



Emerging Markets: Innovations in Portfolio Management

March 10—12, 2004

Wednesday, March 10, 2004

12:30 p.m.
Abbott Center Dining Room

Lunch (optional)

1:30 p.m.
Classroom 50

Welcome
Conference Program Committee

2:00 p.m.
Classroom 50

Portfolio Stratification in Emerging Markets

Moderator: Jeremy Armitage, Managing Director, State Street Corporation

Country Versus Region Effects in International Stock Returns

Robin Brooks, Economist, Financial Studies Division, International Monetary Fund

Robin Brooks is an economist in the financial studies division of the research department at the International Monetary Fund (IMF) in Washington, DC, where his research focuses on the growing importance of financial linkages across countries and their implications for risk reduction strategies in portfolio management. Before joining the IMF, he was a research fellow in the Economic Studies Program at the Brookings Institution, where he studied the effects of population aging on financial markets. He received a Ph.D. in economics from Yale University in 1998 and a B.Sc. in monetary economics from the London School of Economics in 1993.



Marco Del Negro, Research, Federal Reserve Bank – Atlanta

Marco Del Negro is an economist with the macro group of the research department of the Federal Reserve Bank of Atlanta. Del Negro's research ranges from international macroeconomics and finance, to the use of general equilibrium models in forecasting and policy analysis. He has published his work in the *Journal of International Economics*, the *JMBCB*, and has articles forthcoming in the *International Economic Review* and the *Journal of Empirical Finance*. His research has been quoted and discussed in major magazines and newspapers including *The Economist* and *The Financial Times*. Del Negro received his B.A. from Bocconi University in Italy in 1992, and earned his Ph.D. in economics from Yale University in 1998. He was an assistant professor at ITAM, México City, from August 1998 to July 2000.



The Relative Importance of Country and Industry Factors in Emerging Markets

Robert F. Bruner, Executive Director, Batten Institute, and Distinguished Professor of Business Administration, The Darden School

Robert F. Bruner is a leading expert on mergers and acquisitions, corporate finance, and corporate transformation. He is also 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. His B.A. is from Yale University and his M.B.A. and D.B.A. are from Harvard University



Wei Li, Associate Professor of Business Administration, The Darden School

Wei Li teaches business and the political economy in Darden's M.B.A. program. His research and publications focus on public finance, industrial organization, and international economics; the Chinese economy and economic reform in China; and emerging markets finance. Before coming to Darden in 2000, Li was a research associate at the University of Michigan's Institute for Social Research and taught at Duke University's Fuqua School of Business.



Countries Versus Industries in Emerging Markets: A Normative Portfolio Approach

Sébastien Page, Vice President, State Street Corporation

Sébastien Page is vice president at State Street Associates. He joined the company as a research analyst for the development of portfolio tools and investment strategies. Previously, he completed two research internships at the Caisse de Depot et Placement du Quebec on asset allocation. He won the first prize in the Montreal Society of Financial Analyst contest for his research on Value At Risk. He also won honorable mention in the Young Professional of the Year category at the 2002 Quebec Financial Industry Gala. Page is a frequent presenter at various academic and practitioner conferences. He has co-authored the articles *Asset Allocation versus Security Selection: Evidence from Global Markets* published in the Journal of Asset Management and *The Hierarchy of Investment Choice: A Normative Interpretation*, published in the Journal of Portfolio Management and winner of the Bernstein Fabozzi/Jacobs Levy Award. He holds an M.Sc. in Finance from Sherbrooke University in Canada and is a C.F.A. charterholder.



Mark Kritzman, Managing Partner, Windham Capital Management Boston

Mark Kritzman is managing partner of Windham Capital Management Boston, a senior partner of State Street Associates, research director of the AIMR Research Foundation, and an adjunct professor at MIT's Sloan School. He also serves on the boards of the Institute for Quantitative Research in Finance and the International Securities Exchange, and on the editorial boards of *Emerging Markets Review*, the *Financial Analysts Journal*, the *Journal of Alternative Investments*, the *Journal of Asset Management*, the *Journal of Derivatives*, and the *Journal of Investment Management*. Kritzman has written numerous articles for academic and professional journals and is the author of six books including *Puzzles of Finance* and *The Portable Financial Analyst*.

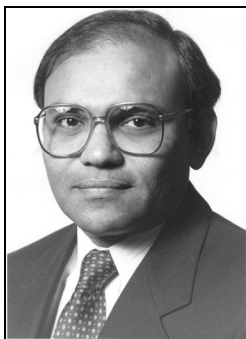


Javier Estrada, Associate Professor of Financial Management, IESE Business School

Javier Estrada holds a B.A. in economics from the National University of La Plata, and both an M.S. in finance and a Ph.D. in economics from the University of Illinois at Urbana-Champaign. His areas of specialization lie in securities markets, corporate finance, emerging markets, law and economics, and econometrics. Estrada has held positions in both the economics and business departments of the Carlos III University in Madrid. He is also a regular visiting professor at the Torcuato Di Tella University in Buenos Aires and has visited both the Copenhagen Business School and the Swedish School of Economics and Business Administration. His articles have appeared in the *Quarterly Review of Economics and Finance*, the *European Journal of Finance*, *Economics Letters*, the *Swiss Review of Business Law*, and the *Wall Street Journal Europe*. He is also the editor-in-chief of the *Emerging Markets Review*.

The Dynamics of Geographic Versus Sectoral Diversification: A Causal Explanation

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



Vihang Errunza holds the Bank of Montreal Chair in Finance and Banking at McGill University in Montreal. He earned his Ph.D. 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 the faculty at McGill University since 1976. 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.

5:30 p.m.
Abbott Center Dining Room

Reception & Dinner

9:00 p.m.
Sponsors Pub

Cash Bar



Emerging Markets: Innovations in Portfolio Management

March 10—12, 2004

Thursday, March 11, 2004

7:00 a.m.
Abbott Center Dining Room

Breakfast

8:00 a.m.
Classroom 50

Keynote: The Emerging Market Horizon

William N. Goetzmann, Edwin J. Beinecke Professor of Finance and Management Studies, and Director, International Center for Finance, Yale School of Management



Emerging market investing is best understood in historical context. Emerging market investing has been the defining feature of the world economy for the past 120 years. Capital flows from the first world to the third world created an unprecedented period of economic development around the globe, but also led to a destructive nationalist and anti-capitalist backlash. The new financial architecture for emerging market investing has the potential for successful development and thus can continue the great economic benefits for finance for developing countries. However, its failure may have great costs.

Will Goetzmann has taught Finance at the Yale School of Management since 1994, and has served as the director of Yale's International Center for Finance since 1999. Goetzmann received both his Bachelor's degree and Doctorate of Philosophy from Yale University. He has served on the board of directors of The American Finance Association, The European Finance Association, and The American Real Estate and Urban Economics Association. He is past editor of the *Real Estate Economics* and past associate editor of the *Journal of Finance* and the *Journal of Financial and Quantitative Analysis*. He has published more than 40 articles in academic journals over the past 15 years. His work has been featured in leading business periodicals such as the *Wall Street Journal*, *The New York Times*, *BusinessWeek*, *The Economist*, *Forbes*, *Hedge Fund News* and *Art and Auction*. Goetzmann has served as an expert witness in finance-related litigation ranging from the U.S. states' tobacco settlement to the matter of the estate of Andy Warhol. He has past experience and current interest in the arts and in arts management. Goetzmann's current research falls broadly into four categories: equity markets, financial intermediaries, real estate, and the arts.

9:00 a.m.

Refreshment Break

9:30 a.m.
Classroom 50

Portfolio Choice: Beyond Risk and Return I

Moderator: Yiorgos Allayannis, Associate Professor, The Darden School



Location Effects and Portfolio Tilting

Mark Seasholes, Assistant Professor, Haas School of Business, University of California—Berkeley

Mark Seasholes is an assistant professor of finance at the Haas School. His research focuses on empirical studies of international asset pricing. His first paper, co-authored with Ken Froot and Paul O'Connell, was about cross-border portfolio flows and is published in the *Journal of Financial Economics*. A second paper on correlated trading (herding) has been accepted for the *Journal of Finance*. Seasholes' current research interests continue to involve international, financial markets. Besides studying equity markets, he has recently completed an empirical study of portfolio tilting (bias). Seasholes studied physics at Wesleyan University. After college, he worked on Wall Street and in the emerging markets of Eastern and Central Europe. He has completed a valuation project in Honduras, helped with the Lloyds of London restructuring, and given a series of lectures in the People's Republic of China.

Investor Protection and Equity Holdings: An Explanation of Two Puzzles

Mariassunta Giannetti, Assistant Professor of Finance, Stockholm School of Economics



Mariassunta Giannetti is an associate professor at the Stockholm School of Economics, and a CEPR research affiliate. She received a Ph.D. from the University of California—Los Angeles in 1999 and completed her undergraduate studies at Bocconi University in Italy. Her research interests include corporate finance and international finance. Currently, her main area of research is on the effects of different institutional arrangements on agency problems, investment, financial stability, firm level, aggregate growth, and portfolio decisions. She has also served as a consultant for the European Commission on issues related to financial integration, corporate financing, and growth. Her articles have been published in the *Journal of Financial and Quantitative Analysis*, *Journal of Money, Credit and Banking*, and *Journal of Development Economics*.

Yrjö Koskinen, Assistant Professor of Finance, Stockholm School of Economics



Yrjö Koskinen is an assistant professor of finance at the Stockholm School of Economics in Sweden, where he teaches corporate finance and venture capital financing. He is also a research affiliate with the Centre for Economics Policy Research in London. He holds a Ph.D. in Management (finance) from INSEAD in Fontainebleau, France. His areas of research are financial contracting, corporate governance, venture capital, and international finance. He has published articles in the *Journal of Financial Economics* and in the *Journal of Business*. Prior to his academic career, Koskinen worked as a financial journalist in Helsinki and as an economist and a section head at the Bank of Finland.

11:30 a.m.
Abbott Center Dining Room

1:00 p.m.
Classroom 50



Lunch

Housekeeping and Plumbing: The Investability of Emerging Markets

Sara Zervos, Senior Financial Economist, The World Bank

The paper presented in this session looks at the investment allocation process employed by portfolio investors in emerging markets. In particular, this paper examines the first of a two-staged decision process: first, investors create a sub-set of investable countries to be analyzed later in further detail; second, they weigh expected returns versus risk and subsequently allocate their funds. This study hypothesizes that the determination of whether a country is investable or not is influenced by a number of factors especially related to size, quality of "housekeeping" (macro policies, political economy, local financial markets, corporate governance, etc.) and efficiency of the "plumbing" (legal and regulatory framework, custody, clearing and settlement, taxes, etc.). By interviewing many types of these investors in both the USA and London, we delve into their decision making processes as well as attempt to uncover the factors they indicate matter most in defining the investable universe. We determine the relative importance of such housekeeping and plumbing factors, while highlighting the role of external issues such as index benchmarking and U.S. foreign policy. We recognize from the outset that the most profound effects on investment flows, or the required minimum expected returns, arise from improvements or deteriorations in macro policies. However, at the margin, improvements can be made in country policies which will, for a given macro situation, improve the ability of a country to attract international investment flows.

Sara Zervos joined the World Bank as a senior financial economist in June 2002. Her main responsibilities include assisting governments with development of fixed income securities markets, formal assessments of capital markets, and policy issues across all areas of financial development. Formerly, Zervos was head of Emerging Market Strategy (fixed income) at Westdeutsche Landesbank in both New York and London, and earlier was the emerging market strategist for Barclays Capital in London. She was a lecturer (assistant professor) at Brunel University in London, and has written various papers linking financial development to the economy. Zervos holds a Ph.D. and M.A. in economics from the University of Rochester.

1:45 p.m.

Refreshment Break

2:00 p.m.
Classroom 50

Portfolio Choice: Beyond Risk and Return II

Moderator: Mark Kritzman, Managing Partner, Windham Capital Management Boston



Global Price of Foreign Exchange Risk

Francesca Carrieri, Assistant Professor, Faculty of Management, McGill University

Francesca Carrieri holds a Ph.D. in economics from the University of Southern California and a degree in law from the University of Bari in Italy. Carrieri's research interests include asset pricing, international finance, and financial econometrics. Her current research focus is on issues such as the role of industries for international diversification in developed markets, financial integration, and currency risk for emerging markets.



Dynamic Investment Strategies With and Without Emerging Equity Markets

Bengt Pramborg, Assistant Professor, Stockholm University School of Business

Bengt Pramborg is an assistant professor at Stockholm University School of Business. His previous experience includes positions as financial controller in the oil industry, financial consultant in banking, and senior analyst at the Swedish National Debt Office. He has a Ph.D. in finance and an M.Sc. in mathematical statistics from Stockholm University, as well as an M.B.A. from Yonsei University in Seoul. His area of interest involves issues concerning dynamic portfolio allocations, corporate risk management, and capital budgeting methods.



Does Investor Sophistication Influence Investing Behavior and Trading Performance? Evidence from China

Kenneth Kim, Assistant Professor of Finance, State University of New York (SUNY) at Buffalo

Kenneth A. Kim is a finance professor at the State University of New York (SUNY) at Buffalo. His research interests include behavioral finance and corporate finance, with specific emphasis on emerging markets. His academic papers on emerging markets have appeared in many of the leading finance journals. During 1998 and 1999, Kim worked as a financial economist at the U.S. Securities and Exchange Commission in Washington, DC. Kim regularly serves as a consultant to the Kuala Lumpur Stock Exchange, and he has held a variety of academic posts at institutions from around the world, including Ecuador, Hong Kong, Japan, Korea, and Thailand.



John Nofsinger, Assistant Professor of Finance, Department of Finance, Insurance, and Real Estate, College of Business and Economics, Washington State University

John Nofsinger, finance professor at Washington State University, is author of *Investment Madness*, *The Psychology of Investing*, *Investment Blunders*, and co-author of *Corporate Governance*, and *Infectious Greed*. He is frequently quoted in the financial media including the *Wall Street Journal*, *Fortune*, *BusinessWeek*, *SmartMoney*, *Bloomberg*, and *CNBC*, and other media from the *Washington Post* to *Wired.com*. Nofsinger has published over 20 articles in scholarly and professional journals in behavioral finance, investments, international finance, and corporate finance topics. This research has won awards at national and international conferences. He is a frequent speaker to academic, corporate, and association audiences worldwide.

4:30 p.m.

Refreshment Break

4:45 p.m.
Classroom 50

Event Risk in Emerging Markets

Hayes Miller, Senior Vice President - Global Equities, Baring Asset Management, Inc.



Emerging markets, much more than developed equity or bond markets, are susceptible to event risk, which is notoriously difficult to forecast. The relative importance of events to the markets is determined by the size of the country involved, the nature of the event, and the degree of contagion one might expect from the shock. This presentation focuses on the relative importance of event risk to the historical return profile of emerging equities, and then humbly submits the top ten potential events to watch out for over the next year.

Hayes Miller is a member of both the Global Equity Group and the Strategic Policy Group at Baring Asset Management, and is the portfolio manager responsible for North American clients. He has developed quantitative models for Global and EAFE equity products and has been instrumental in creating a successful Active/Passive EAFE Equity product. Miller joined Baring Asset Management in 1994 as a portfolio manager with responsibility for global equities. In 2000 he became a member of the Strategic Policy Group, a five-member team which forms country, sector, asset, and currency strategy for Baring's global client base. Miller has a B.A. in economics and political science from Vanderbilt University, and received his C.F.A. designation in 1989. He has spoken at numerous conferences, and has written numerous research pieces, including co-authoring a manuscript on the relative importance of country, sector, and company factors for the AIMR Research Foundation.

6:00 p.m.
Abbott Center Dining Room

Reception & Dinner

9:00 p.m.
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7:00 a.m.
Abbott Center Dining Room

Breakfast

8:00 a.m.
Classroom 50

Sources of Return in Global Investing: A Comparative Analysis

Andrew Rudd, Chairman and Co-Founder, Barra



We address the perennial question of international investment: what matters the most, country or industry selection? Using superior asset coverage and granularity of Barra Integrated Model we are able to decipher contributions from global factors, such as country and global industry returns, as well as country-specific trends. In particular, we find that the significant and sharp increase in the relative importance of industry selection observed in the end of 90's was closely related to the TMT bubble. While we do observe a much slower drift of relative importance from country to industry they remain compatible in the developed markets. In contrast, in the emerging markets the choice of country is clearly dominant. We also address importance of utilizing country-specific trends that contribute a significant fraction of the total cross-sectional variance of asset returns.

Andrew Rudd is chairman of the Board of Directors of Barra, Inc. He has been associated with Barra and its predecessors since its inception in 1975 and became president and chief executive officer of Barra in 1984. Between 1977 and 1982, Rudd was a professor of finance and operations research at Cornell University. Rudd gained recognition as the co-author of *Modern Portfolio Theory: The Principles of Investment Management* (1982) and of *Option Pricing* (1983). He has written numerous journal articles, monographs, and research papers on a wide range of domestic and international investment practices and theories. Rudd received his B.S. with honors in mathematics and physics from Sussex University in England. He holds an M.Sc. in operations research, an M.B.A. in finance and international business, and a Ph.D. in finance and operations research from the University of California—Berkeley.

8:45 a.m.

Refreshment Break

9:00 a.m.
Classroom 50

Bond Markets

Moderator: Robert F. Bruner, Executive Director, Batten Institute, and Distinguished Professor of Business Administration, The Darden School

Diversification, Original Sin, and International Bond Portfolios

John Burger, Sellinger School of Business and Management, Loyola College in Maryland



John Burger is an assistant professor of economics in Loyola College's Sellinger School of Business and Management. He earned a B.S. from Wake Forest University (1994) and Ph.D. in economics from the University of North Carolina at Chapel Hill (2000). His research interests include monetary policy, international finance, development economics, and combining two passions in sports economics. Serving as team moderator, Burger is very proud of Loyola's recent Fed Challenge championship. Outside of academe he has taken his love of teaching to the athletic arena as a little league baseball coach.

Frank Warnock, Economist, Division of International Finance, Board of Governors of the Federal Reserve System and Adjunct Assistant Professor, Walsh School of Foreign Service, Georgetown University



Frank Warnock is an economist in the International Finance Division of the Federal Reserve Board and an adjunct assistant professor at Georgetown University's Walsh School of Foreign Service. He received his B.A. from Johns Hopkins University (1989) and his Ph.D. in economics from the University of North Carolina at Chapel Hill (1999). Prior to graduate school, Warnock worked in Malawi, teaching secondary school mathematics and computer programming as a Peace Corps Volunteer, and on Wall Street, where he traded commodity futures. His research is in international finance, primarily the analysis of capital flows, portfolio allocation, and financial liberalization.

Predictability in Emerging Sovereign Debt Markets

Gergana Jostova, Assistant Professor, Department of Finance, George Washington University



Gergana Jostova has been an assistant professor at the George Washington University since 2002. She obtained her Ph.D. in finance from Boston College in 2002. She is also a C.F.A. charterholder and has experience working for JPMorgan and DeutscheBank. Her research focuses on asset pricing, studying predictability, and determinants of credit risk changes. The paper she is presenting is forthcoming in the *Journal of Business*.

Evaluating Government Bond Fund Performance Using Stochastic Discount Factors

Wayne Ferson, Professor, Boston College



Wayne Ferson received his B.S. and M.B.A. degrees from Southern Methodist University and his A.M. and Ph.D from Stanford University. He holds the John L. Collins Chair in Finance at the Carroll School of Management at Boston College. From 1992-2001 he held the Pigott-PACCAR Professorship in Finance at the University of Washington. He has taught at the University of Chicago, the Wharton School at the University of Pennsylvania, and has been a visiting faculty member at the Graduate School of Business at Stanford University, the Institute for Advanced Studies in Vienna, and also at the Universities of Miami, South Carolina and Arizona State. Ferson's research has focused on the empirical analysis of asset pricing models, the predictability of security returns, the relation of security prices to economic variables, estimating the cost of capital, and the evaluation of investment performance. He has published his research in the *Journal of Finance*, the *Journal of Financial Economics*, the *Journal of Political Economy*, the *Review of Financial Studies*, and others.

11:30 a.m.

Refreshment Break

11:45 a.m.
Classroom 50

Interest Rate Parody in Emerging Markets

Lee Thomas, Managing Director, PIMCO



Emerging markets often offer higher short term interest rates than emerged market currencies. This is often attributed to expectations that emerging economies will suffer from higher inflation, and as a consequence emerging market currencies are expected to depreciate secularly. We examine uncovered interest rate parity -- the hypothesis that international interest rate differentials equal expected exchange rate changes -- for a sample of emerging market currencies, using monthly data from the 1990's. In general, the results are inconsistent with uncovered parity. These results appear to be economically significant, as well as statistically significant.

Lee Thomas is a managing director and senior member of PIMCO's portfolio management and investment strategy groups. He joined the firm in 1995, previously having been associated with Investcorp, an international investment bank, as a member of the management committee. Prior to that, Thomas was associated with Goldman Sachs, where he was an executive director in the fixed income division of their London office. He has published extensively in the field of international fixed income and foreign exchange management. He has 24 years of investment experience and holds a bachelor's degree and a Ph.D. in economics from Tulane University.

12:30 p.m.
Classroom 50

Closing Remarks

1:00 p.m.

Boxed Lunch