

## STRONG INVESTMENT PERFORMANCE IN Q1 2016

BOSTON, MA – 04/15/16 – Beyond Borders Investment Strategies, LLC announced today that the firm’s portfolio outperformed its benchmark, MSCI All Country World (ACWI) ex USA Value Weighted Index, by 8.26% during the first quarter of 2016. The value of the firm’s investment portfolio increased by 8.32% during the quarter, while the index’s value increased only by 0.06%.

**Table 1. Returns of Beyond Borders Investment Strategies’ Portfolio vs. Index, Q1 2016**

<u>Returns (Gross of Fees)</u>	<u>Jan-16</u>	<u>Feb-16</u>	<u>Mar-16</u>	<u>Q1 2016</u>
BBIS Portfolio	-3.83%	1.92%	10.52%	8.32%
MSCI ACWI ex USA Value Weighted Index	-7.79%	-0.79%	9.37%	0.06%
Alpha	3.96%	2.71%	1.15%	8.26%

Sources: Datastream, Beyond Borders Investment Strategies.

Vitaly Veksler, the firm’s CEO and Portfolio Manager, said that he was pleased with the firm’s performance in the first quarter of 2016. “We managed to outperform the index during three very different market environments over the last three months: an extremely difficult January when the index plummeted by 7.8%, a neutral February when the index was slightly down, and an extremely positive March when the index shot up by almost 9.4% (see Table 1 above for the firm portfolio’s returns vs. index returns). Our biggest outperformance came in January due to the fact that single-country equity ETFs in our portfolio were trading at such low valuations that they simply did not have much room to decline in-line with our benchmark index that included stocks that traded at high valuations. Our sizable cash position also helped our portfolio’s performance.”

In March, Beyond Borders Investment Strategies had the best monthly performance so far. The value of the firm’s portfolio increased by more than 10.5%. We attributed our portfolio’s strong performance, as well as that of our benchmark, to the fact that stock markets of emerging market countries, especially commodity-producing ones, started to rally after five tough years of relative underperformance. By beginning of March, equity valuations of many emerging markets were so low that they were ready for a powerful rally, if a catalyst or catalysts would appear. In our opinion, four catalysts had significant positive impact on performance of emerging markets. Two of these catalysts happened in emerging markets themselves and two in developed markets, which are the largest destinations for exports from the emerging markets.

**Negotiations on Oil Production Cuts:** Negotiations between OPEC and Russia on cutting oil production, which several articles focused on in late January, became a powerful catalyst for stock markets of oil-exporting countries (e.g. Russia, Brazil). These markets rallied as the price of Brent crude oil increased by 42% from January 27 to March 31.<sup>1</sup>

**Slow but Positive Growth in the US:** In late February, releases of the US economic statistics demonstrated that the economy grew faster than expected in the last quarter of 2015.<sup>2</sup> According to the releases, the US GDP was expected to grow at around 2% in 2016, which alleviated concerns about potential contraction of the US economy.<sup>3</sup> Consumer spending grew in January at the fastest level in eight months as a strong job market and robust wage gains boosted consumers' willingness to spend.<sup>4</sup> This news calmed investors' nerves after the stock market correction in January and early February of 2016, when the price of the S&P 500 index dropped by 10.5%. This news, in our opinion, also seriously lessened concerns about potential recession in 2016.<sup>5</sup> The expected growth of the US economy is especially positive for emerging markets where most of their exports are destined for the US (e.g. Colombia).

**Economic Stimulus Package Expansion in Eurozone:** In early March, the governing council of the European Central Bank (ECB) led by its President Mario Draghi announced a package of measures that would help the Eurozone to maintain positive economic growth and avoid deflation.<sup>6</sup> These measures included an increase in cash infusions as part of the quantitative easing program by one third, a decrease to zero of the benchmark interest rate on the main refinancing operations that provide the bulk of liquidity to the European banking system, and a reduction of the rate that banks may use for overnight deposits with the Eurosystem, the monetary authority of the Eurozone, to negative 0.4%.<sup>7</sup> All these measures were aimed at encouraging

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<sup>1</sup> Datastream. The price of Brent crude oil increased from \$27.76 on January 27, 2016 when the first article on the negotiations appeared to \$39.41 on March 31, 2016. One of the first reports on this topic was: Jack Stubbs and Katya Golubkova, Reuters, *Russians Want to Talk to OPEC about Output, Pipeline Chief Says*, January 27, 2016.

<sup>2</sup> Harriet Torry, The Wall Street Journal, *US Economy Starting 2016 on Solid Footing*, February 26, 2016.

<sup>3</sup> OECD, *Interim Economic Outlook*, February 18, 2016. The report forecasted that the US economic growth will be 2% in 2016.

<sup>4</sup> Harriet Torry, The Wall Street Journal, *US Economy Starting 2016 on Solid Footing*, February 26, 2016.

<sup>5</sup> Datastream. The S&P index's price dropped by 10.5% since the beginning of the year (2,043.94 as of the end of the day on December 31, 2015) through the end of the day on February 11, 2016 (1,829.08).

<sup>6</sup> Alessandro Speciale and Jeff Black, Bloomberg, *Draghi Expands ECB Stimulus with More QE and Lower Rates*, March 10, 2016.

<sup>7</sup> Ibid.

commerce and lending in Europe. Importantly, the ECB policymakers stated that the interest rates are expected to remain at present or lower levels for an extended period of time.<sup>8</sup>

**Forecasted Infrastructure Growth in China:** Also in early March, Prime Minister of China's speech to the annual National People's Congress in Beijing became one of these catalysts. In this speech, Li Keqiang announced that the country's growth target would be 6.5%-7.0% in 2016 and 6.5% per year from 2016 to 2020.<sup>9</sup> From our standpoint, this level of growth is only possible if China continues to invest in construction of massive infrastructure projects. It seems that we have been right on this topic since we expressed our opinion about it two years ago.<sup>10</sup> Among other infrastructure construction projects, China's 13th five-year economic plan for the 2016-2020 includes such large capital projects as construction of 50 new airports and a second train line to Tibet.<sup>11</sup> These construction projects are extremely positive for exporters of copper (i.e. Chile, Peru) and steel (i.e. Australia, Brazil) as these commodities would definitely be used in the construction.

In addition to these global or multi-country catalysts, there were a few country-specific catalysts that made individual equity markets rally. For example, Brazilian stocks climbed on the news of the corruption scandal in Brazil getting closer and closer to President Dilma Rousseff. It looked like the majority of investors and business people did not believe that the scandal and the government's unfriendly attitude towards businesses would allow this president to lead the country out of the current recession and attract much needed investments.

Please let us know if you have any questions about Beyond Borders Investment Strategies, or would like to talk to Vitaly Veksler about macroeconomic or investment topics, by sending a message to [info@bbistrategies.com](mailto:info@bbistrategies.com). Thank you.

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<sup>8</sup> Ibid.

<sup>9</sup> The Economist, *The National People's Congress: Unlucky for Some*, March 12, 2016.

<sup>10</sup> We talked about Beyond Borders Investment Strategies' reasoning for why we believe that China would continue to rely on its tried and true exports- and investment-driven economic growth model while its leaders talk about transition to the consumption-driven growth model in our report *Buy Chilean Equities: Impact of Copper Oversupply is Overblown* that was published in March of 2014: <http://bbistrategies.com/our-publications--events/research-report-buy-chilean-equities-impact-of-copper-oversupply-is-overblown>

<sup>11</sup> The Economist, *The National People's Congress: Unlucky for Some*, March 12, 2016.