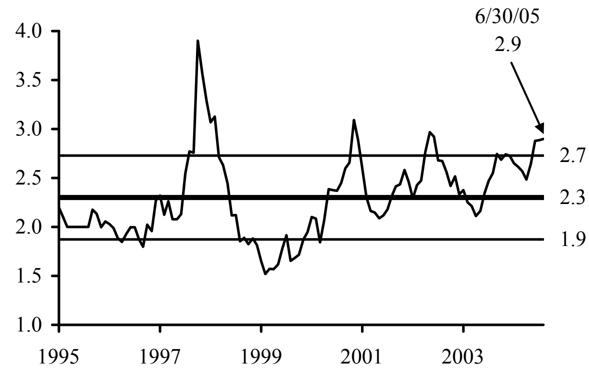
GLOBAL EQUITY MARKET VALUATIONS: MSCI EMERGING MARKETS

November 30, 1995 - June 30, 2005

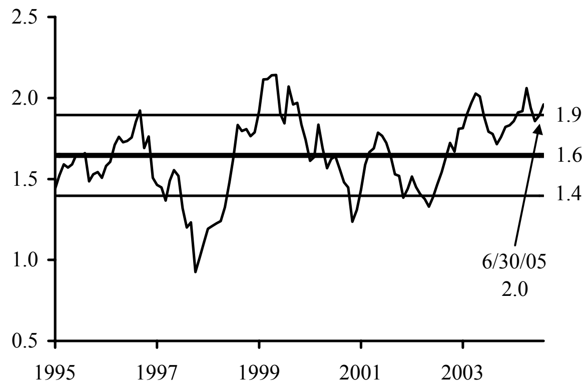
Price-Earnings



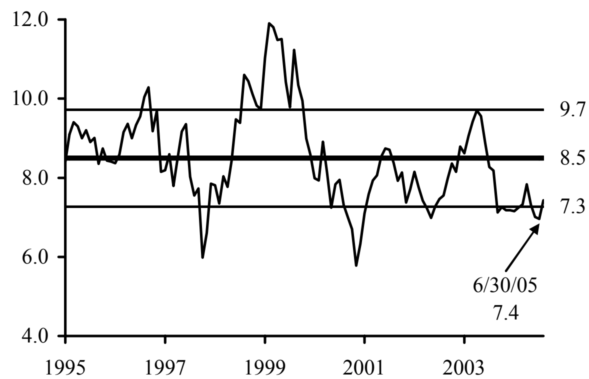
Dividend Yield (%)



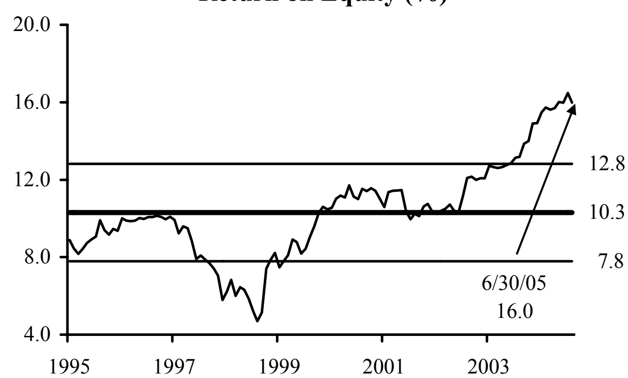
Price-to-Book Value



Price-to-Cash Earnings



Return on Equity (%)



Mean
One Standard Deviation

Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: ROE is calculated by dividing the earnings per share by the book value per share. Book value per share is calculated by dividing the index price by its price-to-book ratio. Earnings per share is calculated by dividing the price index by its price-earnings ratio. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.
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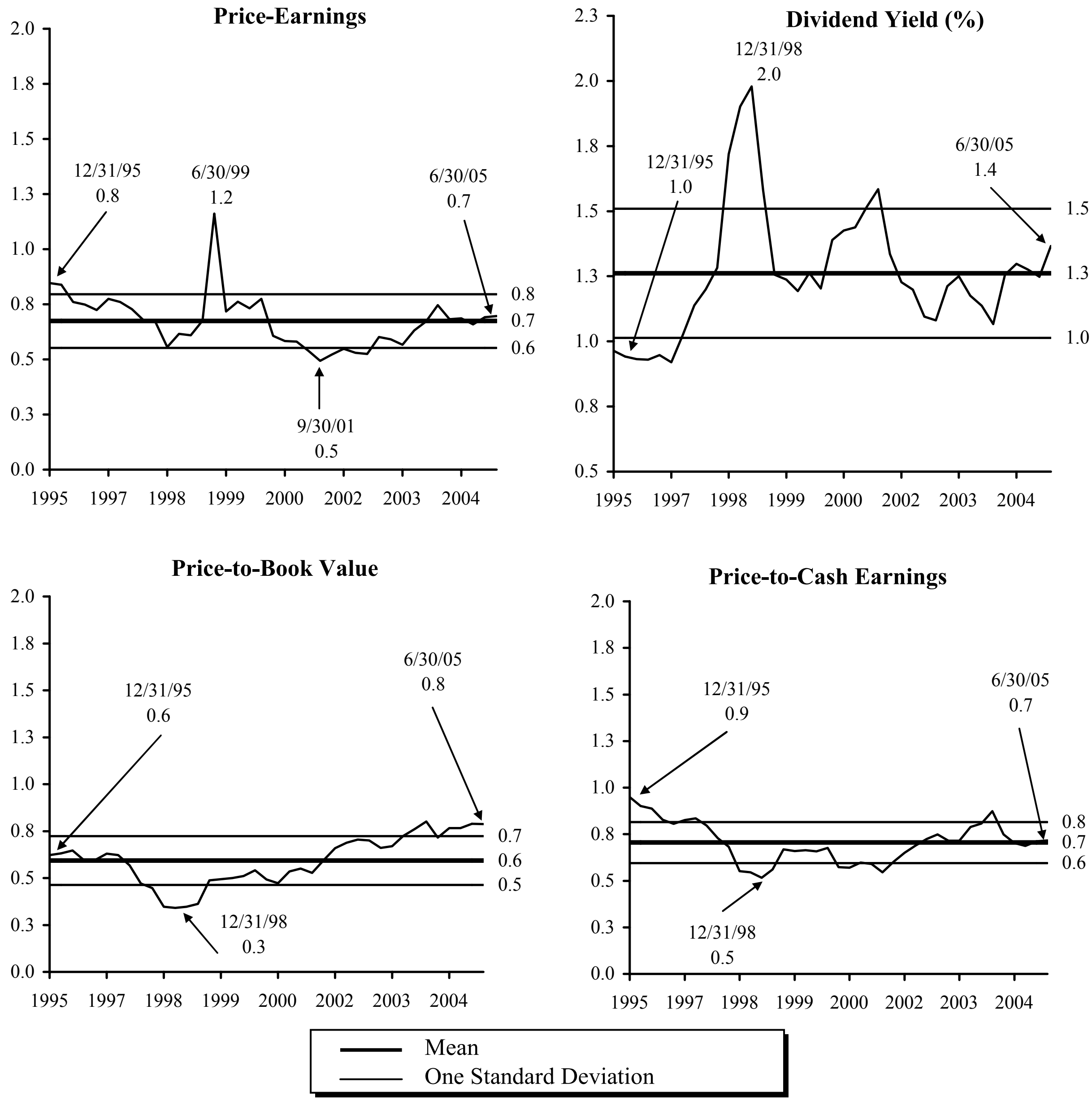
Exhibit 8

GLOBAL EQUITY MARKET VALUATIONS: MSCI EMERGING MARKETS RELATIVE TO MSCI WORLD

October 1, 1995 - June 30, 2005



Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

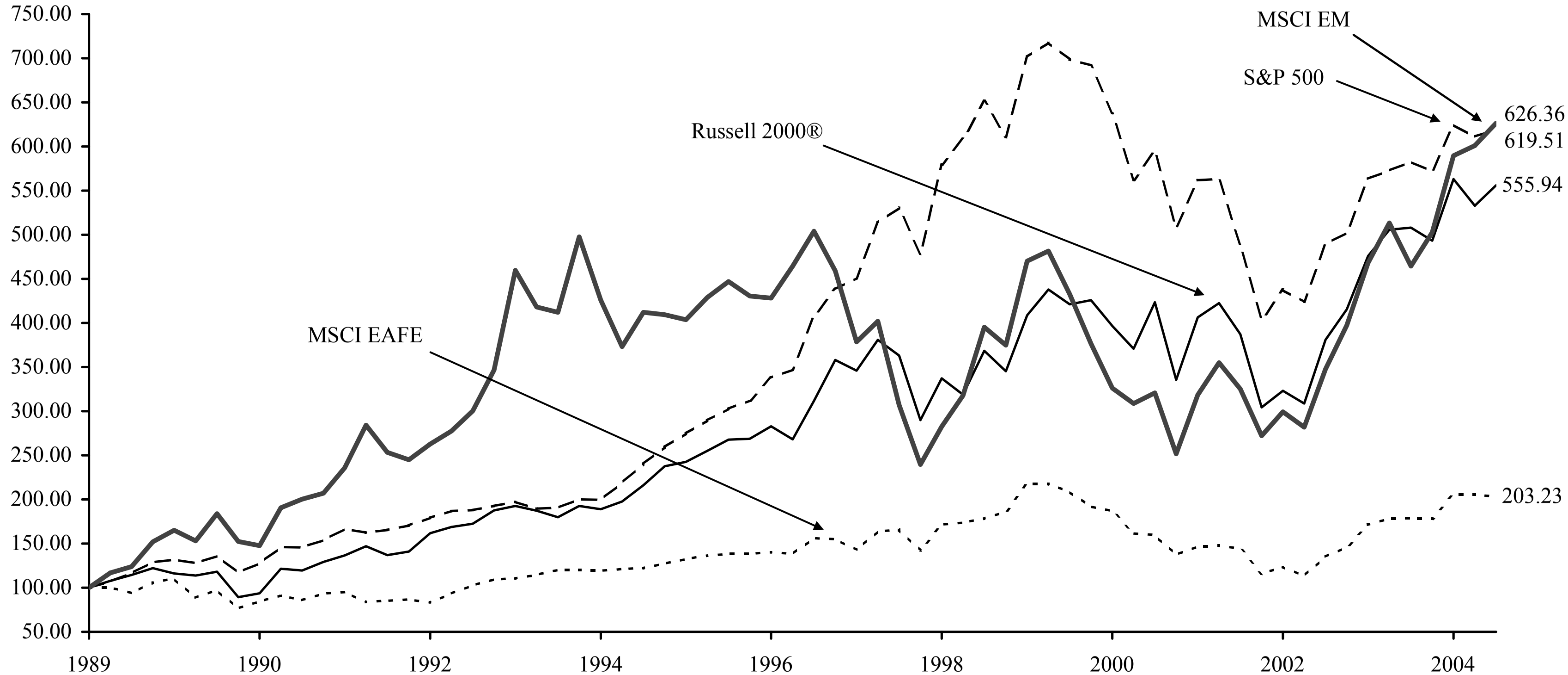
Note: As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Exhibit 9

CUMULATIVE WEALTH OF VARIOUS EQUITY MARKETS

March 1, 1989 - June 30, 2005

Cumulative Wealth Index
(February 28, 1989 = $100)



Sources: Frank Russell Company, Morgan Stanley Capital International, Standard & Poor's, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Exhibit 10

COMPARATIVE PERFORMANCE OF SELECTED GLOBAL EQUITY BENCHMARKS

1970-2005

Average Annual Compound Returns (%)
Rolling Five-Year Periods

Rolling Periods	S&P 500	MSCI EAFE	MSCI World	S&P/IFCI	MSCI Emerging Markets
1970-1974	-2.3	0.4	-2.4	----	----
1971-1975	3.2	9.4	4.0	----	----
1972-1976	4.8	4.4	3.1	----	----
1973-1977	-0.3	1.4	-0.9	----	----
1974-1978	4.2	10.8	5.7	----	----
1975-1979	14.6	17.9	14.4	----	----
1976-1980	13.7	15.6	13.2	----	----
1977-1981	7.9	14.5	9.3	----	----
1978-1982	13.9	10.3	11.2	----	----
1979-1983	17.2	8.8	12.2	----	----
1980-1984	14.7	9.3	10.9	----	----
1981-1985	14.5	14.7	13.4	----	----
1982-1986	19.7	28.1	22.8	----	----
1983-1987	16.3	34.4	24.2	----	----
1984-1988	15.2	35.3	24.5	----	----
1985-1989	20.3	36.1	27.2	----	----
1986-1990	13.1	18.0	14.5	----	----
1987-1991	15.3	8.7	10.4	----	----
1988-1992	15.9	1.3	6.0	----	29.8
1989-1993	14.5	2.0	5.9	32.5	35.7
1990-1994	8.7	1.5	3.7	17.4	20.9
1991-1995	16.6	9.4	11.7	15.8	22.3
1992-1996	15.2	8.2	10.8	10.3	12.7
1993-1997	20.3	11.4	15.3	6.2	7.6
1994-1998	24.1	9.2	15.7	-10.1	-9.3
1995-1999	28.6	12.8	19.8	2.2	2.0
1996-2000	18.3	7.1	12.1	-3.7	-4.2
1997-2001	10.7	0.9	5.4	-5.1	-5.7
1998-2002	-0.6	-2.9	-2.1	-2.8	-4.6
1999-2003	-0.6	-0.1	-0.8	11.9	10.6
2000-2004	-2.3	-1.1	-2.4	6.1	4.6
2001-2005	-0.6	1.9	0.2	18.0	15.6

Average Annual Compound Returns (%)
Periods Ending June 30, 2005

	S&P 500	MSCI EAFE	MSCI World	S&P/IFCI	MSCI Emerging Markets
25 Years	13.1	10.4	10.8	----	----
20 Years	12.3	10.5	10.5	----	----
15 Years	10.7	5.0	7.1	7.7	8.5
10 Years	9.9	5.2	7.1	5.6	4.3
5 Years	-2.4	-0.5	-2.1	9.5	7.7

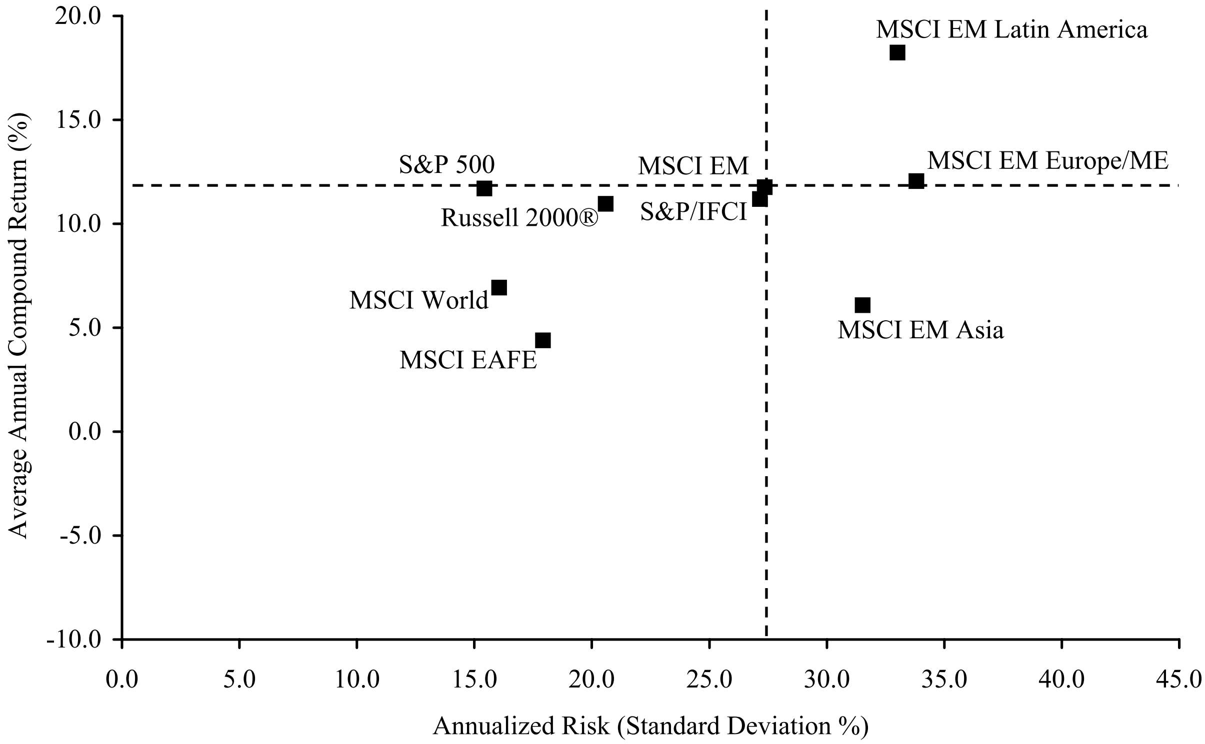
Sources: International Finance Corporation, Morgan Stanley Capital International, Standard & Poor's, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Data for 2005 are through June 30. Returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Exhibit 11

RISK/RETURN ANALYSIS OF SELECTED EQUITY INDICES

January 1, 1989 - June 30, 2005



	Average Annual Compound Return (%)	Standard Deviation (%)	Return/ Risk	Sharpe Ratio
MSCI EM	11.76	27.37	0.43	0.26
MSCI EM Asia	6.08	31.54	0.19	0.05
MSCI EM Latin America	18.24	33.02	0.55	0.41
MSCI EM Europe and Middle East	12.04	33.82	0.36	0.22
S&P/IFCI	11.18	27.16	0.41	0.24
MSCI EAFE	4.39	17.92	0.25	-0.01
MSCI World	6.92	16.06	0.43	0.14
S&P 500	11.69	15.44	0.76	0.46
Russell 2000®	10.96	20.59	0.53	0.31

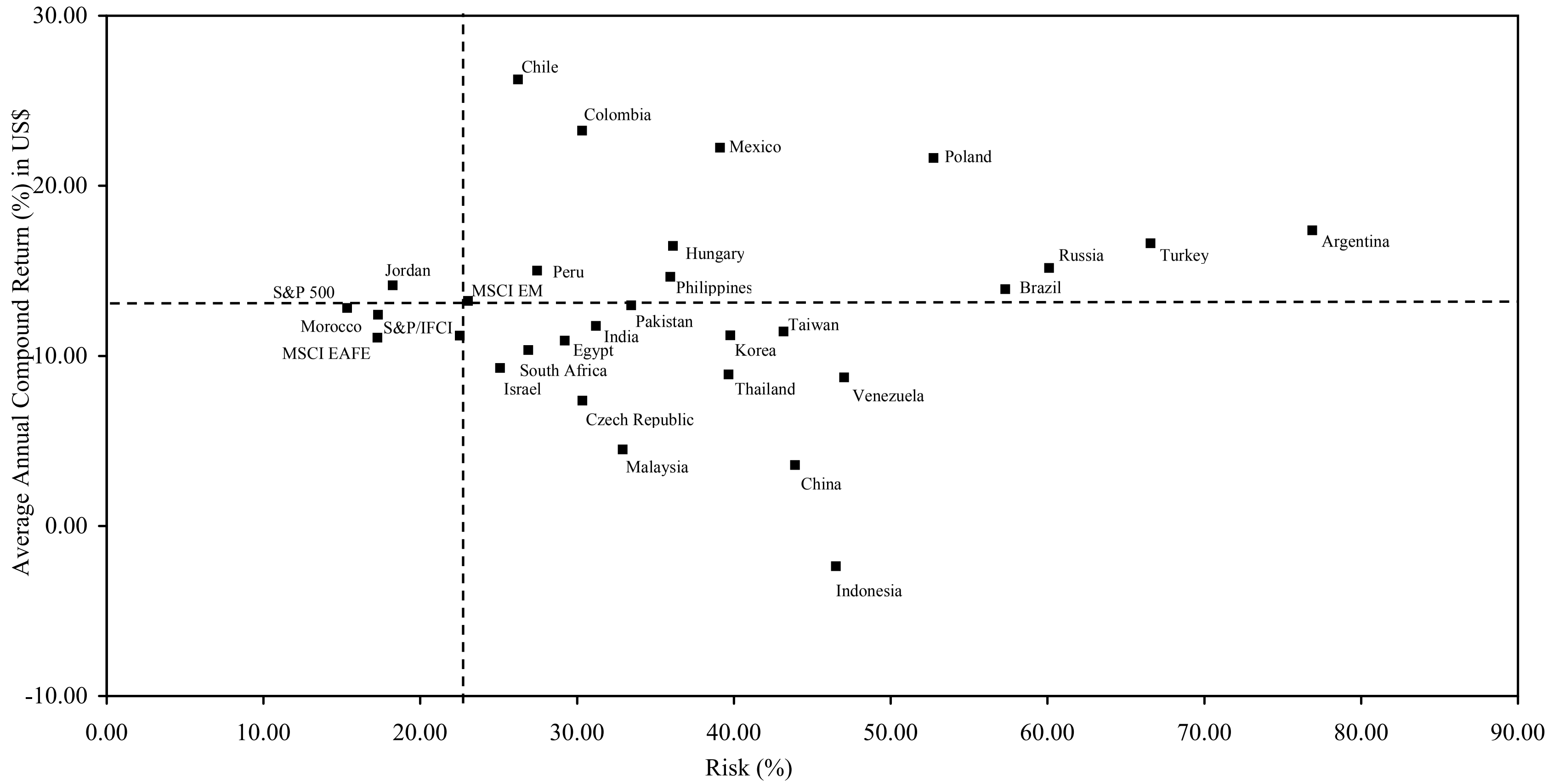
Sources: Frank Russell Company, Morgan Stanley Capital International, Standard & Poor's, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: All returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Exhibit 12

RISK/RETURN ANALYSIS OF EMERGING EQUITY MARKETS

January 1, 1985 - June 30, 2005



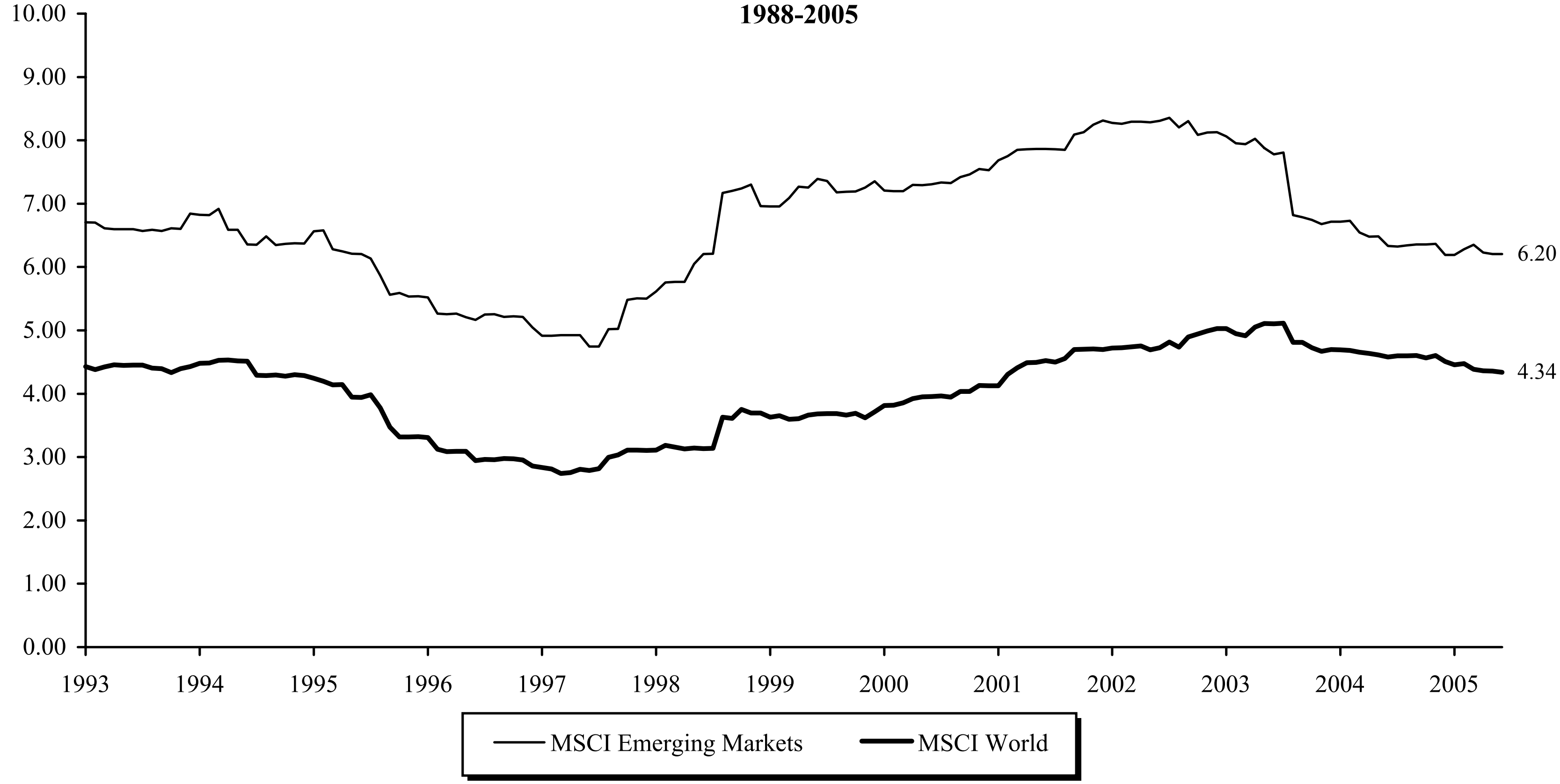
Sources: International Finance Corporation, Morgan Stanley Capital International, Standard & Poor's, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Risk is the annualized standard deviation of monthly returns. Returns are available from 1987 for Turkey; 1988 for MSCI EM; 1989 for S&P/IFCI; 1990 for Indonesia; 1993 for China, Hungary, Peru, and Poland; 1994 for Czech Republic; February 1994 for South Africa; 1996 for Morocco; and February 1997 for Egypt, Israel, and Russia. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Exhibit 13

MSCI EMERGING MARKETS AND MSCI WORLD ROLLING FIVE-YEAR STANDARD DEVIATIONS OF RETURNS

1988-2005



Sources: Morgan Stanley Capital International and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Data for 2005 are through June 30. All returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets are gross of dividend taxes. Total returns for MSCI developed markets are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Exhibit 14

EMERGING MARKETS EQUITY INDICES CORRELATION MATRIX

January 1, 1989 - June 30, 2005

	MSCI EM	MSCI EM Asia	MSCI EM Latin America	MSCI EM Europe and ME	S&P/IFCI	MSCI EAFE	MSCI World	S&P 500	Russell 2000®
MSCI EM	1.00								
MSCI EM Asia	0.88	1.00							
MSCI EM Latin America	0.88	0.60	1.00						
MSCI EM Europe and ME	0.65	0.54	0.46	1.00					
S&P/IFCI	0.98	0.89	0.83	0.69	1.00				
MSCI EAFE	0.58	0.54	0.49	0.55	0.56	1.00			
MSCI World	0.63	0.56	0.55	0.58	0.60	0.96	1.00		
S&P 500	0.62	0.53	0.56	0.57	0.60	0.78	0.92	1.00	
Russell 2000®	0.72	0.60	0.68	0.52	0.68	0.69	0.79	0.85	1.00
Average Annual Compound Return (%)	11.76	6.08	18.24	12.04	11.18	4.39	6.92	11.69	10.96
Annualized Standard Deviation (%)	27.37	31.54	33.02	33.82	27.16	17.92	16.06	15.44	20.59
Return/Risk	0.43	0.19	0.55	0.36	0.41	0.25	0.43	0.76	0.53

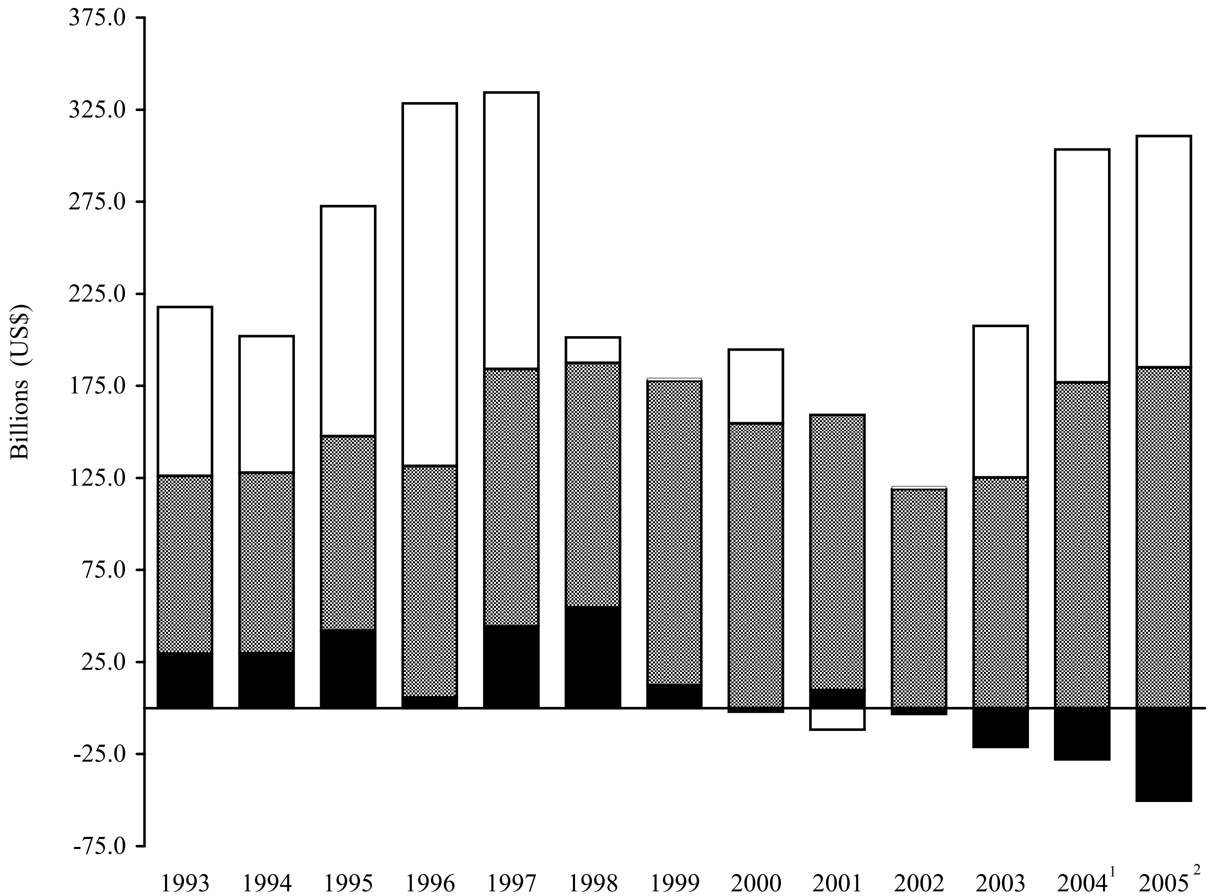
Sources: Frank Russell Company, International Finance Corporation, Morgan Stanley Capital International, Standard & Poor's, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Correlations are based on quarterly data. All returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Exhibit 15

EXTERNAL FINANCING OF EMERGING MARKETS ECONOMIES

1993-2005



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Private Creditors, net	91.9	74.3	125.1	197.0	150.1	13.8	1.6	40.2	-11.8	1.6	82.5	126.7	125.9
Equity Investment, net	96.5	98.1	105.5	125.7	139.9	132.8	165.3	154.6	149.4	118.8	125.1	176.7	184.9
Official Flows, net	29.4	29.6	42.0	5.7	44.2	54.6	12.4	-2.0	9.7	-3.3	-21.0	-27.9	-50.4

Source: Institute of International Finance, Inc.

Notes: Equity investment is inclusive of direct and portfolio investments, private creditors is inclusive of commercial banks and nonbanks, and official flows is inclusive of IFIs and bilateral creditors.

[1] IIF estimate.

[2] IIF forecast.

Exhibit 16

S&P/IFC INVESTABLE INDEX TOP 10 COMPANIES AS A PERCENTAGE OF THE INDEX

Country	1993	1998	2003	2005
Argentina	99.3%	85.9%	98.8%	92.8%
Brazil	65.7	45.8	62.9	63.3
Chile	86.8	66.7	71.0	62.5
China	93.5	69.2	61.2	58.8
Colombia	100.0	94.4	---	---
Czech Republic	---	98.4	100.0	99.8
Egypt	---	59.5	100.0	100.0
Greece	85.5	79.6	---	---
Hungary	100.0	98.9	100.0	1.0
India	46.4	48.4	56.3	52.1
Indonesia	59.7	81.0	90.0	77.0
Israel	---	59.2	75.1	73.0
Jordan	100.0	100.0	---	---
Korea	40.5	40.0	58.9	50.2
Malaysia	49.1	45.1	47.7	47.4
Mexico	62.2	61.4	75.4	76.7
Morocco	---	100.0	100.0	96.4
Pakistan	100.0	89.2	---	---
Peru	99.3	86.0	100.0	100.0
Philippines	99.5	85.2	91.3	88.3
Poland	95.5	71.5	89.4	86.0
Portugal	89.4	91.6	---	---
Russia	---	98.8	93.0	87.1
Slovakia	---	100.0	---	---
South Africa	46.9	49.9	51.0	47.4
Sri Lanka	100.0	100.0	---	---
Taiwan	53.6	44.5	44.5	46.1
Thailand	58.5	65.4	68.9	59.8
Turkey	73.9	---	76.7	69.7
Venezuela	100.0	95.4	---	---
Zimbabwe	---	100.0	---	---
Top 10 companies as a % of the S&P/IFCI Index:	20.9	11.2	19.1	16.5

Sources: International Finance Corporation and Standard & Poor's Emerging Markets Database.

Note: Data for 2005 are through May 31.

APPENDIX

Appendix

REPRESENTATIVE EMERGING MARKETS EQUITY MANAGERS

Annual Total Returns (%)

Manager	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	6 mos 2005
Aberdeen Asset Mgmt - Emerging Markets Equity	---	20.1	-13.5	-28.8	73.3	-20.2	-6.3	4.9	62.9	27.2	9.1
AllianceBernstein Instl Invst Mgmt - EM Growth	-3.1	22.5	-8.4	-28.1	118.3	-29.2	-16.8	0.5	54.1	30.5	6.3
AllianceBernstein Instl Invst Mgmt - EM Value	---	9.1	-21.6	-18.4	73.3	-26.8	-1.1	6.1	81.6	40.1	4.3
American Century Invst Mgmt - Emerging Markets	---	---	---	-17.3	110.3	-28.8	-6.9	-17.2	69.0	15.8	5.0
Baillie Gifford Overseas Limited - Emerging Markets	0.9	27.0	3.6	-26.4	77.4	-25.1	2.3	-5.2	60.5	23.5	10.2
Baring Asset Mgmt - Global Emerging Markets	-15.0	4.2	8.5	-25.8	78.2	-32.9	2.0	-6.9	46.3	20.0	4.6
Batterymarch Financial Mgmt - Global Emerging Markets	-7.1	15.5	-4.0	-27.5	107.3	-28.3	3.9	-12.3	75.9	21.7	5.3
Boston Company Asset Mgmt - Emerging Markets	---	19.2	0.5	-16.5	77.8	-19.0	9.4	1.4	57.3	29.4	4.2
Brandes Investment Partners, L.P. - Emerging Markets	3.9	17.5	-17.4	-19.5	69.8	-16.1	0.8	-18.5	69.3	33.0	5.7
Capital Guardian Trust Company - Emerging Markets	-1.8	13.1	3.8	-24.9	85.4	-29.7	-3.5	-9.4	47.1	19.6	7.9
Capital International - Emerging Markets Growth Fund (n)	-7.2	16.4	9.7	-24.9	77.9	-31.0	-3.4	-9.9	51.5	20.7	8.1
Citigroup Asset Mgmt - Emerging Markets Equity	-4.0	9.3	4.4	-30.3	57.7	-31.5	2.2	-0.1	59.2	24.1	5.3
City of London Investment Mgmt - Emerging Markets	0.6	5.7	-1.5	-21.2	60.9	-24.2	4.1	6.7	60.2	23.4	10.5
Clay Finlay - Global Emerging Markets Equity	---	19.6	0.7	-28.5	63.7	-27.6	-5.3	-5.5	66.3	30.3	3.6
Commonfund Group - Emerging Markets Fund	-7.1	13.7	-1.9	-23.6	56.1	-27.9	-4.4	-5.8	56.5	26.8	5.7
Deltec Asset Mgmt - Emerging Markets, L.P. (n)	-2.4	29.3	20.1	-47.6	62.8	-14.5	18.6	-1.1	59.6	28.7	5.6
Deutsche Asset Mgmt - Alpha Emerging Markets	-6.7	34.4	4.4	-22.8	44.4	-28.6	-4.5	-3.9	59.6	24.7	8.1
Dimensional Fund Advisors - Emerging Markets	3.8	12.7	-18.1	-8.5	73.2	-28.5	-6.0	-8.7	61.5	30.9	4.7
Dimensional Fund Advisors - EM Small-Cap	---	---	---	---	88.7	-30.8	-1.1	1.0	74.8	30.2	2.9
Emerging Markets Investors - Active EM	-9.6	6.1	-3.3	-20.9	78.0	-26.7	1.1	-0.1	58.2	29.6	7.9
Emerging Markets Investors - Concentrated EM	---	---	---	---	87.3	-31.9	2.5	-6.7	57.7	27.5	8.2
Emerging Markets Investors - Quantitative EM	---	---	-4.9	-18.9	74.9	-31.5	5.3	-1.1	54.9	18.9	6.6
Emerging Markets Investors - New Economy EM	---	---	---	---	---	---	---	-11.0	46.2	16.6	14.1
F&C Emerging Markets - Emerging Markets Equity	-7.2	10.0	15.9	-33.0	63.0	-28.1	-3.0	-7.6	58.2	21.6	3.2
Fidelity Mgmt Trust Co. - Emerging Markets Equity	---	---	-6.4	-25.6	67.9	-31.5	-2.0	-5.5	52.1	23.5	8.4
Maximum	8.4	43.9	20.1	-6.5	126.9	-3.5	18.6	9.9	81.6	40.1	14.1
Median	-5.4	15.2	-1.9	-24.2	73.3	-27.9	-1.9	-4.0	58.1	26.5	6.7
Minimum	-15.0	4.2	-21.6	-47.6	30.3	-37.4	-16.8	-18.5	40.2	7.5	-3.7
Number of Products	35	42	49	60	64	64	64	65	66	67	67
Market Indices											
S&P/IFC Investable Index	-8.4	9.4	-14.7	-22.0	67.1	-31.8	1.8	-3.9	57.2	28.1	6.8
MSCI Emerging Markets Index	-5.2	6.0	-11.6	-25.3	66.4	-30.6	-2.4	-6.0	56.3	26.0	6.3
MSCI EAFE Index	11.2	6.0	1.8	20.0	27.0	-14.2	-21.4	-15.9	38.6	20.2	-1.2
S&P 500	37.6	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	-0.8

(n) - net returns

Sources: Cambridge Associates LLC Investment Manager Database, Morgan Stanley Capital International, Thomson Datastream, and Standard & Poor's Compustat. MSCI data provided "as is" without any express or implied warranties.

Notes: Returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets indices are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Appendix (continued)

REPRESENTATIVE EMERGING MARKETS EQUITY MANAGERS

Average Annual Compound Returns (%)
Periods Ended December 31, 2004

Manager	10 Yrs	9 Yrs	8 Yrs	7 Yrs	6 Yrs	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
Aberdeen Asset Mgmt - Emerging Markets Equity	---	8.5	7.1	10.5	18.9	10.2	19.5	29.5	44.0	27.2
AllianceBernstein Instl Invst Mgmt - EM Growth	7.3	8.6	6.9	9.3	17.2	3.5	13.8	26.4	41.8	30.5
AllianceBernstein Instl Invst Mgmt - EM Value	---	10.0	10.1	15.6	22.5	14.3	27.8	39.3	59.5	40.1
American Century Invst Mgmt - Emerging Markets	---	---	---	9.4	14.6	1.5	10.8	17.5	39.9	15.8
Baillie Gifford Overseas Limited - Emerging Markets	9.6	10.6	8.7	9.4	16.9	7.6	17.7	23.4	40.7	23.5
Baring Asset Mgmt - Global Emerging Markets	3.6	5.9	6.1	5.7	12.2	2.2	13.6	17.8	32.5	20.0
Batterymarch Financial Mgmt - Global Emerging Markets	8.0	9.9	9.2	11.2	19.4	6.9	18.2	23.3	46.3	21.7
Boston Company Asset Mgmt - Emerging Markets	---	14.0	13.4	15.3	21.7	12.8	22.6	27.3	42.6	29.4
Brandes Investment Partners, L.P. - Emerging Markets	7.9	8.4	7.3	11.3	17.5	9.2	16.6	22.4	50.1	33.0
Capital Guardian Trust Company - Emerging Markets	5.7	6.5	5.7	6.0	12.3	1.6	11.3	16.8	32.6	19.6
Capital International - Emerging Markets Growth Fund (n)	5.7	7.2	6.1	5.6	11.8	1.9	12.3	18.1	35.3	20.7
Citigroup Asset Mgmt - Emerging Markets Equity	5.2	6.3	5.9	6.2	13.9	6.7	19.2	25.4	40.5	24.1
City of London Investment Mgmt - Emerging Markets	8.3	9.1	9.6	11.3	17.8	10.7	21.7	28.2	40.6	23.4
Clay Finlay - Global Emerging Markets Equity	---	7.9	6.5	7.3	14.9	7.0	18.0	27.0	47.2	30.3
Commonfund Group - Emerging Markets Fund	4.8	6.2	5.3	6.3	12.4	5.2	15.6	23.2	40.8	26.8
Deltec Asset Mgmt - Emerging Markets, L.P. (n)	10.3	11.8	9.8	8.4	22.3	15.5	24.6	26.6	43.3	28.7
Deutsche Asset Mgmt - Alpha Emerging Markets	6.7	8.3	5.4	5.5	11.1	5.5	16.2	24.1	41.1	24.7
Dimensional Fund Advisors - Emerging Markets	7.0	7.4	6.7	10.8	14.4	5.3	16.0	24.5	45.4	30.9
Dimensional Fund Advisors - EM Small-Cap	---	---	---	---	19.9	9.5	22.8	32.0	50.9	30.2
Emerging Markets Investors - Active EM	7.1	9.1	9.5	11.5	18.0	8.7	19.9	27.0	43.2	29.6
Emerging Markets Investors - Concentrated EM	---	---	---	---	16.1	5.6	17.8	23.3	41.8	27.5
Emerging Markets Investors - Quantitative EM	---	---	7.4	9.3	14.9	5.6	17.7	22.2	35.7	18.9
Emerging Markets Investors - New Economy EM	---	---	---	---	---	---	---	14.9	30.6	16.6
F&C Emerging Markets - Emerging Markets Equity	4.8	6.3	5.8	4.4	12.4	4.4	14.6	21.1	38.7	21.6
Fidelity Mgmt Trust Co. - Emerging Markets Equity	---	---	4.2	5.8	12.3	3.6	14.8	21.1	37.1	23.5
Maximum	11.0	14.0	18.0	18.3	25.6	16.1	27.8	39.3	59.5	40.1
Median	6.3	8.2	6.9	9.0	15.5	6.7	17.5	24.5	41.8	26.5
Minimum	3.6	4.9	0.6	2.1	9.3	-1.2	7.3	13.8	30.6	7.5
Number of Products	35	42	49	60	64	64	64	65	66	67
Market Indices										
S&P/IFC Investable Index	4.1	5.6	5.1	8.3	14.4	6.1	18.4	24.6	41.9	28.1
MSCI Emerging Markets Index	3.3	4.3	4.1	6.5	13.0	4.6	15.9	22.8	40.3	26.0
MSCI EAFE Index	5.6	5.0	4.9	5.3	3.1	-1.1	2.4	11.9	29.1	20.2
S&P 500	12.1	9.5	8.0	4.8	1.3	-2.3	-0.5	3.6	19.5	10.9

(n) - net returns

Sources: Cambridge Associates LLC Investment Manager Database, Morgan Stanley Capital International, Thomson Datastream, and Standard & Poor's Compustat. MSCI data provided "as is" without any express or implied warranties.

Notes: Returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets indices are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Appendix (continued)

REPRESENTATIVE EMERGING MARKETS EQUITY MANAGERS

Annual Total Returns (%)

Manager	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	6 mos 2005
Gartmore Global Partners - Emerging Markets Equity	-11.3	12.9	-4.7	-24.5	92.1	-31.7	-0.5	-6.7	69.9	20.6	7.3
GE Asset Mgmt, Inc. - Emerging Markets Equity	---	---	-12.3	-18.9	112.1	-36.0	-4.4	-10.3	52.9	21.1	6.1
Genesis Asset Managers - Global Emerging Markets	-5.4	20.2	-0.5	-26.2	47.5	-25.6	5.1	-2.1	63.3	32.9	9.2
Goldman Sachs Asset Mgmt - Global Emerging Markets	---	8.3	-9.2	-25.8	65.8	-25.8	-3.3	-5.9	53.5	27.6	10.6
Grantham, Mayo, Van Otterloo & Co - Emerging Countries	---	---	---	-23.0	97.1	-27.6	7.5	1.3	70.3	26.5	7.1
Grantham, Mayo, Van Otterloo & Co - Emerging Markets	-11.5	13.0	1.1	-28.0	79.6	-26.9	11.1	1.9	72.0	27.9	8.9
Hansberger Global Investors - Emerging Markets Equity	---	43.9	-9.1	-31.6	67.7	-27.8	1.5	0.1	56.0	21.5	2.9
Harding, Loevner Management - Emerging Markets	---	---	---	---	80.1	-13.9	1.8	-4.3	55.9	31.4	8.1
HSBC Asset Management - Global Emerging Markets	---	---	-14.1	-28.5	60.1	-36.2	-4.3	-2.0	49.0	19.5	4.3
JPMorgan Asset Mgmt - Emerging Markets - Core	-7.5	9.0	-6.7	-26.1	66.3	-27.8	-1.1	-6.8	55.0	31.9	6.8
JPMorgan Asset Mgmt - Emerging Markets - Discovery	---	---	---	-26.7	84.0	-25.1	-0.3	-7.9	66.4	37.0	5.4
JPMorgan Asset Mgmt - Emerging Markets - Focused	-8.2	7.9	3.5	-23.9	75.2	-27.5	-6.4	-4.1	53.0	35.1	11.2
Lazard Asset Management - Emerging Markets Equity	-5.9	23.6	-9.8	-23.5	55.8	-29.5	-3.2	-0.4	54.5	31.8	9.9
Lazard Asset Management - Emerging World Funds	-9.5	9.4	-5.9	-29.3	78.6	-29.2	-2.1	0.2	65.6	22.6	6.8
Lloyd George Invst Mgmt - Global Emerging Markets	-4.6	16.0	-6.4	-23.1	79.5	-24.9	-0.1	9.9	55.7	30.0	11.8
Marvin & Palmer Associates - Emerging Markets Equity	3.9	10.0	9.0	-9.9	64.1	-22.7	-9.2	-4.1	65.4	14.5	5.8
Merrill Lynch Investment - Global Emerging Markets	1.2	23.1	6.3	-29.3	62.9	-32.6	-8.5	-6.7	55.4	23.7	5.5
Mondrian Investment Partners Ltd - Emerging Markets	---	---	---	-34.9	62.0	-23.3	6.1	5.0	69.1	36.6	7.3
Morgan Stanley Invst Mgmt - Emerging Markets	-12.2	13.4	-1.0	-23.2	105.2	-37.4	-2.4	-4.5	58.1	26.0	6.3
Neuberger Berman, LLC - Emerging Markets Value	---	---	---	-25.7	51.3	-21.1	-3.9	-3.4	70.4	23.1	6.0
Newgate LLP - Emerging Markets	6.2	16.2	-0.9	-28.6	72.9	-17.4	-1.8	-2.5	57.4	17.8	5.5
OFI Institutional Asset Mgmt - Emerging Markets	---	---	16.4	-17.5	86.3	-3.5	-4.1	0.1	68.1	35.3	9.1
PanAgora Asset Management - Emerging Markets	---	---	---	-6.5	67.9	-30.9	0.7	-2.4	59.5	29.3	11.2
Pictet International Management - Emerging Markets	-14.3	12.5	-0.2	-18.2	73.9	-35.0	-2.5	4.7	71.7	26.1	6.2
Polunin Capital Partners - Developing Countries Fund (n)	---	---	---	---	---	---	---	---	65.2	7.5	12.3
Maximum	8.4	43.9	20.1	-6.5	126.9	-3.5	18.6	9.9	81.6	40.1	14.1
Median	-5.4	15.2	-1.9	-24.2	73.3	-27.9	-1.9	-4.0	58.1	26.5	6.7
Minimum	-15.0	4.2	-21.6	-47.6	30.3	-37.4	-16.8	-18.5	40.2	7.5	-3.7
Number of Products	35	42	49	60	64	64	64	65	66	67	67
Market Indices											
S&P/IFC Investable Index	-8.4	9.4	-14.7	-22.0	67.1	-31.8	1.8	-3.9	57.2	28.1	6.8
MSCI Emerging Markets Index	-5.2	6.0	-11.6	-25.3	66.4	-30.6	-2.4	-6.0	56.3	26.0	6.3
MSCI EAFE Index	11.2	6.0	1.8	20.0	27.0	-14.2	-21.4	-15.9	38.6	20.2	-1.2
S&P 500	37.6	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	-0.8

(n) - net returns

Sources: Cambridge Associates LLC Investment Manager Database, Morgan Stanley Capital International, Thomson Datastream, and Standard & Poor's Compustat. MSCI data provided "as is" without any express or implied warranties.

Notes: Returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets indices are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Appendix (continued)

REPRESENTATIVE EMERGING MARKETS EQUITY MANAGERS

Average Annual Compound Returns (%)
Periods Ended December 31, 2004

Manager	10 Yrs	9 Yrs	8 Yrs	7 Yrs	6 Yrs	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
Gartmore Global Partners - Emerging Markets Equity	6.0	8.2	7.6	9.5	16.5	5.4	17.4	24.1	43.1	20.6
GE Asset Mgmt, Inc. - Emerging Markets Equity	---	---	5.5	8.3	13.6	0.3	12.2	18.4	36.0	21.1
Genesis Asset Managers - Global Emerging Markets	7.4	9.0	7.6	8.8	16.1	10.7	22.3	28.6	47.3	32.9
Goldman Sachs Asset Mgmt - Global Emerging Markets	---	5.4	5.0	7.2	14.0	5.7	15.5	22.6	40.0	27.6
Grantham, Mayo, Van Otterloo & Co - Emerging Countries	---	---	---	14.5	22.3	11.2	23.7	29.7	46.8	26.5
Grantham, Mayo, Van Otterloo & Co - Emerging Markets	9.1	11.6	11.4	13.0	21.8	12.7	25.6	30.9	48.4	27.9
Hansberger Global Investors - Emerging Markets Equity	---	8.5	4.8	6.9	15.2	6.8	17.8	23.8	37.7	21.5
Harding, Loevner Management - Emerging Markets	---	---	---	---	20.7	11.4	18.8	25.1	43.1	31.4
HSBC Asset Management - Global Emerging Markets	---	---	0.6	2.9	9.3	1.3	13.7	20.4	33.4	19.5
JPMorgan Asset Mgmt - Emerging Markets - Core	4.6	6.1	5.7	7.6	14.6	6.3	17.1	24.0	43.0	31.9
JPMorgan Asset Mgmt - Emerging Markets - Discovery	---	---	---	11.3	19.3	9.4	20.3	28.1	51.0	37.0
JPMorgan Asset Mgmt - Emerging Markets - Focused	6.3	8.0	8.0	8.7	15.4	6.1	16.7	25.6	43.8	35.1
Lazard Asset Management - Emerging Markets Equity	5.6	7.0	5.1	7.4	13.7	6.7	18.4	26.6	42.7	31.8
Lazard Asset Management - Emerging World Funds	5.2	7.0	6.7	8.6	16.6	7.1	18.8	26.7	42.5	22.6
Lloyd George Invst Mgmt - Global Emerging Markets	9.1	10.7	10.1	12.7	20.1	10.8	22.1	30.5	42.3	30.0
Marvin & Palmer Associates - Emerging Markets Equity	8.9	9.5	9.4	9.5	13.1	5.0	13.3	22.0	37.6	14.5
Merrill Lynch Investment - Global Emerging Markets	5.4	5.9	3.9	3.6	10.3	2.1	13.2	21.5	38.7	23.7
Mondrian Investment Partners Ltd - Emerging Markets	---	---	---	11.0	21.4	14.5	26.6	34.3	52.0	36.6
Morgan Stanley Invst Mgmt - Emerging Markets	6.1	8.3	7.7	9.0	15.6	3.1	16.7	23.9	41.1	26.0
Neuberger Berman, LLC - Emerging Markets Value	---	---	---	8.1	15.1	9.0	18.1	26.5	44.8	23.1
Newgate LLP - Emerging Markets	8.3	8.5	7.6	8.9	16.8	8.0	15.5	21.8	36.2	17.8
OFI Institutional Asset Mgmt - Emerging Markets	---	---	18.0	18.3	25.6	16.1	21.5	31.5	50.8	35.3
PanAgora Asset Management - Emerging Markets	---	---	---	11.9	15.3	7.0	19.3	26.3	43.6	29.3
Pictet International Management - Emerging Markets	7.0	9.7	9.3	10.8	16.5	7.5	21.9	31.4	47.1	26.1
Polunin Capital Partners - Developing Countries Fund (n)	---	---	---	---	---	---	---	---	33.3	7.5
Maximum	11.0	14.0	18.0	18.3	25.6	16.1	27.8	39.3	59.5	40.1
Median	6.3	8.2	6.9	9.0	15.5	6.7	17.5	24.5	41.8	26.5
Minimum	3.6	4.9	0.6	2.1	9.3	-1.2	7.3	13.8	30.6	7.5
Number of Products	35	42	49	60	64	64	64	65	66	67
Market Indices										
S&P/IFC Investable Index	4.1	5.6	5.1	8.3	14.4	6.1	18.4	24.6	41.9	28.1
MSCI Emerging Markets Index	3.3	4.3	4.1	6.5	13.0	4.6	15.9	22.8	40.3	26.0
MSCI EAFE Index	5.6	5.0	4.9	5.3	3.1	-1.1	2.4	11.9	29.1	20.2
S&P 500	12.1	9.5	8.0	4.8	1.3	-2.3	-0.5	3.6	19.5	10.9

(n) - net returns

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Notes: Returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets indices are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Appendix (continued)

REPRESENTATIVE EMERGING MARKETS EQUITY MANAGERS

Annual Total Returns (%)

Manager	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	6 mos 2005
Principal Global Investors - Emerging Markets Equity	8.4	26.6	12.4	-16.6	65.1	-27.9	-2.9	-6.0	59.6	27.6	6.1
Putnam Investments - Emerging Markets Equity	---	---	---	-22.6	84.2	-35.0	0.0	-3.5	57.2	25.2	8.5
Rexiter Capital Mgmt Ltd - Global Emerging Markets	---	---	---	-26.7	83.3	-24.7	-0.7	-5.0	57.9	28.2	5.0
Schroder Investment Management - Emerging Markets	-4.9	16.0	-3.4	-23.0	72.2	-34.1	-7.6	-8.6	57.3	18.4	6.3
Scott (Walter) & Partners Ltd - Emerging Markets Equity	---	---	---	-10.3	30.3	-19.2	1.4	2.7	40.2	26.9	3.9
Scottish Widows Invst Partnership - Emerging Markets	---	---	---	-39.4	58.5	-36.1	-5.6	-4.7	54.8	35.1	7.1
Sit Intl Invst Associates - Developing Markets Equity	-2.6	19.4	-2.9	-23.3	86.1	-28.7	-10.2	-16.7	48.8	18.9	9.0
State Street Global Advisors - Active Emerging Markets	-9.7	16.0	-5.8	-20.7	72.4	-27.8	3.0	-3.8	55.2	25.0	7.7
T. Rowe Price - Global Emerging Markets Equity	---	---	1.7	-27.4	89.0	-26.5	-4.3	-3.0	54.6	28.6	9.0
Templeton/Franklin Templeton - Emerging Markets (n)	-1.2	18.9	-11.3	-18.0	56.6	-32.0	-5.0	2.0	53.9	26.4	5.9
Trilogy Global Advisors - Trilogy Emerging Markets	---	---	9.2	-14.9	85.8	-23.5	-6.7	-5.4	57.1	29.9	10.0
U.S. Trust Asset Mgmt - Emerging Markets Equity	---	---	---	---	70.0	-30.3	-0.2	-4.0	66.1	32.1	2.7
UBS Global Asset Mgmt - Emerging Markets Equity	---	9.8	-9.8	-23.3	66.5	-28.2	0.2	-3.3	56.0	28.8	6.7
Wellington Mgmt Company, LLP - Emerging Markets	-5.6	12.3	-13.2	-27.8	84.7	-31.1	4.2	-4.2	62.8	27.3	8.7
Wells Capital Mgmt - Montgomery EM Concentrated	---	---	---	-19.3	126.9	-15.9	-2.2	-3.8	75.3	14.3	-3.7
Wells Capital Mgmt - Montgomery EM Core	-5.4	14.9	-0.7	-34.1	66.4	-25.4	-3.1	-6.7	64.2	21.5	1.7
Westwood Global Investments - Global Emerging Markets	---	---	---	---	---	---	---	---	---	26.1	8.4
Maximum	8.4	43.9	20.1	-6.5	126.9	-3.5	18.6	9.9	81.6	40.1	14.1
Median	-5.4	15.2	-1.9	-24.2	73.3	-27.9	-1.9	-4.0	58.1	26.5	6.7
Minimum	-15.0	4.2	-21.6	-47.6	30.3	-37.4	-16.8	-18.5	40.2	7.5	-3.7
Number of Products	35	42	49	60	64	64	64	65	66	67	67
Market Indices											
S&P/IFC Investable Index	-8.4	9.4	-14.7	-22.0	67.1	-31.8	1.8	-3.9	57.2	28.1	6.8
MSCI Emerging Markets Index	-5.2	6.0	-11.6	-25.3	66.4	-30.6	-2.4	-6.0	56.3	26.0	6.3
MSCI EAFE Index	11.2	6.0	1.8	20.0	27.0	-14.2	-21.4	-15.9	38.6	20.2	-1.2
S&P 500	37.6	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	-0.8

(n) - net returns

Sources: Cambridge Associates LLC Investment Manager Database, Morgan Stanley Capital International, Thomson Datastream, and Standard & Poor's Compustat. MSCI data provided "as is" without any express or implied warranties.

Notes: Returns represent total returns in U.S. dollars unless otherwise noted. Total returns for MSCI Emerging Markets indices are gross of dividend taxes. Total returns for MSCI developed markets indices are net of dividend taxes. As of January 29, 2004, MSCI renamed all regional Emerging Markets and All Country indices so that the suffix "free" no longer appears in the index name.

Appendix (continued)

REPRESENTATIVE EMERGING MARKETS EQUITY MANAGERS

Average Annual Compound Returns (%)
Periods Ended December 31, 2004

Manager	10 Yrs	9 Yrs	8 Yrs	7 Yrs	6 Yrs	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
Principal Global Investors - Emerging Markets Equity	11.0	11.3	9.6	9.2	14.2	6.0	16.8	24.2	42.7	27.6
Putnam Investments - Emerging Markets Equity	---	---	---	8.4	14.7	4.3	17.4	23.8	40.3	25.2
Rexiter Capital Mgmt Ltd - Global Emerging Markets	---	---	---	9.9	17.5	7.5	17.5	24.3	42.2	28.2
Schroder Investment Management - Emerging Markets	3.9	4.9	3.6	4.6	10.1	0.7	12.0	19.4	36.5	18.4
Scott (Walter) & Partners Ltd - Emerging Markets Equity	---	---	---	8.3	11.8	8.4	16.7	22.3	33.4	26.9
Scottish Widows Invst Partnership - Emerging Markets	---	---	---	2.1	11.3	3.8	17.1	25.9	44.6	35.1
Sit Intl Invst Associates - Developing Markets Equity	4.3	5.1	3.4	4.3	9.8	-1.2	7.3	13.8	33.0	18.9
State Street Global Advisors - Active Emerging Markets	6.5	8.5	7.5	9.6	15.7	6.8	17.7	23.1	39.3	25.0
T. Rowe Price - Global Emerging Markets Equity	---	---	8.3	9.3	17.0	6.3	16.6	24.5	41.0	28.6
Templeton/Franklin Templeton - Emerging Markets (n)	5.5	6.3	4.8	7.4	12.3	5.1	17.2	25.6	39.5	26.4
Trilogy Global Advisors - Trilogy Emerging Markets	---	---	11.4	11.8	17.0	6.6	15.9	24.5	42.9	29.9
U.S. Trust Asset Mgmt - Emerging Markets Equity	---	---	---	---	16.5	8.0	20.5	28.2	48.2	32.1
UBS Global Asset Mgmt - Emerging Markets Equity	---	6.5	6.1	8.6	15.1	6.9	18.1	24.8	41.7	28.8
Wellington Mgmt Company, LLP - Emerging Markets	5.8	7.1	6.5	9.6	17.5	7.4	20.0	25.7	44.0	27.3
Wells Capital Mgmt - Montgomery EM Concentrated	---	---	---	16.5	23.8	9.7	17.2	24.5	41.6	14.3
Wells Capital Mgmt - Montgomery EM Core	4.8	6.0	4.9	5.7	14.4	6.1	15.9	23.0	41.2	21.5
Westwood Global Investments - Global Emerging Markets	---	---	---	---	---	---	---	---	---	26.1
Maximum	11.0	14.0	18.0	18.3	25.6	16.1	27.8	39.3	59.5	40.1
Median	6.3	8.2	6.9	9.0	15.5	6.7	17.5	24.5	41.8	26.5
Minimum	3.6	4.9	0.6	2.1	9.3	-1.2	7.3	13.8	30.6	7.5
Number of Products	35	42	49	60	64	64	64	65	66	67
Market Indices										
S&P/IFC Investable Index	4.1	5.6	5.1	8.3	14.4	6.1	18.4	24.6	41.9	28.1
MSCI Emerging Markets Index	3.3	4.3	4.1	6.5	13.0	4.6	15.9	22.8	40.3	26.0
MSCI EAFE Index	5.6	5.0	4.9	5.3	3.1	-1.1	2.4	11.9	29.1	20.2
S&P 500	12.1	9.5	8.0	4.8	1.3	-2.3	-0.5	3.6	19.5	10.9

(n) - net returns

Sources: Cambridge Associates LLC Investment Manager Database, Morgan Stanley Capital International, Thomson Datastream, and Standard & Poor's Compustat. MSCI data provided "as is" without any express or implied warranties.

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