

## Emerging markets

Emerging markets (EM) is a term used to describe the economies and stock markets of countries experiencing rapid growth and industrialisation; many people think of them as the countries moving from developing (or third world) status to being a developed nation.

Although different experts may disagree on the inclusion of specific countries, there are about 100 countries currently accepted as emerging markets, with Brazil, Russia, India and China (also known as the BRIC countries) being the fastest growing developing economies.

Investing in an emerging market is very similar to as investing in any other stock market, but emerging markets usually have some specific characteristics that mean investors treat it in a different way. Emerging markets, if used effectively, can offer significant investment opportunities and provide greater diversity to an investment portfolio. They have also provided attractive returns in the past, with the prospect of continued growth and future long term returns.

First introduced as an investment focus in the 1980s, those countries initially made a lot of money available for businesses. However, during the mid to late 1990s, various emerging market stocks performed poorly and gave the perception of emerging markets as highly volatile and risky despite their long term results being positive.

Emerging markets are now managed differently and various factors are greatly reducing the fluctuations previously seen in emerging markets.

## What makes emerging markets different and attractive?

In contrast to other markets, emerging markets are usually:

- regional economic powerhouses with large populations, large resource bases and large markets
- transitional societies undertaking domestic economic and political reform
- arguably the world's fastest growing economies, contributing to a large part of the world's trade
- critical participants in the political, economic and social affairs of the world.

One of the factors which have lead to the emergence of emerging markets is the need for these countries to seek capital to finance their development.

The risks associated with emerging markets can be similar to the risks in established markets, with additional challenges because of the difficulty in assessing those risks. Specific risks include language and cultural barriers, differing business practices and requirements, variations in regulations and laws, and political environments.

As emerging markets tend to have a younger population base, higher population growth and rapidly increasing income levels compared to developed nations, they are forecast to have a higher potential of economic growth and the potential for good long term investment returns.

As a specialist asset class, there are specific issues that need to be assessed so using an experienced asset manager may be a wise choice.

## AvSuper's emerging markets exposure

AvSuper's profit-for-member approach means all investment decisions are made to benefit members over the long term and help you build your retirement savings in an effective and prudent manner. We use a range of investment managers to ensure members' money is invested to meet specific objectives and strategies.

AvSuper has an emerging markets exposure of about 12% of our total international equities portfolio, using fund managers with significant experience in researching emerging economies and with long term commitments to investing in emerging markets.

FS5020.102.2010