

Presentation for  
**FPA of San Antonio and South Texas**  
**Evolving Markets**

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**INVESTMENT ADVISORS**

## THE ROLE OF EMERGING MARKET ECONOMIES

- In 2010, Emerging Markets (EM's) accounted for 80% world's population and accounted for 13% global stock capitalization.\*
- EM's formerly viewed as a trendy investment posting volatile erratic performances.
- Growth path often volatile, fraught with scandals, misappropriations, puppet regimes.

\*Source: S&P

## THE ROLE OF EMERGING MARKET ECONOMIES

- LEDC (Less Economically Developed Countries) coined 40 years ago to describe small countries not on radar screen
- Passage of time led to the generic term “Emerging Markets”
- Today, the eight largest emerging nations include China, Brazil, Russia, India (collectively referred to as BRIC nations), Mexico, South Korea, Indonesia and Turkey.

## THE ROLE OF EMERGING MARKET ECONOMIES

- 20 years ago, little export potential and little capacity to import from global multi-national firms.
- 1990's witnessed accelerating growth, these economies – exceeding the developed Western economies.
- Growth rates not seen since postwar surge of 1950's.
- With the growth of the economies, so grew the investment markets.

## HISTORICAL GROWTH METRICS

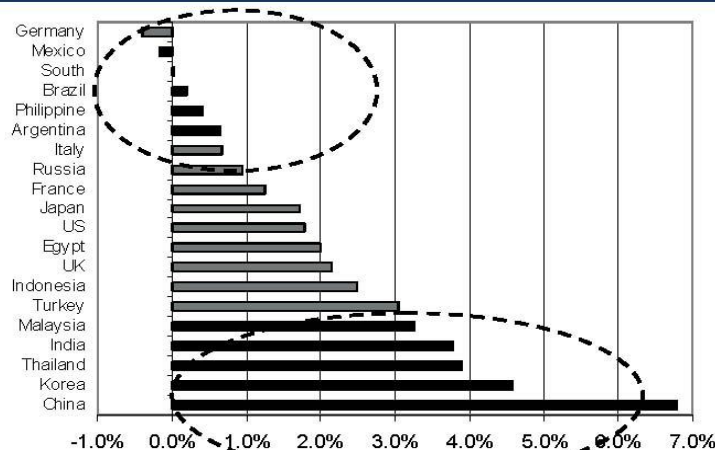
- Emerging Markets once viewed as source of inexpensive labor, to be exploited by developed markets.
- Over the past 2 decades, business and investment has spurred growth of middle class as:
  - Industries developed (commodities, technology, agriculture)
  - Infrastructures built
  - Cities urbanized

## HISTORICAL GROWTH METRICS

- World bank forecasts middle class to triple in size from 400 million people in 2000 to 1.2 billion people by 2030
- Growth attributed to China, India, Brazil, Indonesia, South Korea and Russia (50% of growth over next decade).

... and it is all about productivity

(GDP/employee), 1980-2008 (US\$ PPP 1990)



Source: World Bank

Key emerging markets—literacy, 1990-2009

	1990	2009
Argentina	94%	98%
Philippines	93%	95%
Thailand	89%	94%
Malaysia	83%	93%
Indonesia	82%	92%
Brazil	80%	90%
South Africa	80%	88%
Turkey	79%	91%
<b>China</b>	<b>78%</b>	<b>95%</b>
India	48%	70%
Egypt	44%	67%

Source: UNESCO

## HISTORICAL GROWTH METRICS

### NATURAL RESOURCES - CHINA

- 1990 – 2008, 17% capital loss of natural resources such as fossil fuels, forestry, fisheries
- 2012, China produces 30% of world's supply of phosphates
- Doubled production of gold in last decade to 360 metric tons
- One of the largest producers of steel, natural gas, manganese, lead, zinc, coal, oil and uranium

## HISTORICAL GROWTH METRICS

### INFRASTRUCTURE - BRAZIL

- Cost of exporting a container via road is \$900 – double that of China and India.
- Import costs are rising.
- Government approved \$17 billion infrastructure program to improve urban transportation, light rails, etc.
- New infrastructure should create jobs and make Brazilian exports more competitive.



## MARKET ISSUES

### VOLATILITY OF ECONOMIES

- Currency risk
- Non-transparent accounting and trading issues
- Often inadequate liquidity
- Poor governance
- Still developing banking system/property laws
- Political risk

## MARKET ISSUES

### GEOPOLITICAL RISK

- Political unrest
- Privatization
- Fraud
  - Russia
    - September 2012 conference scheduled – Marcus Evans 4<sup>th</sup> practical course on fighting fraud and corruption in Russia.

## MARKET ISSUES

### GEOPOLITICAL RISK

- Indonesia
  - 2012, Fitch & Moody's raises sovereign debt in Indonesia to Investment Grade. First increase since Asian crisis +/- 15 years ago.
  - Bre-X gold mining company from Canada with alleged significant finds in Indonesia in October 1995, \$6 billion market cap in May 1996, became worthless in 2007.

## PORTFOLIO DIVERSIFICATION

- Addition of Emerging Markets to portfolio broadens array of investible assets.
- While the U.S. is the “best” of developed countries – it’s a mature market. GDP growth likely in 2 – 4%, far less than emerging market potential.
- Emerging markets that have been tied to assembly only for years will become innovators, for example China patents.

## FUTURE GROWTH CONSIDERATIONS

- S&P recommends 9% of total equity assets be allocated to Emerging Markets.
- While rate of growth over past several years may not be sustainable, substantial reversal not likely.
- Emerging nations savings rates generally exceed developed markets.
- Growing middle class should continue to support demand for infrastructure, healthcare, investments, luxury goods.

# The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1992–2011) Ranked in Order of Performance

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Russell 2000 Value 29.14%	MSCI Emerging Markets 74.84%	MSCI EAFE 7.78%	S&P/Citi 500 Growth 38.13%	S&P/Citi 500 Growth 23.97%	S&P/Citi 500 Growth 36.52%	S&P/Citi 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	BC Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.54%	MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	BC Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	BC Agg 7.84%
Russell 2000 18.41%	MSCI EAFE 32.57%	S&P/Citi 500 Growth 3.13%	S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	BC Agg 11.63%	BC Agg 8.43%	MSCI Emerging Markets -6.00%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 26.85%	S&P/Citi 500 Growth 4.65%
MSCI Emerging Markets 11.40%	Russell 2000 Value 23.77%	S&P 500 1.32%	S&P/Citi 500 Value 36.99%	S&P/Citi 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P/Citi 500 Growth 28.24%	S&P/Citi 500 Value 6.08%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P/Citi 500 Value 5.82%	Russell 2000 Value 23.48%	S&P/Citi 500 Growth 9.13%	Russell 2000 -33.79%	MSCI EAFE 31.78%	Russell 2000 Value 24.50%	S&P 500 2.11%
S&P/Citi 500 Value 10.52%	Russell 2000 18.88%	S&P/Citi 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P/Citi 500 Value 29.98%	S&P/Citi 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 -3.02%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 4.91%	S&P/Citi 500 Value 20.81%	Russell 2000 Growth 7.05%	S&P/Citi 500 Growth -34.92%	S&P/Citi 500 Growth 31.57%	MSCI Emerging Markets 19.20%	S&P/Citi 500 Value -0.48%
Russell 2000 Growth 7.77%	S&P/Citi 500 Value 18.61%	Russell 2000 Value -1.54%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	BC Agg 8.70%	Russell 2000 21.26%	S&P 500 -9.11%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	MSCI EAFE 38.59%	S&P/Citi 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 18.37%	BC Agg 6.97%	S&P 500 -37.00%	Russell 2000 27.17%	S&P/Citi 500 Value 15.10%	Russell 2000 Growth -2.91%
S&P 500 7.62%	Russell 2000 Growth 13.37%	Russell 2000 -1.82%	Russell 2000 Value 25.75%	Russell 2000 Growth 11.26%	Russell 2000 Growth 12.95%	Russell 2000 Growth 1.23%	S&P 500 21.04%	MSCI EAFE -14.17%	S&P/Citi 500 Value -11.71%	S&P/Citi 500 Value -20.85%	S&P/Citi 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%	S&P 500 15.79%	S&P 500 5.49%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%	Russell 2000 -4.18%
BC Agg 7.40%	S&P 500 10.08%	Russell 2000 Growth -2.43%	BC Agg 18.46%	MSCI EAFE 6.05%	BC Agg 9.64%	Russell 2000 -2.55%	S&P/Citi 500 Value 12.73%	S&P/Citi 500 Growth -22.08%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%	Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%	S&P/Citi 500 Value 1.99%	S&P/Citi 500 Value -39.22%	S&P/Citi 500 Value 21.17%	S&P/Citi 500 Growth 15.05%	Russell 2000 Value -5.50%
S&P/Citi 500 Growth 5.06%	BC Agg 9.75%	BC Agg -2.92%	MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	BC Agg -0.82%	Russell 2000 Growth -22.43%	S&P/Citi 500 Growth -12.73%	S&P/Citi 500 Growth -23.59%	S&P/Citi 500 Growth 25.66%	S&P/Citi 500 Growth 6.13%	S&P/Citi 500 Growth 4.00%	S&P/Citi 500 Growth 11.01%	Russell 2000 -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%
MSCI EAFE -12.18%	S&P/Citi 500 Growth 1.68%	MSCI Emerging Markets -7.32%	MSCI Emerging Markets -5.21%	BC Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	BC Agg 4.10%	BC Agg 4.34%	BC Agg 2.43%	BC Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	BC Agg 5.93%	BC Agg 6.54%	MSCI Emerging Markets -18.17%

- **S&P 500** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- **S&P/Citigroup 500 Growth** and ● **S&P/Citigroup 500 Value** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **Russell 2000** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ.
- **Russell 2000 Value** and ● **Russell 2000 Growth** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.
- **MSCI Emerging Markets** is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.
- **BC Agg** is the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index). This index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.



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## INTERNATIONAL MONETARY FUND (IMF)

- As of July 2012, the International Monetary Fund (IMF) labels the following countries as “Emerging Economies”
  - Argentine
  - Brazil
  - Bulgaria
  - Chile
  - China
  - Estonia
  - Hungary
  - India
  - Indonesia
  - Latvia
  - Lithuania
  - Malaysia
  - Mexico
  - Pakistan
  - Peru
  - Philippines
  - Poland
  - Romania
  - Russia
  - South Africa
  - Thailand
  - Turkey
  - Ukraine
  - Venezuela



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## FACTS ABOUT FROST

- Registered Investment Adviser as of January 2008
- Form ADV Parts 1, 2A and 2B available
- Investment expertise provided through two channels:
  - Management of separate accounts for institutional, high net worth and trust portfolios
  - Adviser to mutual fund family
- Adviser to over \$8.497 billion in assets under management as of June 30, 2012
- Adviser to over \$2.674 billion in mutual fund assets as of June 30, 2012
- Tenured management using a team-based and active portfolio management style
- Ranked by Barron's as one of the top fifty mutual fund families for 2010, 2011 and 2012
- Member of the Financial Planning Association
- 42% of the firm's investment adviser representatives hold the right to use the Chartered Financial Analyst® designation

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