

CHAPTER 1. A BRIEF HISTORY OF EMERGING MARKETS

Why investors cannot afford to ignore Emerging Markets

31.03.2021

The origins of the term

In the early 1980s, the International Finance Corporation (IFC) began tracking the performance of several local stock markets, including Argentina, Brazil, Chile, Greece, India, Jordan, Korea, Mexico, Thailand, and Zimbabwe. Surprised at the positive results, **the IFC realised there was a strong case for encouraging foreign investment into these countries among others**, and proposed the creation of a 'Third World Equity Fund'.

“Whereas ‘Third World’ suggested poverty and despair, ‘Emerging Markets’ instead “suggested progress, uplift and dynamism””

However, the name of the fund raised concerns, as it was considered both disparaging for the countries concerned and distasteful for potential investors. The IFC's Antoine Van Agtmael came up with a more positive and aspirational description. Whereas 'Third World' was a label that suggested poverty and despair, Van Agtmael believed that **Emerging Markets instead “suggested progress, uplift and dynamism”**.

The challenge of definition

Finding a clear-cut, consensual definition of the term Emerging Markets can be difficult.

For many years the 'emerging' status of a country was determined only by its level of wealth (under a certain threshold), as measured by Gross National Income (GNI) per capita. However, given the pace at which Emerging Market economies have been growing, and the increasing number and variety of countries classified within this segment, an expansion of criteria was needed.

A more accurate way to define an Emerging Market country is a country which has not yet reached the level of development and stability of a Developed Market country.

The most obvious characteristics of this include:

- Economic or political instability
- Low standards of living
- Low levels of healthcare, education and literacy
- High levels of infant mortality and extreme poverty
- Closed or slowly-opening economies
- Less accessible capital markets



Did you know?

Although China has one of the world's largest populations (with 1.4 billion citizens¹) and the world's second-largest economy, it is still considered to be an Emerging Market.

Avant-garde investors, believers in long-term rewards

You may be familiar with the simple adage: "with growth comes risk". Risk explains why some investors have been reluctant to participate in Emerging Markets. While the growth potential is attractive, for many, the associated economic, political and financial risks are too great.

At Carmignac, **we have been navigating the emerging world since 1989**. Since those early years, it has remained one of our core investment themes. In an investment universe of considerable complexity and interconnectivity, we have gained extensive knowledge and improved our understanding, while developing a range of Emerging Market funds² designed to meet the different needs of investors.

Did you know?

China's economy began to open up to capitalism in 1989. At Carmignac, we were quick to seize the investment potential. In 1989, more than 50% of the net assets of our global equity flagship fund was invested in

| | Cours | Valeur totale | |
|---|----------|----------------------|----------------------|
| VALEURS PAYS NEUFS | | 41.724.481,28 | |
| 6 000 AMERICAN STANDARD (Bangkok) | 1 420,00 | 2 139 201,60 | |
| 200 000 BANGKOK PRODUCE (Bangkok) | 27,25 | 1 368 386,00 | |
| 2 000 000 CHINESE ESTATES BON DE SOUS (Hong-Kong) | 0,31 | 538 784,09 | |
| 4 025 ELF GABON (Paris) | 860,00 | 3 481 500,00 | 1 010 418,75 |
| 100 000 FLURAMA HOTEL (Hong-Kong) | 7,70 | 631 877,02 | 1 501 650,00 |
| 430 000 GREAT EAGLE BON DE SOUS (Hong-Kong) | 1,46 | 515 184,92 | 878 140,00 |
| 500 000 HOPEWELL HOLDINGS (Hong-Kong) | 3,27 | 1 341 712,89 | 3 379 813,42 |
| 500 000 HOPEWELL HOLDINGS BON DE SOUS (Hong-Kong) | 2,20 | 902 681,46 | 5 695 000,00 |
| 250 000 HUTCHINSON WHAMPOA (Hong-Kong) | 10,30 | 2 113 095,23 | |
| 200 000 KEPPEL CORP (Singapour) | 3,82 | 2 490 160,67 | 931 005,02 |
| 110 000 MALAYSIA INT. SHIPPING (Kuala Lumpur) | 8,65 | 2 216 177,66 | 2 429 534,01 |
| 100 000 MEXICO FUND (New-York) | 7,25 | 4 632 750,00 | 1 252 440,00 |
| 400 000 SELANGOR PROPS. (Kuala Lumpur) | 1,51 | 1 968 661,05 | 2 420 212,50 |
| | | | 33 940 358,38 |

Emerging Market countries, and more than 10% was invested in China³.

| | | | |
|--|-------|--------------|----------------------|
| 300 000 SUN HUNG KAI PROPS. (Hong Kong) | 13,90 | 3 421 983,35 | 3 378 712,50 |
| 100 000 SINGAPORE AIRLINES (Singapore) | 17,40 | 5 671 306,34 | 3 466 575,00 |
| 3 000 000 TELEFONOS DE MEXICO (New York) | 0,33 | 9 338 100,00 | 1 085 857,18 |
| 100 000 THANLULUXE (Bangkok) | 80,25 | 2 014 917,00 | 6 511 000,00 |
| VALEUR PORTEFEUILLE | | | 75 664 839,66 |
| VALEUR LIQUIDATIVE | | | 81 633 044,73 |

Want to know more?

Read Chapter 2:

The increasing influence of Emerging markets

¹Source: IMF database, 2020 data.

²Large and mid-cap equities: Carmignac Emergents (FCP), Carmignac Portfolio Emergents (SICAV), FP Carmignac Emerging Markets (OEIC). Small and mid-cap equities: Carmignac Portfolio Emerging Discovery (SICAV), FP Carmignac Emerging Discovery (OEIC). Large and mid-cap equities, bonds and currencies: Carmignac Portfolio Emerging Patrimoine (SICAV), FP Carmignac Emerging Patrimoine (OEIC).

³Carmignac Investissement as at 31/03/1989.

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