



Emerging Markets Equity Manager Performance Analysis of 2016 and Performance Since 2000

CAMBRIDGE



ASSOCIATES

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- ◆ Over 60% of active emerging markets equity managers (excluding small cap) underperformed the MSCI Emerging Markets Index gross of fees in 2016, marking the first year the majority has underperformed since 2009. The median manager underperformed the index by 169 basis points (bps). After applying a fee proxy of 95 bps, over 65% of managers underperformed, and a majority of managers underperformed the fee-adjusted MSCI Emerging Markets Index by more than 250 bps.
- ◆ Active managers tend to make off-benchmark bets and hold some cash, so three factors can create a better environment for active management: outperformance of small-cap stocks, outperformance of stocks in frontier markets, and outperformance of cash over the index. In 2016, all three factors were arrayed against emerging markets equity managers: emerging markets small-cap stocks underperformed the emerging markets index by more than 900 bps, frontier markets equities underperformed emerging markets equities by more than 840 bps, and cash underperformed the emerging markets index by more than 1,100 bps.
- ◆ Five countries contributed more than 90% of the MSCI Emerging Markets Index 2016 return: Brazil, Taiwan, Russia, South Korea, and South Africa. On both an average and median basis, managers were underweight three of these: South Africa, South Korea, and Taiwan. Of the four most commonly held off-benchmark markets—Argentina, Hong Kong, the United Kingdom, and the United States—all four underperformed the MSCI Emerging Markets Index.

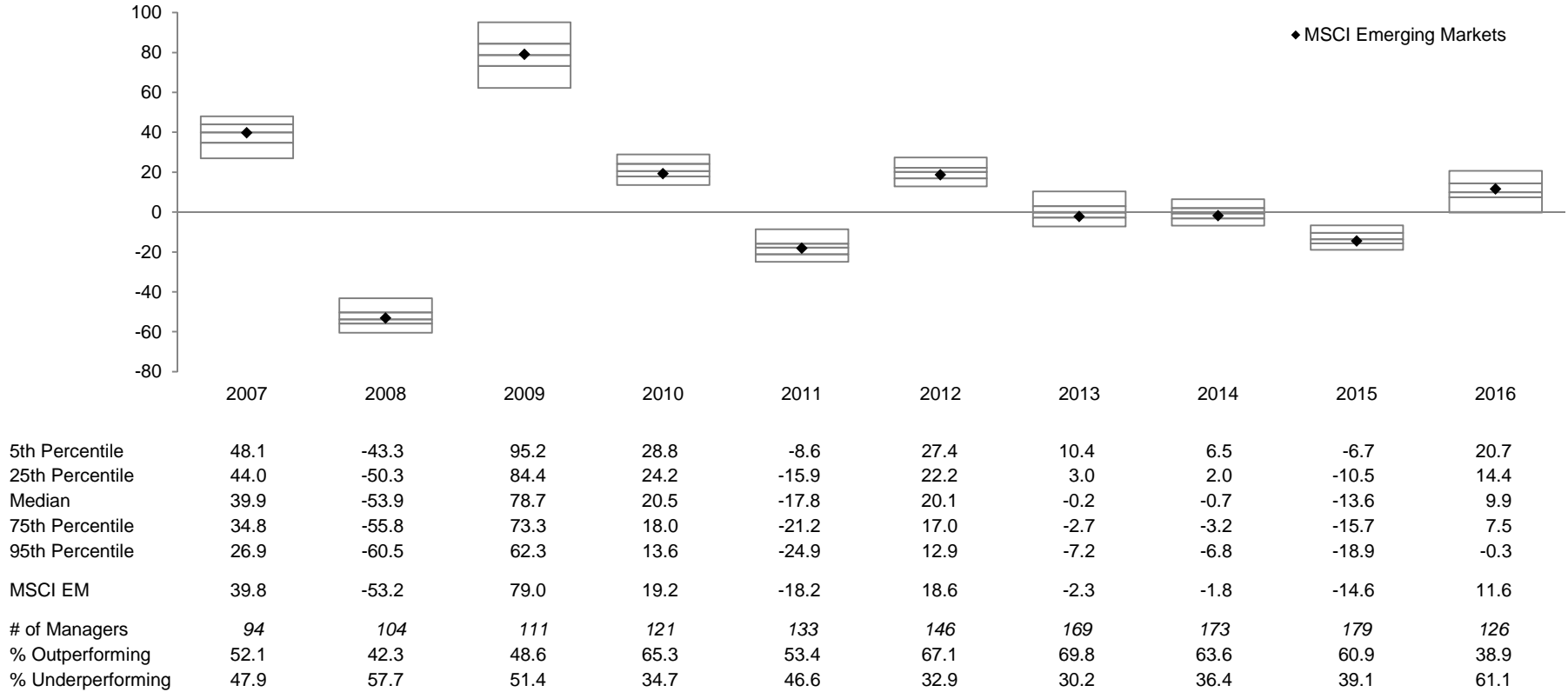
- ◆ Managers' sector allocations can differ substantially from the index. On both an average and median basis, managers were overweight four sectors versus the MSCI Emerging Markets Index: consumer discretionary, consumer staples, health care, and utilities. All four underperformed the overall index in 2016. The largest absolute sector weighting differences between the index and median manager were in materials and energy. The median manager was underweight relative to the index's sector weight by 134 bps for materials and 87 bps for energy. Energy and materials were the two best-performing sectors for the year.
- ◆ Movement between quintiles is fairly common. Of the bottom quintile managers for the five-year period 2007–11, two-thirds climbed to either the first or second quintile for the following five-year period (2012–16).

Over 60% of managers underperformed the index in 2016

These results ended a six-year run of the majority of active managers beating the index

Emerging Markets Equity Managers Annual Returns by Quartiles

2007–16 • Percent (%)



Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

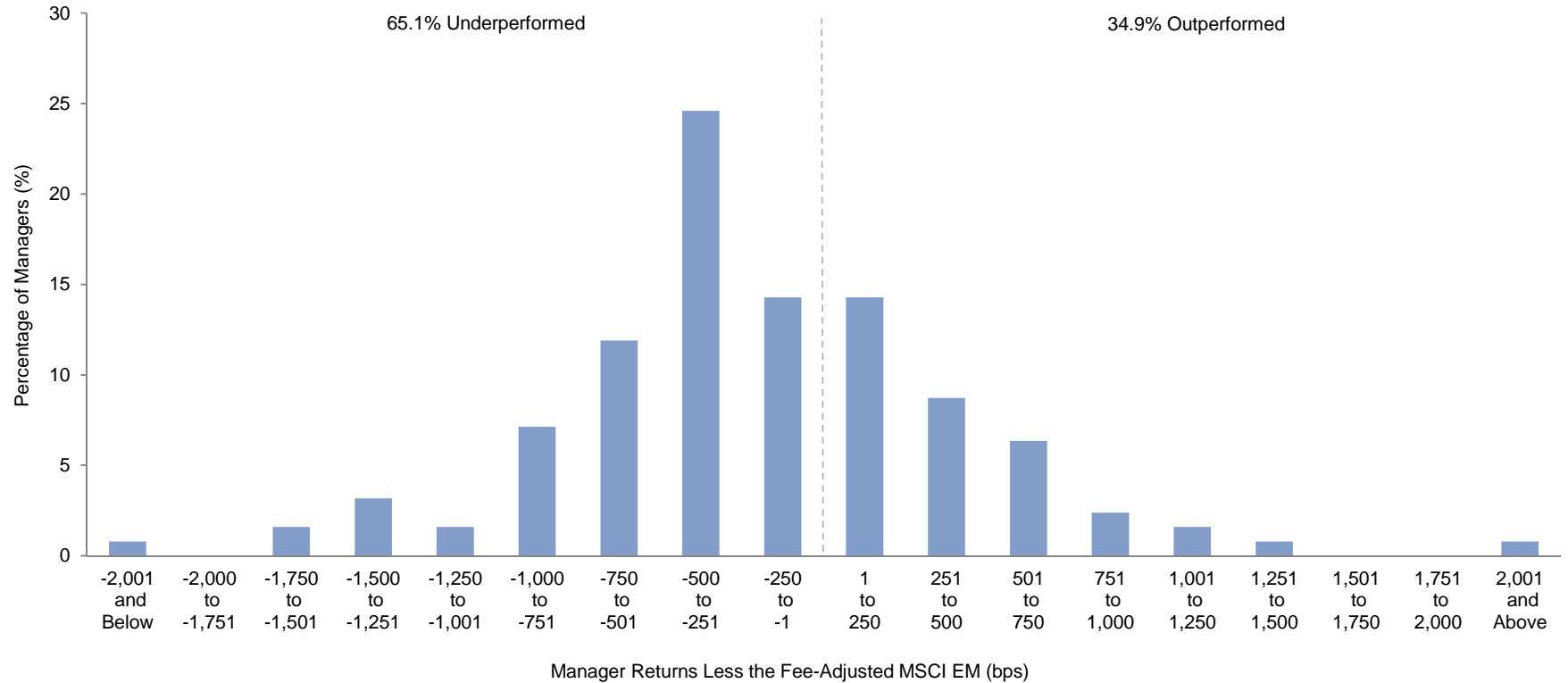
Notes: Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. To be included in analysis of any period longer than one quarter, managers must have had performance available for the full period.

Relative to the fee-adjusted index, 65% of managers underperformed

And a majority of managers underperformed the index by more than 250 bps

Manager Returns Relative to the Fee-Adjusted MSCI Emerging Markets Index

Calendar Year 2016 • n = 126



Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

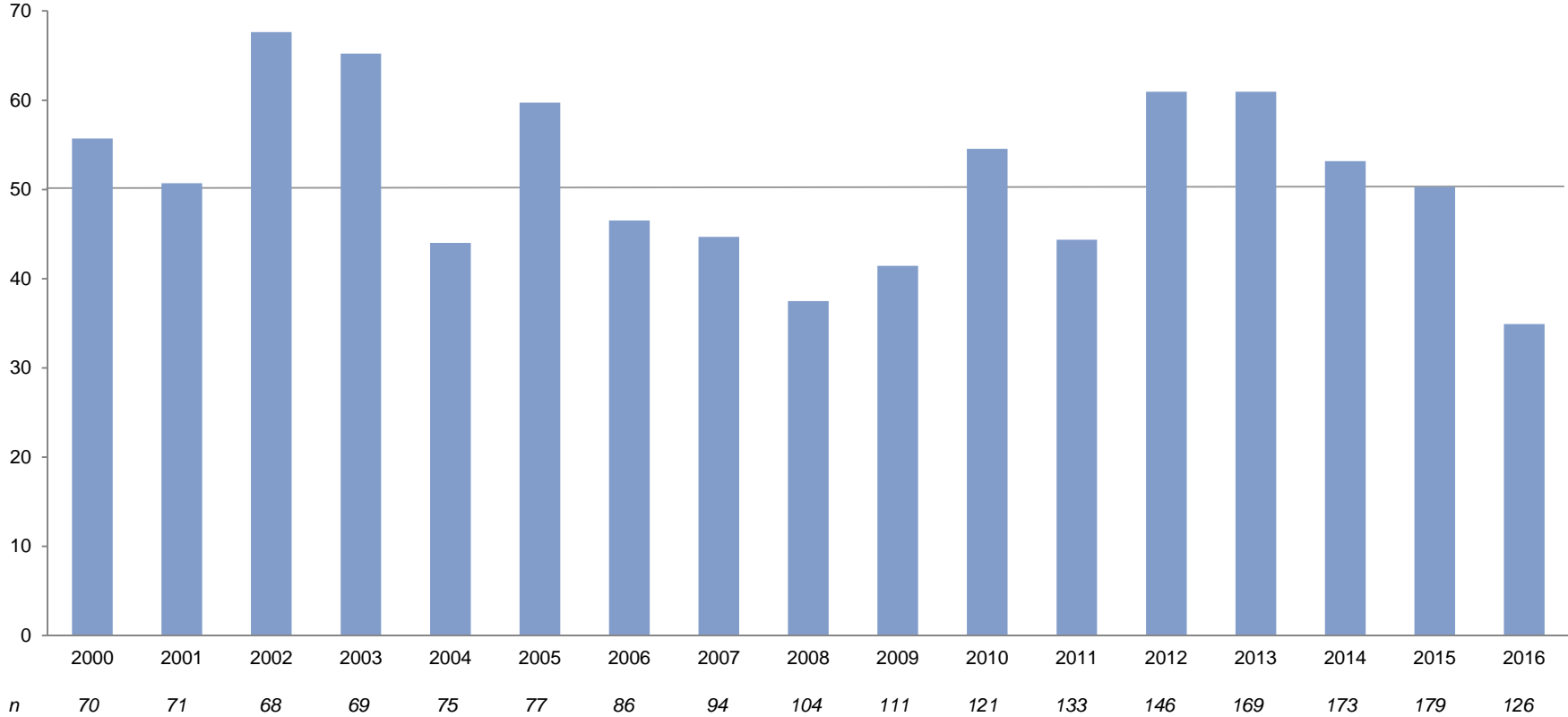
Notes: The dashed line represents the fee-adjusted MSCI Emerging Markets Index. Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. We have added 95 bps to the MSCI Emerging Markets Index return as a proxy for manager fees. Only managers with performance available for the entire period measured are included.

Active manager outperformance is cyclical

Versus the fee-adjusted index, 2016 saw the lowest level of outperformance in the years since 2000

Percentage of Emerging Markets Equity Managers Outperforming the Fee-Adjusted MSCI Emerging Markets Index

2000–16



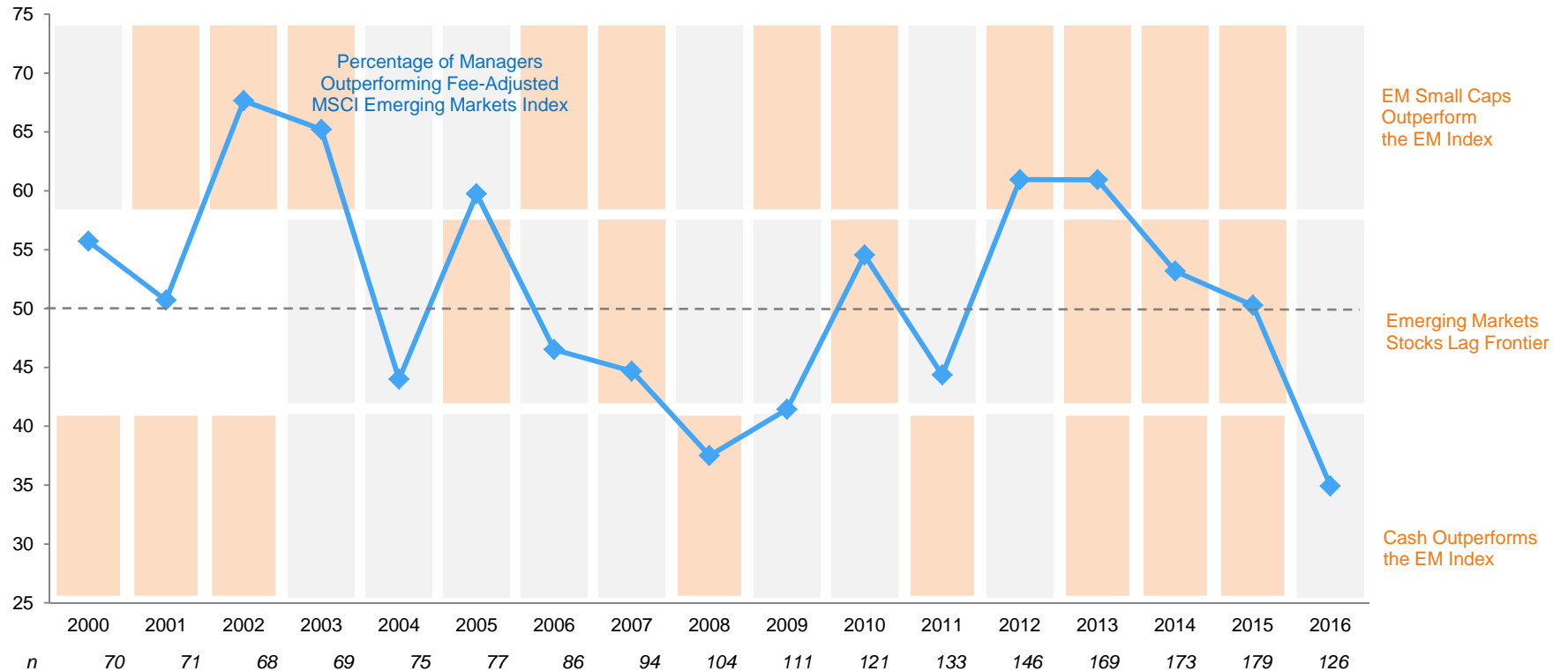
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In 2016, the environment was arrayed against active managers

Many factors contribute to active manager out- or underperformance, but the presence of these three can create a more favorable environment for active management in general

Presence of Factors Contributing to a More Favorable Environment for Active Management

2000–16



Sources: BofA Merrill Lynch, Cambridge Associates LLC, Federal Reserve, MSCI Inc., and Thomson Reuters Datastream.

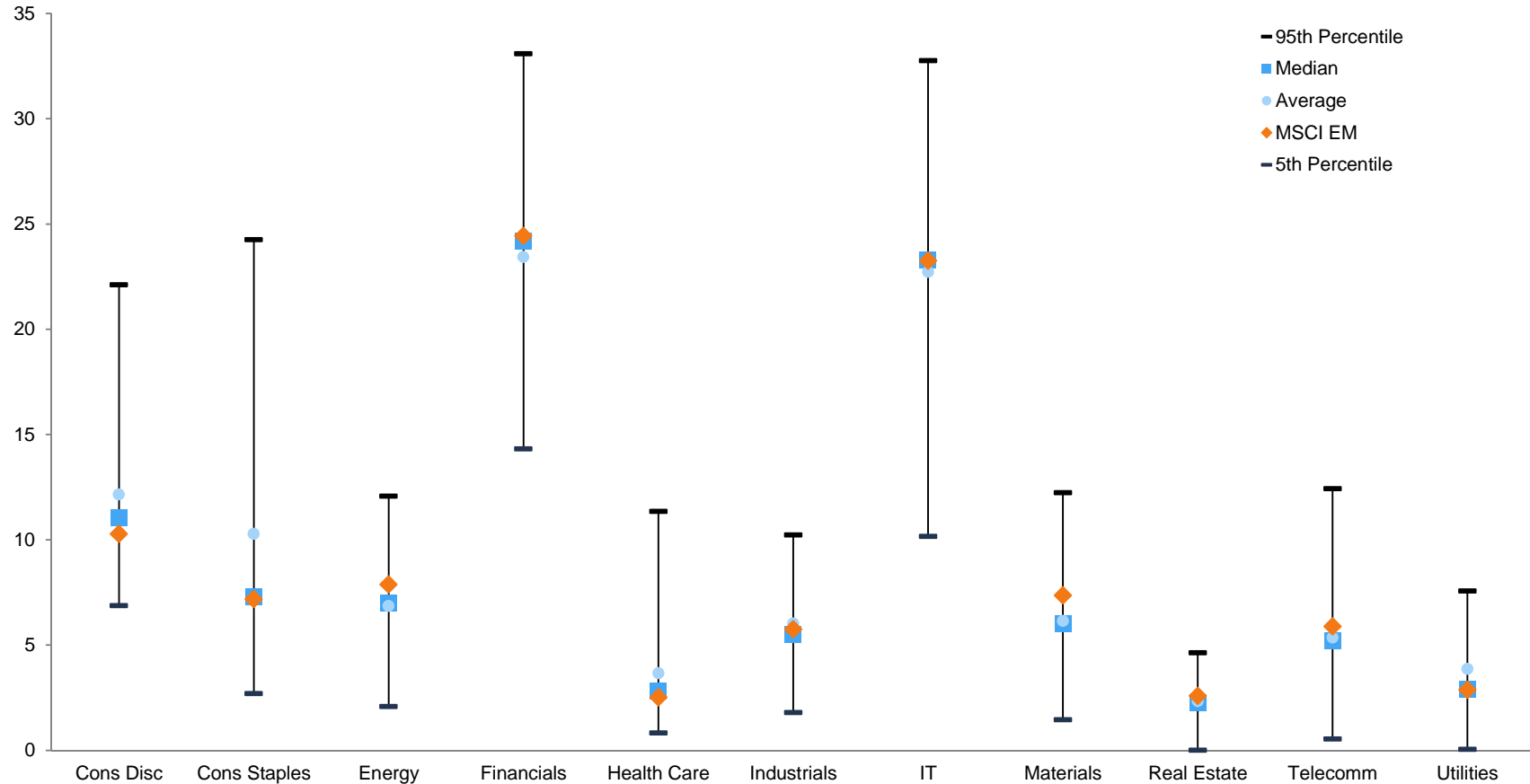
Notes: Factors are represented by: MSCI Emerging Markets Index ("EM Index"), MSCI EM Small-Cap Index ("EM small caps"), MSCI Emerging Markets Index ("emerging markets stocks"), MSCI Frontier Markets Index ("frontier markets stocks"), BofA Merrill Lynch 91-Day Treasury Bills ("cash"), and MSCI Emerging Markets Index ("EM Index"). Data for the MSCI Frontier Markets Index begin in 2003; this factor is only represented for 2003 to 2016. For more detail on the impact of these factors in each year, see the Appendix. Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. We have added 95 bps to the MSCI Emerging Markets Index return as a proxy for manager fees. To be included in analysis of any period longer than one quarter, managers must have had performance available for the full period.

Managers' different sector allocations can affect relative performance

The four sectors that managers were overweight on both an average and median basis—consumer discretionary, consumer staples, health care, and utilities—underperformed the overall index in 2016

Emerging Markets Equity Managers' Sector Allocations versus MSCI Emerging Markets Index Weight

As of December 31, 2016 • $n = 116$



Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

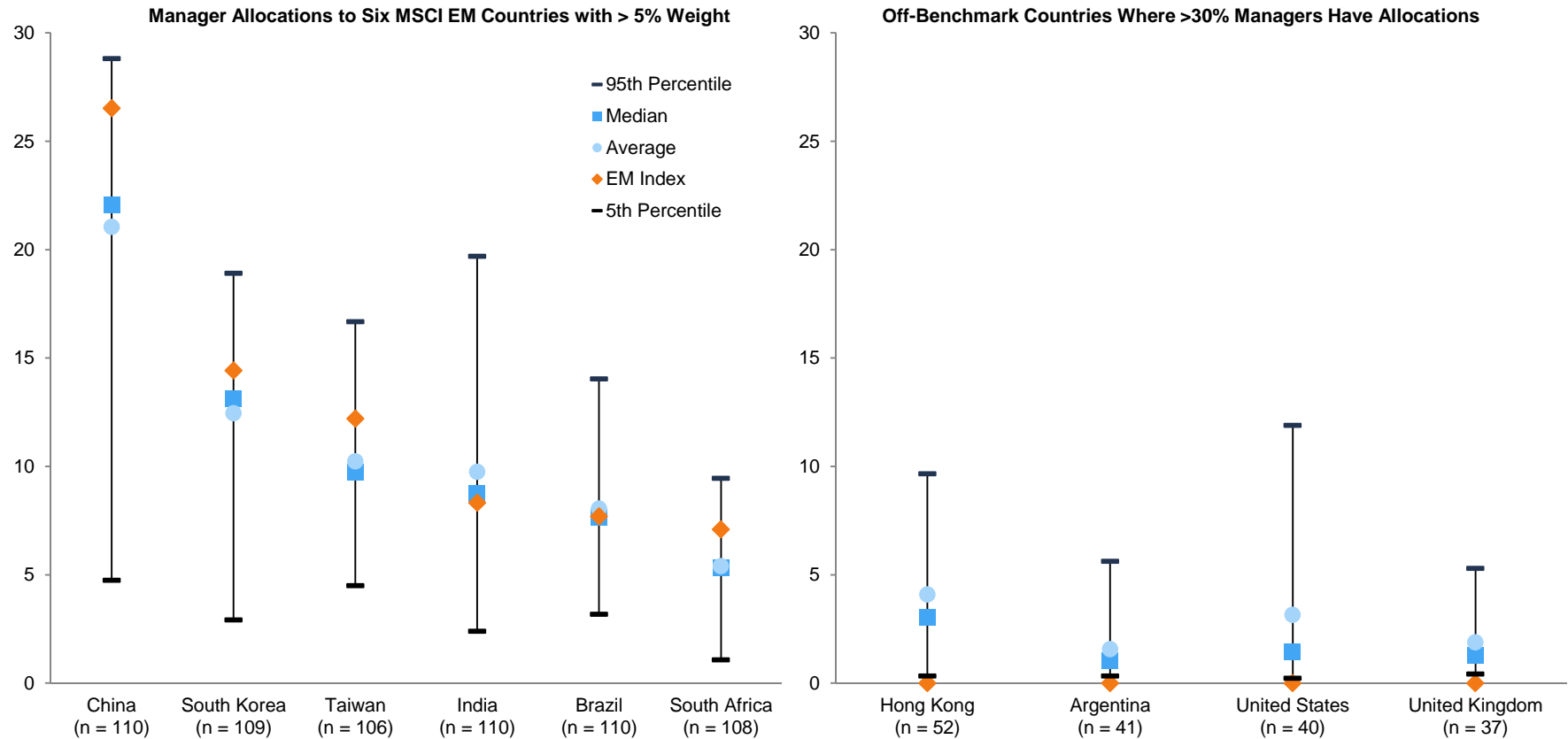
Notes: Only includes data for 116 managers that provided sector allocation as of year-end 2016. Index weights represent year-end sector allocations of the MSCI Emerging Markets Index. Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Manager that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded.

Country bets can significantly affect relative performance

Of the index's largest country weights, managers were only overweight India on both an average and median basis; Indian equity returns were in the red in USD terms in 2016

Emerging Markets Equity Managers' Country Allocations vs the MSCI Emerging Markets Index

As of December 31, 2016 • $n = 111$



Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

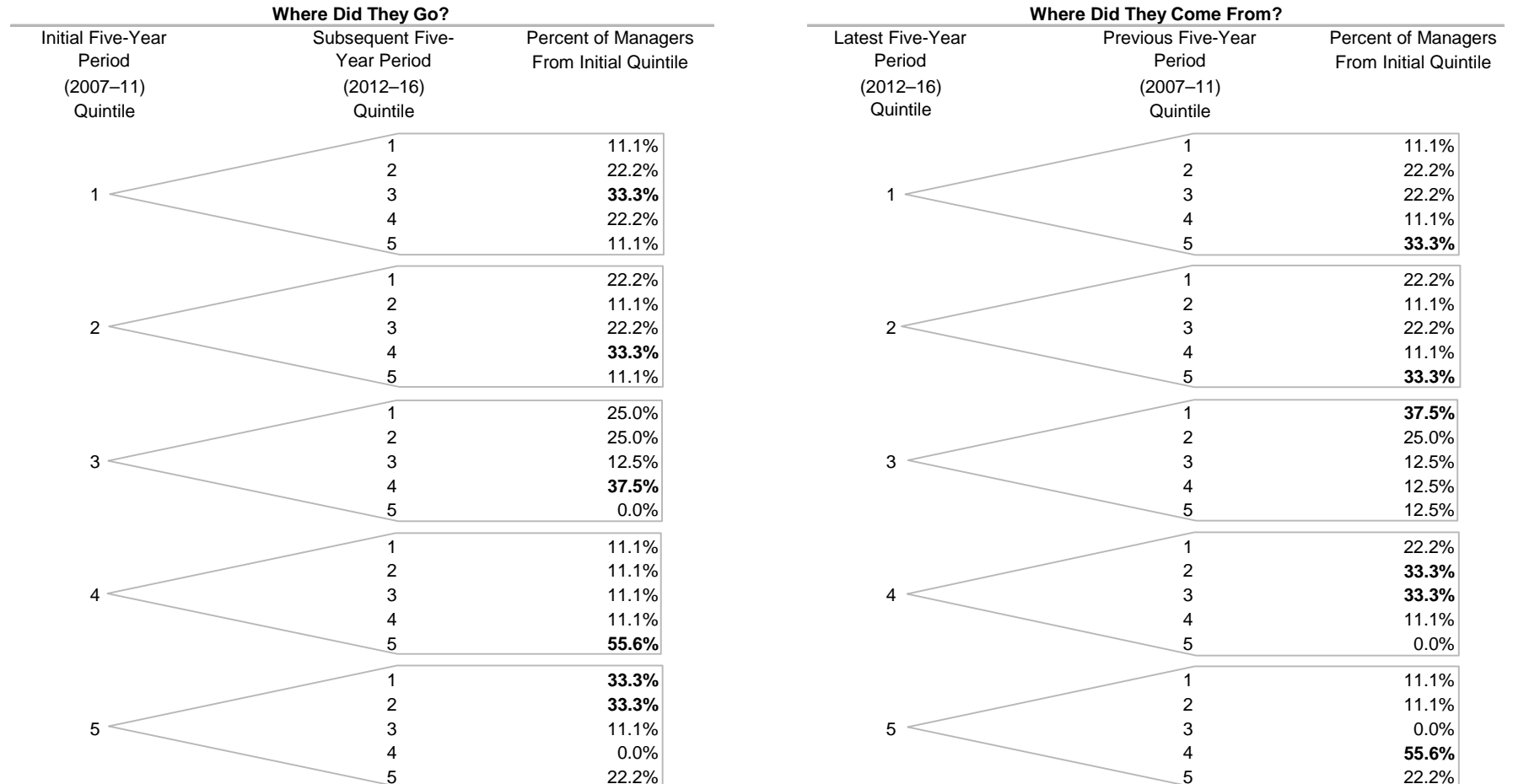
Notes: Only includes data for 111 managers that provided geographic allocation as of year-end 2016. Index weights represent year-end geographic allocations of the MSCI Emerging Markets Index. The n provided for each country represents the total number of products exposed to a given country as of year-end 2016, and percentile, median, and average figures are calculated only from products with exposure to the country shown. Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Manager that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded.

Movement between top and bottom quintiles is fairly common

Two-thirds of bottom quintile performers over 2007–11 moved into the top two quintiles for the 2012–16 period

Analysis of Emerging Markets Equity Manager Returns by Quintile Over Five-Year Periods

2007–16 • n = 44



Source: Cambridge Associates LLC.

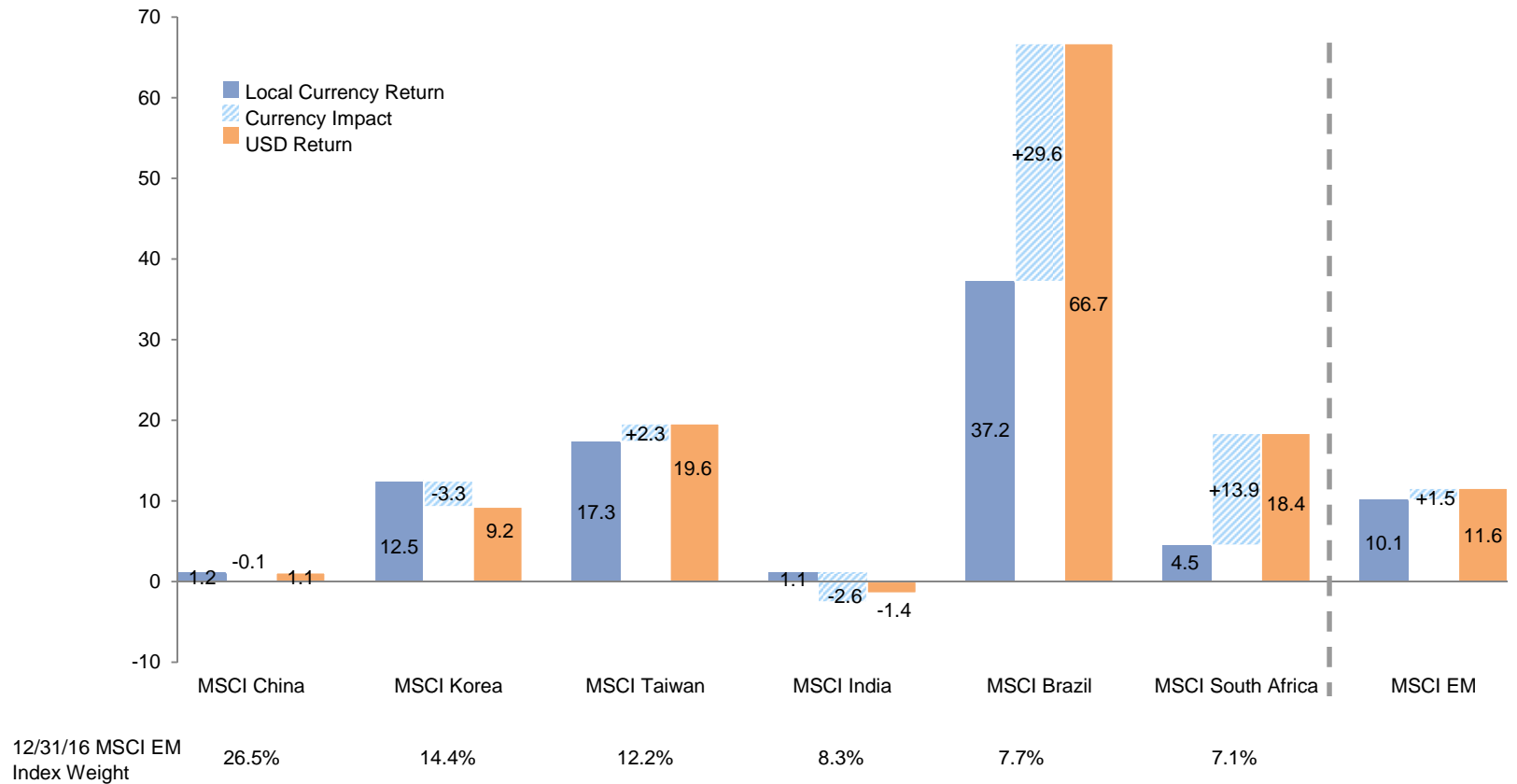
Notes: Cambridge Associates LLC’s (CA) manager universe statistics are derived from CA’s proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. Only managers with performance available for the entire period measured are included.

US dollar based investors got a bump from currency fluctuations

Commodity-linked currencies in particular soared versus the US dollar

Impact of US Dollar Strength on Equity Market Returns

Calendar Year 2016 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Total returns for emerging markets are gross of dividend taxes. The MSCI China Index includes equities of PRC-incorporated companies listed either as Shanghai or Shenzhen B, H, or N shares in New York. These shares are denominated in Hong Kong dollars, which is pegged to the US dollar.



Appendix: Year-by-Year Analysis of Key Factors Contributing to a More or Less Favorable Environment for Active Management



Managers outperform the broad index more often when small-cap equities outperform

In 2016, small-cap underperformance was likely a headwind

Assessing the Impact of Capitalization Bias in Active Manager Portfolios

2000–16

Active Managers Have Outperformed the MSCI EM Index 50% of the Time When the Index Has Beaten the MSCI EM Small Cap Index and Outperformed the MSCI EM Index in All But One Year When the Index Lagged the MSCI EM Small Cap Index						
Year	Total Return (%)				EM Minus EM SC (ppts)	Manager Value Added vs EM (ppts)	Year	Total Return (%)				EM Minus EM SC (ppts)	Manager Value Added vs EM (ppts)
	MSCI EM	MSCI EM SC	Median EM Equity Mgr	<i>n</i>				MSCI EM	MSCI EM SC	Median EM Equity Mgr	<i>n</i>		
2016	11.6	2.6	9.9	126	9.0	-1.7	2006	32.6	33.1	33.3	86	-0.5	0.7
2011	-18.2	-27.0	-17.8	133	8.8	0.3	2007	39.8	42.3	39.9	94	-2.5	0.2
2008	-53.2	-58.1	-53.9	104	4.9	-0.7	2001	-2.4	0.4	-1.3	71	-2.8	1.1
2000	-30.6	-35.1	-28.5	70	4.5	2.1	2014	-1.8	1.3	-0.7	173	-3.2	1.2
2005	34.5	31.0	36.7	77	3.6	2.1	2013	-2.3	1.4	-0.2	169	-3.6	2.0
2004	26.0	24.7	25.8	75	1.3	-0.1	2003	56.3	60.2	59.2	69	-3.9	2.9
							2002	-6.0	-2.1	-3.3	68	-3.9	2.7
							2012	18.6	22.6	20.1	146	-4.0	1.5
							2015	-14.6	-6.6	-13.6	179	-8.0	1.0
							2010	19.2	27.5	20.5	121	-8.3	1.3
							2009	79.0	114.3	78.7	111	-35.3	-0.3
Mean	-5.0	-10.3	-4.6		5.4	0.3	Mean	19.9	26.8	21.1		-6.9	1.3

Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: The most recent year is bolded. Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. To be included in analysis of any period longer than one quarter, managers must have had performance available for the full period.

The median manager has consistently outperformed when frontier equities beat emerging

Frontier markets' underperformance in 2016 was likely a headwind

Assessing the Impact of Frontier Markets Equities on Active Manager Performance

2003–16

Active Managers Have Outperformed the MSCI EM Index Just Half the Time When the Index Has Beaten the MSCI Frontier Index and Outperformed the MSCI EM Index 100% of the Time When the Index Lagged the MSCI Frontier Index						
Year	Total Return (%)			<i>n</i>	EM Minus Frontier (ppts)	Manager Value Added vs EM (ppts)	Year	Total Return (%)			EM Minus Frontier (ppts)	Manager Value Added vs EM (ppts)	
	MSCI EM	MSCI Frontier	Median EM Equity Mgr					MSCI EM	MSCI Frontier	Median EM Equity Mgr			
2009	79.0	11.7	78.7	111	67.3	-0.3	2015	-14.6	-14.1	-13.6	179	-0.5	1.0
2006	32.6	-8.9	33.3	86	41.4	0.7	2007	39.8	42.1	39.9	94	-2.3	0.2
2003	56.3	43.6	59.2	69	12.7	2.9	2010	19.2	24.2	20.5	121	-5.0	1.3
2012	18.6	9.2	20.1	146	9.4	1.5	2014	-1.8	7.2	-0.7	173	-9.0	1.2
2016	11.6	3.2	9.9	126	8.4	-1.7	2013	-2.3	26.3	-0.2	169	-28.6	2.0
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2008	-53.2	-54.1	-53.9	104	0.9	-0.7							
2011	-18.2	-18.4	-17.8	133	0.2	0.3							
Mean	19.1	1.1	19.4		18.0	0.3	Mean	12.5	26.4	13.8		-13.9	1.3

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Years of cash outperformance have been generally good for active managers

In 2016, cash holdings likely detracted from performance

Assessing the Impact of Cash Drag on Active Manager Performance

2000–16

Active Managers Have Beaten the MSCI Emerging Markets Index 67% of the Time When the Index Has Beaten the 91-Day T-Bill And Beaten the MSCI Emerging Markets Index in All But One Year When the Index Has Lagged the 91-Day T-Bill						
Year	Total Return (%)				EM Index Minus T-Bill (ppts)	Mgr Value Added vs EM Index (ppts)	Year	Total Return (%)				EM Index Minus T-Bill (ppts)	Mgr Value Added vs EM Index (ppts)
	MSCI EM	91-Day T-Bill	Median EM Equity Mgr	<i>n</i>				MSCI EM	91-Day T-Bill	Median EM Equity Mgr	<i>n</i>		
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Sources: BofA Merrill Lynch, Cambridge Associates LLC, Federal Reserve, Frank Russell Company, and Thomson Reuters Datastream.

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