

# Magni Client Information - Post Embargo

## Talking Points on International Equity Research and Investing

May 2015

### Country Ranking

- Magni research updated their evaluations of each country's scores related to shareholder protections, including corporate governance and insolvency. This review resulted in changes to the scores of 26 of the 47 countries Magni evaluates. Although most of the changes were modest, Canada saw its score for these criteria rise meaningfully, while France and Switzerland saw theirs fall the most significantly.
- Brazil, Indonesia and Switzerland saw their overall scores rise the most in May. Ireland's score fell the most, pushing its ranking from 25<sup>th</sup> to 28<sup>th</sup>.
- In the past year the scores of South Korea, Spain and Japan have risen the most in the Magni country rankings for adherence to the Principles of Sustainable Wealth Creation (SWC), while the United States, Colombia and Thailand have risen the least.

### Greece crisis drags on

- Through increasingly drastic measures, Greece has managed to continue making payments to its employees and pensioners as well as its creditors, including the recent €750 million repayment to the IMF. However, there is a widespread belief that without an agreement with its creditors Greece will not have sufficient cash to pay all of the €1.6 billion due to the IMF in early June. As the new deadline approaches, the two sides have not resolved the remaining large and difficult gulfs between their two positions, including key reforms of the labor market. Given the enormous pressure to find a solution there is some hope that a way forward will be found. In an encouraging sign, there are early reports that an accord is being drawn up, which would indicate agreement between the two sides' technical negotiating teams. Subsequently, this accord would then have to be approved by both the Eurogroup of European finance ministers and the Greek government. Without concrete measures yet approved or undertaken, the Magni scoring of Greece has not changed. If the country reaches an accord with its creditors, our analysis indicates that there could be significant upside in Greek markets.

### Poland presidential election

- The conservative challenger Andrzej Duda defeated the incumbent in Poland's recent runoff presidential election. This was the first national election victory in a decade for the rightwing Law and Justice party. The election is seen as bellwether for the more important parliamentary elections scheduled during October. Despite eight years of impressive growth, an increasing portion of the population perceives the country's economic success as not being shared equitably. The Law and Justice party is more skeptical of the EU's agenda and has called for more powers to be transferred from Brussels to the individual member states. Their retaking control of the government could lead to a more protectionist business environment. Poland remains one of the top-rated emerging market countries in the Magni rankings, but steps to retreat from past economic reforms would likely cause their score to fall. We will be monitoring Poland closely as they approach end-of-summer elections.

### Yuan may no longer be undervalued

- The IMF recently expressed the view that given the currency's appreciation over the past the year the yuan was "no longer undervalued". Further, the IMF advocated for further loosening of controls on the exchange rate, as part of an overall strategy

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promoting consumption and reducing reliance on investment-fueled growth. Given the progress, the IMF said China should aim for an "effectively floating exchange rate within two to three years". As part of a push for greater international acceptance of the yuan China has called for its inclusion in the Special Drawing Rights (SDR) basket at the IMF. The IMF's Managing Director has said it's not a matter of 'if' but 'when' it will be included. This move to a more market-driven currency regime creates very strong pressure on China to implement badly needed financial market reforms. Such reforms could ultimately lead to a higher score in the Magni rankings. So far though, the changes have been more cosmetic than concrete and China continues to hover near the bottom of the Magni rankings.

### India reforms

- It has been one year since Prime Minister Narendra Modi was elected on a reform platform that raised hopes that India would embark on a decisive path toward economic modernization after years of unrealized potential. Unfortunately much of Modi's agenda remains unfulfilled. His large electoral mandate gave him control of only one house of Parliament and in domestic affairs, he must cope with a huge, fragmented bureaucracy. He has managed to deregulate fuel prices and permit private competition in coal mining. However, other announced bills remain stalled in Parliament, including tax reform and land acquisition. Opinion polls suggest that Mr. Modi remains popular, with approval ratings of around 60 percent. Implementation of additional reforms would likely move India up from its current ranking near the middle of emerging countries to the top third.