# BEYOND BORDERS INVESTMENT STRATEGIES

## GLOBAL INVESTING USING COUNTRY FUNDS

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# EXECUTIVE OVERVIEW

**Boutique investment firm that provides:** 1. cost-efficient
2. globally diversified equity strategies
3. aimed at reducing risk and
4. achieving higher risk-adjusted returns
5. over a long-term horizon (3+ years)

| | |
|---|---|
| Investment Goals | ▪ Increase returns by rotating to countries that trade at low valuations, often during or after crises, and offer high expected returns<br>▪ Lower risk by diversifying across multiple country markets and investing in country funds rather than in individual stocks<br>▪ Provide more flexibility in determining country position sizes versus broad-based indices |
| Impact Goals | ▪ Help countries' stock markets to stabilize, companies to start expanding their operations and hiring people, and the countries' and their citizens to emerge from crises<br>▪ Strengthen global stability and security by reducing militant nationalism within crisis-afflicted countries and sometimes spills onto the international arena in the form of terrorism or wars |
| Country Value Style | ▪ Global Macro: Analyze global macroeconomic trends affecting capital flows around the world<br>▪ Quantitative: Identify country indices trading at low valuations & offering high expected returns<br>▪ Fundamental: Analyze economic, political, legal, business & technological catalysts & risks |

# REASONS FOR THE FIRM'S EXISTENCE

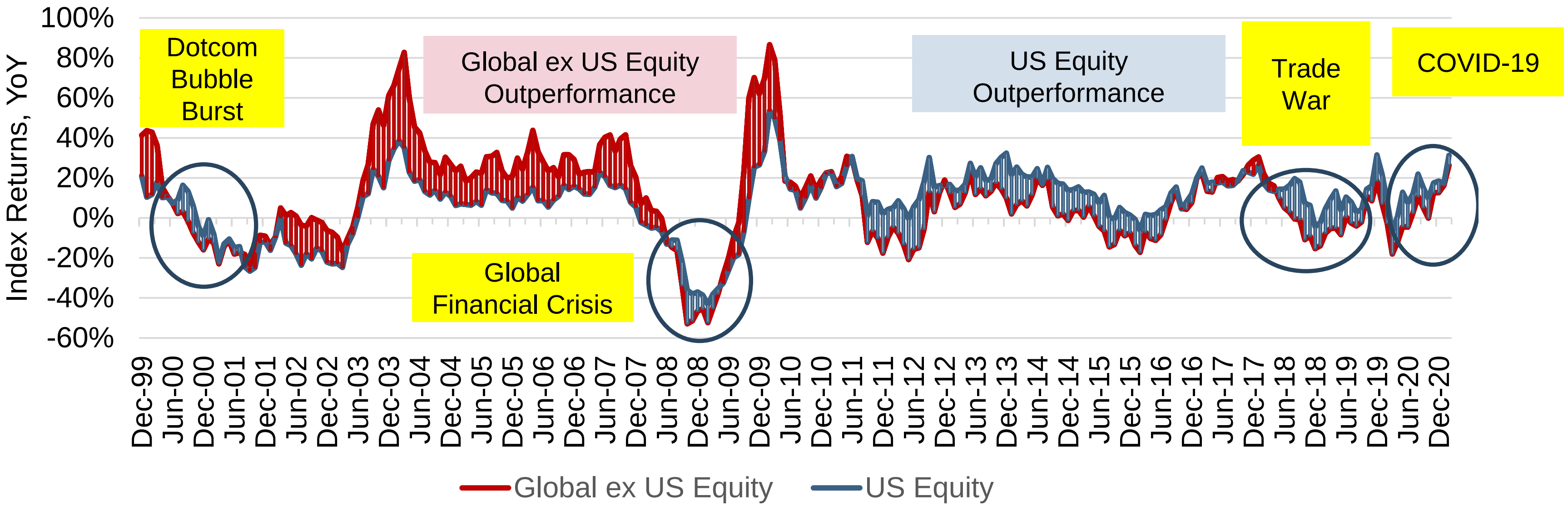
# BBIS' FOUR GOALS

- **Earning Competitive Returns While Reducing Risk:** Earning competitive returns for clients over the market cycle due to the equity valuation mean-reversion and country catalyst / risk analysis. We reduce investment risks of our client portfolios by diversifying our portfolios' composition among countries (not more than 10% of portfolios invested in any one country) and within countries (single-country ETFs are composed of dozens and hundreds of stocks).
- **Helping Countries Recover from Crises:** Helping countries' stock markets stabilize, companies start expanding their operations and hiring people, and the countries' citizens emerge from crises. By using single-country ETFs, we buy shares of all large and medium-size public companies and can help their employees, their families, and people in their communities. For comparison, stock pickers usually invest in several companies per country and can help much fewer people.
- **Helping to Ensure Uninterrupted Import Supplies to the US and Worldwide:** The US is an open economy and a significant importer of manufactured goods, commodities, and services. The same goes for many other economies around the world. Some of the imports from countries that are going or recently weathered crises have few substitutes. By helping crisis-stricken countries and their companies recover, we are helping to ensure that import flows to and supply chains of both US and global consumers and businesses are not interrupted.
- **Strengthening Stability and Security around the World:** Strengthening security and increasing stability by reducing militant nationalism that often impacts people within crisis-afflicted countries and sometimes spills onto the international arena in the form of terrorism or war.

# INVESTORS' PROBLEM: HOME COUNTRY BIAS

- **Investors can increase their total portfolio returns by investing in international equities**
  - **Global ex US equities outperformed for long periods of time (51% of time during the 21st century)**
  - **Global ex US equities are more likely to outperform (less risky) US equites during non-crisis periods, especially, right after crises**
- **International diversification can reduce volatility of investment portfolios**

**US & Global ex US Equities Outperformance Periods (Dec 31, 1999 - Feb 26, 2021)**




*Source: Datastream. Global ex US Equity returns are represented by those of MSCI ACWI ex USA Equal Weighted Index, US Equity returns – by Standard & Poor's 500 Index. Data are from December 31, 1999 to February 26, 2021.*

# POSITIVE IMPACT ON COUNTRIES THAT WENT THROUGH CRISES

- CRISES
  - Financial
    - Currency Crashes
    - Sovereign External Debt
    - Sovereign Domestic Debt
    - (Hyper) Inflation
    - Banking
  - Political
    - Elections
    - Corruption
  - Geopolitical
    - Nuclear Threat
    - Regional Wars
  - Natural Disasters / Pandemics
- DIFFICULT ECONOMIC TIMES
  - Low Demand for Exports

Beyond Borders Investment Strategies, LLC

CAPITAL OUTFLOWS

Goal: Stop Capital Outflows and Contribute to Economic Recovery

CRISES' CONSEQUENCES

- Sharp Decreases in Investor Confidence
- Dramatic Decreases in Stock Market Prices
- Company Bankruptcies / Layoffs
- Increased Unemployment
- Currency Depreciation
- Rapid Rise of Inflation
- Sharp Decrease in Quality of Life
- Rise of:
  - Crime
  - Militant Nationalism
  - Societal Divisions
  - Terrorism

# POSITIVE IMPACT: WIDE, EFFICIENT & FAIR

**Impact the Widest Number of People**

- **Widest Reach:** Unlike stock pickers who invest in several companies per country, we help the widest number of people, shareholders and workers at all companies included in the ETFs
- **Income Multiplier Effect:** Via the income multiplier effect, we help even people who do not work in these companies. As a result, BBIS contributes to countries' economic recoveries and their citizens' resumption of normal lives
- **Partnership vs. Charity & Humanitarian Aid:** We help people maintain their dignity as the majority of working people around the world prefer business cooperation to receiving aid

**Efficient Delivery**

- **Highest Efficiency:** Private sector is the most efficient conduit of capital to countries in need
  - **Investing via ETFs:** Around 99% of money invested via ETFs goes into the shares of companies that these ETFs include
  - **Charities:** Charities where 65% or more of capital donations go to recipients are applauded [1]
  - **Humanitarian Aid:** Often, large portions of humanitarian aid distributed by the governments of donor countries to the governments of countries in need have been stolen

**Fair Way of Distributing Benefits**

- **No Resentment:** During times of crises, there is a tendency for governments and people in power to help groups that they perceive to be closer to them. Investing via ETFs creates no resentment as there is no discrimination or favoritism involved
- **Equal Opportunity Treatment:** Our way of contributing to countries' recoveries by investing in ETFs is fair and transparent. All shares of companies in the ETFs move by the same amount regardless of the shareholders' ethnic origin, race, color, religion, sex, or age

*1. Better Business Bureau: Wise Giving Alliance, Give.org, How We Accredit Charities, 20 Standards. Downloaded on December 20, 2018.*

# INVESTMENT PROCESS & FEATURES

# INVESTMENT STRATEGY: COUNTRY ROTATION

**Countries rotate from the Top Ten to the Bottom Ten, and between them, due to such factors as:**

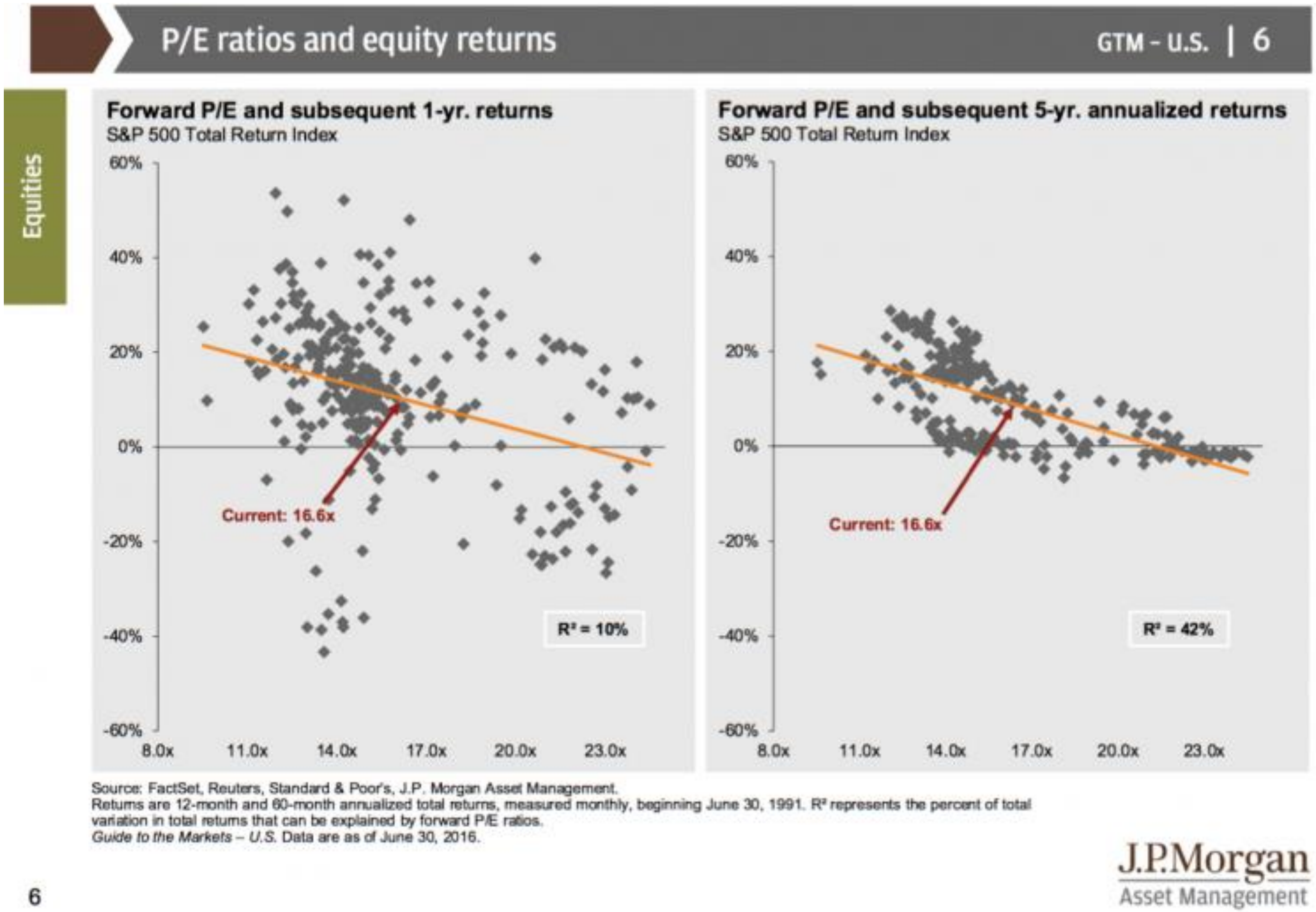
- **Global sentiment and capital flows**
- **Economic / Financial / Geo(political) crises**
- **Regional attractiveness**
- **Countries' index valuations and earnings growth**

## Returns of Country Indices – Top Ten and Bottom Ten, US Dollars

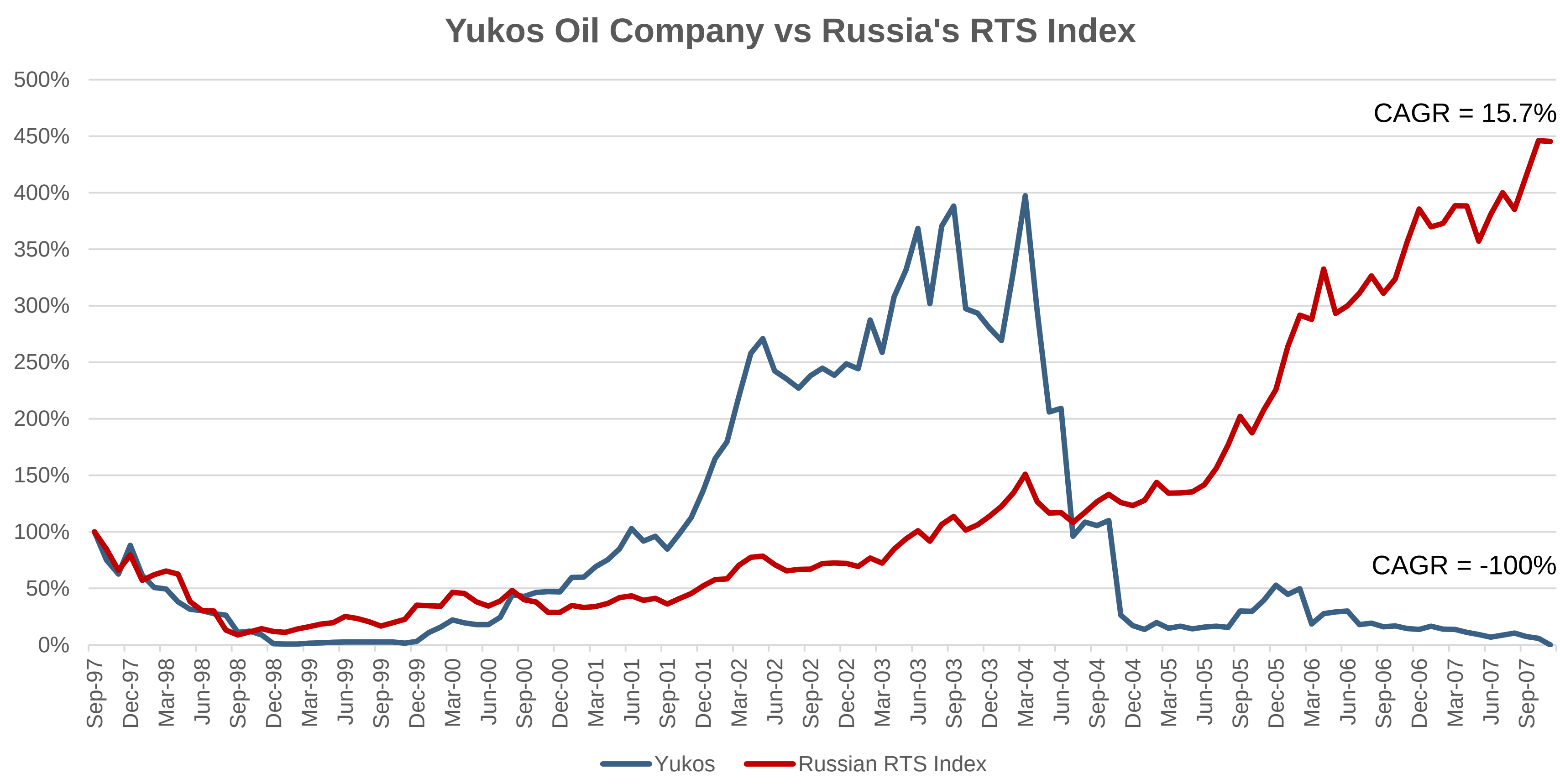
| | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | | 2019 | | 2020 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TOP 10 | Ireland | 14% | Turkey | 65% | UAE | 90% | Egypt | 29% | Denmark | 24% | Brazil | 67% | Argentina | 74% | Qatar | 30% | Russia | 53% | South Korea | 45% |
| | Qatar | 8% | Nigeria | 64% | Argentina | 66% | Indonesia | 27% | Ireland | 17% | Russia | 56% | Vietnam | 65% | Saudi Arabia | 19% | Greece | 44% | Denmark | 44% |
| | Indonesia | 6% | Philippines | 48% | Greece | 53% | Philippines | 26% | Belgium | 13% | Peru | 56% | Austria | 59% | Peru | 2% | Egypt | 42% | Taiwan | 42% |
| | New Zealand | 6% | Egypt | 47% | Finland | 48% | India | 24% | Israel | 11% | Pakistan | 42% | Poland | 55% | Russia | 1% | New Zealand | 39% | China | 30% |
| | USA (S&P 500) | 2% | Poland | 41% | Ireland | 42% | Israel | 24% | Japan | 10% | Thailand | 27% | China | 54% | Brazil | 0% | Ireland | 38% | Nigeria | 25% |
| | USA (MSCI) | 2% | Belgium | 41% | Pakistan | 36% | Argentina | 19% | Russia | 5% | Colombia | 26% | South Korea | 48% | Finland | -2% | Taiwan | 38% | Netherlands | 24% |
| | Malaysia | 0% | Colombia | 36% | USA (MSCI) | 33% | Turkey | 19% | Austria | 4% | Canada | 25% | Chile | 44% | New Zealand | -3% | Switzerland | 34% | Sweden | 24% |
| | Philippines | 0% | Thailand | 35% | Germany | 32% | Thailand | 17% | Finland | 3% | Taiwan | 20% | Turkey | 39% | USA (S&P 500) | -4% | Netherlands | 33% | Finland | 22% |
| | Thailand | -2% | Pakistan | 34% | USA (S&P 500) | 32% | Qatar | 17% | Italy | 3% | New Zealand | 19% | India | 39% | USA (MSCI) | -5% | USA (MSCI) | 32% | USA (MSCI) | 21% |
| | United Kingdom | -3% | Germany | 32% | Spain | 32% | UAE | 14% | Portugal | 2% | South Africa | 18% | Peru | 38% | Israel | -5% | USA (S&P 500) | 31% | New Zealand | 20% |
| ⋮ | | | USA (MSCI) | 16% | | | USA (S&P 500) | 14% | USA (S&P 500) | 1% | USA (S&P 500) | 12% | USA (MSCI) | 22% | | | | | USA (S&P 500) | 18% |
| | | | USA (S&P 500) | 16% | | | USA (MSCI) | 13% | USA (MSCI) | 1% | USA (MSCI) | 12% | USA (S&P 500) | 22% | | | | | | |
| BOTTOM 10 | Israel | -28% | Ireland | 8% | Philippines | -2% | Chile | -12% | Thailand | -23% | Belgium | -7% | Colombia | 16% | South Korea | -20% | India | 8% | Turkey | -9% |
| | Poland | -30% | Greece | 6% | India | -4% | Poland | -14% | Egypt | -24% | Vietnam | -8% | Mexico | 16% | Germany | -22% | Saudi Arabia | 7% | United Kingdom | -10% |
| | Finland | -31% | Indonesia | 6% | South Africa | -6% | Brazil | -14% | Canada | -24% | Turkey | -8% | New Zealand | 13% | South Africa | -24% | Peru | 5% | Poland | -11% |
| | Turkey | -35% | Portugal | 5% | Thailand | -14% | Colombia | -20% | Poland | -25% | Mexico | -9% | Saudi Arabia | 8% | Ireland | -25% | UAE | 4% | Thailand | -11% |
| | Austria | -36% | Singapore | 5% | Brazil | -16% | Norway | -21% | South Africa | -25% | Italy | -10% | Russia | 6% | Belgium | -26% | Qatar | -1% | Russia | -12% |
| | India | -37% | Spain | 5% | Colombia | -21% | Nigeria | -26% | Turkey | -32% | Egypt | -11% | Egypt | 5% | Austria | -27% | Malaysia | -2% | Pakistan | -16% |
| | Vietnam | -38% | Brazil | 0% | Chile | -21% | Austria | -29% | Peru | -32% | Greece | -12% | UAE | 3% | Pakistan | -34% | Poland | -5% | Colombia | -19% |
| | Argentina | -39% | Qatar | -2% | Indonesia | -23% | Portugal | -38% | Brazil | -41% | Denmark | -15% | Israel | 3% | Greece | -37% | Nigeria | -16% | Brazil | -19% |
| | Egypt | -47% | Israel | -4% | Turkey | -27% | Greece | -40% | Colombia | -42% | Israel | -24% | Qatar | -12% | Turkey | -41% | Chile | -16% | Egypt | -22% |
| | Greece | -63% | Argentina | -37% | Peru | -30% | Russia | -46% | Greece | -61% | Nigeria | -36% | Pakistan | -24% | Argentina | -51% | Argentina | -21% | Greece | -27% |
| | Best(B)-Worst(W) | 77% | | 102% | | 120% | | 75% | | 86% | | 102% | | 97% | | 81% | | 73% | | 72% |
| | 5th B - 5th W | 39% | | 36% | | 63% | | 50% | | 41% | | 38% | | 49% | | 27% | | 40% | | 41% |
| | 10th B - 10th W | 25% | | 24% | | 34% | | 26% | | 25% | | 25% | | 22% | | 15% | | 24% | | 29% |

*Source: Datastream. US represented by Standard & Poor's 500 Index. All other countries are represented by their MSCI Equity Indices. Data are from January 1, 2011 to December 31, 2020.*

# INVESTMENT STRATEGY: VALUE INVESTING



# INVESTMENT STRATEGY: COUNTRY FUNDS AS BUILDING BLOCKS



# INVESTMENT PROCESS

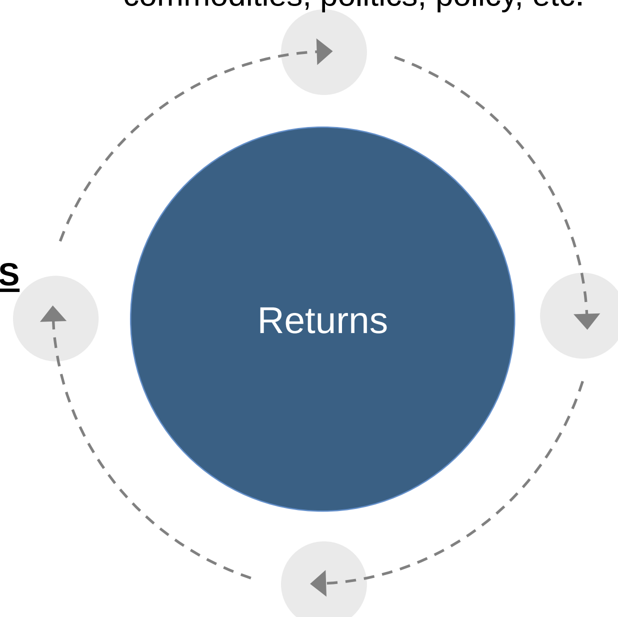
**Our objective is to provide a cost-efficient way of alleviating the *home country bias,* thereby helping investors increase returns on their portfolios while decreasing risk**

**<u>GLOBAL MACRO ANALYSIS</u>**

- Research global trends in economies, commodities, politics, policy, etc.

**<u>COUNTRY CATALYSTS & RISKS</u>**

- Earnings Growth
- Technical / Momentum Trends
- Political Reasons
- Global Macroeconomic Trends
- Economic Reasons
- Legislative Reasons




**<u>COUNTRY VALUATIONS</u>**

- Identify countries with low current valuations vs. historical averages

**<u>EXPECTED RETURNS</u>**

- Valuations
- Growth Indicators
- Dividends

# PORTFOLIO CONSTRUCTION & RISK MANAGEMENT

**We create client portfolios by buying single-country ETFs of countries where markets trade at low valuations and offer high expected returns to increase returns and reduce risk in the cost-efficient way**

## RISK MANAGEMENT

- **Intercountry Diversification**
  - We diversify our portfolios by investing in 15 - 20 ETFs
  - Any country position should not exceed an annual average of 10% of the portfolio

- **Intracountry Diversification**
  - We use ETFs because they provide diversification within countries - not less than 22 companies per ETF
  - The largest company's weight within ETF is capped at 25% of the ETFs' weight
  - The sum of the weights of all companies representing more than 5% of the ETF does not exceed 50% of the ETF's total assets

## COST-EFFICIENT, DIVERSIFIED PORTFOLIO

# COMPETITIVE ADVANTAGES

# COMPETITIVE ADVANTAGES OVER STOCK PICKERS

BBIS does not have unknown investment biases and offers better diversification benefits

| | BBIS | Competitors |
|---|---|---|
| No Unknown Investment Biases | The same disciplined process is applied to analysis of all 48 country ETFs | 40 or so analysts needed to cover 1,841 stocks in MSCI ACWI ex USA Value Weighted Index have stock selection biases unknown to their clients |
| | Clients need to understand only one investment process | Loudest & more sociable analysts have disproportionately high weight of stock ideas in their firms' portfolios |
| Better Diversification | Ability to invest in smaller countries, while long-term weight of any country cannot exceed 10% of portfolio | Many small countries are not represented in portfolios |
| | Wider diversification, as each ETF has at least 22 stocks per country | One or two equities per country, often only the largest Stock specific risks are high (i.e. Petrobras, Yukos) |
| Lower Risk | Relatively easier to pick countries right (if one has an investment process) | Difficult to pick individual stocks that would outperform in each or most countries, as local investors in each country have an informational edge |

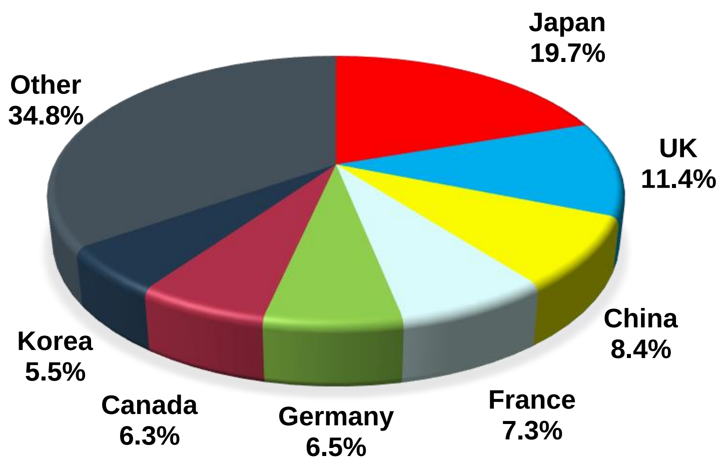
*Source: MSCI for the number of companies in the index. The number is as of February 20, 2018.*

# COMPETITIVE ADVANTAGES OVER INTERNATIONAL INDICES

**BBIS invests meaningful amounts of capital in most countries while international indices' compositions are dominated by several large countries, and their country weights are not flexible**

- Index: Impossible to invest meaningful percentages in 42 countries, as their weight within MSCI ACWI ex USA Value Weighted Index is less than 35%
- BBIS: The firm can invest meaningful percentages via ETFs of up to 48 countries
- Index: Weight of countries with high valuations that offer relatively low expected returns is high and inflexible
- BBIS: Flexibility in taking sizable positions (up to 10%) in developed, emerging and frontier countries

**MSCI ACWI EX US VALUE WEIGHTED INDEX COUNTRY WEIGHTS, %**




*Source: Thomson Reuters for the index country weights. The weights are as of February 26, 2021.*

# INVESTMENT TRADE EXAMPLES

# COUNTRY SELECTION: CHINA

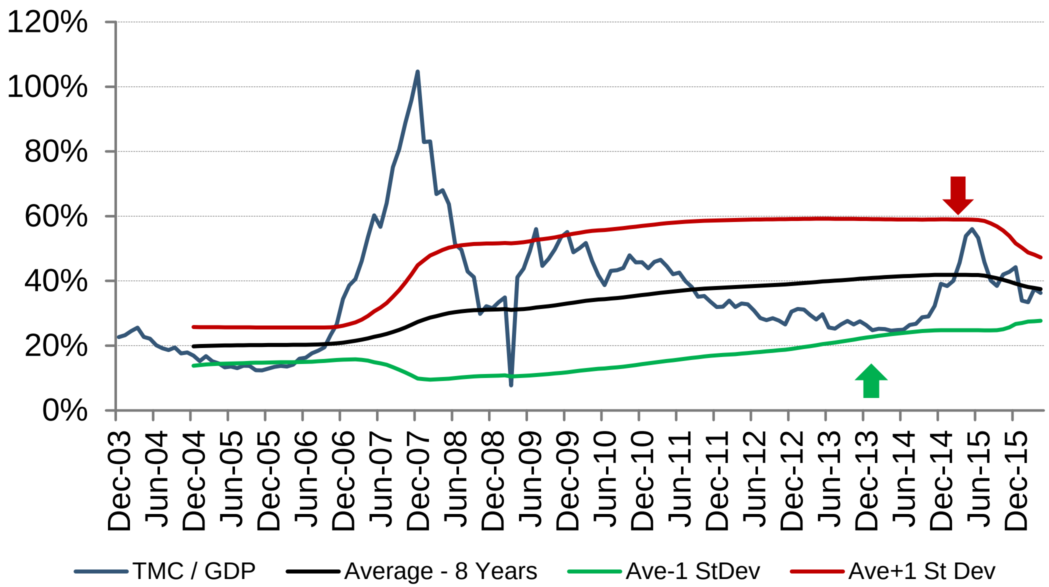
## Sold iShares MSCI China ETF (Ticker: MCHI) at a profit of 28% in May 2015 before China market's decline of 20% over the next two months

### Investment Thesis

Valuations of Chinese stocks were too low vs. the long-term historical averages (38% below) in Jan 2014

1. President Xi's ability to consolidate power amidst the anti-corruption campaign would assure investors that China's leaders would be able to "soft land" the economy
2. President Xi decision not to privatize state owned enterprises, but to make them more efficient would bring further stability to the stock market. The country would move to the consumer-driven model only gradually.
3. BBIS: Expected returns of 22% per year over next 8 years

**Shanghai Stock Exchange Composite: Total Market Cap / GDP, %**




*Source: Datastream. Data are as from January 31, 1997 to April 29, 2016*

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# COUNTRY SELECTION: EGYPT

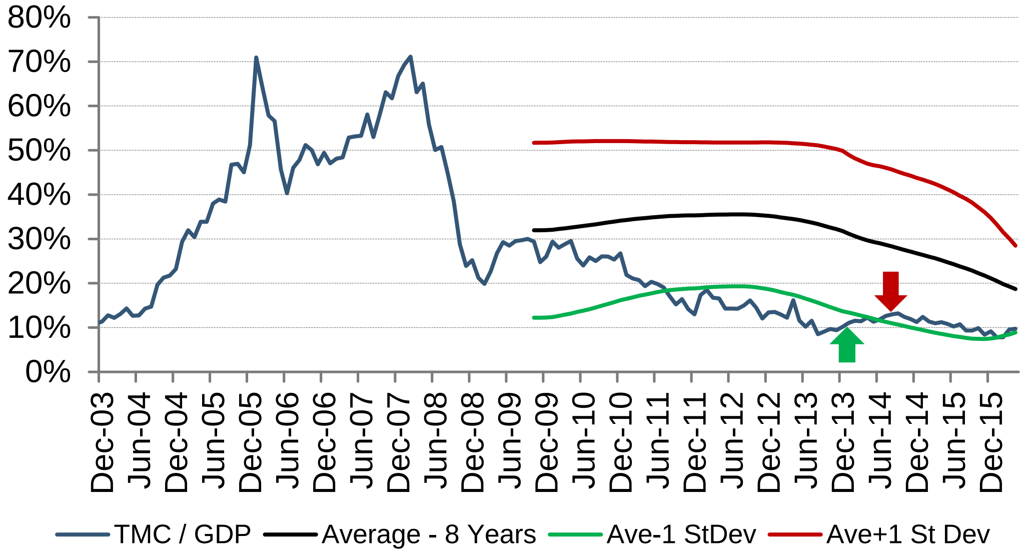
- **Sold Market Vectors Egypt Index ETF (Ticker: EGPT) at a profit of about 18% at the end of May 2014 due to the introduction of two new rules imposing 10% taxes on capital gains and dividends**

**Investment Thesis**

Egyptian stock market was trading at a discount of 62% to its long-term historical valuations in Jan 2014 due to disarray in Egypt's economy, caused by the mismanagement under President Morsi

1. President Fatah Al-Sisi would restore stability needed to grow Egypt's economy
2. The value of Egyptian Pound would recover after 13.8% drop (vs. USD) during Morsi's rule
3. BBIS: Expected returns of 31% over the next 8 years

**Egypt Hermes Financial Index: Total Market Cap / GDP, %**




*Source: Datastream. Data are as from December 31, 2003 to April 29, 2016.*

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# CONTACT

To learn more about BBIS and how our services can help you achieve improved risk-adjusted returns through our expert research and unique global portfolio diversification strategy, please contact us by email or phone.

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