



ELSEVIER

Emerging Markets Review 3 (2002) 310–324

**EMERGING
MARKETS
REVIEW**

www.elsevier.com/locate/econbase

Introduction to ‘Valuation in Emerging Markets’

Robert F. Bruner^a, Robert M. Conroy^a, Javier Estrada^{b,*},
Mark Kritzman^c, Wei Li^a

^a*Darden, University of Virginia, P.O. Box 6550, Charlottesville, VA 22906-6550, USA*

^b*IESE Business School, Av. Pearson 21, 08034 Barcelona, Spain*

^c*Windham Capital Management, 5 Revere Street, Cambridge, MA 02138, USA*

Received 31 January 2002; received in revised form 30 June 2002; accepted 5 September 2002

Abstract

The purpose of the Batten Institute/Association for Investment Management and Research/ Emerging Markets Review conference was to examine the challenges of valuing assets in emerging markets. These challenges are immensely interesting to practitioners and scholars for many reasons, among them for what they reveal about the differences between emerging markets and developed markets. The colloquium surveyed business and research practices, stimulated critical reflection, and highlighted questions for future research. This article provides an overview of the issues discussed in the conference.

© 2002 Elsevier Science B.V. All rights reserved.

Keywords: Emerging Markets Review; Corporate governance; Corruption

1. Introduction

Ninety scholars and practitioners gathered at the Darden Graduate Business School between May 28 and 31, 2002, to participate in the colloquium ‘Valuation in Emerging Markets,’ sponsored by the Batten Institute in partnership with the Research Foundation of the Association for Investment Management and Research (AIMR) and the Emerging Markets Review (EMR). The goal of the colloquium was to advance thinking about ‘best practice’ in the issue of the valuation of assets in emerging markets, to explore new research and practical methodologies, to stimulate the exchange of ideas, to promote networking, and ultimately to affect

*Corresponding author. Tel.: +34-93-253-4200; fax: +34-93-253-4343.

E-mail address: jestrada@iese.edu (J. Estrada).

both practice and research. This special issue of the EMR features a selection of articles presented at the conference and suggests paths for ongoing research.

Researchers submitted 89 papers to be considered for presentation. Of these, 19 were chosen through a peer review process to be presented at the conference, 5 of which are published here. In addition to the research presentations, the colloquium heard presentations from seven practitioners. Professor Campbell Harvey gave the keynote address and an article based on his remarks closes this special issue. A digital record of the conference and a digital case study based on Mark Mobius' presentation are given in Bruner et al. (2002a,b).

2. Why is this topic interesting?

The subject and timing of the colloquium were important for four reasons. First, there is currently no clear single 'best practice' for the valuation of assets and securities in emerging markets. In developed markets, best practitioners and scholars seem to converge on mainstream valuation practices; see, for instance, Bruner et al. (1998), Graham and Harvey (2001). However, in emerging markets, practice varies more widely; see, for example, Bohm et al. (2000), Pereiro (in preparation). Even the writers of textbooks reveal substantial disagreement about fundamental issues, such as estimating the cost of capital for discounting cash flows in emerging markets. Here is where a university institute, a professional association, and a scholarly journal can assist the development of practice.

Second, emerging markets differ from developed markets in areas such as accounting transparency, liquidity, corruption, volatility, governance, taxes, and transaction costs. These differences are quite likely to affect firm valuation. In fact, a premise in many of the presentations and much of the discussion was that these differences matter economically and warrant careful consideration in the application of valuation approaches.

Third, investment flows into emerging markets are material: according to the World Bank, during the year 2000, \$300 million flowed into some 150 countries not regarded as developed, over \$250 million of which went into the 30 or so emerging countries most widely followed by international investors. Though dwarfed by investment flows within and among developed countries, flows to emerging countries are large enough that improved valuation practices could have a material impact on the welfare of investors and their targeted investments. Not to be ignored is also humanitarian consideration: better valuation practices may enhance the flow of investment capital, the allocation of resources, and thereby increase social welfare in emerging markets.

Fourth, emerging markets will continue to draw the attention of the world's investors. The roughly 30 emerging countries widely followed by investors grow at real rates two or three times higher than developed countries. And the roughly 150 countries not regarded as developed are not only huge but also account for the predominance of the world population, land mass, and natural resources. A premise of the diplomatic policies of most developed countries is that ties of trade and investment will help draw emerging countries into a more stable web of international

relations. We hope that our colloquium and this volume afford a useful lens through which to observe future developments in emerging markets.

3. Overview of the colloquium

We present in this part an overview of the issues discussed in the six research sessions of the colloquium. Appendix A contains the complete program of the conference.

3.1. Information environment of emerging market firms

The valuation of companies in any market relies on the availability of accurate reliable information. Since the value of a firm is the sum of the current assets of the firm and the value of future prospects, in order to have a fair and accurate valuation, the information available must be sufficient to assess not only the present condition of a particular firm but also the future prospects of that firm. Accounting statements are designed to report on the current condition of the firm and to a greater degree, financial analysts provide information about their assessment of the future prospects. Both of these sources provide the foundation of the information environment in which every firm operates. It is the interaction of these two complimentary information sources that provide for accurate and fair valuations in financial markets. We would expect that markets with good accounting practices and a large number of active analysts should have market valuations which fully reflect the value of a firm's assets.

The accounting environment in both developed and emerging markets has been widely studied. Even in developed markets we see considerable variation in the level of disclosure or transparency found in financial statements. For developed markets, the usual dichotomy is between US/UK accounting standards and Germany/Japan accounting standards. The US/UK standards are much more oriented to provide information to outside investors, while the Germany/Japan standards for historic reasons provide much less information to outsiders. Typically we consider accounting standards that are more oriented to providing information to outside investors as being more transparent. Transparency is an important attribute if accounting information is to be useful in determining value.

For developed markets it is fairly easy to assess the level of transparency of the accounting standards; emerging markets are a much more challenging environment to do this. For emerging markets, there are many variations on the basic principles. In addition, in every accounting environment there is management discretion as to how things are reported. The legal environment limits management discretion. However, even if the legal environment requires management to provide accurate and timely information to shareholders, the level of enforcement is an important element in how the legal requirements get translated into action.

Beyond the accounting information provided by the firm itself, financial analysts play an important role in assembling information and disseminating it. The sources of information for analysts are not that dissimilar to that of the market as a whole

but they do play an important role in interpreting the financial statements and assembling information from multiple sources. This activity enriches the information environment for firms in any particular market.

This session of the conference consisted of four papers, all of which addressed different aspects of the topic. Leuz et al. (in preparation) deal with the interaction of management's role as an information provider and the legal environment that assures that managers report accurately. They define the legal environment as consisting of both the legal rights afforded to outside investors and the quality of enforcement associated with those rights, and find that countries with stronger legal rights and stronger enforcement exhibit less earnings manipulation by management than do countries with weak rights and weak enforcement. Rights and enforcement issues dominate other institutional characteristics in determining the level of earnings management.

Black and Carnes (in preparation) explore the relationship between macroeconomic factors and analyst accuracy, and find a strong relationship between the global competitiveness factors of the World Economic Forum and the accuracy of financial analysts' forecasts. They also find that four of the eight factors of competitiveness included in the index are related to the size of the forecast errors, and that market-to-book ratios are positively related to optimism in the analysts' forecasts.

Lang et al. (in preparation) address the issue of how the choice of a firm's accounting environment affects its valuation. In choosing to cross-list in the US, a firm is changing the accounting standards environment in which it is supplying information to the market and investors. The paper shows that when firms cross-list in the US the information environment changes for the better, that the number of analysts and forecast accuracy increases, and that firm value is positively correlated to improvements in the information environment.

Finally, Patel et al. (2002), whose article is featured in this special issue, measure the level of transparency in the accounting environment. They examine the accounting statements of firms in emerging markets and attempt to assess the transparency of those statements based on the inclusion of 98 possible information items. Their results show that there is a positive correlation between accounting transparency and price-to-book ratios, which leads the authors to conclude that the market does place value on transparency.

Overall research in this area reveals that improving the information environment of the firm is associated with higher equity values. While different components vary in their contribution to valuation, they all work in the same direction. We see strong positive valuation effects from increasing transparency (Patel et al., 2002), better macroeconomic performance (Black and Carnes, in preparation), and stronger legal rights and enforcement (Leuz et al., in preparation). What appears to be the more intriguing question is how firms respond to this. Do firms attempt to create their own informational environment when countries fail to deliver? We see that this is in fact the case in the work of Lang et al. (in preparation). And based on their results, we should expect more firms defining their own informational environment rather than being passive participants in their country's informational environment.

3.2. Corruption and control

The valuation of firms in any market also depends on the degree to which investors' rights are protected. Because a firm's share price reflects the cash flow per share that non-controlling shareholders expect to receive, this share price should fall if non-controlling shareholders expect expropriation by either corrupt officials or controlling shareholders. To the extent that official corruption and poor corporate governance distort the decision-making of the firm's management, they also destroy shareholder value. However, such managerial agency concerns have received less attention than investor protection in recent research on corporate governance.

Because emerging markets in general have a more corrupt environment and weaker corporate governance institutions, financial markets tend to price assets in emerging markets at a discount with respect to comparable assets in developed markets. On the other hand, since controlling shareholders in emerging markets can expect to receive more private benefits from control at the expense of non-controlling shareholders, they will in general value the benefits of control more than controlling shareholders in developed markets. How large are the discounts that can be attributed to poor corporate governance and corruption? Can firms in emerging markets reduce this discount, and hence their cost of capital, by offering better investor protection? How large are the private benefits of control? And what institutions are effective in curbing these private benefits? These were the questions and issues discussed in this session of the conference.

Klapper and Love (in preparation) focus on firm-level corporate governance practices across emerging markets and ask the question: can a firm in an emerging market benefit from providing better investor protection on its own? Using rankings of corporate governance for 495 firms across 25 emerging markets and 18 sectors produced by Credit Lyonnais Securities Asia, they find a strong positive correlation between better corporate governance, on the one hand, and operating performance and market valuation, on the other hand. More importantly, they find that firm-level corporate governance provisions appear to matter more in countries with weaker legal environments. Their results suggest that a firm operating in a bad corporate governance environment can benefit from distinguishing itself for adopting good corporate governance practices. This line of inquiry complements nicely recent work in Law and Finance that has concentrated on country-level investor protection.

Dyck and Zingales (in preparation) attempt to quantify the private benefit of control and to analyze its determinants. Using data based on 412 control transactions between 1990 and 2000, they construct a measure of the private benefits of control in 39 countries, and find that the private value of control ranges between –4% in Japan and 65% in Brazil, with an average of 14%. They also find that countries in which the private benefits of control are larger capital markets are less developed, ownership is more concentrated, and privatizations are less likely to take place as public offerings. Their results also show that a high level of diffusion of the press, a high rate of tax compliance, and a high degree of product market competition are all positively correlated with lower levels of private benefits of control.

Finally, Lee and Ng (in preparation) look into the relationship between corruption and firm value. In theory, corruption should affect firm value through a number of channels, such as the expropriation of firms' cash flows, reduced investment, and limited supply of government services that are beneficial to corporate activities. Using firm-level data from 46 countries, the authors find that firms from more corrupt countries trade at significantly lower market multiples. This result is robust to the inclusion of many control variables suggested by valuation theory, such as return on equity, forecasted earnings growth based on I/B/E/S data, book leverage, the rate of inflation, and the rate of growth in GDP. On average, an increase in the corruption level from that of Singapore to that of Mexico corresponds to a decrease in a company's P/E ratio of 18.1, and a decrease in its price-to-book ratio of 1.2.

3.3. Portfolio: country allocations within emerging markets

What factors explain portfolio investment in emerging markets? The answer to this question has important implications for policies and practices that affect the growth and performance of emerging markets, financial contagion, and portfolio formation, and was discussed in this session of the conference.

Disyatat and Gelos (in preparation) compare actual portfolio weights of emerging markets mutual funds to 'optimal weights' that control tracking error relative to a benchmark, the latter based on historical means and covariances. The authors also infer the vector of expected returns that would render the observed portfolio weights efficient given the historical covariance matrix. Their results reveal that investors are influenced by benchmark weights even at the expense of absolute mean-variance efficiency. In addition, they find that implied expected returns predict subsequent realized returns, which may help to explain why investors in emerging markets tend to outperform benchmarks.

Froot and Tjornhom (2002), whose article is featured in this special issue, attempt to explain the sources of persistence widely observed in portfolio flows. In particular, they analyze 471 funds in 15 emerging markets to determine whether the persistence in flows arises from illiquidity or asynchronous decision-making. Their analysis reveals that most of total persistence (75%) is explained by serial correlation within individual funds, although they detect some serial correlation between flows across different funds but within the same emerging markets. They interpret their results as evidence that investors mimic each other's decisions.

Finally, Li (in preparation) addresses the sources of changes in equity market capitalization. Based on panel data for 32 countries, she examines capitalization growth both cross-sectionally and inter-temporally. She finds that the development of financial intermediaries and openness to trade contribute to capitalization growth in emerging markets, and that high-quality accounting standards are positively associated with valuation levels in emerging markets.

The findings of Disyatat and Gelos (in preparation), Froot and Tjornhom (2002) are not only interesting in their own right but also lend credence to each other. The evidence in the second paper points to herding, and that in the first shows that investors as a group are averse to deviating from benchmark indices. Li's (in

preparation) results provide persuasive evidence that governments should pursue policies to encourage development of intermediaries, promote trade, and ensure reliable financial reporting practices.

3.4. The cost of capital in emerging markets

In the colloquium six research presentations split into two sessions and three featured addresses considered issues in the estimation of the cost of capital. Campbell Harvey's keynote address helped to frame considerations of integration between the local and global markets, and an article based on his remarks is published in this special issue. Vihang Errunza's concluding address sketched the history of theory and empirical research on the cost of capital in emerging markets. And Marc Zenner discussed an asset pricing approach used at Salomon Smith Barney that emphasized the sovereign risk premium as a factor in emerging market risk.

Estrada (2002), whose article is featured in this special issue, proposes a pricing model based on downside risk, and stresses the convenience of replacing beta and the CAPM with the downside beta and the D-CAPM when estimating the cost of capital in emerging markets. Using the entire MSCI database of emerging markets, he finds a much stronger correlation between returns and downside beta than between returns and beta. He also reports results showing that downside beta outperforms beta not only in terms of statistical significance but also of economic significance.

Bodnar et al. (in preparation) link the case of emerging markets to the broader problem of international asset pricing. They identify the various dimensions of risk in the world economy and argue that each dimension could be priced differently, leading to various premia that could be summed into the total required rate of return. Their focus is on the method by which these various dimensions of risk should be incorporated into the cost of equity.

Mariscal and Hargis (1999) offer an overview of the approach used by Goldman Sachs to estimate the cost of equity in emerging markets. Their approach, somewhat similar to that of Godfrey and Espinosa (1996), adjusts both the risk-free rate and the risk premium, the latter by replacing beta by the standard deviation as the appropriate measure of risk in emerging markets. In their framework, discount rates are driven by global, country, and firm-specific factors.

Pereiro (in preparation) presents survey results about valuation practices among corporate investors in Argentina. His study yields at least two important insights: first, that 89% of Argentine firms value assets using the discounted cash flow method, the mainstream approach in Modern Financial Theory. Second, that Argentine practitioners choose discount rates as if global markets were fully integrated; that is, they make little adjustment for local conditions.

Serra (in preparation), using data on individual stocks, examines the cross section of returns in 21 emerging markets and finds that the factors that explain the variability in returns are similar to those of developed markets. More precisely, she finds that returns are explained by technical factors, liquidity, and company attributes. The payoffs to these factors are not correlated, suggesting that risk has a local

component. Essentially, this article provides further evidence in favor of the segmentation of emerging markets from global markets.

Finally, Sy (2002), whose article is also featured in this special issue, estimates a relationship between risk ratings and sovereign spreads in order to analyze significant deviations from such relationship. He finds that if spreads are abnormally high, they tend to decline (something akin to reversion to the mean), and that if spreads are abnormally low, rating agencies tend to raise country ratings. The difference between the view of the market and that of rating agencies may afford a way to monitor the outlook for emerging markets.

The papers and discussion in the cost of capital sessions lend a richer picture of international asset pricing than is typically characterized in practitioner approaches or in textbooks. Some of the important insights highlighted in the discussion were:

(1) The cost of capital varies between global and local firms in emerging markets. Global firms are those that derive a significant portion of revenues outside of the home emerging market, whereas local firms are focused on the local (emerging) market. Given the difference in uncertainty surrounding these two types of firms, it would be reasonable to assume that they have different costs of capital, and both research and practice should account for this difference. As Mehran Nakjavani argued in his opening address for the colloquium, *it is firms, not countries or markets that are emerging*.

(2) The cost of capital in emerging markets may be smaller than is usually thought. Anecdotal evidence suggests that investors in the US facing a dollar investment in emerging markets might require high returns (almost at the level of venture capital) to invest in these markets. However, the required returns generated by the D-CAPM approach, the Salomon or Goldman models, or a multi-factor pricing model differ from those on a matched sample by 200–300 basis points.

(3) The cost of capital is context-sensitive. Market conditions vary, occasionally sharply, including the degree of segmentation or integration. ‘Best practice’ should entail re-estimating the cost of capital frequently, as well as accounting for variations in the cost of capital across business cycles and crises.

(4) The cost of capital is fundamentally a bet on market integration, both on the extent and on future trends. In the limit of total world market integration, a global CAPM would be the approach to adopt. But segmentation requires adapting the global CAPM for unique risks faced by investors in emerging markets. In short, the model chosen by investors should incorporate information about the world expected during the life of the asset being valued.

(5) Information quality and the estimation of model parameters remain significant issues for practitioners and researchers. Problems of transparency and illiquidity may cause investors to question the returns they observe in emerging markets. But even where prices are trustworthy, the relatively short time period of free market trading in emerging stocks daunts the person who seeks to estimate market risk premia from historical prices.

3.5. *Inflation and devaluation effects in emerging markets*

The discounted cash flow valuation framework requires an analyst to input his best estimates of the company's expected cash flows and their proper discount rate. Discount rates had been discussed in two previous sessions of the conference; the three articles in this session complemented that discussion with cash flow related issues.

Glen (2002), whose article is featured in this special issue, analyzes the performance of 18 stock markets around 24 devaluation events. A devaluation, many would argue, should have a beneficial impact on the real economy through an increase in exports; however, its impact on the rate of inflation and subsequent effects often offsets this expected beneficial result. In fact, the evidence shows that devaluations are often followed by high interest rates and poor economic performance. Stock markets are also significantly affected by devaluations. The evidence discussed in this paper shows that markets anticipate the devaluation and deliver negative returns (in both local and dollar terms) in the few months preceding a devaluation, though the trend reverses after this event. The impact of the devaluation displays a considerable variation across industries and countries, by and large depending on the level of economic activity and the size of the devaluation.

Vélez-Pareja and Tham (in preparation) argue that company valuations and project evaluations in emerging markets should be performed in nominal (as opposed to real) terms. They discussed a hypothetical example in which a project evaluation performed in real terms significantly overestimates the project's net present value, thus yielding a suboptimal investment advice (that is, invest when the company should not).

Finally, Bleakley and Cowan (in preparation) address the issue of whether the 'net worth' effect induced by a change in the domestic value of debt is large enough to offset the 'competitiveness effect' that devaluations are thought to have. They address this issue by looking at a sample of 500 publicly-traded Latin American companies during the period 1990–99, and find that companies that hold dollar-denominated debt invest more than companies that hold local-denominated debt. Thus, they argue, the contribution of the net worth effect is negligible, and the average effect of devaluations on the investment of Latin American companies is positive.

These three articles deepen our knowledge of issues related to the estimation of cash flows when valuing companies and projects in emerging markets. These issues, together with those related to the proper estimation of discount rates discussed earlier in the conference, will hopefully provide a roadmap to academics and practitioners in emerging markets to face this critical issue with improved prospects.

4. *Some questions and their implications*

The colloquium revisited some familiar questions for researchers and practitioners, and highlighted other questions that perhaps deserve fresh interest. Among them are:

(1) What is an ‘emerging market?’ Approximately 150 countries fall below conventional definitions of development, though most international investors focus their attention on some 30 countries that are in transition to higher levels of economic development. The other 120 pre-transition countries also offer interesting investment opportunities, particularly on a direct investment basis and therefore deserve research attention in their own right. Acknowledging finer differences among these countries invites exploration of the consistency of findings across the broader range of countries.

(2) What are the main difficulties of investing in emerging markets? Problems of transparency, liquidity, contagion, governance, and corruption, as well as their impact on pricing, are generally understood, though their variations across countries and regions remain to be explored.

(3) What are the characteristics of investments in emerging markets? In addition to the difficulties outlined immediately above, more research is needed to understand the basic nature of volatility in emerging markets, and the risk-return opportunity these markets offer. Of special interest here is the variation of volatility and correlation with developed markets over time.

(4) How do emerging markets fit into asset allocation strategies? Do country allocations really matter? The chief argument from several speakers at the conference was that emerging markets provide attractive portfolio diversification opportunities. Yet other recent research suggests that country factors are declining as determinants of global portfolio returns. Should portfolio managers make an exception for emerging markets? If not, why not? If yes, what country risk factors matter for the sake of best practice? What constraints limit sector investing in emerging markets? If country factors are declining as a consideration in portfolio allocation, what then is the potential role for sector-based investing in emerging markets?

(5) How do ‘best practitioners’ value investments in emerging markets? Field surveys of best practitioners in emerging markets would yield fruitful insight into the way that projects are evaluated and firms are valued in these markets.

(6) What model will become the benchmark for estimating required returns in emerging markets? Both professional advisers (such as Goldman Sachs and Salomon Smith Barney) and some academic researchers seem to favor simple models that are relatively easy to apply. However, the general discussion at the same time seemed to favor richer approaches that recognize the risks specific to each market. Obviously, more research is needed before a normative stance may be adopted.

As the colloquium and this special edition underscore, these and other questions afford a fertile avenue of further research.

Appendix A: Valuation in Emerging Markets, Conference Schedule, May 28–31, 2002

Tuesday, May
28, 2002

6:00 p.m. Outdoor reception and dinner
Darden Center

Wednesday, May
29, 2002

7:00 a.m. Breakfast
Darden Center

8:30 a.m. *Session #1: Aims, Issues, Overview*
Robert F. Bruner, Distinguished Professor and Executive Director, The Batten
Institute

Classroom 50
9:00 a.m. *Session #2: Valuation in Emerging Markets: The Treatment of Global Companies*
Mehran Nakhjavani, Executive Director and Co-Head of Emerging Markets, UBS
Classroom 50 Global Asset
Management

10:00 a.m. Morning coffee break

PepsiCo Forum

10:30 a.m. *Session #3: Information Environment of Emerging Market Firms*
Classroom 50 Moderator: Robert M. Conroy, Professor, The Darden School

◆ Investor Protection and Earnings Management: An International Comparison
Peter Wysocki, Massachusetts Institute of Technology

◆ Analysts' Forecasts in Asian Pacific Markets: The Relationship Between
Accounting Systems and
Accuracy
Ervin L. Black, Brigham Young University

◆ ADRs, Analysts and Accuracy: Does Cross Listing in the US Improve a Firm's
Information
Environment and Increase Market Value?
Darius Miller, Indiana University

◆ Measuring Transparency and Disclosure at Firm-level in Emerging Markets
Sandeep A. Patel and Liliane K. Bwakira, Standard & Poor's

Noon Lunch
Darden Center

1:00 p.m. *Session #4: Determining the International Cost of Capital*
Classroom 50 Marc Zenner, Ph.D., CFA, Salomon Smith Barney/Citigroup

2:00 p.m. Afternoon break

2:30 p.m. *Session #5: Corruption and Control*
Classroom 50 Moderator: Wei Li, Professor, The Darden School

◆ Corporate Governance, Investor Protection and Performance in Emerging
Markets
Leora Klapper and Inessa Love, The World Bank

(continued)
Wednesday,
May
29, 2002

◆ Private Benefits of Control: An International Comparison

Alexander Dyck, Harvard Business School

◆ Corruption and International Valuation: Does Virtue Pay?

David Ng, Cornell University

Commentator: George Triantis, Professor, University of Virginia School of Law

4:00 p.m.
Classroom 50

Afternoon break

5:00 p.m.
Classroom 50

Session #6: The Challenges of Emerging Markets: Governance, Transparency, and the Rule of Law

(Pre-taped videoconference)

Mark Mobius, Ph.D., Managing Director, Templeton Asset Management

6:00 p.m.
Darden Center

Cocktail reception

6:45 p.m.
Darden Center

Dinner

7:30 p.m.
Darden Center

Session # 7: Argentina's Crisis: Causes, Cures and Consequences

Kristin J. Forbes, Assistant Professor, Sloan School of Management, and Former Deputy

Auditorium

Foyer

Assistant Secretary, US Department of the Treasury

8:30 p.m.
Sponsors Pub

Cash bar

Thursday, May
30, 2002

7:00 a.m.
Darden Center

Breakfast

8:30 a.m.
Classroom 50

Session #8: Comments on Emerging Markets Valuation

Michael A. Duffy, Ph.D., CFA, Managing Director, Emerging Markets Management

9:30 a.m.
PepsiCo Forum

Morning coffee break

10:00 a.m.
Classroom 50

Session #9: Portfolio: Country Allocations within Emerging Markets

Moderator: Mark Kritzman, Windham Capital Management, Boston

◆ The Asset Allocation of Emerging Market Mutual Funds

R. Gaston Gelos, International Monetary Fund

◆ Investors, Fund Managers, and Trend Following in Emerging Markets

Jessica D. Tjornhom, State Street Associates

◆ The Growth of Global Equity Markets: A Closer Look

Kai Li, University of British Columbia

11:30 a.m.
Classroom 50

Morning break

11:45 a.m.

Session #10: Keynote Address

(continued)

Thursday, May 30, 2002 Classroom 50	Campbell R. Harvey, Ph.D., J. Paul Sticht Professor of International Business, Fuqua School of Business, Duke University
1:00 p.m. Darden Center	Lunch
2:00 p.m. Classroom 50	<i>Session #11: Cost of Capital I: Risk and Valuation</i> Moderator: Robert F. Bruner, Distinguished Professor and Executive Director, The Batten Institute ◆ Systematic Risk in Emerging Markets: The D-CAPM Javier Estrada, IESE Business School ◆ Cross-Border Valuation Bernard Dumas, INSEAD and Gordon Bodnar, Johns Hopkins University ◆ A Long-Term Perspective on Risk: Long-Term Discount Rates for Emerging Markets Kent Hargis, Goldman Sachs Commentator: Benjamin Esty, Professor, Harvard Business School
3:30 p.m.	Afternoon break
4:00 p.m. Classroom 50	<i>Session #12: Cost of Capital II: Cross Section of Returns</i> Moderator: Robert F. Bruner, Distinguished Professor and Executive Director, The Batten Institute ◆ Best Company Valuation Practices in Argentina: What are the Issues for Practitioners? Luis Pereiro, Universidad Torcuato Di Tella ◆ The Cross Sectional Determinants of Returns: Evidence from Emerging Markets' Stocks Ana Paula Serra, Faculdade de Economia do Porto ◆ Emerging Market Bond Spreads and Sovereign Credit Ratings: Reconciling Market Views with Economic Fundamentals Amadou Sy, International Monetary Fund
6:00 p.m. Darden Center	Cocktail reception
6:30 p.m. Darden Center	Dinner
7:30 p.m. Darden Center Auditorium Foyer	<i>Session #13: Issues in Emerging Markets Benchmark Construction: Theory and Practice</i> George R. Hoguet, CFA, Head, Active Emerging Markets, Global Active Equity, State Street Global Advisors
8:30 p.m. Sponsors Pub	Cash bar

Friday, May
31, 2002

7:00 a.m. Darden Center	Breakfast
8:30 a.m. Classroom 50	<i>Session #14: Historical Perspectives of Manias and Panics in Emerging Markets</i> (Live via satellite) Marc Faber, Ph.D., Managing Director, Marc Faber Limited
9:30 a.m. PepsiCo Forum	Morning coffee break
10:30 a.m. Classroom 50	<i>Session #15: Inflation and Devaluation Effects in Emerging Markets</i> Moderator: Javier Estrada, Professor, IESE Business School ◆ Devaluation and Emerging Stock Returns Jack Glen, International Finance Corporation ◆ Valuation in an Inflationary Environment Ignacio Vélez Pareja, Politécnico Grancolombiano, and Joseph Tham, Independent Consultant ◆ Corporate Dollar Debt and Devaluations: Much Ado About Nothing? Hoyt Bleakley, Massachusetts Institute of Technology
11:30 a.m. PepsiCo Forum	Morning coffee break
Noon Classroom 50	<i>Session #16: Closing Reflections</i> Valuation in Emerging Markets: What We Know and Don't Know Vihang Errunza, Bank of Montreal Chair in Finance and Banking, Faculty of Management, McGill University <i>Closing Remarks</i> Robert F. Bruner, Distinguished Professor and Executive Director of the Batten Institute, The Darden School Robert M. Conroy, Professor, The Darden School Javier Estrada, Professor, IESE Business School Mark Kritzman, Windham Capital Management, Boston, and Research Foundation of the AIMR Wei Li, Professor, The Darden School Katrina Sherrerd, Vice President, Research Foundation of the Association for Investment Management and Research
1:00 p.m. Classroom 50	Boxed lunch
2:00 p.m.	Optional Conference Activities: Afternoon golf or Monticello

References

Black, E., Carnes T. Analysts' Forecasts in Asian-Pacific Markets: the relationship among macroeconomic factors, Accounting Systems and Accuracy, In preparation.

- Bleakley H., Cowan K. Corporate dollar debt and devaluations: much ado about nothing? In preparation.
- Bodnar G., Dumas B., Marston R. Cross-border valuation: the international cost of equity capital, In preparation.
- Bohm N., Bruner R.F., Chaplinsky S., et al., 2000. Practices of private equity firms in Latin America. Darden Case Collection.
- Bruner R.F., Conroy R.M., Li W., 2002a. Valuation in Emerging Markets. CD-ROM, Darden Case Collection.
- Bruner, R.F., Conroy R.M., Li W., 2002b. Mark Mobius and the Templeton Emerging Markets Fund. CD-ROM, Darden Case Collection.
- Bruner, R.F., Eades K.M., Harris R.S., Higgins R.C., 1998. 'Best Practices' in estimating the cost of capital: survey and synthesis. *Financial Practice and Education*, Spring/Summer, pp. 13–28.
- Disyatat P., Gelos G. The Asset Allocation of Emerging Market Mutual Funds, in preparation.
- Dyck A., Zingales L. Private benefits of control: an international comparison, in preparation.
- Estrada J. 2002 Systematic risk in emerging markets: the D-CAPM, 3, 365–379.
- Froot K., Tjornhom J. 2002 The persistence of emerging market equity flows, 3, 338–364.
- Glen J. 2002 Devaluations and emerging stock market returns, 3, 409–428.
- Godfrey, S., Espinosa, R., 1996. A practical approach to calculating costs of equity for investment in emerging markets. *Journal of Applied Corporate Finance*, Fall 80–89.
- Graham, J., Harvey, C., 2001. The theory and practice of corporate finance: evidence from the field. *Journal of Financial Economics* 60, 187–243.
- Klapper L., Love I. Corporate Governance, investor protection and performance in Emerging Markets, in preparation.
- Lang M., Lins K., Miller D. ADRs, analysts and accuracy: does cross listing in the US improve a firm's information environment and increase market value? In preparation.
- Lee C., Ng D. Corruption and international valuation: does virtue pay? In preparation.
- Leuz C., Nanda D., Wysocki P. Investor protection and earnings management: an international comparison, in preparation.
- Li K. The growth of global equity markets: a closer look, in preparation.
- Mariscal J., Hargis K., 1999. A long-term perspective on short-term risk. Goldman Sachs Investment Research, Portfolio Strategy, Oct/26/99.
- Patel S., Balic A., Bwakira L. 2002 Measuring transparency and disclosure at firm-level in emerging markets, 3, 325–337.
- Pereiro L. Valuing companies in Latin America: what are the key issues for practitioners? in preparation.
- Serra A.P. The cross-sectional determinants of returns: evidence from Emerging Markets' Stocks, in preparation.
- Sy A. 2002 Emerging market bond spreads and sovereign credit ratings: reconciling market views with economic fundamentals, 3, 380–408.
- Vélez-Pareja I., Tham J. Valuation in an inflationary environment, in preparation.