

Magni Client Information – Post Embargo

Talking Points on International Equity Research and Investing

November 2014

Market Performance

- The top three performing countries in October were Turkey, Hong Kong, and South Africa.
- The bottom three performing countries in October were Greece, Norway, and Egypt. It should be noted that these monthly results are within normal ranges.

Country Ranking

- In the last twelve months, every country in the investible world, except Egypt, has improved their adherence to the Sustainable Wealth Creation principles.
- Belgium, Canada, Germany, Israel, Korea, and Singapore had the most significant increases. Korea is now the second highest ranked Emerging Markets country and ranks ahead of six countries in the Developed Markets. Conversely, Czech Republic, Greece, Italy, Thailand, and Turkey all made very minor improvements in their adherence to the Sustainable Wealth Creation principles.

Review of Economic Standard: Accounting

- Accounting is one of the twelve Economic Standards within the Sustainable Wealth Creation principles. Accounting and Auditing are the two standards to help determine the accuracy of financial information from corporations. Magni believes that countries with accurate, timely, transparent, and trusted accounting systems will outperform other countries; all else being equal. Investors and analysts rely on this information when making decisions and project future valuations. Unreliable accounting systems mean the financial information from corporations is suspect and Magni believes such systems lead to discounted equity valuations.
- As a result of a review of accounting systems, some meaningful upgrades and downgrades occurred. Israel, Malaysia, Philippines, Singapore, and Taiwan were upgraded for implementing world class standards. Conversely, India was downgraded for the lack of success in implementing their previously enacted regulations.

Shanghai-Hong Kong Connect Program

- During November China began allowing reciprocal access between the Shanghai and Hong Kong exchanges, thus reducing the isolation of the mainland Chinese capital market from the rest of the world. China currently ranks poorly on Magni's Economic Standard for Securities Regulation. If successful, this access can help make China's markets fairer and more transparent, potentially improving China's score.

What to do with "Too Big To Fail"?

- International regulators have issued new proposals that would require global systemically-important financial institutions to hold significantly more loss absorbing capital. Resolution of insolvency or failed banks would be accomplished easier with less disruption risk to the wider financial system. Countries adopting these proposals would likely see their scores in the Magni Economic Standard of Banking Supervision increase.

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Rule of Law in Mexico

- Recent developments shake confidence and jeopardize expected economic reforms. The apparent complicity of corrupt government officials in the abduction and probable murder of 43 university students by drug gangs has shocked the country. Also sapping the president's political capital are reports of crony capitalism involving his wife. Mexico has made significant progress over more than a decade and it would be a shame for these events to derail the progress.

Early Elections in Japan

- Prime Minister Abe called for early elections following economic reports that showed Japan in a recession. He hopes that a fresh mandate will allow the continuation of his reforms. Beyond improving Japanese growth prospects, successfully implementing these reforms are required to improve the attractiveness of their equity markets from their relatively low country score among Developed Markets. Elections are scheduled for December 14, 2014.