

# Conference Schedule

**Wednesday, May 29, 2002**

**7:00 a.m.**  
Darden Center

***Breakfast***

**8:30 a.m.**  
Classroom 50

***Session #1: Aims, Issues, Overview***



*Robert F. Bruner*

**Robert F. Bruner**, Distinguished Professor and Executive Director, The Batten Institute  
Distinguished Professor of Business Administration Robert F. Bruner is a leading expert on mergers and acquisitions, corporate finance, and corporate transformation. He is also the Executive Director of the Batten Institute, a foundation within The Darden School that supports research and programs dealing with creating, leading, and transforming business enterprises.

Bruner is the author of more than 350 items of teaching materials, mainly Darden case studies focusing on corporate finance and transformation. He has received numerous awards and recognitions for teaching and case writing, and is an acknowledged authority on the case method of instruction. Bruner has been a visiting professor at various schools in Europe and Latin America, and served as a consultant to dozens of global organizations. Before joining the Darden faculty in 1982, he was a loan officer and investment analyst for First Chicago Corporation.

**9:00 a.m.**  
Classroom 50

***Session #2: Valuation in Emerging Markets: The Treatment of Global Companies***



*Mehran Nakhjavani*

**Mehran Nakhjavani**, Executive Director and Co-Head of Emerging Markets, UBS  
Global Asset Management

Mr. Nakhjavani is responsible for emerging markets strategic research, including the monitoring and forecasting of currency and interest rate trends. He is a member of the Emerging Markets Equity Strategy Committee. Prior to joining the firm in 1998, Mr. Nakhjavani launched an independent research service that provided strategic investment forecasts covering equities, bonds and currencies in emerging capital markets. He also developed quantitatively-driven asset allocation models based on proprietary indicators in both equity and fixed-income sectors. From 1980 to 1991, Mr. Nakhjavani tracked Middle Eastern banking and financial developments for various research organizations from the U.K., Canada, Japan, Cyprus and the Persian Gulf states. He has published research on the region's oil producers, in particular their public finance and political economy, as well as on Arab and Islamic banking practices. From 1978 to 1980, Mr. Nakhjavani worked in the U.K. as a trade specialist on newly-industrialized Asian economies and was involved in trade negotiations which allowed consumer electronics exporters in these countries access to EU markets. His academic thesis work was on Latin American development finance, primarily in Mexico and Peru.

10:00 a.m.  
PepsiCo Forum

## **Morning Coffee Break**

10:30 a.m.  
Classroom 50

## **Session #3: Information Environment of Emerging Market Firms**

**Moderator: Robert M. Conroy**, Professor, The Darden School



*Peter Wysocki*

### **Investor Protection and Earnings Management: An International Comparison**

**Peter Wysocki**, Massachusetts Institute of Technology

Peter Wysocki is an Assistant Professor of Accounting at the MIT Sloan School of Management. Peter holds an MA in Economics from the University of British Columbia and MS and PhD degrees in Business Administration from the University of Rochester. Prior to joining the MIT Sloan School of Management, he served as an Assistant Professor at the University of Michigan Business School. Professor Wysocki's research focuses on the links between financial markets, corporate governance, and accounting disclosures of U.S. and international firms. He specializes in empirical work addressing policy-related questions related to international accounting standards and disclosure practices. His recent work questions the widely-held belief that harmonization of accounting standards has led to more comparable financial reports around the world. He has also investigated the role of laws and enforcement on accounting manipulations around the world.

#### **Abstract**

This paper examines the relation between outside investor protection and earnings management. We argue that insiders, in an attempt to protect their private control benefits, use earnings management to mask firm performance from outsiders. We hypothesize that earnings management *decreases* in legal protection because strong investor protection limits profit diversion by insiders, which reduces their incentive to mask these activities. Using accounting data from 31 countries between 1990 and 1999, we present empirical evidence consistent with our hypothesis. The findings suggest that weak legal protection perpetuates poor-quality financial reporting by insiders, which further undermines financial market development.



*Ervin L. Black*

### **Analysts' Forecasts in Asian-Pacific Markets: The Relationship Between Accounting Systems and Accuracy**

**Ervin L. Black**, Brigham Young University

Ervin Black obtained both his BA and MBA from Brigham Young University. After working seven years in private industry as a financial analyst for a start-up company and as a stockbroker, he attended the University of Washington where he received his PhD in 1995. He has served on the faculty at the Universities of Washington, Wyoming, Arkansas, and moved to Brigham Young University in 2000. Professor Black's research is primarily in the financial accounting and international accounting area, with emphasis on examining firm financial characteristics in different settings. He has published articles in *The Journal of the American Taxation Association*, *The Journal of Business Finance and Accounting*, *Review of Quantitative Finance and Accounting*, *European Accounting Review*, *Asian-Pacific Journal of Accounting and Economics*, *Corporate Reputation Review*, *Business Process Management Journal*, and *The Journal of Financial Statement Analysis*. His article on the usefulness of earnings and cash flows across life cycle stages in the *Journal of Accounting Abstracts* –Working Paper Series is in the all-time top-ten downloads list. He

currently teaches graduate courses in international accounting, accounting research, and financial statement analysis with an emphasis on emerging markets.

### **Abstract**

In this study, we examine the determinants of accuracy of analysts' forecasts in the larger economies of the Asian-Pacific region. Examination of the accuracy of analysts' earnings forecasts allows us to judge how accounting systems and cultural distinctions in this region affect earnings predictability. Since many investors rely on analysts' earnings forecasts instead of producing their own, the growth of international investment means forecasts in non-U.S. markets will become increasingly important to investors worldwide. Using a sample of firms with data available on Global Vantage and I/B/E/S International, we find that the analysts on average have an optimistic bias. We examine whether macroeconomic factors explain part of the difference in the size of analyst forecast errors, employing the global competitiveness rankings of the World Economic Forum. We find that analyst forecasts are more accurate in those nations with higher overall competitiveness rankings. We also find that four of the eight factors of competitiveness included in the index are related to the size of forecast errors. In addition, we test for differences in forecast errors across countries and across portfolios of countries based on Radebaugh and Gray (1997). We find evidence that British-influenced based accounting countries have smaller forecast errors. We also find evidence that firms with a larger difference between market value of equity and book value of equity have a larger optimistic bias in the analyst forecast.



*Darius Miller*

### **ADRs, Analysts and Accuracy: Does Cross Listing in the US Improve a Firms Information Environment and Increase Market Value?**

**Darius Miller**, Indiana University

Darius Miller is an Assistant Professor at the Kelley School of Business at Indiana University. He holds a BS in Electrical Engineering from Tulane University, an MBA from Loyola University, and a PhD in Finance from the University of California, Irvine. His research focuses on the effects of international security offerings on investors and corporations. Professor Miller's research has been published in journals such as the *Journal of Financial Economics* and the *Journal of Financial and Quantitative Analysis*. He has taught courses in international finance, investments, and financial engineering at the undergraduate, MBA, executive MBA and PhD level. He also has developed finance courses for international professional programs.

### **Abstract**

This paper investigates the relation between cross listing in the U.S., with its resulting commitment to increased disclosure, and the information environment of non-U.S. firms. We find that firms that cross-list on U.S. exchanges have greater analyst coverage and increased forecast accuracy relative to firms that are not cross listed. A time-series analysis shows that the change in analyst coverage and forecast accuracy occurs around cross listing. We also document that firms that have more analyst coverage and higher forecast accuracy have higher valuations. Further, the change in firm value around cross listing is correlated with changes in analyst following and forecast accuracy suggesting that cross listing enhances firm value through its effect on the firm's information environment. Our findings support the hypothesis that cross-listed firms have better information environments, which are associated with higher market valuations.



Sandeep Patel

## Measuring Transparency and Disclosure at Firm-level in Emerging Markets

Sandeep A. Patel and Liliane K. Bwakira, Standard & Poor's

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Sandeep A. Patel is a Managing Director of Global Index Analysis at Standard & Poor's, where he has a leading role in the overall management of Standard & Poor's equity indexes covering securities outside the U.S. In this position, he is responsible for constructing and maintaining S&P's international indices, providing analysis and analytics around index products. Sandeep's team is also responsible for the global implementation of Global Industry Classification Standard. Sandeep joined Standard & Poor's in February 2000. Prior to joining Standard & Poor's, he worked with Tudor Investment Management, and with J. P. Morgan Investment Management. Sandeep has over ten years' experience in research and management of equity and fixed income portfolios. He has published in the *Journal of Finance*, *Financial Analysts Journal*, *Emerging Markets Quarterly* and *Journal of Investing*. Sandeep is an Adjunct Associate Professor at the Stern School of Business, New York University. Sandeep holds a PhD in Finance from The Wharton School, an MBA from the Indian Institute of Management in Ahmedabad, India, and a BA from the Maharaja Sayajirao University of Baroda in Vadodara, India.

Liliane K. Bwakira is an Index Manager in Portfolio Services at Standard & Poor's where she analyzes global index performance and specializes in corporate governance research. In this position, she is instrumental in implementing and providing analysis of transparency & disclosure rankings initiated on S&P index constituents. She is actively involved in quality control and project monitoring. She also writes emerging market reviews and analyzes index performance published by Standard & Poor's. Liliane is responsible for collecting stock exchange surveys and delivering market data published in the *Emerging Stock Markets Factbook*. Liliane joined Standard & Poor's in November 2000. Prior to joining Standard & Poor's, she pursued her graduate studies at Columbia University. She previously worked at the United Nations Development Program as Associate Economist and was a Teaching Assistant at Michigan Technological University. Liliane holds an MIA in International Finance and Business from Columbia University, an MS in Mineral Economics from Michigan Technological University, and a degree from the University of Burundi.

### Abstract

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Transparency and disclosure are integral to corporate governance. In this paper, we use a new dataset to analyze Transparency & Disclosure scores (T&D score) in 19 emerging markets for 354 firms representing 70% of S&P/IFCI index market capitalization over the three years ending in 2000. We analyze differences across countries, economic sectors and trend over the three years. We find that the Asian emerging markets and South Africa have significantly higher transparency and disclosure compared to the Latin American, Eastern European, and Middle Eastern emerging markets. The gap between the Asian emerging markets and South Africa over other emerging markets has increased over the last three years. We do not find any significant differences in T&D scores among economic sectors. Changes in the T&D scores over the last three years, however, differ by economic sectors for the six markets with the largest investable market capitalization and/or number of observations, viz. Brazil, Poland, South Africa, India, Thailand, and Korea. We then study the relationships between T&D scores and cross-holdings for the six emerging markets. For the six markets except Korea, correlation between cross-holdings and T&D scores is negative. For the six markets except South Africa, correlation between price-to-book ratios and T&D scores is positive. We conclude with a discussion on further research.

Noon  
Darden Center

1:00 p.m.  
Classroom 50



Marc Zenner

**Lunch**

### **Session #4: Determining the International Cost of Capital**

**Marc Zenner, PhD, CFA**, Salomon Smith Barney/Citigroup

Marc Zenner is a Director in the Investment Banking Division at Salomon Smith Barney/Citigroup where he is involved with valuation, credit rating, and capital structure issues related to M&A or financing transactions. He is primarily dedicated to the power, energy and consumer sectors. From 1989 to 2000, Marc was a Professor of Finance at The University of North Carolina at Chapel Hill. He was the Chairman of the Finance Area from 1998 to 2000. Marc is born in Brussels and earned a BSc degree in Commercial Engineering at the K.U.Leuven in Belgium, an MBA at the City University in London, and a PhD in Finance at Purdue University. He taught corporate finance, international finance, risk management and investments, is a Chartered Financial Analyst, and won various MBA, PhD and University-wide Teaching Awards. Marc has published articles on corporate finance and M&A in *The Journal of Financial Economics*, *The Journal of Finance*, *The Review of Financial Studies*, *The Journal of Financial and Quantitative Analysis*, *The Journal of Corporate Finance*, *Financial Management*, *The Columbia Journal of World Business*, *The Wake Forest Law Review*, and *Finanzmarkt und Portfolio Management*. He also served as an Associate Editor for *Financial Management* over 1997-1999.

2:00 p.m.  
Classroom 50

**Afternoon Break**

2:30 p.m.  
Classroom 50

### **Session #5: Corruption and Control**

**Moderator: Wei Li**, Professor, The Darden School

**Commentator: George Triantis**, Professor, University of Virginia School of Law

#### **Corporate Governance, Investor Protection and Performance in Emerging Markets**

**Leora Klapper and Inessa Love**, The World Bank

Leora Klapper is an Economist in the Finance Team of the Development Research Group at the World Bank. Her recent research has focused on corporate governance, financial distress, corporate risk management, and foreign bank entry. Prior to coming to the Bank in 1998, she worked at the Board of Governors of the Federal Reserve System, the Bank of Israel, and Salomon Smith Barney. She holds a PhD in Financial Economics from New York University Stern School of Business.

Inessa Love is an Economist in the Finance Team of the Development Research Group at the World Bank, Washington, DC. She holds an MA in Financial Economics from the American University and a PhD in Finance and Economics from the Columbia University Graduate School of Business. Her prior work experience includes positions at DRI/McGraw-Hill and the Urban Institute.



Leora Klapper

#### **Abstract**

Recent research studying the link between law and finance has concentrated on country-level investor protection measures and focused on differences in legal



*Inessa Love*

systems across countries and legal families. Our paper extends this literature and provides a study of firm-level corporate governance practices across emerging markets and a greater understanding of the environments under which corporate governance matters more. Our empirical tests show that better corporate governance is highly correlated with better operating performance and market valuation. More importantly, we provide evidence showing that firm-level corporate governance provisions matter more in countries with weak legal environments. These results suggest that well-governed firms benefit more in bad corporate governance environments and that firms can partially compensate for ineffective laws and enforcement by establishing good corporate governance and providing credible investor protection. Our tests also show that firm-level governance and performance is lower in countries with weak legal environments, suggesting that improving the legal system should remain a priority for policymakers.



*Alexander Dyck*

## **Private Benefits of Control: An International Comparison**

**Alexander Dyck**, Harvard Business School

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Alexander Dyck is an Associate Professor in the business, government and international economy area of the Harvard Business School. Dyck teaches a first-year MBA course on Business, Government and the International Economy and a second-year MBA course on Managing Regulation, Deregulation and Privatization. His research focuses on the dynamics of the interaction between private enterprise and the state. He approaches this issue by investigating how privatization affects management practices and economic systems. He has written academic articles and case studies on privatization and economic reform in the United Kingdom, Russia, eastern Germany, the Philippines, and the United States. He is currently completing a large empirical evaluation of the impact of privatization and economic liberalization on control and incentive systems in the United Kingdom. Dyck earned his PhD in Economics from Stanford University in 1993 where he was the recipient of a Research Council of Canada scholarship and a Bradley fellowship. He received an honors BA and the Gold Medal in economics and political science from the University of Western Ontario, Canada in 1988. He also studied at St. Andrews University in Scotland from 1986-1987 where he was presented the Nisbet award in Economics. Dyck's research has been presented at a number of North American and European Universities including Stanford, Berkeley, MIT, UCLA and Harvard. Dyck worked as a research associate at the German Institute for Economic Research, Berlin (1992) and at the C.D. Howe Institute, Toronto (1989).

### **Abstract**

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We construct a measure of the private benefits of control in 39 countries based on 412 control transactions between 1990 and 2000. We find that the value of control ranges between -4% and +65%, with an average of 14 percent. As predicted by theory, in countries where private benefits of control are larger capital markets are less developed, ownership is more concentrated, and privatizations are less likely to take place as public offerings. We also analyze what institutions are most important in curbing these private benefits. A high degree of statutory protection of minority shareholders and high degree of law enforcement are associated with lower levels of private benefits of control, but so are a high level of diffusion of the press, a high rate of tax compliance, and a high degree of product market competition. A crude R-squared test suggests that the "non traditional" mechanisms have at least as much explanatory power as the legal ones commonly mentioned in the literature. In fact, in a multivariate analysis newspapers<sup>TM</sup> circulation and tax compliance seem to be the dominating factors. We advance an explanation why this might be the case.



David Ng

## **Corruption and International Valuation: Does Virtue Pay?**

**David Ng**, Cornell University

Professor David Ng is an Assistant Professor of Finance in Cornell University's Department of Applied Economics and Management. His research area is empirical international finance. He studies how exchange rate risk and country risk affect asset returns. Recently he has focused on the impact of corruption on stock valuations and bond spreads. He received his PhD, with distinction, from Columbia University in 2000. While attending graduate school, he held visiting positions at the International Monetary Fund, the Federal Reserve Board and the World Bank.

### **Abstract**

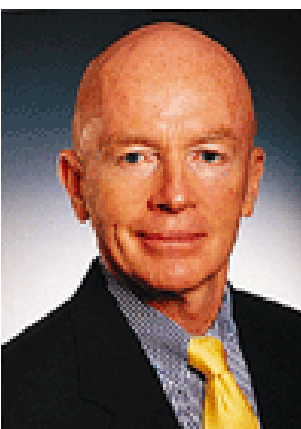
Using firm-level data from 46 countries, we investigate the relation between corruption – the misuse of public office for private gains – and international corporate values. Our analysis shows that firms from more (less) corrupt countries trade at significantly lower (higher) market multiples. This result is robust to the inclusion of many control variables suggested by valuation theory. On average, an increase in the corruption level from that of Singapore to that of Mexico corresponds to a decrease of 18.1 in the PE ratio, and a decrease of 1.17 in the PB ratio. We conclude that corruption has significant economic consequences for shareholder value.

**4:00 p.m.**  
Classroom 50

### ***Afternoon Break***

**5:00 p.m.**  
Classroom 50

### ***Session #6: The Challenges of Emerging Markets: Governance, Transparency and the Rule of Law (pre-taped videoconference)***



Mark Mobius

**Mark Mobius, PhD**, Managing Director, Templeton Asset Management

Mark Mobius joined the Templeton organization in 1987 as president of Templeton Emerging Markets Fund Inc. in Hong Kong. He currently directs the analysts based in Templeton's eleven emerging markets offices and manages the emerging markets portfolios. Dr. Mobius has spent over thirty years working in Asia and other parts of the emerging markets world. As a result of his experience, in 1999 Dr. Mobius was appointed joint chairman of the World Bank and Organization for Economic Cooperation and Development (OECD) Global Corporate Governance Forum's Investor Responsibility Taskforce.

In 2001, Dr. Mobius was awarded "Emerging Markets Equity Manager of the Year 2001" by International Money Marketing in the United Kingdom. In 1999, Dr. Mobius was named one of the "Ten Top Money Managers of the 20th Century" in a survey by the Carson Group, a leading global capital markets intelligence consulting firm. In the 1998 Reuters Survey, Dr. Mobius was named the number one global emerging market fund manager. CNBC named him "1994 First in Business Money Manager of the Year."

Prior to joining Templeton, from 1983 to 1986 Dr. Mobius was President of International Investment Trust Company Ltd.—Taiwan's first and largest investment management firm. Prior to this position, he served as a director at Vickers da Costa, an international securities firm. Before joining Vickers, Dr. Mobius operated his own consulting firm in Hong Kong for ten years and was a research scientist for Monsanto

Overseas Enterprises Company in Hong Kong and the American Institute for Research in Korea and Thailand.

Dr. Mobius holds Bachelors and Masters degrees from Boston University, and earned a PhD in Economics and Political Science from the Massachusetts Institute of Technology. Dr. Mobius has studied at the University of Wisconsin, University of New Mexico, and Kyoto University in Japan.

Dr. Mobius is author of the books *The Investor's Guide to Emerging Markets*, *Mobius on Emerging Markets*, and *Passport to Profits*.

**6:00 p.m.**  
Darden Center

### ***Cocktail Reception***

**6:45 p.m.**  
Darden Center

### ***Dinner***

**7:30 p.m.**  
Darden Center  
Auditorium Foyer

### ***Session #7: Argentina's Crisis: Causes, Cures and Consequences***



*Kristin J. Forbes*

**Kristin J. Forbes**, Assistant Professor, Sloan School of Management, and Former Deputy Assistant Secretary, U.S. Department of the Treasury

Forbes was formerly the Deputy Assistant Secretary of Quantitative Policy Analysis, Latin America and the Caribbean at the U.S. Treasury Department. While with the U.S. Treasury, she was on leave from the Massachusetts Institute of Technology's Sloan School of Management, where she is the Mitsubishi Associate Professor of International Management.

Forbes research focuses on empirical work addressing policy-related questions in international finance, trade, and development economics. Her recent work examines how companies located around the globe have been affected by the financial crises of the 1990's. Largely as a result of this research, she won the Milken Award for Distinguished Economic Research in 2000. Forbes has also written extensively on stock market contagion and recently co-edited the book *International Financial Contagion*. Forbes' other line of research explores the relationship between income inequality and economic growth.

Forbes is currently a faculty research fellow at the National Bureau of Economic Research. She was awarded Sloan School of Management's "Teacher of the Year" award in 2001. She has recently been a visiting scholar at the Federal Reserve Board and Indian Council of Research on International Economic Relations (ICRIER). Prior to joining MIT, Forbes worked in the investment banking division at Morgan Stanley and in the policy research department at the World Bank.

Forbes received her PhD in Economics at MIT in 1998, where she won the Solow Prize for excellence in teaching and research. She obtained her BA, *summa cum laude* with highest honors from Williams College in 1992.

**8:30 p.m.**  
Sponsors Pub

### ***Cash Bar***

# Conference Schedule

**Thursday, May 30, 2002**

**7:00 a.m.**

Darden Center

**Breakfast**

**8:30 a.m.**

Classroom 50

**Session #8: Comments on Emerging Markets Valuation**



*Michael A. Duffy*

**Michael A. Duffy, PhD, CFA**, Managing Director, Emerging Markets Management  
Michael A. Duffy, PhD, CFA, is Secretary/Treasurer and a Managing Director of Emerging Markets Management, LLC. He is responsible for the development of the Firm's proprietary country allocation model and shares responsibility for country allocation with Mr. van Agtmael. Mr. Duffy is also a Managing Director of the companies which make up Strategic Investment Group (SIG). Prior to the formation of SIG, Mr. Duffy was a Senior Pension Investment Officer for the World Bank and, prior to that, an economist with the Federal Reserve Board in Washington, D.C. Mr. Duffy holds a PhD and an MA in Economics from the University of Chicago, and a BA from the University of Michigan. He is a Chartered Financial Analyst.

**9:30 a.m.**

PepsiCo Forum

**Morning Coffee Break**

**10:00 a.m.**

Classroom 50

**Session #9: Portfolio: Country Allocations within Emerging Markets**

**Moderator: Mark Kritzman**, Windham Capital Management Boston



*R. Gaston Gelos*

**The Asset Allocation of Emerging Market Mutual Funds**

**R. Gaston Gelos**, International Monetary Fund

Mr. Gelos is an economist with the Research Department of the International Monetary Fund, where he works mostly on capital flows to emerging markets as well as on financial sector issues in developing countries. He received his Ph.D. in Economics from Yale University in 1998 after completing his Master's degree at the University of Bonn (Germany) in 1994 and spending a year as a graduate exchange student at the University of California at Berkeley in 1991-92. Mr. Gelos has published in many professional journals and contributed to the IMF's International Capital Markets Report. Prior to his doctoral studies, he worked as an aide to the German Deputy Foreign Minister. Among other things, Mr. Gelos has also been a consultant for the World Bank and a Visiting Scholar at Banco de México.

**Abstract**

Benchmark following and portfolio rebalancing effects have often been cited when trying to explain international financial contagion phenomena. Using a dataset containing the country allocation of individual dedicated emerging market equity funds, we assess the relevance of mean-variance optimization and benchmark following, finding strong evidence for both. We also present a framework to systematically extract useful information about market expectations from funds' holdings.



Jessica Tjornhom

## Investors, Fund Managers, and Trend Following in Emerging Markets

**Jessica D. Tjornhom**, State Street Associates

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Jessica D. Tjornhom is a Senior Associate at State Street Associates LLC, a partnership of industry and academia dedicated to delivering preeminent investment management research to institutional investors worldwide. Dr. Tjornhom received her PhD in Economics from the University of Minnesota in 2001. She also holds an M.A. in Economics and a BA in International Relations from the University of Minnesota as well as an MS in Agricultural Economics from Virginia Tech. Her previous academic research is in the areas of international trade and economic growth. Her current research focuses on international portfolio flows and the behavior of institutional investors.

### Abstract

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It is well known that flows into and out of country funds display trend-following behavior: inflows tend to be stronger subsequent to positive returns. These fund flows may be driven by reallocations by investment managers based on past returns. However, they may also be driven by investors who reallocate toward funds that have performed well and away from funds that have performed poorly. This paper attempts to distinguish between these two explanations. Specifically, for a broad sample of international and emerging market funds, we compare fund inflows with same-fund reallocations. We first measure investor flows into and out of funds and provide evidence of strong trend following. We then examine how fund managers alter their portfolios in response to these aggregate fund flows. Do they tend to buy securities that have risen in price and sell those that have fallen to the same degree as aggregate fund flows? Do they do the opposite, buying securities whose price has fallen and selling those that have risen? Our approach to detecting differences in the behavior of investors versus fund managers is new. Previous literature has used only time series evidence in finding that investors buy from institutions subsequent to transitory price increases.



Kai Li

## The Growth of Global Equity Markets: A Closer Look

**Kai Li**, University of British Columbia

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Kai Li is Assistant Professor of Finance at the Faculty of Commerce, University of British Columbia since 1996. She received her BS in International Business from Jiaotong University in China, MA in Economics from Concordia University, and PhD in Economics from the University of Toronto. Dr. Li's research and teaching focuses on international financial markets, valuation, dual trading in futures markets, conditional event studies, Bayesian econometrics, and health economics. Her research has appeared in *Journal of Financial Economics*, *Journal of Empirical Finance*, *Journal of Econometrics*, *Journal of Business and Economic Statistics*, *Journal of Applied Econometrics*, *Current Issues in Economics and Finance*, *Economics Letters*, and *Research in Official Statistics*. At UBC, Dr. Li has taught business finance, financial markets and institutions, and empirical methods in finance at the undergraduate level, empirical methods in finance at the MBA level, and empirical corporate finance at the PhD level. Currently, Dr. Li holds a three-year grant from the Social Sciences and Humanities Research Council of Canada to examine home biases in international investing and diversification benefits.

### Abstract

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This paper examines both the time series and cross-country patterns in the development of stock markets around the world. It adopts a flexible modeling

framework that allows for the breakdown of changes in equity market capitalization into changes in macroeconomic and financial fundamentals, shifts in valuation technology and market sentiment, and improvement in valuation efficiency. Using panel data on 32 countries, I show that for developed countries, the size of their equity markets is positively related to the correlation of these markets with the global portfolio, and is negatively related to government consumption. For developing countries, the level of financial intermediary development and openness to trade are found to be conducive to the development of local equity markets. For given levels of market fundamentals, developed countries with greater economic freedom and stronger shareholder protections are associated with more highly valued equity markets, while the French or German civil law countries and countries with insider trading legislation tend to have relatively poorly valued equity markets. For developing countries, ceteris paribus, high quality of accounting standards is found to be associated with higher valuation of their equity markets. I find that only equities in emerging markets become more highly valued, indicating an improvement in valuation efficiency over time. Australia, Canada, the United States, Hong Kong, and Singapore have the most highly valued equity markets in the developed world, while Malaysia has the mostly highly valued equity market in the developing world. It appears that favorable shifts in valuation technology and market sentiment contribute the lion's share of the growth of global equity markets.

**11:30 a.m.**  
**Classroom 50**

### ***Morning Break***

**11:45 a.m.**  
**Classroom 50**

### ***Session #10: Keynote Address***



*Campbell Harvey*

**Campbell R. Harvey, PhD**, J. Paul Sticht Professor of International Business, Fuqua School of Business, Duke University

Professor Harvey obtained his doctorate at the University of Chicago in Business Finance. His undergraduate studies in Economics were conducted at the University of Toronto. He has served on the faculties of the Stockholm School of Economics, the Helsinki School of Economics, and the Graduate School of Business at the University of Chicago. He has also been a visiting scholar at the Board of Governors of the Federal System. He was recently awarded an honorary doctorate from Svenska Handelshögskolan in Helsinki.

Harvey is an internationally recognized expert in portfolio management and global risk management. His work in the implications of changing risk and the dynamics of risk premiums for tactical asset allocation has been published in top academic and practitioner journals. He has published over 100 scholarly articles and books. His work is frequently presented in international conferences and is often featured in the business press.

In addition, Professor Harvey has wide-ranging practical experience. He serves as a consultant to some of the world's leading asset management and consulting firms. Harvey specializes in construction of global equity and fixed income allocation models as well as providing estimates of the international cost of capital.

Harvey is Editor of the *Review of Financial Studies*, one of the leading publications in finance. In addition, he is an associate editor of the *Journal of Financial Economics*, the *Journal of Empirical Finance*, the *Journal of Fixed Income*, the *Pacific Basin*

*Finance Journal*, the *Journal of Banking and Finance*, the *Journal of International Financial Institutions, Markets and Money*, *European Financial Management*, the *International Review of Economics and Finance*, and the *European Journal of Finance*. He is also Co-Editor of the *Emerging Markets Review*.

Harvey received the 1993-94 Batterymarch Fellowship. This annual award is given to the person that is most likely to establish a new area of research in finance. Harvey has been awarded four Graham and Dodd Scrolls for excellence in financial writing from the Association for Investment Management and Research. The American Finance Association awarded Harvey a Smith-Breeden prize for his publication "The World Price of Covariance Risk" and he has received the American Association of Individual Investors' Best Paper in Investments Award for "Predictable Risk and Returns in Emerging Markets." His paper on the "Dynamics of Capital Flows" recently received the New York Stock Exchange's Best Paper in Equities Award in 2000. Harvey is past winner of the Outstanding Faculty Award at the Fuqua School of Business, an annual award given by the students.

**1:00 p.m.**  
Darden Center

### **Lunch**

**2:00 p.m.**  
Classroom 50

### **Session #11: Cost of Capital I: Risk and Valuation**

**Moderator: Robert F. Bruner**, Distinguished Professor and Executive Director, The Batten Institute

**Commentator: Benjamin Esty**, Professor, Harvard Business School



Javier Estrada

#### **Systematic Risk in Emerging Markets: The D-CAPM**

**Javier Estrada**, IESE Business School

Javier Estrada is an Associate Professor at the IESE Business School in Barcelona, Spain, and Editor-in-Chief of the *Emerging Markets Review*. He holds an MS degree in Finance and a PhD in Economics, both from the University of Illinois at Urbana-Champaign. His most recent publications are: "The Temporal Dimension of Risk," *Quarterly Review of Economics and Finance*, 40 (Summer 2000), 189-204; "The Cost of Equity in Emerging Markets: A Downside Risk Approach," *Emerging Markets Quarterly*, Fall 2000, 19-30; "Empirical Distributions of Stock Returns: European Securities Markets, 1990-95," *European Journal of Finance*, 7 (2001), 1-21 (with Felipe Aparicio); "The Cost of Equity in Emerging Markets: A Downside Risk Approach (II)," *Emerging Markets Quarterly*, Spring 2001, 63-72; and "Empirical Evidence on the Impact of European Insider Trading Regulations," *Studies in Economics and Finance*, Spring 2002, 16-38 (with Ignacio Peña).

#### **Abstract**

There is by now a growing literature arguing against the use of the CAPM to estimate required returns on equity in emerging markets. One of the characteristics of this model is that it measures risk by beta, which follows from an equilibrium in which investors display mean-variance behavior. In that framework, risk is assessed by the variance of returns, a questionable and restrictive measure of risk. The semivariance of returns is a more plausible measure of risk and can be used to generate an alternative behavioral hypothesis (mean-semivariance behavior), an alternative measure of risk for diversified investors (the downside beta), and an alternative pricing model (the D-CAPM). The empirical evidence discussed below for the entire MSCI database of emerging markets clearly supports the downside beta and the D-

CAPM over beta and the CAPM.

## Cross-Border Valuation

**Bernard Dumas**, INSEAD and **Gordon Bodnar**, Johns Hopkins University  
Bernard Dumas is Rothschild Chaired Professor of Banking and Professor of Finance at INSEAD, which he joined in September 1999. Prior to joining INSEAD, he was a professor at HEC and The Wharton School of the University of Pennsylvania. Professor Dumas specializes in International Finance and Finance Theory in Continuous Time. He is Associate Editor of various academic journals. He is a former co-editor of *The Review of Financial Studies*. Professor Dumas' research has been published in prestigious journals. Professor Dumas has been a Member of the Board of the American Finance Association, is a Research Associate of NBER and a Research Fellow of CEPR. Professor Dumas received his Master of Science and PhD from Columbia University, New York in Economics.



Bernard Dumas

Gordon Bodnar joined the International Economic Department at SAIS as a Professor in 1999. In 2001, he was named the Morris W. Offit Professor of International Finance. Before joining SAIS, he held appointments at The Wharton School of the University of Pennsylvania and the Simon Graduate School of Business at the University of Rochester. He has also been a visiting professor at Frankfurt University in Germany. He received his PhD in Economics from Princeton University in 1991. His research focuses on the areas of international finance and corporate finance. Specific topics include corporate exchange rate exposure, foreign exchange risk management, the valuation of multinational operations, and financial disclosures. Gordon's research has been published in top academic journals in finance, economics and accounting as well as practitioner journals. Presently, he is a research associate of the Weiss Center for International Finance and the Financial Institutions Center at the Wharton School, and has held appointments as a research fellow at the National Bureau of Economic Research and as a visiting scholar at the International Monetary Fund. He is currently an associate editor for *European Financial Management*, the *Journal of Asian Economics*, the *Journal of International Financial Markets and Accounting*, and the *Journal of International Financial Markets, Institutions & Money*.

## Abstract

Traditionally, the valuation of corporations, for purposes of financial investment or for purposes of acquisitions, and the valuation of physical investment projects entail two components: the estimation of anticipated free cash flows and the discounting at some appropriate discount rate. Most importantly, of course, the two components must be associated in a such a way that the type of cash flow being considered and the way in which they are discounted mesh with each other. In this context, the question will arise of estimating a firm's or a project's cost of equity financing on the international market. A similar estimation is needed for the purpose of incorporating the cost of equity in the accounting calculation of profits, as is done in the calculation of the Economic Value Added of a firm or project. Domestic Finance teaches us that the classic Capital Asset Pricing Model (CAPM) allows a systematic comparison of the costs of equity of various traded securities. The classic CAPM recognizes but one source of risk and one risk premium to be charged on a share of stock; namely, the systematic risk or risk of covariation of the stock with the market, captured by the equity's  $\beta$ .<sup>2</sup> In the international setting, the matter is more complicated because there may be more dimensions of risk for which the financial market requires a premium. The focal point of the discussion is then the method by which the various dimensions of risk are incorporated in the cost of equity that we seek.



*Kent Hargis*

## **A Long-Term Perspective on Short-Term Risk: Long-Term Discount Rates for Emerging Markets**

**Kent Hargis**, Goldman Sachs

Kent Hargis, Vice President, joined Goldman Sachs in May 1998. He is the Chief Latin America Strategist and Global Emerging Markets Strategist. Prior to joining Goldman Sachs, Kent was professor of international finance at the Darla Moore School of Business at the University of South Carolina where he taught PhD and international MBA classes on investment strategies in emerging markets. He also published extensively in academic and practitioner journals on issues such as the liberalization of emerging stock markets, global investing and capital flows into emerging markets. Kent received his PhD in Economics and International Finance from the University of Illinois in 1995.

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### **Abstract**

We develop a model of discount rate determination and provide estimates for 23 emerging markets over the last 25 years. Our model highlights the importance of global monetary conditions, global risk aversion and commodity prices in determining emerging market discount rates, complementing domestic cash flow, balance sheet and wealth indicators. Our analysis helps bridge the gap between the assessment of near-term market risk typically emphasized by portfolio managers and longer-term risk trends more often looked at by direct investors in plant and equipment. By allowing the decomposition of discount rates into bond and stock market variables, and estimation of their fundamental determinants, our formulation permits us to simulate emerging market risk sensitivity to changes in these underlying domestic and global fundamental variables. Our methodology permits the calculation of discount rates for any country, any time, with or without a local bond or stock market. The basic requirements are a limited set of domestic and global financial and economic indicators.

**3:30 p.m.**  
Classroom 50

### ***Afternoon Break***

**4:00 p.m.**  
Classroom 50

### ***Session #12: Cost of Capital II: Cross Section of Returns***

**Moderator: Robert F. Bruner**, Distinguished Professor and Executive Director, The Batten Institute



*Luis Pereiro*

### **Best Company Valuation Practices in Argentina: What are the Issues for Practitioners?**

**Luis Pereiro**, Universidad Torcuato di Tella

Luis Pereiro is Dean of the Business School and Director of the Center for Entrepreneurship and Business Venturing at Universidad Torcuato Di Tella in Buenos Aires, Argentina. He is the local liaison of the Entrepreneurship Division-The Academy of Management, and has been a visiting professor at HEC-School of Management in Paris. He has pioneered entrepreneurship training in Argentina, and constructed a body of empirical research at the junction of entrepreneurship and finance in Latin America: globalization of new ventures; the profile of Argentine entrepreneurs; a study of private equity funds and angel investors in Argentina; and a fundamentals-based valuation model for pricing company acquisitions in emerging markets. Wiley & Sons will publish his book on valuing companies in emerging economies in 2002.

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### **Abstract**

M&A activity has greatly increased in Latin America in the recent past. We know, however, very little about how do real managers and analysts appraise the economic value of acquisitions and investment projects in the region. In this paper, we report on the best practices employed by finance managers, venture capitalists and financial advisors in Argentina, the third largest economy in the region. We compare local best practices with those used in the U.S., and unveil the most controversial areas in company valuation when dealing with emerging markets. The reported results may contribute to enlarge our repository of data on corporate valuation and improve the management of knowledge in financial practice.



*Ana Paula Serra*

### **The Cross Sectional Determinants of Returns: Evidence from Emerging Markets' Stocks**

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**Ana Paula Serra**, Faculdade de Economia do Porto

Ana Paula Serra is an Assistant Professor at the Faculdade de Economia da Universidade do Porto where she teaches undergraduate and graduate courses in corporate finance, international finance and investments. She holds a PhD in Finance from London Business School. Her research concentrates on international asset pricing and capital markets, emerging markets and privatisation. Previously, she worked for four years at the leading Portuguese investment bank, as a research analyst and asset manager.

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### **Abstract**

This paper looks at the cross-section of stock returns for the particular case of emerging markets. For each of 21 emerging markets I investigate the role of a set of a priori specified factors in the cross-section of returns, and subsequently assess whether the important factors are common. I use new data on emerging markets' individual stocks from the Emerging Markets Data Base. My results indicate that the most important pricing factors are common to the emerging markets in my sample, and that these important factors are similar to those identified for mature markets. Among the top six factors are technical factors and stock price level attributes. The payoffs to these factors are not correlated suggesting that even if investors across markets elect similar factors to price assets, those factors' risk premia are local.



*Amadou Sy*

### **Emerging Market Bond Spreads and Sovereign Credit Ratings: Reconciling Market Views with Economic Fundamentals**

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**Amadou Sy**, International Monetary Fund

Amadou Sy is an economist in the International Capital Markets Department at the IMF where he works mainly on emerging markets. He is a CFA charter holder and obtained his doctorate in finance at McGill University in Canada where he also taught finance as a faculty lecturer. His dissertation on debt covenants was selected for the 1996 FMA Doctoral Dissertation Consortium. Amadou has co-authored the IMF's International Capital Markets Report since 1998 and has published in the RIE, the IMF WP series and the Blackwell Encyclopedic Dictionary of Finance. He is a member of AIMR, WSIA, FMA, and AFA.

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### **Abstract**

This paper uses a panel data estimation of a simple univariate model of sovereign spreads on ratings to analyze statistically significant differences between actual spreads and ratings-based spreads. When such deviations are significant, we find

that “excessively high” spreads are on average followed by episodes of spread tightening one month later rather than credit downgrades. In contrast, observations with “excessively low” spreads are on average followed by rating upgrades three months later rather than episodes of spread widening. The paper also illustrates how significant disagreements between market and rating agencies’ views can be used as a signal that further technical and sovereign analysis is warranted. For instance, we find that spreads were “excessively low” for most emerging markets before the Asian crisis. More recently, spreads were “excessively high” for a number of emerging markets.

**6:00 p.m.**  
Darden Center

***Cocktail Reception***

**6:30 p.m.**  
Darden Center

***Dinner***

**7:30 p.m.**  
Darden Center  
Auditorium Foyer

***Session #13: Issues in Emerging Markets Benchmark  
Construction: Theory and Practice***



*George Hoguet*

**George R. Hoguet, CFA**, Head, Active Emerging Markets, Global Active Equity, State Street Global Advisors

George is Head of the Active Emerging Markets Equity Team at State Street Global Advisors. He has held positions in corporate finance at Bankers Trust Company, and in consulting at the Frank Russell Company. From 1981-1985 he served as U.S. Alternate Executive Director to the World Bank and, subsequently, as Principal Deputy Assistant Secretary of the Treasury for International Affairs.

He holds a BA from Harvard College and an MBA from Harvard Business School. He is past President of the Boston Economic Club, and is a member of the Council on Foreign Relations and the Visiting Committee of the Weatherhead Center for International Affairs at Harvard. He also sits on the Advisory Board of the Middle East Institute, Washington, DC.

**8:30 p.m.**  
Sponsors Pub

***Cash Bar***

# Conference Schedule

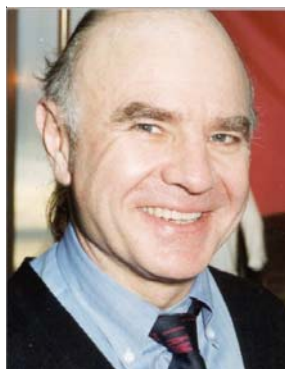
## Friday, May 31, 2002

7:00 a.m.  
Darden Center

**Breakfast**

8:30 a.m.  
Classroom 50

**Session #14: Historical Perspectives of Manias and Panics in Emerging Markets** (live via satellite)



Marc Faber

**Marc Faber, PhD**, Managing Director, Marc Faber Limited

Dr. Marc Faber was born in Zurich, Switzerland. He went to school in Geneva and Zurich and finished high school with the Matura. He studied Economics at the University of Zurich and, at the age of 24, obtained a PhD in Economics magna cum laude.

Between 1970 and 1978, Dr. Faber worked for White Weld & Company Limited in New York, Zurich and Hong Kong. Since 1973, he has lived in Hong Kong. From 1978 to February 1990, he was the Managing Director of Drexel Burnham Lambert (HK) Ltd.

In June 1990, he set up his own business, Marc Faber Limited, which acts as an investment advisor, fund manager and broker/dealer. Dr Faber publishes a widely read monthly investment newsletter The Gloom Boom & Doom report which highlights unusual investment opportunities, and is the author of the book The Great Money Illusion - The Confusion of the Confusions which was on the best-seller list for several weeks in 1988 and has been translated into Chinese and Japanese. A book on Dr. Faber, Riding The Millennial Storm, by Nury Vittachi, was published in 1998. In addition, Dr. Faber is also a regular contributor to several leading financial publications around the world.

A regular speaker at various investment seminars, Dr. Faber is well known for his “contrarian” investment approach. He is also associated with a variety of funds including the Iconoclastic International Fund, The Baring Chrysalis Fund, The Overlook Partners’ Fund, The Income Partners Global Strategy Fund, The India Capital Fund, The Matterhorn India Fund, The Magna Europa Fund plc, The China Mantou Fund, Sofaer Capital Inc, Peach Office Products and Ivanhoe Mines Limited.

9:30 a.m.  
PepsiCo Forum

**Morning Coffee Break**

10:30 a.m.  
Classroom 50

## **Session #15: Inflation and Devaluation Effects in Emerging Markets**

**Moderator: Javier Estrada, Professor, IESE Business School**

### **Devaluation and Emerging Stock Returns**

**Jack Glen**, International Finance Corporation

Jack is Lead Economist in the Corporate Portfolio Management department at the International Finance Corporation. Prior to joining IFC, he was Assistant Professor of Finance at the University of Pennsylvania. He has a PhD in Finance from Northwestern University and has been involved in research related to emerging financial markets and corporate finance topics for the last 11 years.

#### **Abstract**

Stock returns over the two years surrounding 24 currency devaluations are examined. Using bootstrapped distributions, returns preceding the devaluation are shown to be significantly below normal, in both dollar and local currency terms. Most of the downturn, however, occurs well before the month of the devaluation. Returns following a devaluation are more normal. While industry and company specific effects appear to influence return behavior, only country effects and leverage levels are statistically significant. At the country level, both aggregate economic activity (GDP) and the size of the devaluation are important in explaining return behavior. The stock of foreign debt has little impact on returns. Finally, even though returns appear to anticipate devaluations, they are not statistically significant at predicting the size of the devaluation.



**Ignacio Vélez-Pareja**

### **Valuation in an Inflationary Environment**

**Ignacio Vélez-Pareja**, Politécnico Grancolombiano and

**Joseph Tham**, Independent Consultant

Mr. Vélez-Pareja holds an M. Sc. in Industrial Engineering University of Missouri and in Industrial Engineer from Universidad de los Andes in Bogotá, Colombia. He is currently Finance Professor and Dean for the School of Industrial Engineering at Politécnico Grancolombiano. Vélez-Pareja is also a consultant who has written several publications including a two books titled Decisiones de inversión and Enfocado a la valoración de empresas. He is currently working with Joseph Tham to write a book on Cash Flow Valuation. In addition to books, Vélez-Pareja has penned several articles including one on Replacement models and another on Investment decision making practices in Colombia” for Interfaces as well as an article on the Colombian Stock Market at Latin American Business Review. He has written papers for the Social Science Research Network and a manuscript for a book on Decision investment under uncertainty.



**Joseph Tham**

Currently, Dr. Joseph Tham is a private international consultant specializing in training and research in project appraisal. From 1996-2001, he was a lecturer at the Fulbright Economics Teaching Program in Ho Chi Minh City, Vietnam, a training program managed by Harvard University. In this capacity, he served as a Project Associate at Harvard’s John F. Kennedy School of Government (2000-2001) and a Distinguished Fulbright Scholar (1998-2000). Earlier, he spent a year in Jakarta, Indonesia, analyzing educational finance for the Asian Development Bank. Dr. Tham’s primary areas of interest include financial analysis, cost of capital, risk modeling, and investment appraisal.

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**Abstract**

Using illustrative examples, this paper shows that the Net Present Value for project evaluation should be based on estimates of free cash flows at nominal prices. It is a widespread practice to evaluate projects at constant or real prices. These days, the use of constant or real prices is an unnecessary oversimplification. In particular, we present an example where the results from the constant and real price methodologies are biased upwards and there is a risk that in practice, bad projects will be accepted as good projects.



*Hoyt Bleakley*

**Corporate Dollar Debt and Devaluations: Much Ado About Nothing?**

**Hoyt Bleakley, MIT**

Hoyt Bleakley is a recent PhD from the Massachusetts Institute of Technology and a visiting scholar at the Federal Reserve Bank of Boston. In recent years he has studied the impact of partial dollarization on emerging markets and the macroeconomic aspects of labor-market search, among other topics. For the academic year 2002-3, he will be an investigator at the Population Research Center at the University of Chicago and a visiting assistant professor at the Universitat Pompeu Fabra.

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**Abstract**

Much has been written recently about the problems for emerging markets that might result from a mismatch between foreign-currency denominated liabilities and assets (or income flows) denominated in local currency. In particular, several models, developed in the aftermath of financial crises of the late 1990's, suggest that the expansion in the "peso" value of "dollar" liabilities resulting from a devaluation could, via a net-worth effect, offset the expansionary competitiveness effect. Assessing which effect dominates, however, is ultimately an empirical matter. In this vein, we construct a new database with accounting information (including the currency composition of liabilities) for over 500 non-financial firms in five Latin American countries. We estimate, at the firm level, the reduced-form effect of investment of holding foreign-currency-denominated debt during an exchange-rate realignment. We consistently find that this effect is positive, contrary to the predicted sign of the net-worth effect. Additionally, we show that the estimated coefficient can be decomposed into competitiveness and net-worth effects, and we provide direct evidence that the competitiveness effect dominates the net-worth effect. Finally, we discuss aggregate implications of our empirical results. Within our sample of Latin American corporations, the average effect of a devaluation was on net positive, and the contribution of the net-worth effect was likely small.

**11:30 a.m.**  
**PepsiCo Forum**

***Morning Coffee Break***

**Noon**  
**Classroom 50**

***Session #16: Closing Reflections*****Valuation in Emerging Markets: What We Know and Don't Know**

**Vihang Errunza**, Bank of Montreal Chair in Finance and Banking, Faculty of Management, McGill University

Vihang Errunza holds the Bank of Montreal Chair in Finance and Banking at McGill University, Montreal, Canada. He earned his PhD in international finance from the University of California at Berkeley in 1974. He taught at INCAE, a Harvard initiated graduate school of business in Central America from 1974 to 1976 and has been on



*Vihang Errunza*

the Faculty at McGill University since 1976. Dr. Errunza's principal areas of academic and consulting activities include international asset pricing, emerging markets, portfolio management, international corporate finance and risk management. He serves on numerous editorial boards of academic journals and has written extensively on international capital markets. He has served as an advisor to international institutions such as the World Bank and UNCTAD and major fund managers such as the Templeton Investment Counsel Inc., Rosenberg-Alpha Inc. and UBS Brinson Partners Inc.

### ***Closing Remarks***

**Robert F. Bruner**, Professor and Executive Director of the Batten Institute, The Darden School

**Robert M. Conroy**, Professor, The Darden School

**Javier Estrada**, Professor, IESE Business School

**Mark Kritzman**, Windham Capital Management Boston and Research Foundation of the Association for Investment Management and Research

**Wei Li**, Professor, The Darden School

**Katrina Sherrerd**, Vice President, Research Foundation of the Association for Investment Management and Research

**1:00 p.m.**  
**Classroom 50**

### ***Boxed Lunch***

**2:00 p.m.**  
**Classroom 50**

### ***Optional Conference Activities: Afternoon Golf or Monticello***