COLUMBIA THREADNEEDLE INVESTMENTS

INVESTOR **EDUCATION**

AN INTRODUCTION TO EMERGING MARKETS (EM) INVESTING

What are emerging markets?

The term emerging markets describes countries that are undergoing rapid growth and industrialization. To put it in context, the United Kingdom is an example of a developed country or market, and Vietnam is considered an emerging market (although a country as industrialized as China also falls into the EM category). While securities markets in these countries don't often meet the accounting standards or security regulations of more developed countries like the U.S., they're considered to be headed in that direction. Recent interest in EM investing has grown due to the level of stock market capitalization (the value of a company's outstanding shares) and the increased share of EM countries' global economic output. Other factors include favorable growth rates and demographics.

Although there's no formal classification standard, most agree that many countries in Africa, Asia, Latin America, Eastern Europe and the Middle East constitute EM economies, with some of the faster growing economies in Brazil, Russia, India, China and South Africa (BRICS) putting these countries at the forefront of the list.

Reasons to consider emerging markets:

- **They may offer higher expected returns.**
- **They can add more diversification to your portfolio.**
- **There have been dramatic improvements in EM countries.**

Why consider emerging market investing?

In short, the elevated economic growth rates associated with emerging market countries can offer higher returns than might be expected. But with any type of investment, potentially higher returns are often accompanied by increased risk. As an EM investor, you may be faced with a number of risks associated with the particular country in which you are investing. If the risk/reward profile matches yours, then it may make sense for you to consider investing in emerging markets. Here are some other reasons to consider an emerging market investment:

Higher expected returns

With growth rates in many emerging markets countries consistently outstripping the returns of the S&P 500 Index, it stands to reason that EM investments have the potential to offer higher expected returns for investors who are willing or able to assume the increased risk that comes with EM investing.

Added portfolio diversification

Including emerging markets as an asset class in your portfolio can not only give you exposure to global markets, but also provide an element of diversication. The concept of not putting all your eggs in one basket is a simple but important one in constructing an investment portfolio. The central idea is that if one asset class performs poorly, the chances that the value of your portfolio takes a big hit will be diminished if you own uncorrelated assets that perform better.

Diversification does not assure a profit or protect against a loss.

To learn more about how this asset class might complement your portfolio, speak with your financial advisor. For additional investor education materials, please visit **columbiathreadneedleus.com.**

Steadily improving conditions in EM countries

84% of the world's population is in emerging markets. Development in these countries has been likened to that of teenagers — fraught with bursts of growth and high volatility. With steadily increasing middle classes in both China and India, and with China poised to overtake the U.S. in gross domestic product over the next few years, it appears these countries are well-positioned for future growth barring any unforeseen issues.

What are some of the risks of emerging market investing?

Put simply, investments in EM countries can involve more risks than investments in developed countries. One possibility is geopolitical risk, exemplified by situations like escalating tensions between nations, civil wars, disruption of international trade, the trend of rising nationalism and international terrorism. Another risk associated with EM investing is currency risk, which deals with converting transaction proceeds from the EM country's local currency.

A complete list of risks can typically be found in the offering documents of most products, but as always, you should consult your financial advisor to make sure the risks of a particular emerging market investment make sense for you.

How can investors gain exposure to emerging markets?

There are many ways to invest in emerging markets, some more risky than others. These include investing directly in EM securities such as those listed on an EM stock exchange, investing in EM stocks that are listed on U.S. stock exchanges and/or investing in developed-economy stocks or bonds of companies that do extensive business in emerging markets. Perhaps the most conventional way to gain access into emerging markets is to invest in EM mutual funds or exchange-traded funds (ETFs) that own EM stocks. These investments fall into two distinct asset classes -- emerging market equity and emerging market debt -- and investors should consult their financial advisor to allocate between the two depending on their risk profile.

Bottom line

Emerging markets investing can provide increased return potential but also comes with increased risk. If you're able to tolerate more risky investments and want to diversify your portfolio, EM investments may be a good place to start. As with any investment, timing is a key factor. When everyone is talking about investment opportunities in a certain country or region, you may have already missed the boat. When financial markets in another part of the globe are in shambles, this may be a good time to invest. But before you do, speak to your financial advisor because there are many different ways to participate in emerging markets investing.

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Investing involves risk including the risk of loss of principal.

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