



Christian Magoon – Exploring the Frontier Markets

Recorded on: June 26th, 2008 | About: [Claymore/BNY Mellon Frontier Markets ETF](#)

Christian Magoon: Hi, this is Christian Magoon with Claymore Securities, here to talk to you today about frontier markets. Investors are increasingly in search of tomorrow's most intriguing growth opportunities. One of the areas they are looking at is frontier markets.

Frontier markets are the next generation of emerging markets. On a continuum, frontier markets are really the baby, in terms of markets. Emerging markets are the teenager and developed markets are the adults.

So frontier markets offer a lot of risk potential, but also a lot of return potential. We're going to talk a little bit more about them today.

It's really four forces driving frontier markets. One is increased foreign investment. We are increasingly seeing sovereign wealth funds, private equity institutions invest in these up-and-coming market places. And certainly that has allowed these economies to improve.

Second, many of the frontier markets have rich natural resources and commodities in their soil. That's also helping these countries, as there is a greater demand in price now for commodities worldwide as the world becomes more and more globalized.

Third, we're seeing accelerated growth of gross domestic product in these frontier markets. Certainly, when you look at some of the developed nations like the U.S., you are seeing GDP growth of anywhere from 0-2% a year. Many of the frontier markets are growing at 5% or greater on average in a given year. This accelerated growth of GDP is attractive for many investors.

Finally, there is a population migration that is going on within frontier markets. Many of their population used to reside in rural areas. Well, with new jobs and new industries, many of these rural residents are migrating to the urban areas to get those higher standards of living that comes along with these new jobs.

And indeed, in some areas we're seeing an emerging middle class, which is certainly a great characteristic of frontier markets moving to emerging markets.

So those four forces driving frontier markets -- increased foreign investment, high demand in prices for commodities, accelerated growth of GDP and population migration -- are what we believe makes frontier markets attractive over the long term.

Investing in frontier markets has several benefits for retail investors. One of the benefits is above-average risk alongside above-average return potential. Indeed, looking back historically, frontier markets have outperformed not only developed markets, but also emerging markets.

Another benefit frontier market investing may have for investors is historic diversification through low correlation. Taking a look at some of the major indices for developed,



emerging and frontier markets, one can see that over time frontier markets have had the lowest correlation to developed markets.

Indeed, frontier markets have a correlation of approximately 0.2 to developed markets, whereas emerging markets have a correlation of approximately 0.7 to developed markets. This low correlation adds diversification to investors, based on historic data.

So, one may be thinking, how do I get exposure to frontier markets? Well, recently Claymore launched the first U.S. listed frontier ETF. It's called the Claymore/Bank of New York Mellon Frontier Markets ETF, symbol FRN. This really opened up frontier markets to U.S. investors for the first time. This ETF trades on the New York Stock Exchange Arca. The current expense cap ratio is 65 basis points.

We hope this overview on frontier markets proved beneficial to you. Thanks for listening. For more information, please visit our website at www.claymore.com/FRN.

I'm Christian Magoon with Claymore Securities. Make it a great day.

Index Descriptions

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of June 2007 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2007 the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. **S&P Frontier Markets Index** represents those markets that tend to be relatively small and illiquid even by emerging market standards. As a member of the S&P Emerging Market indices, it is constructed from equities included in the Emerging Markets Database (EMDB). The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad economy, representing all major industries.

It's not possible to invest directly in an index. An index is unmanaged and does not include expenses, fees and sales charges that would lower its potential total returns. Index returns include the reinvestment of all distributions. This illustration does not represent the performance of any Claymore product.



Risk Considerations

Investors should consider the following risk factors and special considerations associated with investing in the Fund, which may cause you to lose money.

Investment Risk: An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest. **Equity Risk:** A principal risk of investing in the Fund is equity risk, which is the risk that the value of the securities held by the Fund will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate, or factors relating to specific companies in which the Fund invests. **Foreign Investment Risk:** The Fund's investments in non-U.S. issuers may involve unique risks compared to investing in securities of U.S. issuers, including, among others, greater market volatility than U.S. securities and less complete financial information than for U.S. issuers. **Risks of Investing In Frontier Securities:** Investment in securities in emerging market countries involves risks not associated with investments in securities in developed countries, including risks associated with expropriation and/or nationalization, political or social instability, armed conflict, the impact on the economy as a result of civil war, religious or ethnic unrest and the withdrawal or non-renewal of any license enabling the Fund to trade in securities of a particular country, confiscatory taxation, restrictions on transfers of assets, lack of uniform accounting, auditing and financial reporting standards, less publicly available financial and other information, diplomatic development which could affect U.S. investments in those countries and potential difficulties in enforcing contractual obligations. Frontier countries generally have smaller economies or less developed capital markets than traditional emerging markets, and, as a result, the risks of investing in emerging market countries are magnified in frontier countries. These securities are less correlated to global economic cycles of more developed counterparts and therefore have low trading volumes and the potential for extreme price volatility and illiquidity. This volatility may be further heightened by the actions of a few major investors. For example, a substantial increase or decrease in cash flows of mutual funds investing in these markets could significantly affect local stock prices and, therefore, the price of Fund Shares. Governments of many frontier countries may exercise substantial influence over many aspects of the private sector. These economies may be heavily dependent upon international trade and may be adversely affected by barriers, controls, policies, embargoes, or sanctions imposed by the countries with which they trade. Certain of the companies in which the Fund may invest may operate in, or have dealings with, countries subject to sanctions or embargoes imposed by the U.S. government and the United Nations and/or countries identified by the U.S. government as state sponsors of terrorism. A company may suffer damage to its reputation if it is identified as a company which operates in, or has dealings with, countries subject to sanctions or embargoes imposed by the U.S. government and the United Nations and/or countries identified by the U.S. government as state sponsors of terrorism. Investment in equity securities of issuers operating in certain frontier countries is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in equity securities of issuers operating in certain frontier countries and increase. The costs and expenses of the Fund may be increased due to the varying degrees of restrictions and controls enforced by investing in the Frontier markets. Certain frontier countries require governmental approval prior to investments by foreign persons, limit the amount of investment by foreign persons in a particular issuer, limit the investment by foreign persons only to a specific class of securities of an issuer that may have less advantageous



rights than the classes available for purchase by domiciliaries of the countries and/or impose additional taxes on foreign investors. Frontier countries may require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities. If deterioration occurs in a balance of payments, the country could impose temporary restrictions on foreign capital remittances. As of the date of this prospectus, a significant percentage of the Index is comprised of securities of companies from Poland, Chile and Egypt. To the extent that the Index is focused on securities of any one country, including Poland, Chile or Egypt, the value of the Index will be especially affected by adverse developments in such country, including the risks described above. **Please note: the previous risks mentioned are a broad overview of the potential risks associated with investing in the Frontier markets. Investing in securities of Frontier countries involves significant risk. The prospectus contains a more detailed discussion of these individual risks and should be evaluated when determining an investor's risk tolerance.** **Political Risk:** Certain of the frontier countries may be subject to a greater degree of political and social instability than is the case in more developed countries. **Licensing, Custody and Settlement Risk:** Approval of governmental authorities may be required prior to investing in the securities of companies based in certain frontier countries. Delays in obtaining such an approval would delay investments in the particular country. Certain banks in foreign countries that are eligible foreign sub-custodians may lack extensive operating experience, and there may be legal restrictions or limitations on the ability of the Fund to recover assets held in custody by a foreign sub-custodian in the event of the bankruptcy of the sub-custodian. Because settlement systems may be less well organized than in developed markets, there may be a risk of delayed settlements and that cash or securities of the Fund may be in jeopardy because of failures of or defects in the systems. Certain countries in which the Fund may invest utilize share-blocking schemes. The Investment Adviser, on behalf of the Fund, reserves the right to abstain from voting proxies in share blocking markets. **Non-Correlation Risk:** The Fund's return may not match the return of the Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Index, and incurs costs in buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Index. The Fund may not be fully invested at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions and expenses. If the Fund utilizes a sampling approach or futures or other derivative positions, its return may not correlate as well with the return on the Index, as would be the case if it purchased all of the stocks in the Index with the same weightings as the Index. **Small and Medium-Sized Company Risk:** Investing in securities of small and medium-sized companies involves greater risk than is customarily associated with investing in more established companies. These companies' stocks may be more volatile and less liquid than those of more established companies. These stocks may have returns that vary, sometimes significantly, from the overall stock market. **Micro-Cap Company Risk:** Micro-cap stocks involve substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable (and some companies may be experiencing significant losses), and their share prices tend to be more volatile and their markets less liquid than companies with larger market capitalizations. **Replication Management Risk:** Unlike many investment companies, the Fund is not "actively" managed. Therefore, it would not necessarily sell a stock because the stock's issuer was in financial trouble unless that stock is removed from the Index. **Issuer-Specific Changes:** The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of



securities of smaller issuers can be more volatile than that of larger issuers. **Non-Diversified Fund Risk:** The Fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in a diversified fund.

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