Magni Client Information – Post Embargo

Talking Points on International Equity Research and Investing

December 2014

Country Ranking

- The country rankings were unchanged in December from the rankings in November. This is not unusual and happens periodically, especially at the end of the year.
- During 2014, every country in the investible world, except Egypt, improved their adherence to the Sustainable Wealth Creation principles. Egypt's score has declined marginally.
- In the last twelve months Belgium, Canada, Israel and South Korea had the most significant increases. South Korea became one of the highest rated emerging market countries. Conversely, Czech Republic, Greece, Italy, Thailand, and Turkey all made very minor improvements in their adherence to the Sustainable Wealth Creation principles.
- Since joining the investible world in May of 2014, both Qatar and United Arab Emirates (UAE) have seen modest improvements in their score under the Magni Sustainable Wealth Creation principles.

Greek Crisis Returns

- Political uncertainty has brought Greece's economic crisis back to the forefront. The latest leg down for the Greek market was precipitated by Prime Minister Antonis Samaras's decision to bring forward the presidential election. Following three rounds of voting Parliament was unsuccessful in electing a new president, and therefore an election will be held on January 25th. Polling indicates there is a good chance the radical left party, Syriza, could come to power. They have pledged to annul the country's bailout agreement and advocated for other controversial policies. If Syriza comes to power and successfully implements its advocated policies, the country score for Greece could decrease, pushing Greece's country ranking lower. However, under most other scenarios their country score would remain relatively stable potentially laying the groundwork for a rebound in the Greek market.

China Market Decline

- Earlier this month China's benchmark Shanghai Composite Index suffered a drop exceeding 5%; the largest in over five years. The catalyst for the selloff was a decision by the regulator to increase collateral requirements for cash borrowers in the repo market. Even after the one-day rout the market was up over 35% for the year, a run-up fueled in large part by retail investors using leverage to multiply their bets. The volatility is reflective of a weak economic infrastructure and the government's attempts to open up the economy. It is widely expected that during 2014 China grew at its slowest rate in 24 years with the 2015 growth target even lower. While the resulting growth rates remain high relative to developed countries, its continued low country score, due to considerations such as opaqueness and corruption, indicates continued downward pressure on financial market return expectations.

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Russia Ruble Rout

- A confluence of factors has come together to make the Russian Ruble the year's worst performing currency. The falling price of oil and their continued dependence on energy exports had the most significant impact. Western sanctions over Russia's actions in Ukraine also played a part. Even the central bank's dramatic step of raising its interest rate to 17 percent did not arrest the slide. While the central bank still has formidable reserves, they are about half of what they were at their peak before the 2008 financial crisis. If the current difficulties were to continue, Russia may be forced to use more unorthodox policies (e.g., capital controls). Such policies would have their own negative consequences, including MSCI potentially excluding Russia from its emerging-market equity benchmark. Magni will be watching developments in Russia closely and adjust their country score appropriately if there are changes in their commitment to reforms.

EU Approves New Money Laundering Rules

- The European Council and the European Parliament have reached an agreement to update the EU's money laundering rules. The resulting directive will require EU states to create central information on the ultimate beneficial owners of corporate and other legal entities, as well as trusts. Access to the information will be available to national authorities as well as banks as part of their "know your customer" responsibilities, as well as potentially anyone who can demonstrate a "legitimate interest". This directive goes further than changes recommended by the G20, but groups such as Transparency International have said the provisions for public access don't go far enough. The directive still needs to be passed by the European Parliament. Magni uses anti-money laundering rules as a good surrogate for some factors in its Economic Standard of Market Integrity. Magni will monitor the progress of the legislation and the country-by-country implementation to determine which countries should receive higher scores.