



**SOLACTIVE**  
**LATIN AMERICA**  
**REAL ESTATE INDEX**  
[LAREPR]

# IS BROAD EM BREAKING BAD?

## WHY GOING REGIONAL LATAM REAL ESTATE MAKES SENSE

**TWENTY YEARS AGO** Emerging Markets (“EMs”) were a different animal. Marked by underdeveloped local capital markets, over reliance on commodity exports and an emerging pro-growth fiscal agenda.

Under these conditions, the “one-basket” or global approach to EM allocations was an effective choice but the explosion of growth in domestic consumption, global economic integration and rise of local pension capital have made EM a far more complex space - one in which the global basket approach may no longer be an attractive source of alpha.

The new approach may be to view EMs as regional blocks. And performance data since 2015 shows that regional allocations have far outperformed the broad global strategy.

### ABOUT THE LARE INDEX

The Solactive Latin America Real Estate Index (LARE Index), is the first strategy to track an investable basket of local real estate investment trusts (“REITs”) and real estate operating companies (“REOCs”) across the Latin America region, has a projected dividend yield of 9.5% and had a total return of 39.6% since 1/1/2016 as of 3/10/2017.

With a year-to-date (YTD) price return of more than 12% and a YTD total return of about 15% as of 3/10/17, LARE Index outperformed local and global benchmarks as well as all sector focused strategies.

LARE Index tracks local REITs and real estate companies from Brazil, Mexico, Chile, Argentina and Peru, exhibits low volatility and low correlation to the S&P500 and other major benchmarks and tracks a dividend yield that is more than five times greater than most EM strategies.

### MYTH #1: GLOBAL EMERGING MARKETS PAY HIGH DIVIDENDS

Did you know the top fifteen global EM strategies are on average 93% correlated to the FTSE Emerging Markets All Cap Index which tracked a modest dividend yield of just over 2% in 2016?

LARE Index, however, has a projected dividend yield of 9.5% and tracked a dividend yield of more than 12% in 2016 - making it one of the highest dividend yields in the world and tracked exceptional appreciation too.

### MYTH #2: EMERGING MARKETS ARE HIGHLY CORRELATED TO EACH OTHER

EMs are not one great monolith. Each country, region and sector marches to its own beat. Just like New York City is different from Chattanooga, India is different from Turkey and Mexico is quite distinct versus Brazil. For example, Brazil and Mexico are less than 30% correlated which may offer a built-in “hedge” for the regional investor.

LARE Index for example was only 68% correlated to the FTSE Emerging Markets All Cap Index over the last fourteen months and less than 50% correlated to the S&P500.

### MYTH #3: BROAD EM GENERATES ALPHA

Zero. Ok, technically 90 basis points of alpha was what the FTSE Emerging Markets All Cap Index generated over the last fourteen months, or a 1.06 Sharpe ratio versus 1.30 for the S&P500 and 1.60 for LARE Index.

Zero Alpha, we believe, may be the new normal for broad EM for the simple reason that globalization has evolved into regionalization.



# HOW DOES LATAM REAL ESTATE FIT IN?

HIGH INCOME • GROWTH POTENTIAL • ALPHA • LOW CORRELATION

## MYTH #4: LATIN AMERICA REAL ESTATE IS TOO NARROW

**39.6%.** LARE Index total return from January 2016 to March 2016 versus 16.9% for the FTSE EM All Cap.

**One billion dollars.** The value of weekly traded volume for locally-listed REITs and real estate equities.

**\$4.2 trillion.** Total gross domestic product of countries tracked by the LARE Index.

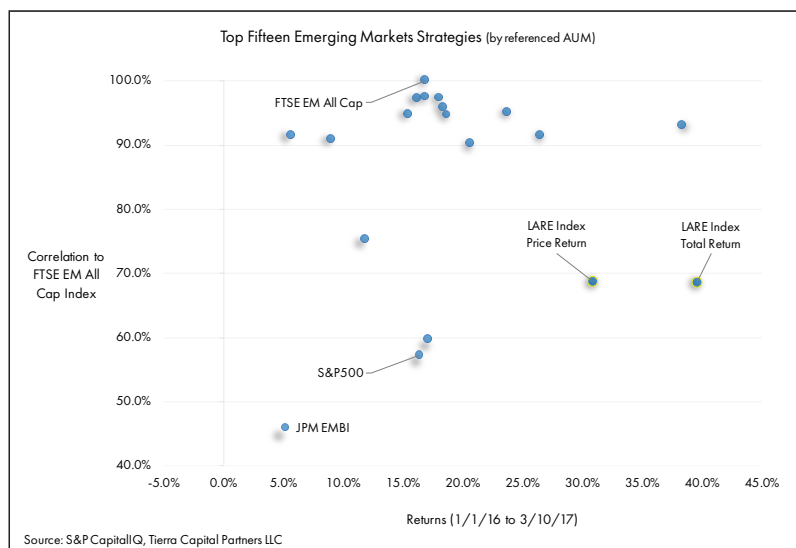
**\$90 billion.** The total market capitalization of local public real estate companies, growing at a 15% CAGR since 2005.

**\$1 trillion.** That's the size of local pension and insurance assets in Latin America, which have been a major buyers of real estate equities.

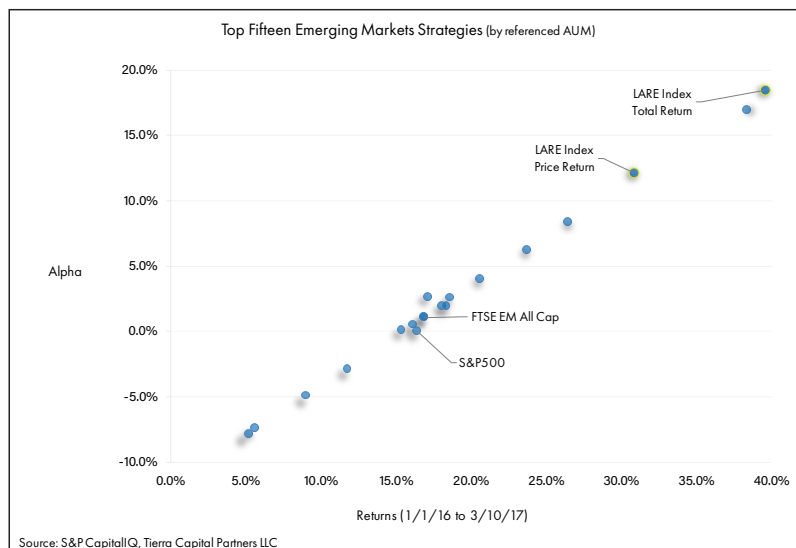
**9.5%** is the weighted average yield of REITs in the LARE Index.

**18.5%.** The total alpha generated by LARE Index total return for the January 2016 to March 2017 period. Broad emerging markets? Less than one percent.

**68%.** The correlation between LARE Index and the FTSE EM All Cap Index versus an average of 93% for the top fifteen EM strategies.



*LARE Index was 30% less correlated to the S&P500, generated more than 15x alpha versus the FTSE Emerging Markets All Cap Index and tracked a dividend yield about 6x greater.*



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*The following indices: MSCI Brazil Index, MSCI Mexico Index, MSCI Emerging Markets Index, MSCI US REIT Index are property of MSCI, Inc. and are designed to track large and mid cap segments of the Brazil, Mexico, Emerging Market and US REIT segments. The S&P500 Index and the S&P500 Latin America 40 Index are property of Standard & Poor's, Inc., FTSE Emerging Markets All Cap Index are property of FTSE. One cannot invest directly into an index.*

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