Investing in emerging markets can be rewarding for the growth, but risky in light of FX and capital-flow volatility, more limited institutional and financial-system depth, and social, political and macroeconomic stress.

This course emphasizes awareness of the special investment conditions in emerging markets, for students going into fields such as equity research and sales, asset management, credit assessment, investment banking, and corporate business development. Through short case studies, students will build expertise in analyzing financial statements and learn to spot both the types of red flags and the signs of sustainable success that are common in emerging markets. They will train to see formal financial disclosures as only a starting point, build a broader perspective, and question views presented by managements.

**Readings**

To be posted as course unfolds. Mostly primary documents such as corporate filings, management presentations, legal rulings, and regulatory papers, along with contemporaneous press coverage.

**Student deliverables and evaluation**

- Class participation: 20% of the grade.
- Mid-term exam: 20%. Three or four in-class short essays on themes from the first half of the course.
- Final exam: 25%. Three or four in-class short essays on themes from the entire course.
- Small-group presentations and report: 35%. A recommendation to the class on a long-term investment in an emerging-market company, accompanied by a write-up of 10 pages at most. This will be in the style of professional proposals to investment and oversight committees at asset managers and broker dealers. Parameters will be provided. The recommendation will stop short of a valuation conclusion, which is a topic for a different course, and focus instead on the underlying qualities of the company as evidenced in its financial statements and other public information. The recommendation should take into account the context of the company’s markets, its competitive positioning, and its exposure to and mitigation of risks.

**Prerequisites**

As this class is in part an exercise in applied financial-statement analysis, Financial Statement Analysis and Principles of Financial Accounting are helpful. However, the class should be navigable even with basic familiarity with these topics.

**Themes**

A class schedule will be available at the beginning of the course. The classes and readings will cover the eight main themes and most of the corporate examples listed below, with possible adjustments during the course.
Corporate governance: whose profit is it?
Portfolio investors accustomed to US listed companies owned by investors at large may be surprised in emerging markets if strong financial results do not correlate to stock performance or dividends. Are the company’s profits distributed according to the amount of capital invested or is there leakage to controlling groups? How rare are “true corporations”? How does corporate-governance structure relate to broader social and political structure?

Studies in governance:
- Casino (France) in control of Éxito (Colombia)
- Israeli telephony startup GVT vs Brazil incumbent Telemar
- JCPenny Brazil spinoff Lojas Renner tries a novel approach: no controlling shareholder

When measuring tapes differ: dealing with EM inflation
Inflation for the most part is higher and more variable in emerging markets than in advanced economies. Which techniques work best for filtering out the noise in financial statements to see what’s really going on?

Studies in inflation:
- Turkcell mobile telephony growth, or how much is 20%?
- América Móvil in 25 countries: gauging the business when inflation rates range from 47% to negative

Going multinational: when emerging-market firms outgrow home markets
Leaving the domestic market is a test for EM companies. Are they strong at home because they have competitive, exportable business models, or is competing as an outsider a shock vs protected rent-seeking at home?

Studies in going multinational:
- Infosys takes Indian tech services global
- Mexico’s telecom giant America Móvil
- Naspers of South Africa rides China’s Tencent

Foreign exchange: hedges for volatile currencies
Even the most important floating EM currencies are more volatile than global reserve currencies. Financial hedges to smoothe this out are available but expensive, or hazardous if applied wrong. Natural hedges can neutralize FX risk “for free”.

Studies in FX balance and imbalance:
- Turkish Airlines vs Gol Airlines: natural hedges aren’t easy to build
- Aracruz and the Brazilian real: an unnatural hedge

Dealing with, or being, the government
Does a government promote business, block business, or own business? Close alliance with the public sector is a tried and true strategy in emerging markets. But when does alliance become dependence? And what happens when the pendulum swings to the opposition, or geopolitics outweigh business interests?

Studies in government relations:
- Russia’s Gazprom, Ukraine, and sanctions
- Argentina’s nationalizations, privatizations, and re-nationalizations
- China’s CNOOC blocked in US but welcomed in Latin America
- Embraer as national champion

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High, low, and the emerging middle
While the US and Europe have seen stagnant wages and income concentration in the past 30 years, the opposite is true in EM. Consumer companies in developing countries used to focus either on the wealthy but few high-end buyers or the many but poor at the low-income end. Both segments still exist, but the biggest growth is in the middle, so consumer companies are re-segmenting products, brands, and distribution to find buyers of all incomes.

Studies in segmenting:
- Modelo vs Femsa in Mexican beer
- RaiaDrogasil drugstores take on 80 thousand Brazilian competitors

Catastrophic failure: business risk in emerging markets
How to avoid investing in failure (financial, physical, or moral).

Studies in business risk:
- Bad numbers at South Africa’s Steinhoff
- Petrobras and the world’s greatest bribery scandal
- When a dry well is the first domino: Eike Batista’s “X” empire

Social responsibility and the bottom line
Much public and political discourse in emerging markets centers on social injustice. Highly visible companies strive to not be viewed as the problem.

Studies in social responsibility:
- Does ESG (environmental/social/governance) investing make money, or just the G?
- McDonalds and “Amazonian” beef: giving back the Golden Chainsaw award
- Natura personal care: native flora, empowered women, nationwide distribution