

Global Portfolio Strategy July 2013

EM Failure Model Performance, Free Cash Flow Yield in EM, Korea and Abenomics, World Model Update

Strong Start for Our Emerging Markets Failure Model

- We've long believed that one of the best uses of quantitative techniques is to find stocks at risk of underperforming, and over almost a decade we've had success modeling failure in the U.S. with about seven points of alpha per annum. Building on that experience in February we launched an Emerging Markets Failure Model, combining technical and fundamental factors to identify stocks demonstrating the preconditions for significant underperformance. In the first five months of use it's more-or-less lived up to expectations, lagging its benchmark by (470) basis points. A difficult year for the emerging markets provided it a tailwind, as stocks with poor cash flows and weakening earnings outlooks came under pressure.
- When we launched this model global cyclicals (i.e., energy, industrial commodities and capital goods) made up the largest share of the failure candidates, and those sectors have underperformed. Those same groups are still well-represented today, although some consumer-focused issues are now showing up too. The current list of failure candidates can be found in Appendix 1 on pages 6 and 7. If you are interested in receiving the candidates on a regular basis, please contact your salesperson.

Free Cash Flow Yield – Providing Shelter in a Storm

- Emerging market stocks priced to the highest free cash flow yields have shined this year, outperforming their benchmark by almost +5 percentage points on an equally-weighted basis. That's not a surprise as that framework has proven to be the most consistent of those based on valuation over the relatively-short (i.e., 26 year) history of the emerging markets. In 2013 the highest-yielding issues have outperformed in every region and in all but one sector.
- In the emerging markets the aggregate statistics for free cash flow production are being dragged down by energy and industrial commodity companies. In those businesses the ratio of capital spending-to-gross cash flow has continued to climb while elsewhere the opposite is true, and it's free cash flow production that's been in ascent. Right now the free cash flow yields of technology, telecommunications and the commodity businesses stand out, and Appendix 2 on page 8 provides a list of attractive stocks with higher yields.

After Japan's Move Korean Exporters Look Attractive

- The stocks of Korean exporters have been victims of Abenomics. While the two countries do export similar goods, the currency moves-to-date haven't been substantial enough to undermine our positive outlook for Korean equities. The Won has strengthened +20% against the Yen over the last year, but still remains slightly-below the 10-year average. Despite a stronger currency, profit margins for Korean manufacturers recovered in the first quarter after a disappointing end to 2012, and are nearly double those of their Japanese counterparts. They're valued at a (15)% discount to their Japanese peers, making them interesting value ideas.

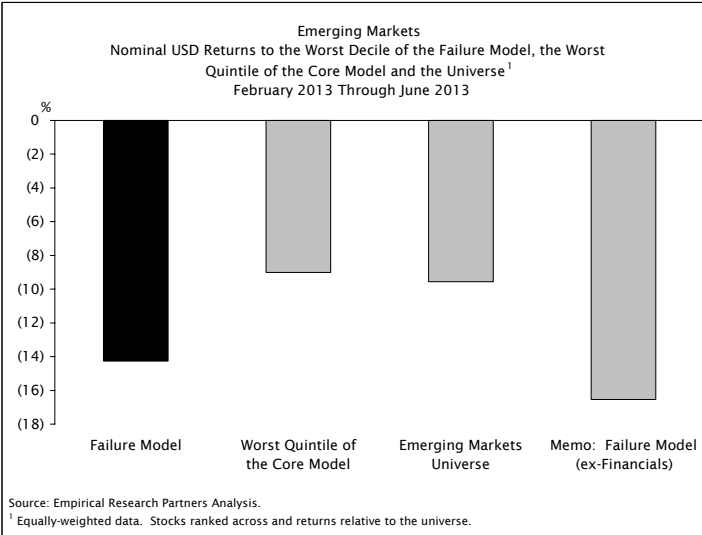
Updating Our World Large-Cap Model Portfolio

- So far this year our World Large-Cap Model Portfolio has slightly outperformed its benchmark, an encouraging result given its exposure to emerging market stocks. The portfolio benefited from its overweight in Japanese stocks, as well as in consumer durables, health care and technology. An underweight in industrial commodities helped the portfolio to avoid some of the pain felt in the universe's worst-performing sector.
- Today's changes to the portfolio are outlined in Appendix 3 on page 9 and include profit taking amongst consumer durables issues while adding to our overweight position in the technology sector. The full portfolio is presented in Appendix 4 also on page 9.

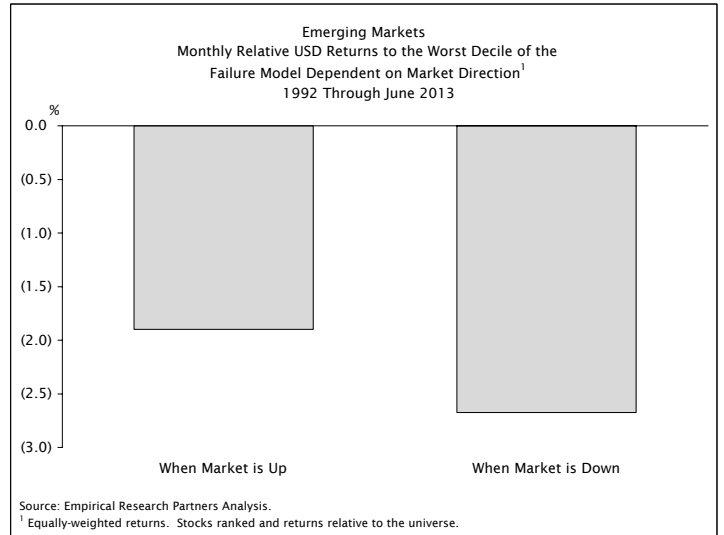
Brian Cho 212 803-7920 Nicole Price 212 803-7935 Sungsoo Yang 212 803-7925 Yi Liu 212 803-7942 Laura Dix 212 803-7930 Longying Zhao 212 803-7940 Iwona Scanzillo 212 803-7915

An Update on Our EM Failure Model

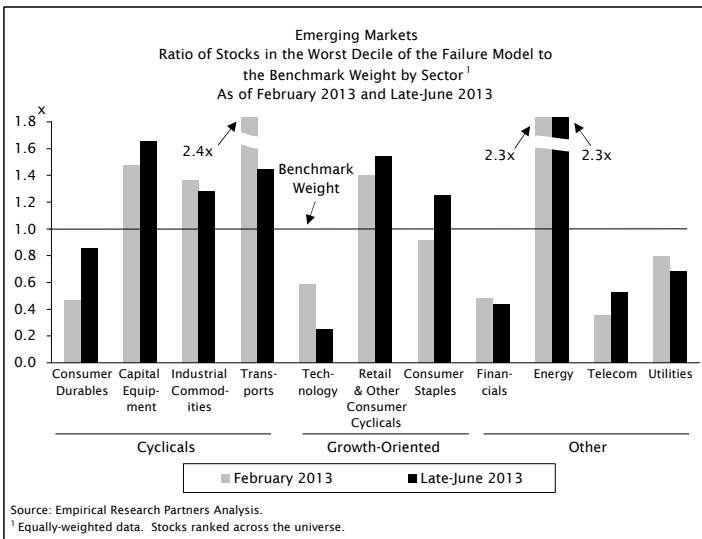
- Since we launched our EM Failure Model in February, it's underperformed its benchmark by (470) basis points:



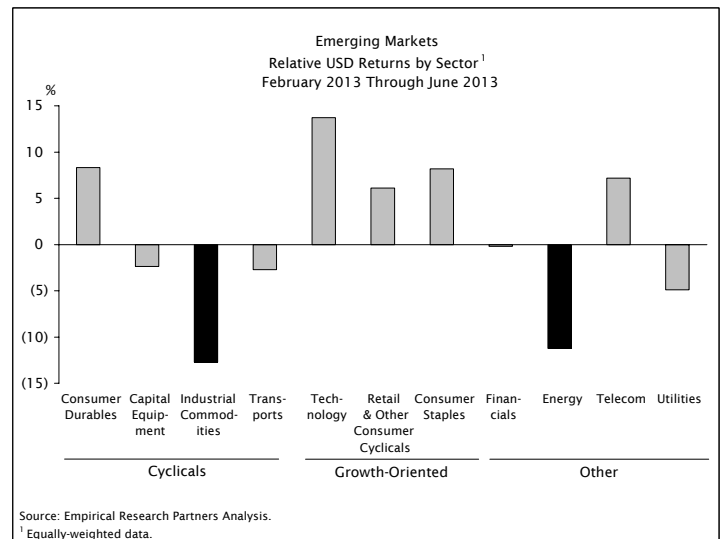
- An encouraging result that's in keeping with the backtest results in declining markets:



- Commodities have been overweight among our failure candidates...



- ...And those sectors have lagged:



- The model blends fundamental and technical factors to identify failure candidates...

Emerging Market Failure Model
Factors that Predict Stock Failure
Key Factors By Type

Fundamentals:

Valuation (20%)
Low Free Cash Flow Yield and Paying No Dividend
Negative Gross Cash Flow Yield
High Price-to-Book Ratio and a Low Dividend Yield

Capital Deployment (5%)
Cutting or Eliminating Dividend

Earnings Quality (5%)
Rapid Balance Sheet and Sales Growth
Unstable Earnings Growth

Other Considerations:

Market Reaction and Technical Factors (30%)
High Arbitrage Risk with Valuation and Price Trends
Low Arbitrage Risk in Wide Valuation Spreads
Expensive Stocks While Valuation Spreads Shrink
Poor Price Trends with Abnormal Volume
Changing Preference in Volatility
Downward Earnings Revision in Expensive Stocks

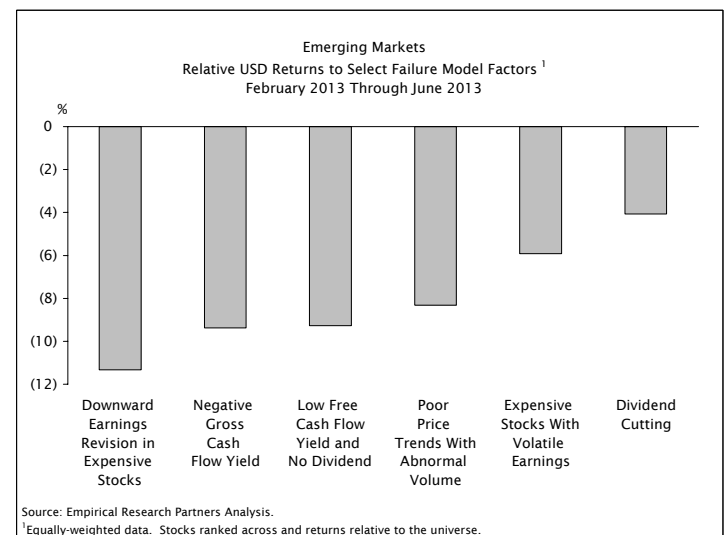
EM Stock Selection Module (15%)

Macroeconomic Exposure (15%)
Exposures to Exchange Rates, Commodity and Oil Prices

EM Country Selection Module (10%)

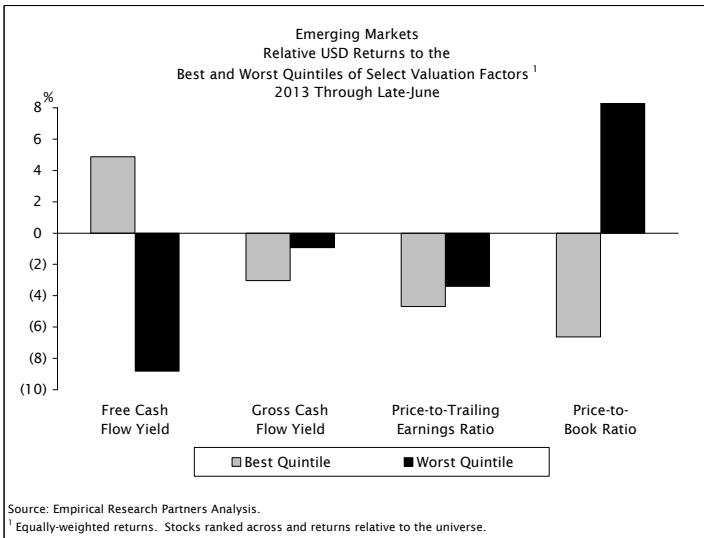
Source: Empirical Research Partners Analysis.

- ...With weak cash flow production and downward earnings revisions having been penalized lately:

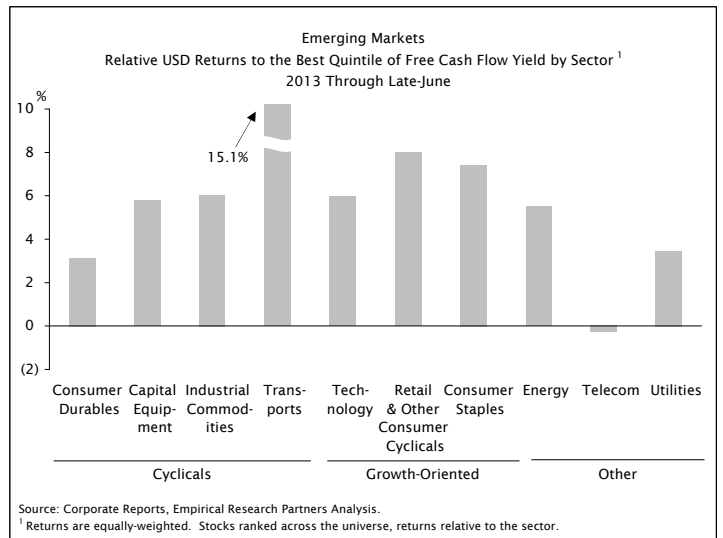


Free Cash Flow Yield – So Far, An Ally for All Seasons

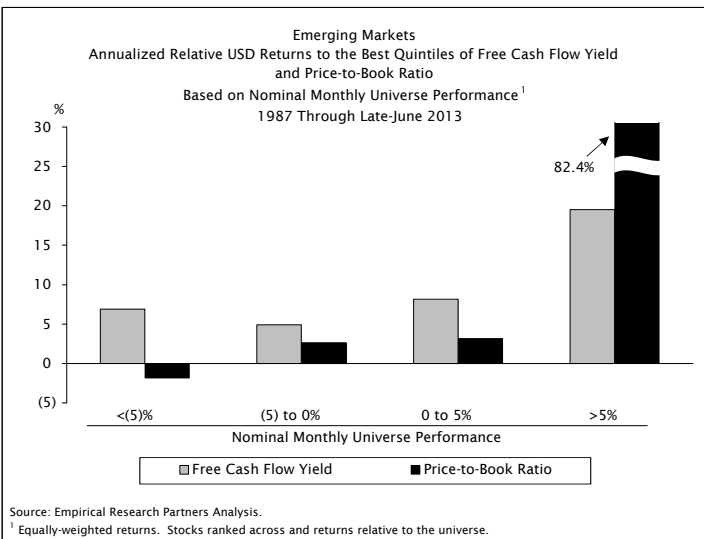
- In a difficult year for valuation in the emerging markets, free cash flow yield has stood out...



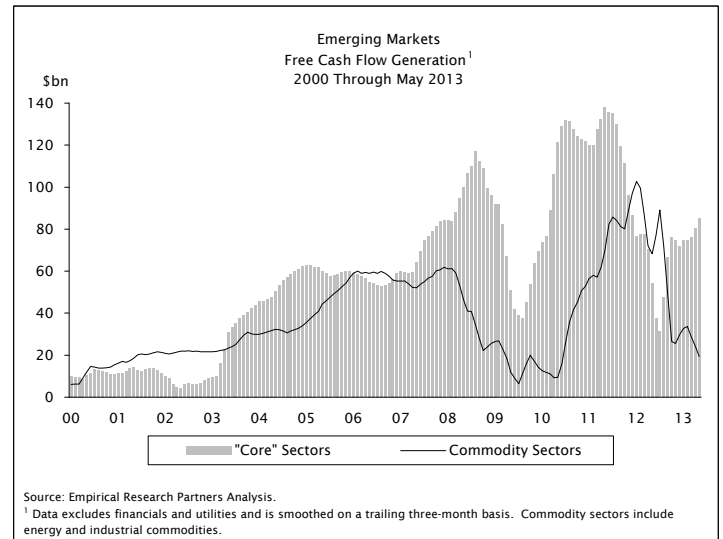
- ...Generating alpha in every sector except telecommunications:



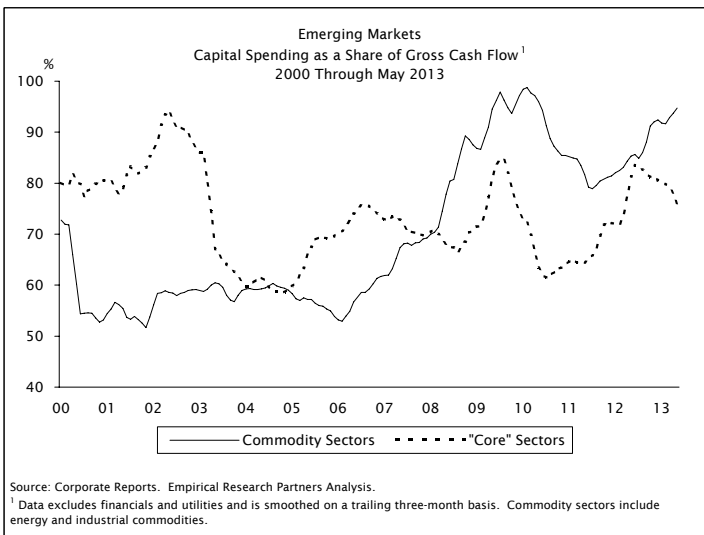
- It's helped in up and down markets:



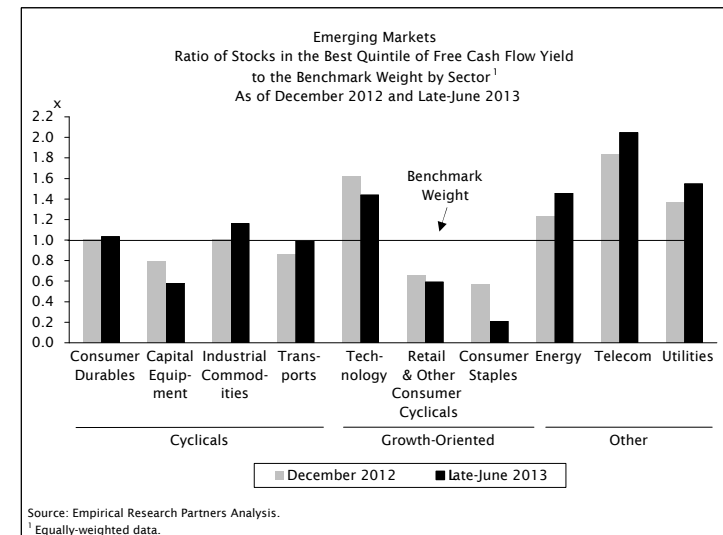
- Cash flow generation has been impressive outside the commodity sectors...



- ...With capital spending, not surprisingly, the swing factor:

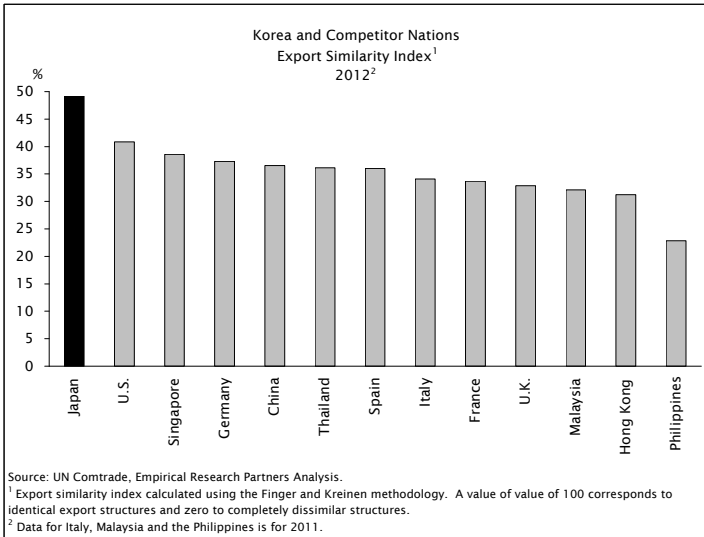


- Technology, telecom and the commodity sectors offer high-yielding stocks:

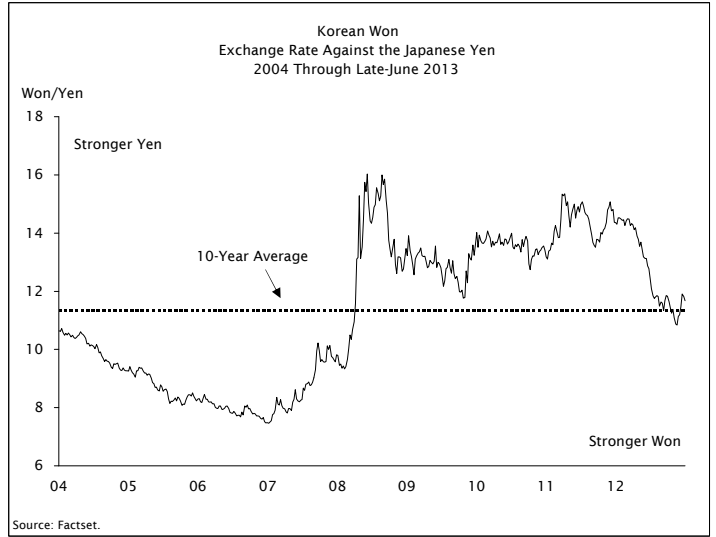


Despite Abenomics, Korea Remains Attractive

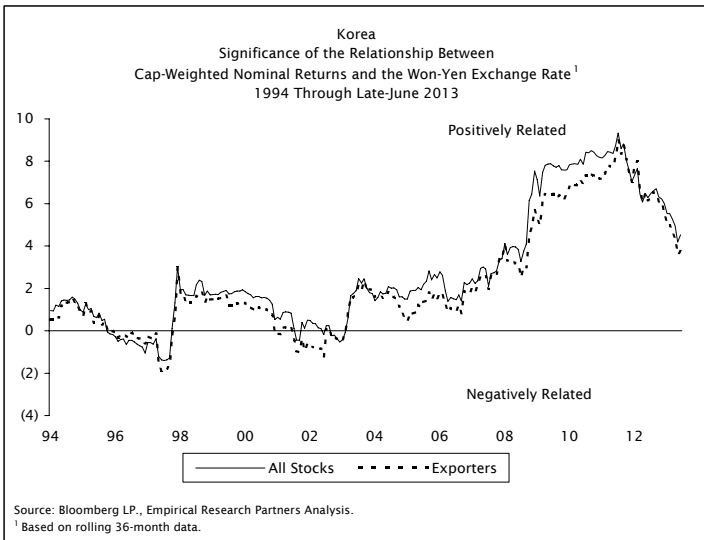
- Korea and Japan export similar products:



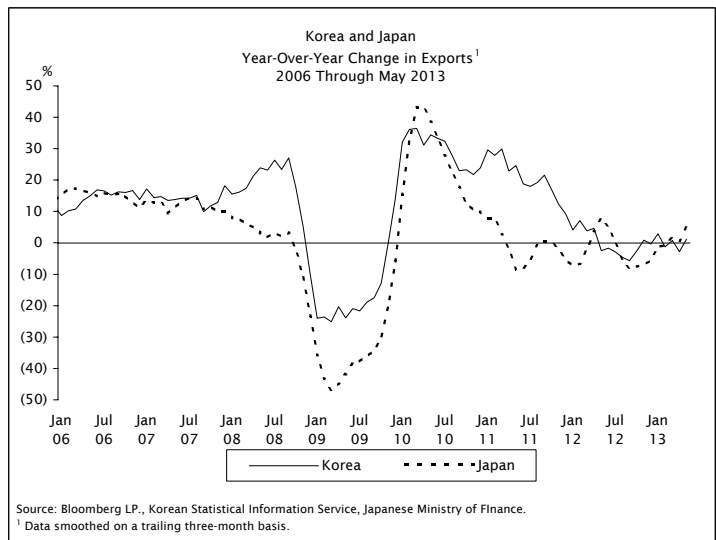
- The Won is up by +20% versus the Yen in the last year, bringing the exchange rate back to its 10-year average:



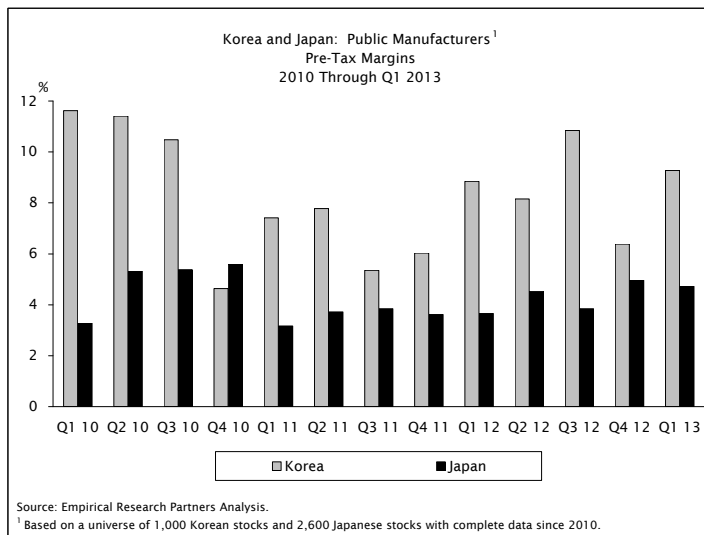
- The influence of currency movements on Korean stocks has begun to wane...



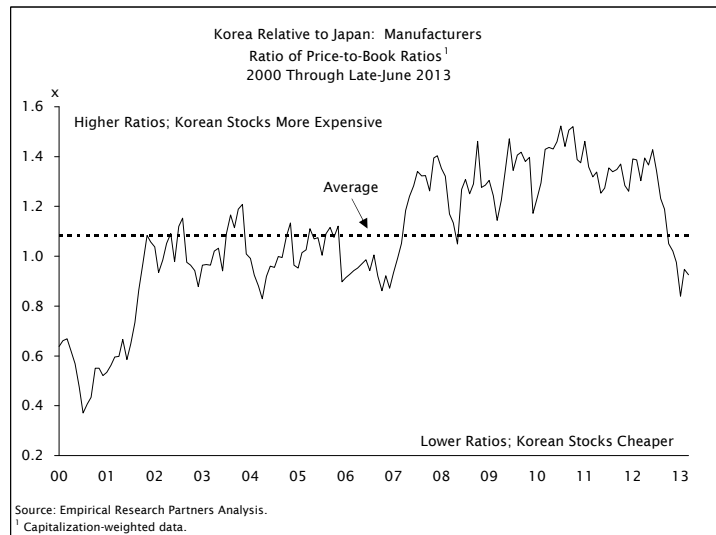
- ... And both countries have been victims of weak external demand:



- Among manufacturers, Korean companies have a distinct margin advantage over their Japanese competition...

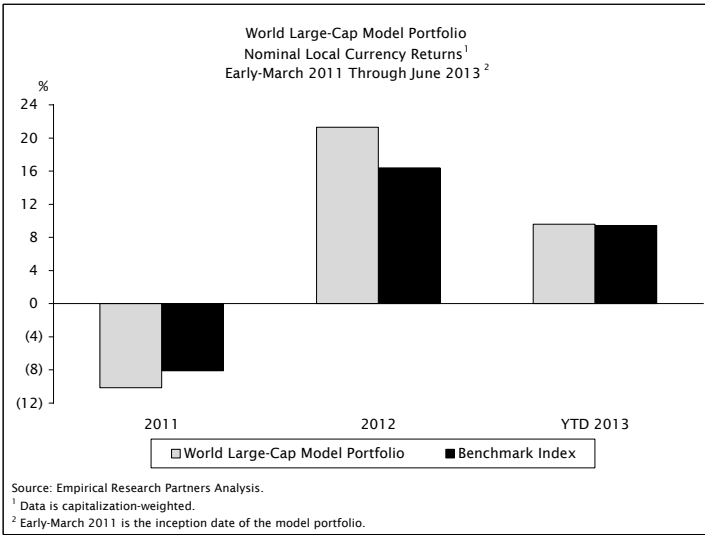


- ... And after Japan's rally, they also offer lower valuations:

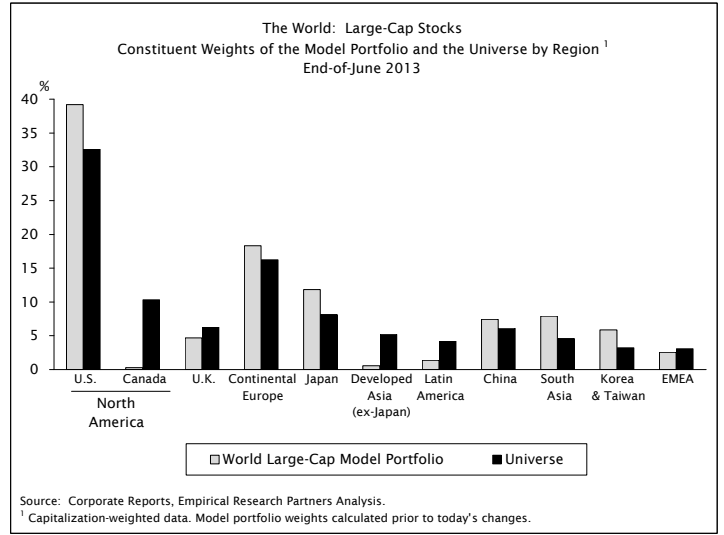


Updating Our World Large-Cap Model Portfolio

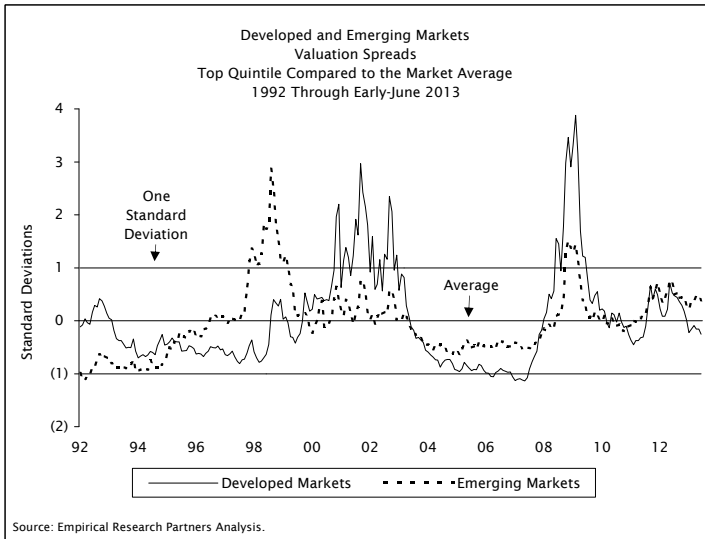
- Our World Model Portfolio has kept pace with the universe this year...



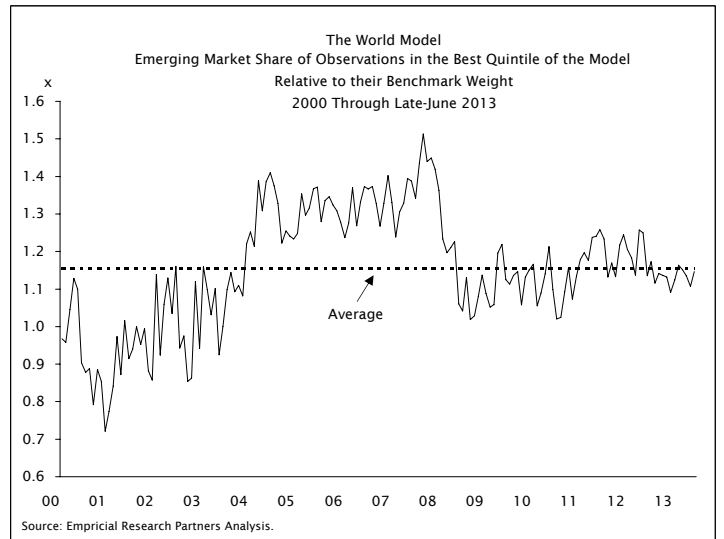
- ...An encouraging result given the portfolio's overweight in the plummeting emerging markets:



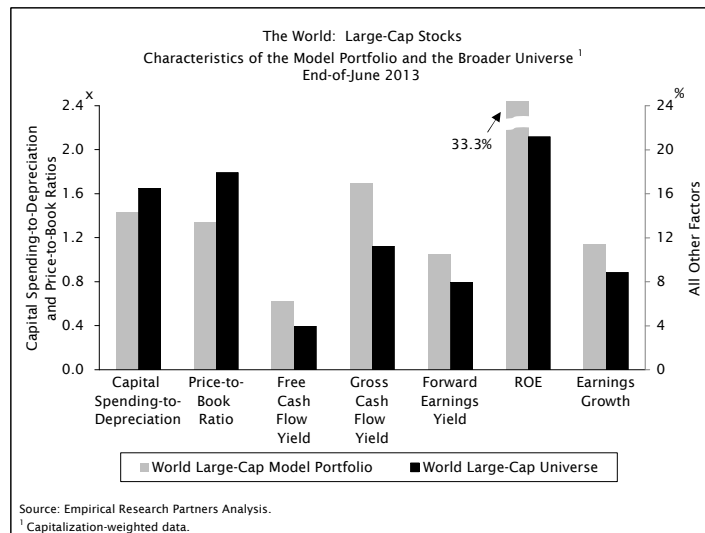
- Valuation spreads across the developed markets have narrowed, but they remain above average in EM...



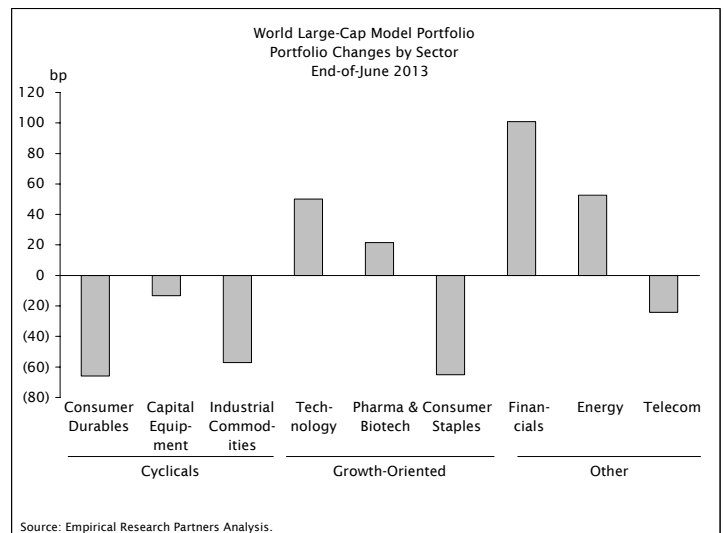
- ...And the share of EM stocks in the best quintile of our World Model is unremarkable:



- The Model Portfolio continues to offer more attractive valuations and higher ROEs than its large-cap peers:



- Today's changes include adding to financials and taking profits in the consumer durables sector:



Appendix 1: Emerging Markets Failure Model Candidate

Local Ticker		Company	Prices (Local)	Local Currency	Free Cash Yield	Dividend Yield	Normalized Cash Yield	R&D + Book Value Yield	Negative Cross Yield (Yes=1)	Dividend Yield (Yes=1)	Dividend Yield (Yes=1)	Change in Net Non-Current Assets (Yes=1)	Risk-Adjusted 9-Month Trend (1.0: Highest)	Abnormal Turnover (1.0: Highest)	Earnings Stability (1.0: Highest)	Smoothed Revision (1.0: Highest)	Arbitrage Risk (1.0: Highest)	EM Core Stock Module	Country Score Module	EM Failure Rank	Memo: Forward Ratio	YTD Return (Local)	Memo: Market Cap (USD Million)
Decile (1..Best..10..Worst)																							
Consumer Durables																							
1211 HK	BYD Co. Ltd.	25.45	HKD	9	na	9	7	0	0	(1)	0	5	1	2	7	2	10	9	7	10	45.0 x	9.5 %	\$9,179
1114 HK	Brilliance China Automotive Holdings Ltd.	8.40	HKD	8	na	8	8	(1)	0	(1)	0	10	7	4	9	6	5	4	7	10	11.1	(11.9)	5,345
BOSJ IN	Bosch Ltd.	8,663.05	EUR	7	8	na	9	0	0	0	0	1	6	6	3	2	10	10	3	10	24.4	(8.0)	4,475
1101 IN	Hero Cycles Ltd.	1,000.00	INR	7	8	na	8	0	0	0	0	1	6	6	3	2	10	10	3	10	24.4	(8.0)	4,475
002350 KS	Northern Tire Corp.	15,900.00	KRW	9	8	9	9	0	0	0	0	7	8	9	10	6	9	9	4	10	10.6	(0.6)	1,321
Capital Equipment																							
009540 KS	Hyundai Heavy Industries Co. Ltd.	179,500.00	KRW	10	6	10	2	(1)	0	(1)	0	3	9	6	5	6	3	5	4	10	13.0 x	(25.8) %	\$11,986
02C5 CY	Orascom Construction Industries S.A.E.	241.34	EGP	3	4	8	8	0	0	0	0	2	10	6	7	6	6	9	10	10	9.1	(4.4)	7,101
0201 HK	China State Construction International Holdings Ltd.	530.15	HKD	9	7	9	9	(1)	0	0	0	3	10	4	5	5	8	9	10	10	11.1	(11.9)	5,345
047040 IN	Daeewo Engineering & Construction Co. Ltd.	6,970.00	INR	10	na	10	2	(1)	0	0	0	4	10	3	3	8	10	3	10	10	36.0	(19.8)	3,100
INVSJ JI	Inovisi Infracore	2,500.00	INR	10	na	10	2	(1)	0	0	0	4	10	3	3	8	10	3	10	10	11.3	(29.9)	2,513
010620 KS	Hyundai Mipo Dockyard Co. Ltd.	124,000.00	KRW	10	7	10	2	(1)	0	(1)	0	10	8	8	10	na	na	10	7	10	46.5	(2.4)	2,404
AKRAJ JI	AKR Corporation	5,200.00	INR	9	7	9	7	(1)	0	0	0	9	3	5	8	7	3	9	4	10	24.7	(2.8)	2,204
042670 IN	Diablo Group Bhd	2.80	MYR	9	4	7	10	0	0	0	0	1	10	3	8	6	7	10	8	10	21.0	(20.2)	1,709
042670 IN	Manjiv Heavy Engineering Holdings Bhd	10,600.00	KRW	10	na	10	2	(1)	0	(1)	0	10	2	10	6	10	5	9	4	10	30.3	(37.6)	1,501
2049 TT	HWIN Technologies Corp.	180.00	TWD	9	6	9	9	(1)	0	(1)	0	9	10	2	8	7	10	4	10	21.4	(15.5)	1,498	
GMRI IB	GMRI Infrastructure Ltd.	16.90	INR	10	6	10	2	0	0	0	0	8	8	2	9	10	8	6	3	10	10	(12.7)	1,089
BCMK	Berjaya Corp. Bhd	0.59	MYR	9	3	9	2	0	0	0	0	7	9	7	5	8	9	5	7	10	10.1	(0.8)	782
631 HK	Sany Heavy Equipment International Holdings Co. Ltd.	1.95	HKD	9	3	9	2	0	0	0	0	7	9	7	5	8	9	5	7	10	10.1	(0.8)	782
Commercial Services																							
MPLU3 BZ	Multiplex S/A	33.15	BRL	5	9	2	10	0	0	(1)	0	1	8	2	2	9	8	9	9	10	21.2 x	(29.1) %	\$2,368
Industrial Commodities																							
2002 TT	China Steel Corp.	23.80	TWD	9	4	9	4	0	0	(1)	0	7	8	4	8	2	1	10	4	10	28.8 x	(13.0) %	\$12,000
1101 IN	Societe Generale	21,254.00	EUR	7	9	7	9	0	0	(1)	0	5	10	5	4	10	1	10	6	10	17.3	(26.0)	10,471
APNT IB	Asiantex S.A.	4,541.95	INR	6	7	6	10	0	0	0	0	4	10	3	4	6	2	9	6	10	32.8	3.6	6,978
MFRSCOA MM	Minera Frisco S.A.B. de CV.	36.28	MXN	9	na	9	10	0	0	(1)	0	10	9	10	10	1	7	6	6	10	25.9	(33.4)	6,708
2600 HK	Aluminum Corp. of China Ltd.	2.40	HKD	10	na	10	2	0	0	(1)	0	10	4	10	10	8	10	7	8	10	16.2	(18.2)	4,680
ALPHA MM	Alepek SA de CV	28.12	MXN	3	6	8	10	0	0	0	0	2	9	9	3	7	5	10	6	10	16.2	(18.2)	4,680
010500 KS	OCI Cement Co. Ltd.	135,000.00	KRW	10	8	10	3	0	0	(1)	0	1	10	6	6	8	2	10	4	10	63.2	(18.4)	2,772
UNIP CP	Lafarge Ciments	1,030.00	MAD	1	1	3	9	0	0	0	0	1	10	6	1	3	10	9	8	10	14.3	(12.7)	2,107
1333 HK	Unipetrol A.S.	172.50	CZK	9	3	9	3	(1)	0	(1)	0	1	10	6	1	4	1	10	2	10	37.2	(1.4)	1,554
MNC MC	China Zhongwang Holdings Ltd.	2.28	HKD	10	na	10	1	0	0	0	0	10	8	5	6	6	4	2	7	10	14.7	(8.7)	1,448
ASIAN TI	MNC MC	1,350.00	MAD	9	7	10	0	0	0	0	0	10	8	7	10	3	8	10	3	10	14.7	(8.7)	1,448
3704 TT	Phelix Mining Corp.	9.93	TRY	6	10	6	10	0	0	0	0	6	10	3	6	10	6	9	2	10	58.5	(35.7)	1,102
1138 HK	LCY Chemical Corp.	36.75	TWD	8	5	9	na	0	0	(1)	0	10	8	8	5	9	10	3	10	10	17.4	2.1	1,031
011200 KS	LCY Chemical Corp.	20,000.00	KRW	8	5	9	na	0	0	(1)	0	10	8	8	5	9	10	3	10	10	17.4	2.1	1,031
MMX3 BZ	MMX & Lock Co. Ltd.	1.65	BRL	10	na	10	1	0	0	(1)	0	10	10	2	3	9	7	10	4	10	14.3	(63.6)	942
BRMS JI	Bumi Resources Minerals	285.00	IDR	10	na	9	1	(1)	0	(1)	0	9	8	3	10	4	10	10	9	10	97.2	14.0	678
Transports																							
1919 HK	China COSCO Holdings Co. Ltd.	3.27	HKD	10	na	10	4	(1)	0	0	0	7	6	3	10	1	8	4	7	10	25.1 x	12.6 %	4,021
JSMR JI	Jasa Marga Persero	6,050.00	IDR	8	0	0	0	0	0	0	0	2	5	2	2	8	4	10	10	10	44.3	(10.8)	3,880
2866 HK	China Shipping Container Lines Co. Ltd.	1.99	HKD	10	3	10	3	0	0	(1)	0	2	5	2	6	9	10	7	7	10	44.3	(10.8)	3,880
1138 HK	China Shipping Development Co. Ltd.	3.35	HKD	10	na	10	1	0	0	(1)	0	2	6	2	6	9	10	7	7	10	44.3	(10.8)	3,880
011200 KS	Hyundai Merchant Marine Co. Ltd.	14,550.00	KRW	9	na	9	7	0	0	(1)	0	2	10	10	10	10	10	9	4	10	44.3	(10.8)	3,880
IMAS MK	Malaysian Airline System Bhd	0.30	MYR	10	na	10	7	0	0	(1)	0	2	10	10	10	10	10	9	4	10	44.3	(10.8)	3,880
Technology																							
SINA US	SINA Corp.	56.58	USD	7	na	na	7	0	0	(1)	0	3	8	1	8	10	2	7	8	7	65.4 x	12.7 %	\$3,728
036570 KS	NCSoft Corp.	160,000.00	KRW	6	8	6	8	0	0	0	0	2	10	1	8	7	7	10	4	10	18.2	6.3	3,079
Health Care Equipment and Services																							
QUAL3 BZ	Qualcorp S.A.	16.89	BRL	3	na	5	7	0	0	(1)	0	6	8	4	na	3	9	3	10	9	24.6 x	(20.4) %	\$2,033
Retail, Media, and Other Consumer Cyclicals																							
1929 HK	Chow Tai Fook Jewellery Group Ltd.	8.40	HKD	7	7	10	7	0	0	0	0	3	8	5	3	9	6	5	7	10	13.0 x	(32.5) %	\$10,593
ELECTRA MM	Grupo Elektra SAB De CV	432.89	MXN	8	8	8	7	0	0	0	0	3	9	4	10	7	9	6	6	10	13.0 x	(32.5) %	\$10,593
EDOD PA	Ahangara Educacional Participacoes S/A	18.01	BRL	10	na	10	0	0	0	0	0	10	2	6	10	7	10	6	7	10	29.7	(23.8)	2,683
GLOBAL TB	Siam Global House PCL	22.90	THB	8	8	10	0	0	0	0	0	10	2	6	9	9	10	9	9	10	39.4	50.2	1,998
881 HK	Zhongsheng Group Holdings Ltd.	8.26	HKD	9	7	10	5	0	0	(1)	0	8	7	2	6	10	7	2	7	10	10.4	(28.7)	1,991
BHT JI	Bhakti Investama	455.00	IDR	na	na	na	5	0	0	(1)	0	na	na	6	7	8	4	10	10	10	15.7	(15.7)	1,575
IMAS JI	Indomobli Sukses Internasional	5,250.00	IDR	10	5	10	7	(1)	0	0	0	na	na	8	2	9	1	7	10	10	16.9	(0.9)	1,449
BL MK	Berjaya Land Bhd	0.90	MYR	7	2	2	0	0	0	0	0	3	5	3	10	1	7	8	10	10	16.9	(0.9)	1,449
010500 KS	PT Vici Media Asia Tbk A	7,550.00	KRW	6	na	6	2	0	0	0	0	6	10	3	10	na	na	8	10	10	16.9	(0.9)	1,449
VIVA JI	PT Vici Media Asia Tbk A	390.00	IDR	6	na	6	2	0	0	0	0	6	10	3	10	na	na	8	10	10	16.9	(0.9)	1,449
DYHOL TI	Dogan Yayin Holding A.S.	0.68	TRY	10	na	9	4	(1)	0	(1)	0	4	4	4	10	6	8	10	3	10	14.5	(12.8)	639
Consumer Staples																							
UNSP IB	United Spirits Ltd.	2,225.70	INR	7	8	7	10	0	0	0	0	5	1	1	10	6	9	10	3	10	51.0 x	17.2 %	\$6,123
PEP MK	PepsiCo Inc.	13.90	MYR	7	6	7	3	0	0	(1)	0	1	10	4	7	6	2	6	8	10	17.7	20.9	5,137
220 HK	Uni-President China Holdings Ltd.	7.84	HKD	9	8	9	7	0	0	0	0	9	7	4	5	5	5	4	7	10	21.8	(3.8)	

Appendix 1: Emerging Markets Failure Model Candidates

Emerging Markets: Large and Mid-Capitalization Stocks
EM Failure Model Detailed Ranking Report -- Worst Decile
Sorted by Sector and Market Capitalization in USD
As of Late-June 2013

Local Ticker		Company	Price (Local)	Local Currency Code	Free Cash Yield	Dividend Yield	Normalized Free Cash Yield	R&D Value	Stock Yield	Negative Cash Flow (Yes=-1)	Dividend Monitor (Yes=-1)	Dividend Cuts (Yes=-1)	Change in Net-Non-Current Assets (1: Best, 10: Worst)	Risk-Adjusted 9-Month Price Trend (1: Best, 10: Worst)	Abnormal Return (1: Best, 10: Worst)	Arbitrage Risk (1: Best, 10: Worst)	EM Core Country Sector (1: Best, 10: Worst)	EM Failure Model Rank	EM Forward P/E Ratio	YTD Return (Local)	Memo: Capitalization (USD Million)
Decile (1: Best, 10: Worst)																					
Financials																					
2628 HK		China Life Insurance Co. Ltd. (China)	17.96	HKD	na	7	na	na	6	0	0	(1)	na	8	3	3	1	10	14.3 x	(28.4)	% \$67,340
KMB IB		Koak Mahindra Bank Ltd.	704.35	INR	na	8	na	na	8	0	0	0	na	4	4	5	10	3	20.9	8.4	% 9,079
UHLR BZ		Uthmaniyah Finance Co. Ltd.	52.58	KWD	na	7	na	na	7	0	0	0	na	2	7	2	10	8	25.7	(16.9)	% 4,193
UHLR BZ		Uthmaniyah Finance Co. Ltd.	52.58	KWD	na	7	na	na	7	0	0	0	na	2	7	2	10	8	25.7	(16.9)	% 4,193
SMMA UJ		Sinar Mas Multiartha	4.725.00	IDR	na	8	na	na	7	0	0	0	na	9	4	10	6	10	NM	3.3	% 2,952
006800 KS		006800 KS	9.980.00	KRW	na	7	na	na	2	0	0	0	na	9	4	10	4	10	22.9	(16.0)	% 2,823
CALUCH CI		Sociedad de Inversiones Pampa Calichera S.A.	549.90	CLP	na	6	na	na	10	0	0	0	na	10	6	7	9	6	NM	(27.8)	% 2,081
BNIU JJ		Bank Internasional Indonesia	345.00	IDR	na	na	na	na	6	0	0	0	na	9	6	5	7	10	NM	(14.8)	% 1,956
CBMT TB		CBM Thai Bank PCL	1.97	THB	na	8	na	na	6	0	0	0	na	6	5	4	10	2	44.2	(21.0)	% 1,308
CGIMC		Compagnie Generale Immobiliere S.A.	570.00	MAD	na	3	na	na	7	0	0	0	na	10	10	9	10	2	NM	(27.8)	% 1,171
039490 KS		Kiwom Securities Co. Ltd.	56.200.00	KRW	na	3	na	na	5	0	0	(1)	na	7	8	4	10	4	21.7	(3.9)	% 1,072
Energy																					
6505 TT		Formosa Petrochemical Corp.	75.90	TWD	6	8	4	8	9	0	0	(1)	3	10	8	4	10	4	28.1 x	(11.7)	% \$23,829
1808 HK		China Coal Energy Co. Ltd.	14.04	HKD	10	1	9	1	7	0	0	(1)	10	9	2	5	3	10	6.5	(46.6)	% 9,990
IOCL IB		Indian Oil Corp. Ltd.	223.30	INR	4	10	2	2	10	(1)	0	(1)	2	6	5	4	4	3	7.5	(17.2)	% 8,955
PETD MK		Petromas Dagangan Bhd	25.16	MYR	5	5	4	9	0	(1)	0	(1)	4	1	6	2	10	8	25.1	10.2	% 7,873
SANP MK		Saparakencana Petroleum Bhd	3.97	MYR	8	na	8	8	0	(1)	0	(1)	0	10	3	4	10	8	22.9	26.0	% 7,026
010950 KS		S-Oil Corp.	71.900.00	KRW	3	3	9	5	0	0	0	(1)	2	9	7	8	9	4	9.0	(30.9)	% 6,993
010950 KS		S-Oil Corp.	71.900.00	KRW	3	3	9	5	0	0	0	(1)	2	9	7	8	9	4	9.0	(30.9)	% 6,993
BVXN UJ		Burmaworld Ltd.	7.450.00	IDR	8	4	8	9	0	0	0	0	10	6	6	10	10	10	NM	(11.8)	% 2,510
9333 HK		Brightoil Petroleum (Holdings) Ltd.	1.41	HKD	1	na	10	6	0	0	(1)	0	10	7	6	2	8	7	NM	(9.6)	% 1,561
GENS UJ		Golden Energy Mines	2.350.00	IDR	8	5	9	9	(1)	0	0	0	10	10	6	10	10	10	NM	0.4	% 1,504
OCW3 BZ		OCX Petroleum & Gas Participacoes S/A	0.84	BRL	10	na	na	1	0	0	(1)	0	10	10	1	10	4	9	NM	(80.8)	% 1,252
DSSA UJ		Dian Swastatika Sentosa	14.500.00	IDR	9	na	8	4	(1)	0	(1)	0	5	4	6	8	8	10	NM	6.6	% 1,126
BUMI CI		Bumi Resources	530.00	DKK	10	4	10	10	0	0	0	0	7	10	na	10	6	10	NM	(10.2)	% 1,029
EBMCI CI		Esso (Thailand) PCL	2.725.00	IDR	9	8	10	6	0	0	0	0	10	8	6	6	6	10	NM	(8.8)	% 756
ABM UJ		ABM Investama	6.80	THB	1	8	9	3	0	0	0	(1)	2	9	3	7	4	10	7.2	(32.3)	% 751
ESSO TB		Esso (Thailand) PCL	6.80	THB	1	8	9	3	0	0	0	(1)	2	9	3	7	4	10	7.2	(32.3)	% 751
Telecommunications																					
TRUE TB		True Corp. PCL	6.60	THB	9	na	9	10	0	0	(1)	0	9	4	1	10	10	8	NM	21.1	% \$2,854
TOWR UJ		Shanana Menara Nusantara	24.500.00	IDR	6	na	8	10	0	0	(1)	0	9	2	6	2	8	10	30.3 x	7.9	% 2,314
Utilities																					
PTG MK		Petromas Gas Bhd	20.30	MYR	8	5	6	9	0	0	0	0	10	4	6	4	1	10	26.6 x	5.7	% \$12,628
CEEB BZ		Coelha On	39.46	BRL	na	na	2	7	0	0	(1)	0	9	10	6	2	1	8	NM	(5.9)	% 3,396
RPWR IB		Reliance Power Ltd.	61.15	INR	10	na	10	3	0	(1)	0	0	10	9	2	6	9	3	17.5	(34.5)	% 2,884
MPRE BZ		MPX Energia S/A	42.85	BRL	10	na	10	6	0	(1)	0	0	8	8	6	10	10	9	40.6	(23.6)	% 2,042

Source: Empirical Research Partners Analysis.

Appendix 2: Emerging Markets - Attractive Stocks With High Free Cash Flow Yield

Emerging Markets: Large and Mid-Capitalization Stocks
 Emerging Markets Core Model Ranking Report
 Best Quintiles of Free Cash Flow Yield and the Core Model
 Sorted By Sector and Market Capitalization in USD
 As of Late-June 2013

Local Ticker	Company	Price (Local)	Listing Currency Code	Free Cash Flow Yield	Quintiles (1=Best, 5=Worst) Super Factors					Core Model	Forward P/E Ratio	YTD Return (Local)	Memo: Market Capitalization (USD Million)
					Valuation	Capital Deployment	Earnings Quality and Trend	Market Reaction	Country Selection				
Consumer Durables													
9904 TT	Pou Chen Corp.	28.60	TWD	1	1	1	2	3	2	1	10.3 x	(6.2) %	\$2,737
TOASO TI	Tofas Turk Otomobil Fabrikasi A.S.	12.15	TRY	1	1	1	1	2	2	1	11.9	26.1	2,595
2020 HK	Anta Sports Products Ltd.	6.77	HKD	1	2	1	1	1	4	1	13.0	2.6	2,165
Capital Equipment													
1800 HK	China Communications Construction Co. Ltd.	6.04	HKD	1	1	1	3	2	4	1	6.2 x	(19.3) %	\$11,265
363 HK	Shanghai Industrial Holdings Ltd.	23.50	HKD	1	1	1	2	2	4	1	9.8	(11.7)	3,336
001740 KS	SK Networks Co. Ltd.	6,200.00	KRW	1	1	1	3	5	2	1	117.2	(26.6)	1,325
001120 KS	LG International Corp.	31,400.00	KRW	1	1	1	1	5	2	1	7.2	(35.1)	1,043
Industrial Commodities													
KGH PW	KGHM Polska Miedz S.A.	118.80	PLN	1	1	5	4	4	1	1	7.8 x	(37.5) %	\$7,020
HZ IB	Hindustan Zinc Ltd.	97.10	INR	1	1	1	3	4	2	1	6.3	(27.7)	6,729
NMDC IN	NMDC Ltd.	100.80	INR	1	1	1	4	5	2	1	6.6	(38.5)	6,631
656 HK	Fosun International Ltd.	5.56	HKD	1	1	1	4	1	4	1	10.6	15.9	4,511
EREGL TI	Eregli Demir ve Celik Fabrikalari T.A.S.	1.98	TRY	1	1	1	1	1	2	1	10.2	(7.0)	3,311
GOAU4 BZ	Metalurgica Gerdau S.A.	16.02	BRL	1	1	1	4	5	5	1	11.2	(29.9)	2,864
2689 HK	Nine Dragons Paper Holdings Ltd.	4.96	HKD	1	1	1	1	3	4	1	8.2	(28.9)	2,852
000880 KS	Hanwha Corp.	29,300.00	KRW	1	1	1	3	1	2	1	5.6	(14.3)	1,907
336 HK	Huabao International Holdings Ltd.	3.29	HKD	1	1	2	2	5	4	1	6.0	(12.3)	1,288
297 HK	Sinofert Holdings Ltd.	1.28	HKD	1	1	2	3	1	4	1	8.1	(30.9)	1,120
120110 KS	Kolon Industries Inc.	47,900.00	KRW	1	1	2	4	5	2	1	8.5	(24.8)	1,056
IRAX EY	El Ezz Aldekhela Steel-Alexandria	430.02	EGP	1	1	1	2	4	5	1	9.1	(6.9)	835
Transports													
THYAO TI	Turk Hava Yollari A.O.	7.66	TRY	1	2	1	3	1	2	1	7.9 x	43.0 %	\$4,672
003490 KS	Korean Air Lines Co. Ltd.	29,850.00	KRW	1	1	2	1	5	2	1	92.6	(34.1)	1,879
THAI TB	Thai Airways International PCL	25.25	THB	1	1	1	1	1	5	1	8.7	16.5	1,781
Technology													
005930 KS	Samsung Electronics Co. Ltd.	1,339,000.00	KRW	1	2	3	1	2	2	1	6.2 x	(12.0) %	\$170,887
2317 TT	Hon Hai Precision Industry Co. Ltd.	73.00	TWD	1	1	1	2	5	2	1	8.8	(17.9)	28,733
034220 KS	LG Display Co. Ltd.	27,350.00	KRW	1	1	2	1	3	2	1	10.4	(11.9)	8,648
2382 TT	Quanta Computer Inc.	64.30	TWD	1	1	1	4	5	2	1	11.2	(5.9)	8,137
2357 TT	ASUSTek Computer Inc.	272.50	TWD	1	1	1	4	3	2	1	9.0	(16.5)	6,746
3481 TT	Innolux Corporation.	14.90	TWD	1	1	3	1	1	2	1	9.9	(4.5)	4,510
3474 TT	Inotera Memories Inc.	16.45	TWD	1	3	5	1	1	2	1	8.3	325.1	3,034
SOHU US	Sohu.com Inc.	61.49	USD	1	2	1	2	1	4	1	26.5	29.9	2,329
2356 TT	Inventec Corp.	17.20	TWD	1	1	1	2	1	2	1	10.6	54.3	2,001
DELTA TB	Delta Electronics (Thailand) PCL	39.50	THB	1	2	1	1	1	5	1	10.7	31.4	1,559
6239 TT	Powertech Technology Inc.	56.00	TWD	1	1	2	1	4	2	1	11.9	19.3	1,511
3037 TT	UniMicron Technology Corp.	28.65	TWD	1	1	1	2	5	2	1	10.8	(7.0)	1,452
6176 TT	Radiant Opto-Electronics Corp.	96.80	TWD	1	1	1	3	5	2	1	8.0	(19.0)	1,425
8299 TT	Phison Electronics Corp.	237.00	TWD	1	3	1	1	1	2	1	12.8	23.1	1,418
2379 TT	Realtek Semiconductor Corp.	68.50	TWD	1	2	1	1	1	2	1	12.7	11.7	1,136
ACP PW	Asseco Poland S.A.	41.24	PLN	1	1	3	5	4	1	1	9.4	(4.0)	1,041
035720 KS	Daum Communications Corp.	79,300.00	KRW	1	1	2	2	5	2	1	12.0	(13.0)	911
Pharmaceuticals and Biotechnology													
RBXY IB	Ranbaxy Laboratories Ltd.	317.60	INR	1	3	2	1	1	2	1	14.1 x	(36.8) %	\$2,152
Retail, Media, and Other Consumer Cyclical													
493 HK	GOME Electrical Appliances Holding Ltd.	0.67	HKD	1	1	1	2	5	4	1	17.8 x	(27.2) %	\$1,439
PKS MK	Parkson Holdings Bhd	3.83	MYR	1	1	1	5	5	4	1	12.8	(25.0)	1,291
130960 KS	CJ E&M Corp.	34,550.00	KRW	1	2	2	1	2	2	1	26.1	30.4	1,083
Consumer Staples													
KUL MK	Kulim (Malaysia) Bhd	3.42	MYR	1	1	3	1	4	4	1	22.2 x	(13.9) %	\$1,363
Energy													
ROSN RX	Rosneft	222.87	RUB	1	1	5	2	3	3	1	5.6 x	(14.4) %	\$71,708
LKOH RX	Lukoil Holdings	1,857.90	RUB	1	1	4	3	3	3	1	4.4	(4.8)	48,357
SNCS RX	Surgutneftegaz JSC	25.60	RUB	1	1	1	1	4	3	1	5.0	(2.6)	27,617
SIBN RX	Gazprom Neft	117.19	RUB	1	1	3	1	5	3	1	3.3	(11.9)	16,725
CAIR IB	Cairn India Ltd.	288.00	INR	1	1	1	1	4	2	1	5.5	(9.7)	9,119
MOL HB	MOL Hungarian Oil and Gas Plc	16,350.00	HUF	1	1	1	4	5	1	1	8.3	(5.3)	7,394
BCP TB	Bangchak Petroleum PCL	34.00	THB	1	1	2	2	2	5	1	8.4	9.6	1,480
PLNG IB	Petronet LNG Ltd.	119.75	INR	1	2	1	1	4	2	1	9.4	(22.3)	1,472
LTS PW	Grupa Lotos S.A.	33.80	PLN	1	1	5	3	3	1	1	10.1	(18.0)	1,293
Telecommunications													
AFKS RX	Sistema JSFC	28.70	RUB	1	1	1	3	3	3	1	6.5 x	16.6 %	\$8,450
030200 KS	KT Corp.	35,600.00	KRW	1	1	1	2	1	2	1	8.2	0.3	8,023
ETEL EY	Telecom Egypt S.A.E.	11.53	EGP	1	1	1	2	4	5	1	8.0	(10.1)	2,775
ORTE EY	Orascom Telecom Holding	3.76	EGP	1	1	1	4	3	5	1	4.9	(5.3)	2,584
ALMEN CI	Almendral S.A.	62.70	CLP	1	1	4	2	5	3	1	8.4	(12.5)	1,684
MTELEKOM HB	Magyar Telekom Telecommunications PLC	328.00	HUF	1	1	1	4	4	1	1	9.0	(0.4)	1,486
CTCA CI	Telefonica Chile S.A.	709.00	CLP	1	1	1	4	2	3	1	NM	(0.7)	1,335
TKG SJ	Telkom SA SOC Ltd.	16.55	ZAR	1	1	1	1	5	3	1	8.6	(1.5)	849
Utilities													
902 HK	Huaneng Power International Inc.	7.66	HKD	1	2	2	1	1	4	1	8.3 x	10.8 %	\$14,066
ELET6 BZ	Centrais Eletricas Brasileiras S/A	8.63	BRL	1	1	1	1	2	5	1	32.5	(2.0)	3,470
ELET3 BZ	Eletrobras SA	4.66	BRL	1	1	1	2	4	5	1	NM	(20.4)	3,315
CPLE6 BZ	Companhia Paranaense de Energia-COPEL	26.95	BRL	1	1	2	4	1	5	1	7.8	(12.3)	3,101
CESP6 BZ	Cia Energetica de Sao Paulo Prf B	19.55	BRL	1	1	3	1	2	5	1	6.3	6.5	2,761
CGE CI	Compania General de Electricidad S.A.	3,190.00	CLP	1	2	2	3	1	3	1	12.5	17.9	2,645
FGEN PM	First Gen Corp.	17.82	PHP	1	1	1	2	3	1	1	8.6	(20.1)	1,275
FPH PM	First Philippine Holdings Corp.	81.60	PHP	1	1	1	4	3	1	1	8.7	(7.7)	968

Source: Empirical Research Partners Analysis.

Appendix 3: Changes to Our World Large-Capitalization Model Portfolio

Changes to Our World Large-Capitalization Model Portfolio
As of End-of-June 2013

Bloomberg Ticker	Company	Suggested Weight	Price at Inclusion (Local)	Price 06/28/13	Local Currency Code	Rationale
Additions						
AMGN US	Amgen Inc.	1.4 %	98.66	98.66	USD	Attractive
139480 KS	E-mart Co. Ltd.	1.4	201,000.00	201,000.00	KRW	Attractive
5214 JP	Nippon Electric Glass Co. Ltd.	1.0	483.00	483.00	JPY	Attractive
13 HK	Hutchison Whampoa Ltd.	0.5	81.55	81.55	HKD	Attractive
Increasing Weights						
1288 HK	Agricultural Bank of China Ltd.		4.01	3.20	HKD	Attractive, Still Inexpensive
	Was	1.5 %				
	Now	2.0				
AZN LN	AstraZeneca PLC		29.96	31.15	GBP	Attractive, Still Inexpensive
	Was	1.2 %				
	Now	1.8				
8411 JP	Mizuho Financial Group Inc.		168.00	206.00	JPY	Attractive, Still Inexpensive
	Was	1.2 %				
	Now	1.7				
7259 JP	Aisin Seiki Co. Ltd.		3,115.00	3,795.00	JPY	Attractive, Still Inexpensive
	Was	1.0 %				
	Now	1.5				
DO US	Diamond Offshore Drilling Inc.		78.23	68.79	USD	Attractive, Still Inexpensive
	Was	0.3 %				
	Now	1.4				
AH NA	Ahold		9.69	11.44	EUR	Attractive, Still Inexpensive
	Was	1.0 %				
	Now	1.4				
Deletions						
THBEV SP	Thai Beverage PCL	2.5 %	0.40	0.59	SGD	Loss in Model Rank
GILD US	Gilead Sciences Inc.	1.8	38.98	51.27	USD	Loss in Model Rank
F IM	Fiat SpA	0.7	6.73	5.37	EUR	Loss in Model Rank
DOV US	Dover Corp.	0.6	64.25	77.66	USD	Loss in Model Rank
900948 CH	Inner Mongolia Yitai Coal Co. Ltd.	0.6	6.84	4.83	USD	Loss in Model Rank
FCX US	Freeport-McMoRan Copper & Gold	0.6	52.95	27.61	USD	Loss in Model Rank
2432 JP	DeNA Co. Ltd.	0.5	2,901.00	1,948.00	JPY	Loss in Model Rank
TKG SJ	Telkom SA SOC Ltd.	0.2	36.80	16.60	ZAR	Eliminating Small Position
Decreasing Weights						
7270 JP	Fuji Heavy Industries Ltd.		701.00	2,445.00	JPY	Taking Profits
	Was	2.8 %				
	Now	2.3				

Source: Empirical Research Partners Analysis.

Appendix 4: World Large-Capitalization Model Portfolio

World Large-Capitalization Core Portfolio
As of End-of-June 2013

Symbol	Company	Weight	Price at Inclusion (Local)	Price 06/28/13	Local Currency Code	World Large-Cap Index Weight	Symbol	Company	Weight	Price at Inclusion (Local)	Price 06/28/13	Local Currency Code	World Large-Cap Index Weight
CYCLICALS							GROWTH-ORIENTED (Cont.)						
Consumer Durables and Apparel							Consumer Staples						
7270 JP	Fuji Heavy Industries Ltd.	2.3 %	701.00	2,445.00	JPY		LO US	Lorillard Inc.	2.5 %	25.59	43.68	USD	
7259 JP	Aisin Seiki Co. Ltd.	1.5	3,335.91	3,795.00	JPY		PM US	Philip Morris International Inc.	2.0	62.78	86.62	USD	
TTMT IB	Tata Motors Ltd.	1.4	246.40	281.45	INR		INDF IJ	IndoFood Sukses Makmur	1.7	4,750.00	7,350.00	IDR	
7203 JP	Toyota Motor Corp.	1.3	3,720.00	5,990.00	JPY		139480 KS	E-mart Co. Ltd.	1.4	201,000.00	201,000.00	KRW	
VOW GY	Volkswagen AG	1.1	110.00	149.75	EUR		AH NA	Ahold	1.4	10.21	11.44	EUR	
RNO FP	Renault S.A.	1.1	44.42	51.70	EUR				9.0 %				11.2 %
BMW GY	Bayerische Motorenwerke AG BMW	0.6	58.16	67.18	EUR		OTHER						
		9.3 %				4.7 %	Financials						
Capital Equipment							Swiss Re AG						
NOC US	Northrop Grumman Corp.	1.3 %	63.08	82.80	USD		SREN VX	Swiss Re AG	2.1 %	65.90	70.30	CHF	
8002 JP	Marubeni Corp.	1.2	625.00	663.00	JPY		1288 HK	Agricultural Bank of China Ltd.	2.0	3.81	3.20	HKD	
1800 HK	China Communications Construction Co. Ltd.	0.9	6.62	6.07	HKD		JPM US	JPMorgan Chase & Co.	2.0	43.87	52.79	USD	
8031 JP	Mitsui & Co. Ltd.	0.9	1,486.00	1,246.00	JPY		LGEN LN	Legal & General Group PLC	1.9	1.19	1.71	GBP	
010140 KS	Samsung Heavy Industries Co. Ltd.	0.7	37,800.00	35,800.00	KRW		DFS US	Discover Financial Services	1.8	36.47	47.64	USD	
EAD FP	EADS NV	0.7	22.05	41.07	EUR		SAMAS FH	Sampo Oyj	1.8	22.43	29.94	EUR	
5201 JP	Asahi Glass Co. Ltd.	0.6	1,138.00	646.00	JPY		8411 JP	Mizuho Financial Group Inc.	1.7	179.57	206.00	JPY	
13 HK	Hutchison Whampoa Ltd.	0.5	81.55	81.55	HKD		HNR1 GY	Hannover Re	1.5	35.69	55.32	EUR	
		6.8 %				7.0 %	1988 HK	China Minsheng Banking Corp. Ltd.	1.4	6.88	7.59	HKD	
Commercial Services							ZURN VX						
HEI GY	HeidelbergCement AG	1.4 %	44.07	51.67	EUR		FITB US	Zurich Insurance Group AG	1.1	269.70	245.00	CHF	
VALES BZ	Cia Vale do Rio Doce Pfd Sh -A-	1.0	49.60	27.05	BRL		RBI AV	Fifth Third Bancorp	1.0	13.11	18.05	USD	
656 HK	Fosun International Ltd.	1.0	5.65	5.69	HKD		086790 KS	Hana Financial Group Inc.	1.0	45,000.00	33,250.00	KRW	
STLT IB	Sterlite Industries (India) Ltd.	0.8	112.41	83.50	INR		PNB IB	Raiffeisen Bank International AG	0.9	31.24	22.40	EUR	
TCK/B CN	Teck Resources Ltd. CI B	0.3	53.75	22.47	CAD			Punjab National Bank	0.5	1,054.75	650.90	INR	
		4.4 %				5.3 %	Energy						
Transports							Chevron Corp.						
9062 JP	Nippon Express Co. Ltd.	1.1 %	327.00	471.00	JPY		CXV US	Chevron Corp.	1.6 %	103.75	118.34	USD	
		1.1 %				2.1 %	COP US	ConocoPhillips	1.5	77.87	60.50	USD	
GROWTH-ORIENTED							DO US						
Technology							OMV AV						
ACN US	Accenture PLC	1.7 %	51.48	71.96	USD		DO US	Diamond Offshore Drilling Inc.	1.4	70.86	68.79	USD	
IBM US	International Business Machines Corp.	1.6	161.88	191.11	USD		MPC US	Marathon Petroleum Corp.	1.3	43.99	71.06	USD	
SYMC US	Symantec Corp.	1.4	18.03	22.48	USD		XOM US	Exxon Mobil Corp.	1.1	85.53	90.35	USD	
ORCL US	Oracle Corp.	1.3	32.90	30.71	USD		LKOH RX	Lukoil Holdings	1.0	2,038.03	1,890.40	RUB	
GLW US	Corning Inc.	1.2	14.25	14.23	USD		FP FP	Total S.A.	0.6	37.60	37.51	EUR	
5214 JP	Nippon Electric Glass Co. Ltd.	1.0	483.00	483.00	JPY		386 HK	China Petroleum & Chemical Corp.	0.6	7.94	5.46	HKD	
2382 TT	Quanta Computer Inc.	1.0	63.30	65.00	TWD		5020 JP	JX Holdings Inc.	0.6	573.00	481.00	JPY	
2357 TT	ASUSTeK Computer Inc.	0.9	276.50	258.00	TWD		5019 JP	Idemitsu Kosan Co. Ltd.	0.6	6,930.00	7,630.00	JPY	
CA US	CA Inc.	0.8	24.78	28.62	USD		GAZP RX	Gazprom OAO	0.6	210.71	109.10	RUB	
3231 TT	Wistron Corp.	0.8	46.45	30.25	TWD				12.5 %				11.5 %
FLEX US	Flextronics International Ltd.	0.6	8.09	9.82	USD		Telecommunication Services						
		12.3 %				10.7 %	BT/A LN	BT Group PLC	1.6 %	1.82	3.09	GBP	
Health Care							ENEL IM						
LLY US	Eli Lilly & Co.	2.5 %	35.89	49.12	USD		EOAN GR	Enel S.p.A.	0.7	4.53	2.41	EUR	
AET US	Aetna Inc.	1.8	39.61	63.54	USD			Tauron Polska Energia S.A.	0.7	4.65	4.31	PLN	
AZN LN	AstraZeneca PLC	1.8	30.36	31.15	GBP			E.ON SE	0.6	23.78	12.61	EUR	
AMGN US	Amgen Inc.	1.4	98.66	98.66	USD				3.1 %				3.5 %
PFE US	Pfizer Inc.	1.4	19.79	28.01	USD		Utilities						
UNH US	UnitedHealth Group Inc.	1.2	42.58	65.48	USD		TNB MK	Tenaga Nasional Bhd	1.1 %	6.30	8.29	MYR	
		10.1 %				8.6 %	ENEL IM	Enel S.p.A.	0.7	4.53	2.41	EUR	
Retail, Media and Other Consumer Cyclical							TPE PW						
TWC US	Time Warner Cable Inc.	2.2 %	69.49	112.48	USD		EOAN GR	Tauron Polska Energia S.A.	0.7	4.65	4.31	PLN	
880 HK	SJM Holdings Ltd.	1.4	11.46	18.86	HKD				0.6	23.78	12.61	EUR	
KSS US	Kohl's Corp.	1.2	52.79	50.51	USD		TOTAL						
VIV FP	Vivendi	1.0	19.97	14.55	EUR				100.0 %				100.0 %
		5.8 %				6.4 %							

Source: Empirical Research Partners Analysis.