Glovista Investments LLC

Active Investing in Emerging Markets Using ETFs

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Presenter:

Dr. Carlos Asilis

Co-founder and CIO

Glovista Investments LLC

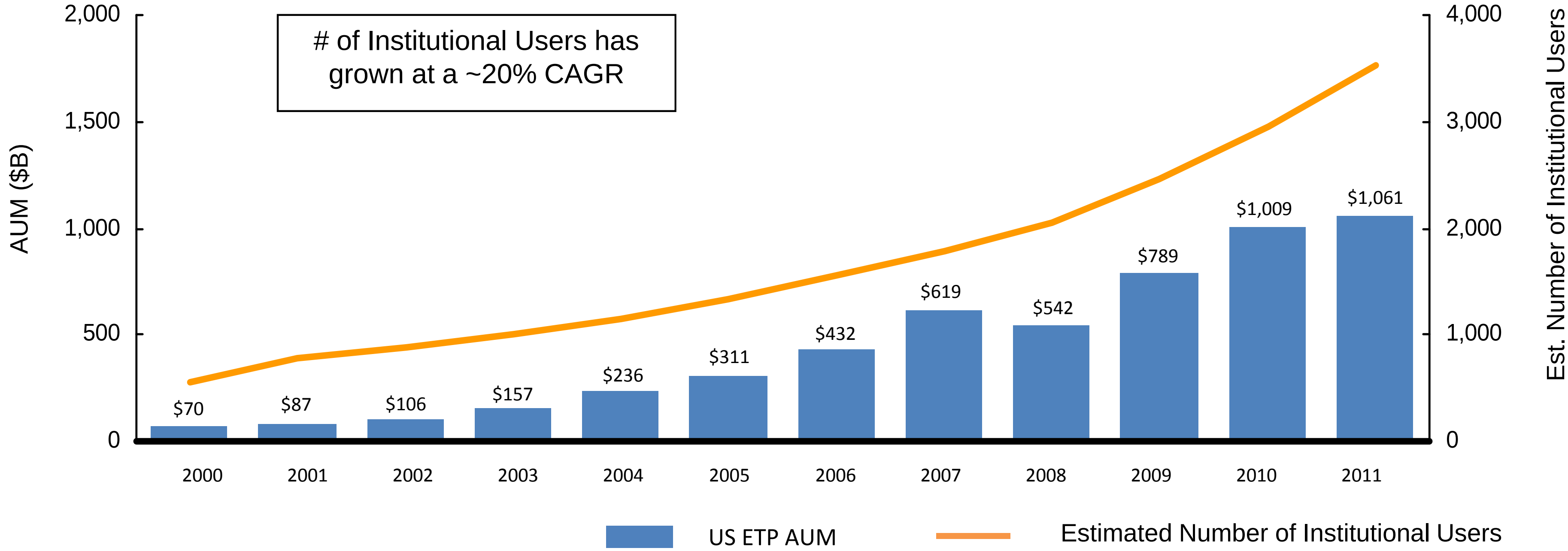
ETFs and Mutual Funds: Key differences

Criteria	ETFs	Active Mutual Funds
Performance goal	Track a benchmark	Outperform a benchmark
Management	Passive	Active
Performance risks	• Performance may differ from benchmark • Holdings not altered during rising/falling markets	• May not meet performance goal • May underperform due to manager's holdings selection
Buying/selling shares	Intraday on exchanges	Once per day via fund company
Price to buy/sell	Current market price, which may differ from NAV	End-of-day NAV, less fees
Fees	Expense ratio + transaction/ brokerage costs	Expense ratio + any sales loads/redemption fees
Tax impact* of buyers/sellers	Shareholders only impacted by their own action	Shareholders may be impacted by all other shareholders' actions
Holdings disclosure	Daily	Typically quarterly

* Both vehicles are obliged to distribute capital gains to all shareholders.

Growth of Exchange Traded Funds

Increasing institutional adoption of exchange traded products (ETPs)*



*Sources: FactSet, Bloomberg, BlackRock ETF Research and Implementation Strategy, Thomson Reuters, NYSE Arca, Credit Suisse.
2009–2011 users estimated based on Ten-year CAGR and 2008 users. Statistics as of 12/31/11.

Notable statistics:

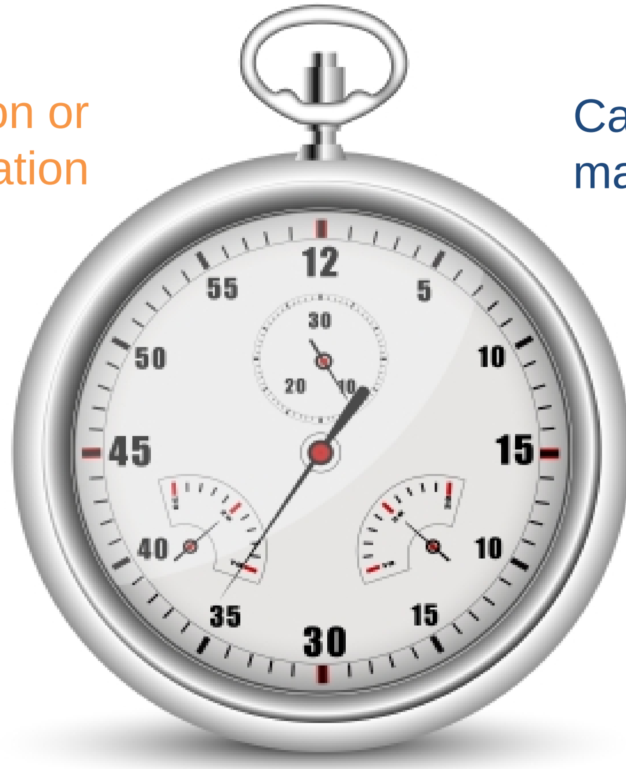
- US ETP AUM has risen from $70 billion in 2000 to $1.06 trillion in 2011
- Institutional users of ETPs have also grown, with approximately 54% of ETP AUM held by institutional clients

ETFs can be Applied to Short- and Long-term Strategies

Asset allocation or diversification

Active manager complement or substitute

Fixed income solutions



Cash management

Tactical or opportunistic views

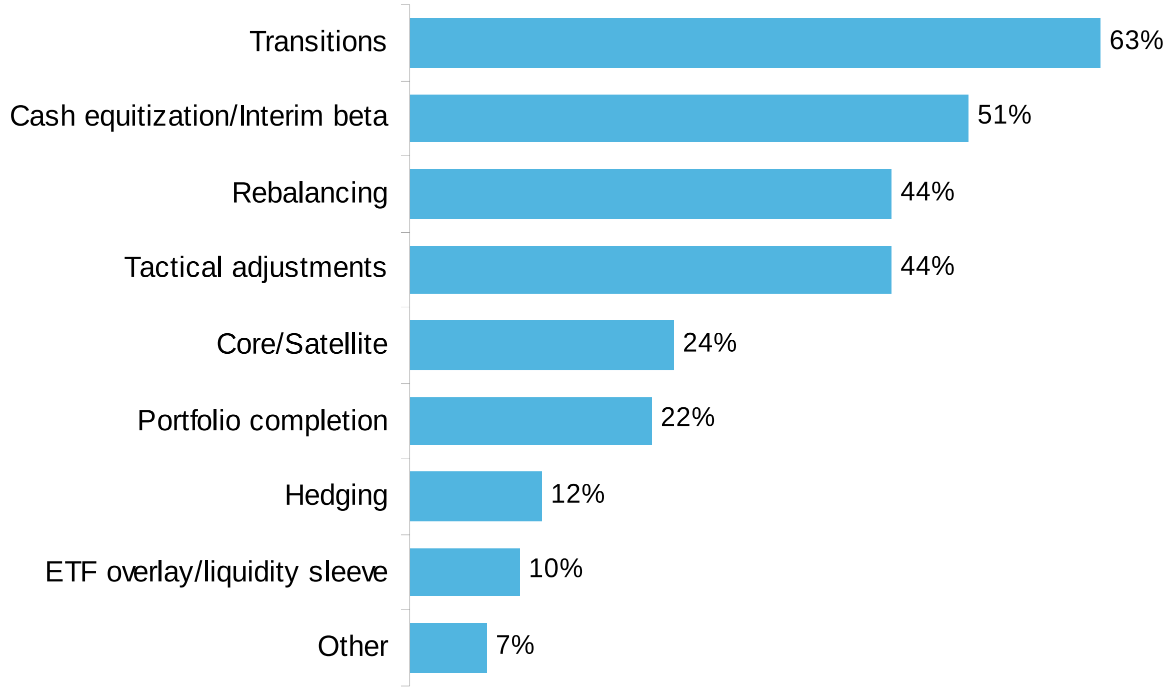
Tax management

Liquidity sleeve

Image: digitalart / FreeDigitalPhotos.net

ETF Applications in Institutional Portfolios

Greenwich survey highlights:
How institutions are using ETFs today



- Institutional investors often cite liquidity, flexibility and diversification opportunities as the main reasons for investing in ETFs
- A recent Greenwich Associates survey indicates that nearly one-third of the institutions polled plan to increase their use of ETFs over the next two years*
- The chart shows the wide spectrum in which ETFs can help institutional investors meet specific objectives, from short-term tactical allocations to long-term strategic applications

* Source: 2011 Greenwich Associates - U.S. ETF Research. Base: 41 institutional funds. Interviews conducted between February and April 2011

"We recently replaced a small cap growth manager due to underperformance and we used an ETF that provided passive exposure while we conducted a formal search for another active manager. In an underperformance situation, using ETFs is a better solution than leaving the money with the manager."* – large institutional fund

A New Breed of Managers are Emerging – ETF Investment Strategists

- Capitalizing on increase in liquidity and growth in breadth ETF products, a new breed of managers are emerging that use ETFs for active management for both long only and long-short strategies

- Although a vast majority of managers currently use ETFs for asset allocation, some managers (such as Glovista) are using ETFs for more focused strategies within a particular asset class

- According to iShares Connect, currently there are approximately 200 ETF investment strategists, managing more than $46 billion in assets

- The assets under management for ETF Investment strategists is expected to triple to $120 billion by 2014

- Morningstar last year created a separate category to evaluate and research ETF only managers. This database is available via all of their institutional and advisor platforms

- Similar increase in acceptance across other consultants and manager research service providers

Glovista Overview

- A SEC Registered Investment Advisor with approximate firm-wide AUM of $400 million
- Discretionary Global Macro Approach to Emerging Markets that leverages managers' top-down views along with cross-checks via bottom-up quantitative models
- 13 year GIPS Compliant Track Record for our flagship strategy – Emerging Market Equities that has outperformed the MSCI Emerging Markets Index by approximately 18% per annum
- Manages allocation for emerging market equities for more than 30 public pension funds in the USA
- It is a pure long-only strategy where no shorting or leverage is employed (no use of levered or inverse ETFs either)

Investment Philosophy

Global Macro Approach

- Our goal is to generate excess returns by exploiting inefficiencies in the pricing of global and regional macro variables and in the valuation of out-of-favor sector and country indices

- Our strategy seeks to identify deep value plays within emerging markets, taking into consideration the primary role exerted by currency valuation and economic growth

- Our strategy focuses on country, sector and currency allocations to outperform the index as opposed to building the portfolio on the basis of bottom-up company analysis

- This approach works extremely well in international markets which are comprised of countries that have independent economies, separate currencies and distinct central bank policies

- We utilize bottom-up quantitative value-driven models to cross-verify our top-down macro views

Investment Philosophy

Implementation

- We employ US listed liquid ETFs and ADRs to implement the portfolio as these provide the most effective and cost efficient vehicles for our strategy to gain exposure to emerging market equities
- Our strategy is an actively managed strategy with high turnover ratios (300%-500%)

ETFs allow us to:

- ✓ Effectively express global macro top-down views
- ✓ Tactically rebalance the portfolio as market dynamics change e.g. rebalancing 5% away from Taiwan includes one ETF trade versus selling a basket of 106 stocks if the portfolio was implemented using underlying shares
- ✓ Lower overall cost of managing assets in emerging markets (trading commissions, bid-ask spread, custody cost, operational cost)
- ✓ Reduce risk while rebalancing e.g. rebalancing 5% from Taiwan to Brazil

An example of Emerging Market ETF Trading*

EWZ – iShares MSCI Brazil Index Fund
May 31, 2011

An investor wanted to perform a notional buy of $239 million in Brazil.

The Investor wanted to make a significant allocation to Brazil after the government cut their expectations for the country's inflation rates

The Investor executed the EWZ ETF in the secondary market at the offer

- No market impact – 0 bps
- 22% of Average Daily Volume in EWZ
- The bid/offer spread of the ETF was estimated at 1 bps compared to 176 bps for the basket of underlying stocks i.e. it was cheaper and faster to execute via ETFs than buying the underlying basket
- The trading commissions in the USA are much lower than trading commissions in Brazil

* Source: iShares

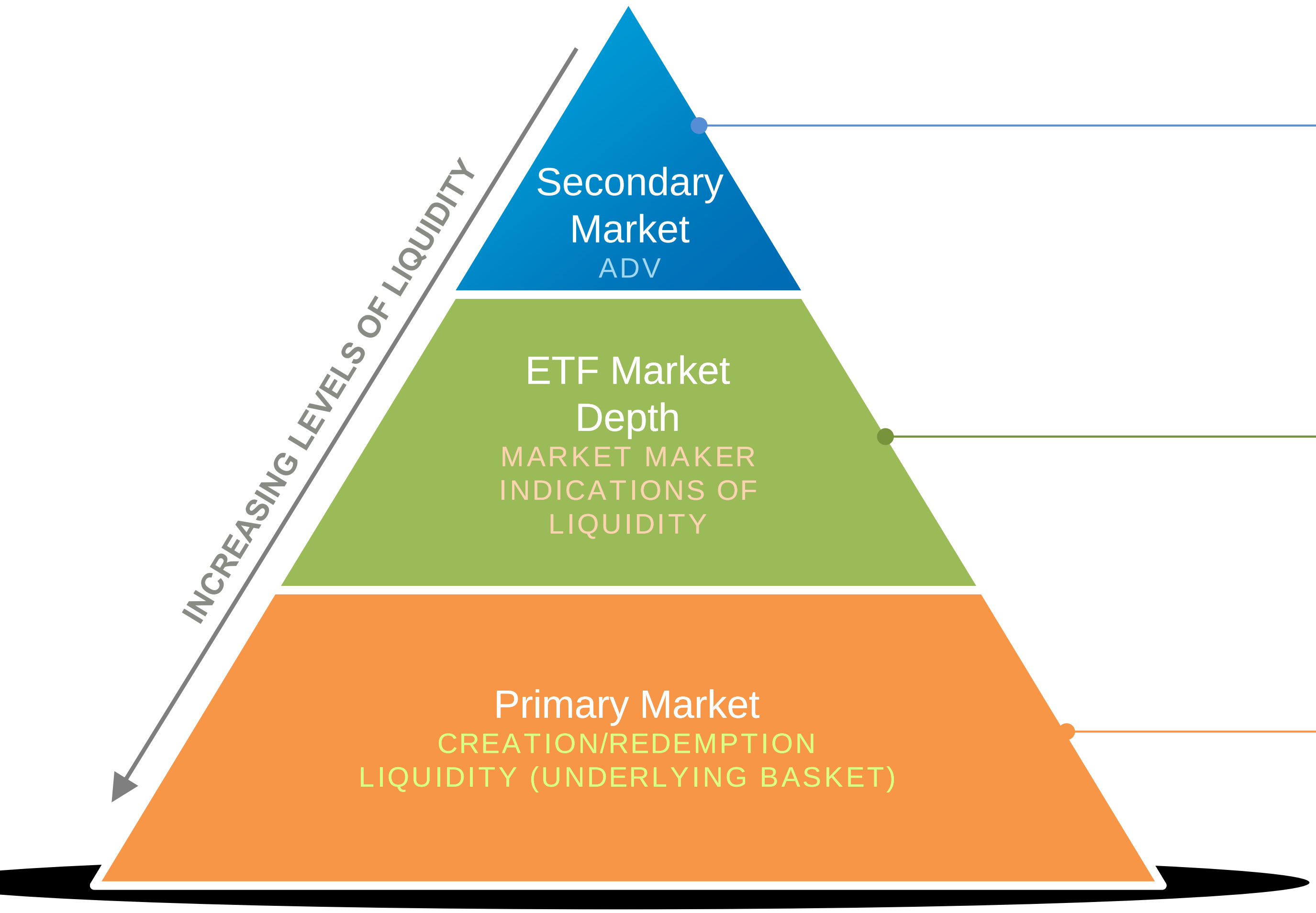
Expense ratio is only one part of the Total Cost of Ownership

Explicit costs	+	Implicit costs	=	Total costs
Expense ratio		**Trading costs**		When faced with a choice among ETFs in a category, consider all explicit and implicit costs
Brokerage commission		**Performance vs. benchmark (tracking difference)**		
		Taxes on distributions		

Purchase price + Maintenance, Fuel efficiency, Insurance =

Explicit costs are predetermined based on the ETF's fees and brokerage firm's commission schedule. Implicit costs may vary based on market events and trading volume. Implicit costs may change continuously based on current market conditions

Layers of Liquidity in ETF Trading



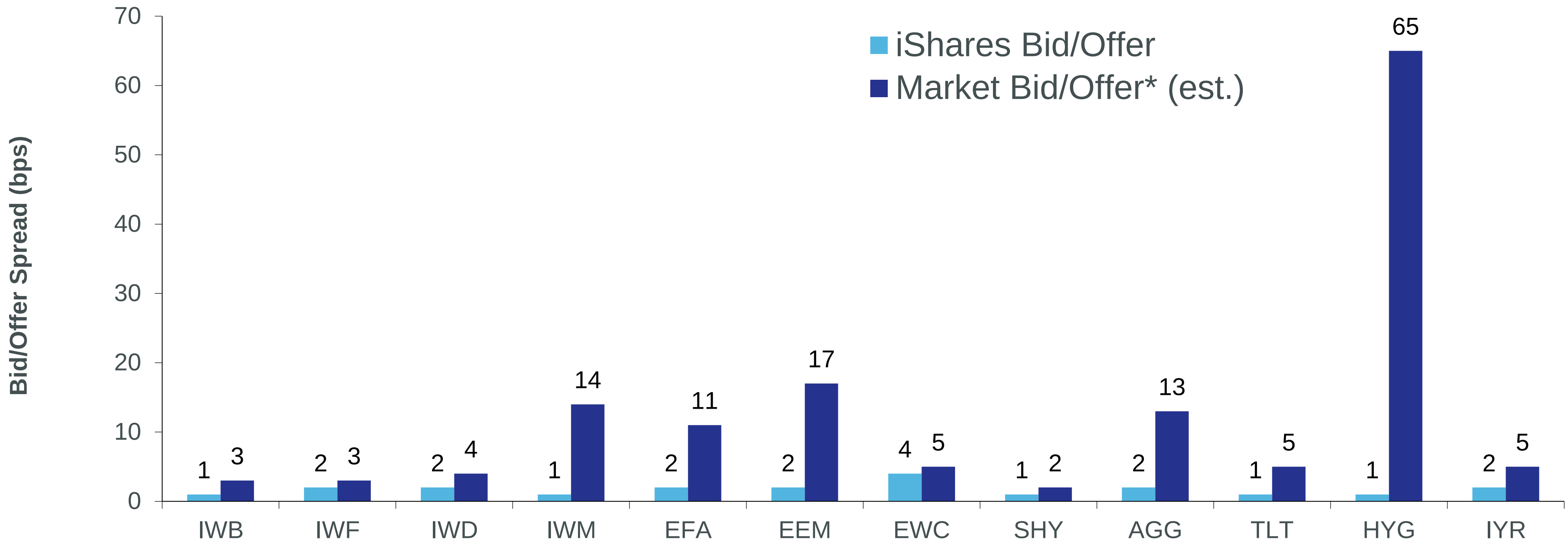
Compare volume and "on-screen" bid/offer data to total potential liquidity

Transaction Cost Analysis (TCA) & source liquidity through relationships with specialist market makers

Identify available liquidity through AP's via the creation/redemption process

For illustrative purposes only.

ETFs Offer Low-cost, Market Access



	IWB	IWF	IWD	IWM	EFA	EEM	EWC	SHY	AGG	TLT	HYG	IYR
	Russell 1000	Russell 1000 Growth	Russell 1000 Value	Russell 2000	MSCI EAFE	MSCI Emerging Markets	MSCI Canada	Barclays 1-3 Year Treasury	Barclays Aggregate	Barclays 20+ Year Treasury	iBoxx $ High Yield	DJ US Real Estate
ETF Average Daily Volume (US$ millions)**	98	148	128	4,172	1,037	2,094	54	102	119	1,168	292	364

*Market Bid/Offer spread refers to the underlying securities of the respective index

**30-day average as of 3/31/12

For illustrative purposes only.
Source: BlackRock, Bloomberg, Barclays, NYSE Arca, as of 3/31/12.

Final Comments

- ETFs are growing rapidly and taking market share from traditional mutual fund managers
- The liquidity and breadth of ETF offering is expanding globally with the USA taking the lead
- ETFs are gaining wider acceptance in the institutional space for a wide variety of applications such as cash transitions, Interim Beta, rebalancing
- A new breed of ETF managers are emerging that use ETFs for active management both at the asset allocation and targeted strategy levels
- Such strategies enable the managers to increase the alpha by rebalancing the portfolios on a tactical basis while controlling the overall costs
- There is an increasing acceptance of such ETF based strategies by the intuitional community and consultants
- A large application of ETFs is in strategies such as top-down oriented emerging market equities where ETFs vastly simplify the operations both for the manager and the end client

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