

# Magni Client Information - Post Embargo

## Talking Points on International Equity Research and Investing

March 2015

### Country Ranking

- There was one change in the Magni Country Scores from last month: Spain was upgraded (the update is described below).
- South Korea and Japan have seen their scores rise the most in the past 12 months, followed now by Spain as the third largest gainer in that time.
- Egypt and Thailand have been laggards over the past year, posting no gain in their scores. Magni evaluates the 47 countries in the investible world and Thailand ranks 37th, while Egypt is last.
- On a relative basis, South Korea has risen the most in the past year, moving from 36th to 21st. Conversely Hong Kong has slipped the most, falling from 18th to 27th.

### Spain upgraded on improved Banking and Insurance Supervision

- Magni reviewed Spain's progress in implementing more robust financial services regulation following the '08-'09 financial crisis. The Magni review confirmed recent IMF findings which had found Spain largely compliant with international standards and best practices. As a result Spain's scores in these areas were raised and their relative ranking improved from 24th to 11th.

### Greece Investigates Statistics Chief

- In contrast to prior justified skepticism about the quality of Greece's economic statistics, the EU's statistics arm has approved recently reported deficit numbers from the Hellenic Statistical Authority (Elstat). In spite of this fact, the Greek authorities are prosecuting the head of Elstat for allegedly inflating the deficit numbers. Andreas Georgiou assumed the role in late 2010 and has been generally praised for overseeing the strict application of EU accounting standards. A politically independent statistics service was to be part of Greece's overhauls under the bailout. However, the newly formed government has opposed the austerity and free-market overhauls demanded by Greece's main lenders. On Friday March 27<sup>th</sup> with another cash crunch looming, Greece submitted a reform proposal in order to secure the release of additional bailout funds. While these negotiations with the EU do not directly impact the Magni scoring process, either a failure to come to an agreement or major progress on economic reforms would trigger a Magni review and possible ratings change. We will continue to monitor developments in Greece closely.

### Brazilian Economic Growth Stagnating

- Brazil's economy grew just 0.1% last year, barely keeping the country out of a recession and that the worst performance in 15 years. Brazil may officially enter a recession in 2015. Petrobras is engulfed in an epic corruption scandal including embezzlement of up to \$10bn, 103 indictments, and an investigation into more than 30 sitting politicians. All of this is quite a turnaround for a country that some had previously seen as an exemplar for emerging markets. Ms. Rousseff, 3 months into her second term, has largely failed to follow the reform path of her predecessor Lula da Silva. Instead she has favored a more statist approach. Political determination to push

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through market-oriented reforms will be needed to reverse these negative trends. Brazil remains mired in the bottom 1/3 of the Magni ranking.

#### China asks for US help in its corruption fight

- China has launched 'Operation Fox Hunt' to catch corrupt officials and financial criminals who have fled the country. The country reported that 500 corrupt officials were detained abroad in 2014, leading to the recovery of 3 billion yuan (\$480 million). China is seeking closer cooperation with the U.S. on catching suspects and seizing assets, including apparently providing a list of fugitives believed to be here. However, China lacks formal extradition treaties with several countries, including the U.S., Canada and Australia. Concerns about China's lack of transparency and politicized judiciary remain lingering obstacles to greater collaboration. Progress in reducing corruption and crony capitalism must be achieved before Magni will increase China's scores on these fronts.

#### Slowing economic reforms in Indonesia

- A recently released OECD survey showed that Indonesia's economic growth had slowed in recent years and that faster reform is needed to ensure such growth benefits all Indonesians. President Joko Widodo was elected on a reform platform, but implementation of his ambitious agenda has been hindered by a parliament dominated by his political opponents. In addition, regulatory uncertainty has held back investment. Hopefully Widodo will resist misguided temptations to follow politically popular protectionist policies. Overall, however, Indonesia's growth prospects remain good, with the OECD forecasting a pickup from about 5% last year to 5.3% in 2015 and 5.9% in 2016. The lack of progress on reforms has caused Indonesia to slip from 34th to 36th in Magni's rankings.

#### Magni Communications Update

- You can now follow Magni on Twitter @MagniGlobal and on our LinkedIn company page: Magni Global Asset Management.
- In response to a Wall Street Journal article by David Shambaugh, predicting an end to the political system of China, we published "Reforms to Avoid the Predicted Chinese Crackup", at [www.magniglobal.com/matters-now](http://www.magniglobal.com/matters-now).
- Bloomberg released a ranking of emerging market countries in February. We analyze their top five picks versus ours, using our pioneering Sustainable Wealth Creation principles. Read "Ranking Emerging Market Countries," at [www.magniglobal.com/matters-now](http://www.magniglobal.com/matters-now).