

# Emerging Markets SMid Cap: Anticipate the Opportunity

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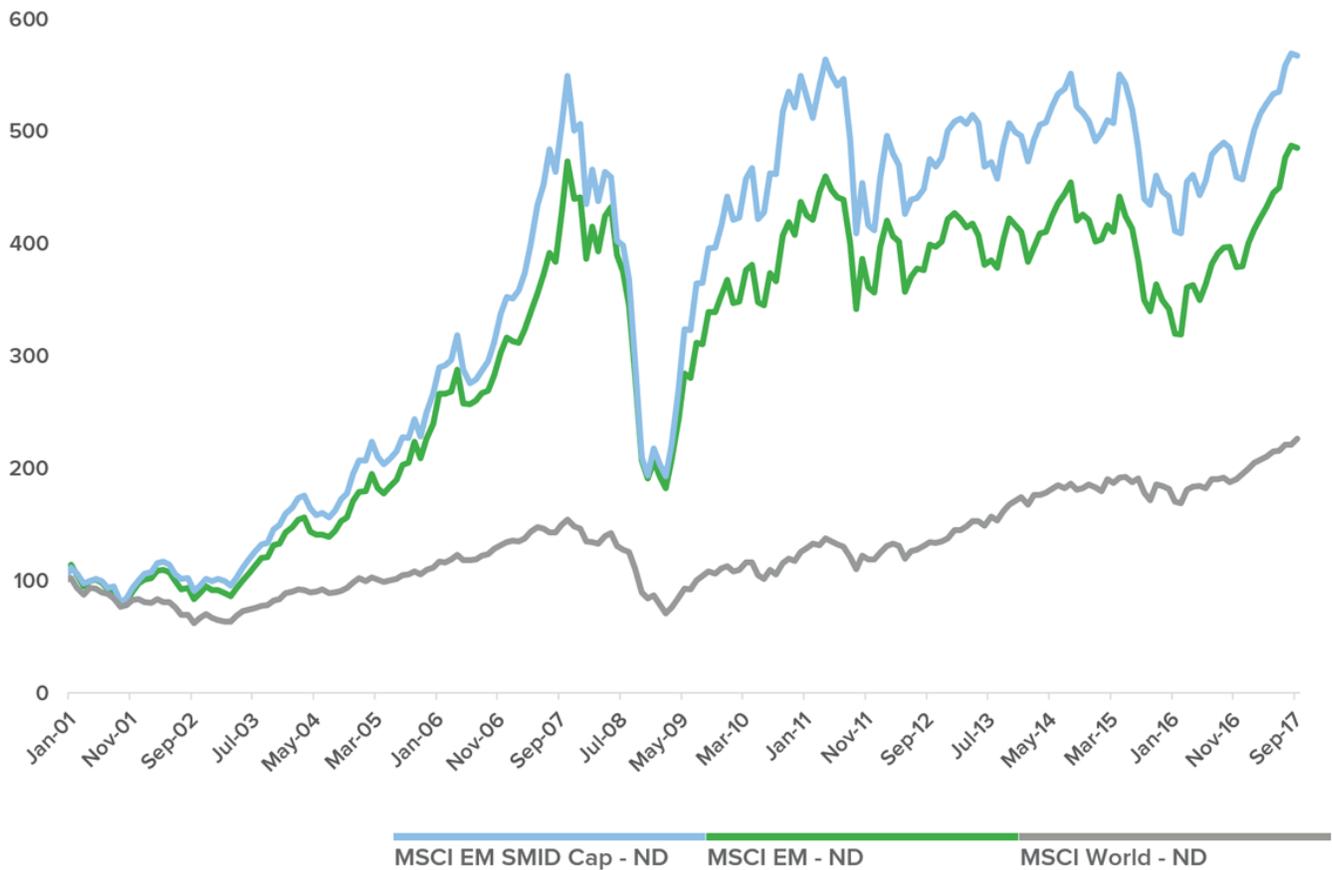
Anticipating the opportunity in Emerging Markets SmidCap for long-term investors.

Institutional investors face significant challenges in the future meeting an average 7.6% annual return assumption to fulfill future liabilities. After several years of underperformance in emerging markets, investors are revisiting the asset class for higher equity growth potential driven by local consumption trends and attractive valuations. Strategic investors willing to explore going further across the capitalization spectrum with Emerging Markets SMid Cap may benefit from an allocation to a conviction-based approach emphasizing quality and risk management.

The Opportunity | **Emerging Markets Equity**

Growth of \$100

1/1/2001 – 9/30/2017

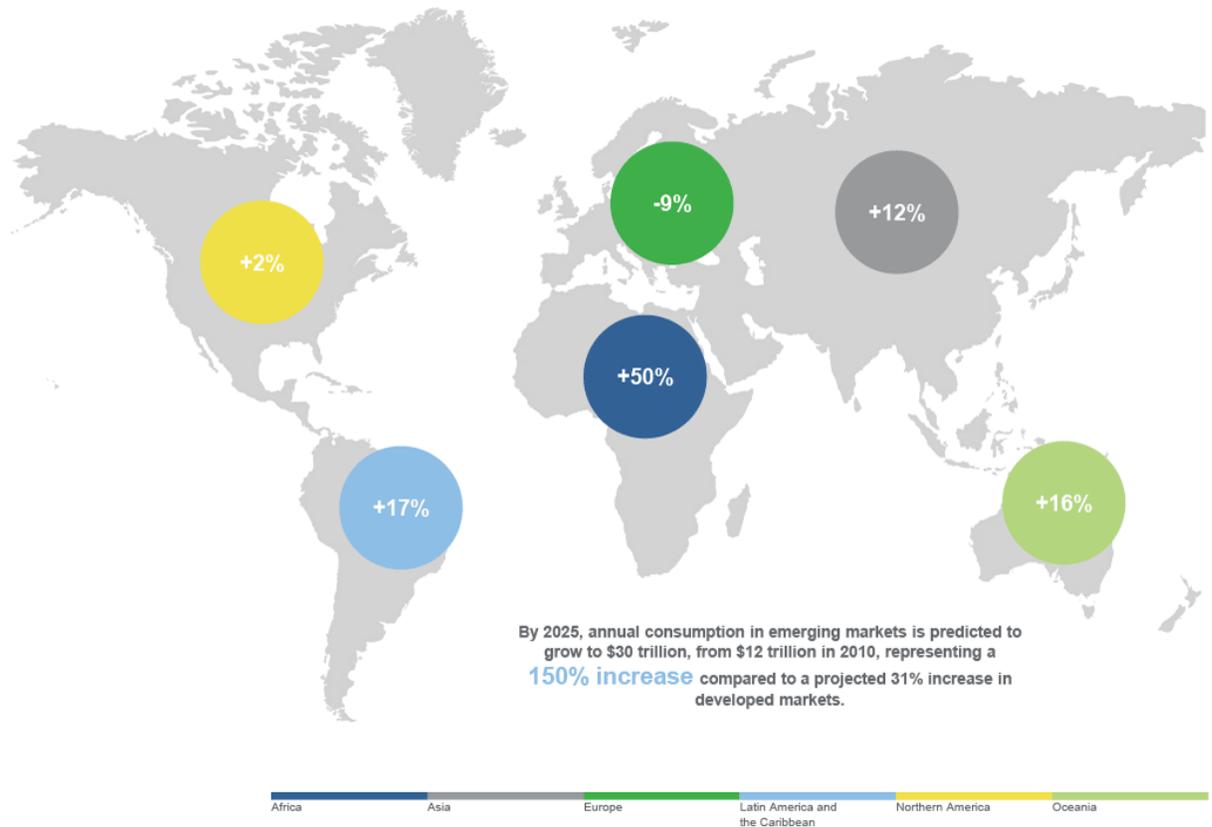


Time Period: 1/1/2001 – 9/30/2017. Monthly cumulative returns of the MSCI Emerging Markets Index – ND, the MSCI Emerging Markets SMID Index –ND and the MSCI World Index – ND based on growth of \$100 investment starting 1/1/2001. Benchmark Data Source: © 2017 FactSet Research Systems Inc. All Rights Reserved. Please see appendix for full performance disclosures. MSCI Inc. is the owner of the trademarks, service marks and copyrights related to its indexes, which have been licensed for use by Westwood. Past performance is not indicative of future results.

## What's Happening: Local Consumption Trends

From a more structural perspective, over 50% of the World GDP comes from emerging markets. Emerging markets enjoy favorable population dynamics, positive local consumption trends, and significant potential for productivity growth. As developed market growth drivers are slowing due to aging populations, these favorable EM factors are becoming increasingly important for equity investors. From 2010 to 2025, annual consumption in emerging markets is predicted to grow to \$30 trillion representing a 150% increase compared to 31% in developed markets.

The Opportunity | **Working-Age Population Shifting (Estimates 2015-2030)**



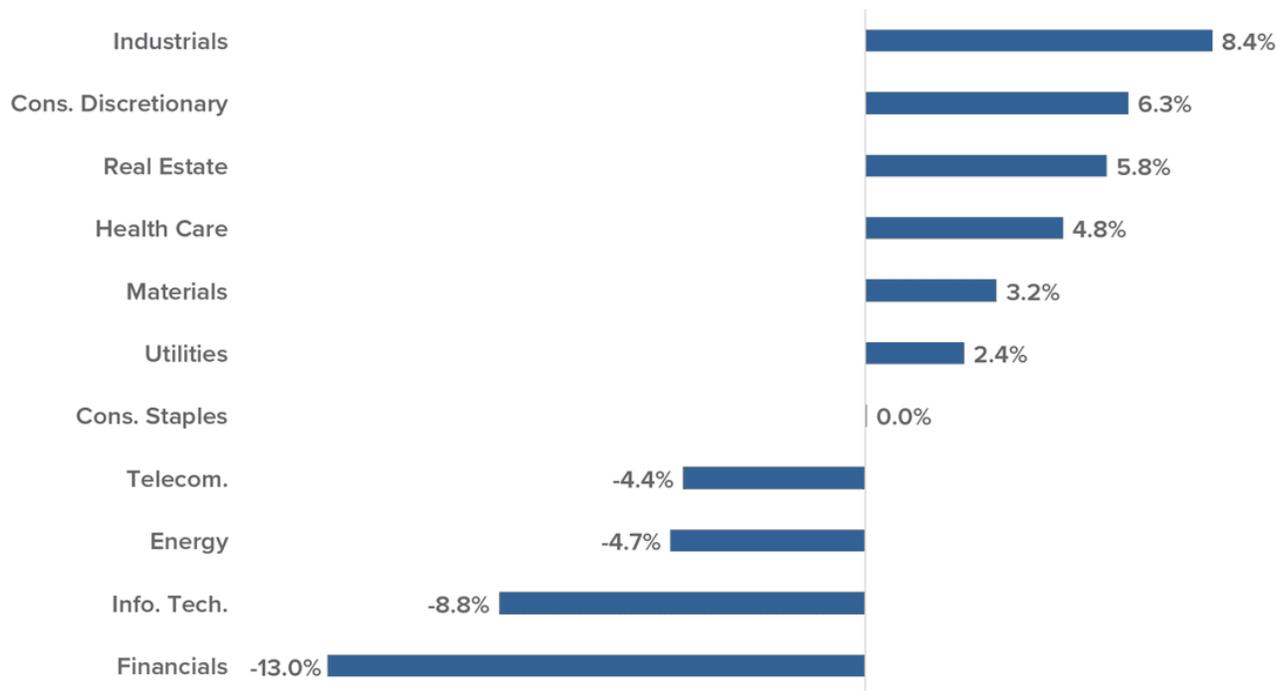
Source: United Nations World Population Prospects, 2015 Revision & McKinsey & Co. Winning the \$30 trillion decathlon: Going for gold in emerging markets, 2012.

Middle class growth are expected to be a key driver in local consumption trends in emerging markets. Emerging market countries are expected to see more and more people entering the middle class with new money and demands; driving growth in more consumer oriented sectors and companies. Investing in middle-sized emerging market companies that are exposed to pure local consumption growth could be a way to capture this opportunity. Core MSCI Emerging Market Equity may only capture a fraction of the growth as you can see in the sector differential below.

The Opportunity | **Greater Exposure to Local Consumption Trends**

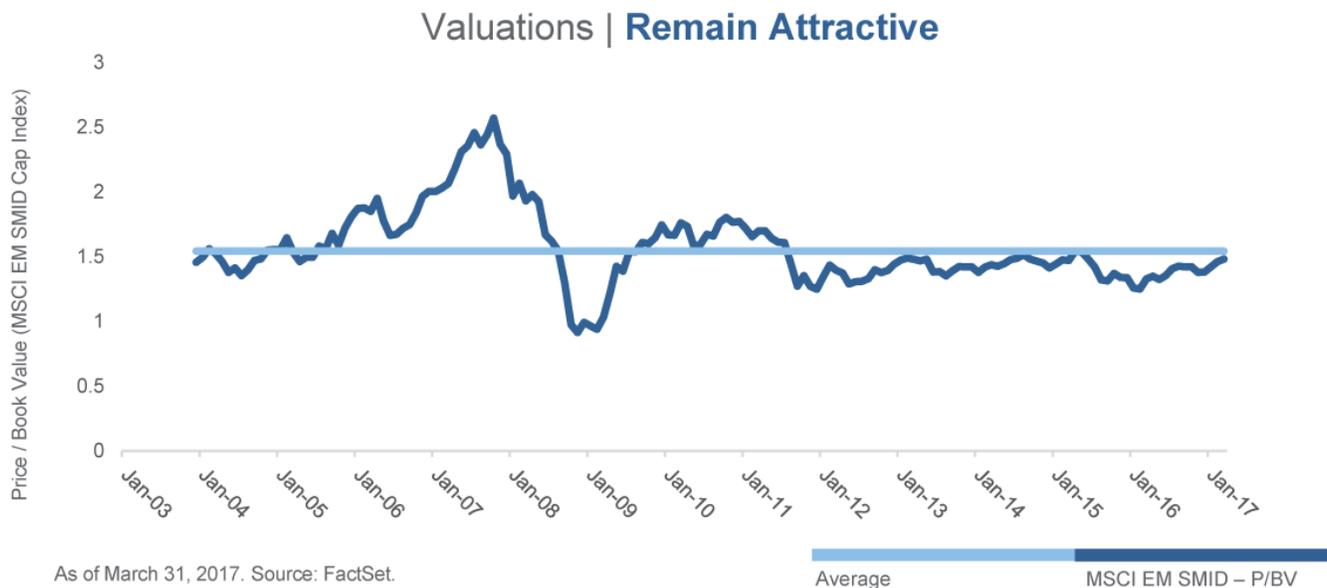
Sector Weight Difference

MSCI EM SMID Cap – ND vs. MSCI EM – ND



As of September 30, 2017. Source: FactSet.

## Current View on Valuations



EM valuations are attractive relative to developed equities and historical metrics when analyzing price to book value. Identifying attractively valued, quality companies across market caps can help to fully exploit the return potential of the asset class while emphasizing downside risk management and liquidity. Economic Value Added (EVA) and liquidity screens can lay the framework to provide alpha and a smoother return profile in less efficient and less liquid markets.

An allocation to Emerging Markets SMidCap can potentially be an effective strategy to bridge the return gap for long-term investors.

## **Take Action: Learn More About Our Approach to Emerging Markets SMidCap and How We Can Help Long-Term Investors Bridge the Return Gap.**

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