

INTERNET APPENDIX

To accompany

What Determines Portfolio Allocation Decisions of Emerging Market Investors?

by

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Table A1. External equity investment positions, by emerging & developed market investors, during the global financial crisis (2008-2009).

Like Table 1, this shows the top investment destinations for external portfolio equity investments from emerging market (EM, left panel) and developed market (DM, right panel) economies, but only for 2008-2009. Each destination country is classified as an EM or DM economy, and the regions of the destination countries are broadly classified as North America (NA), Asia Pacific (AP), Eastern Europe, Middle East & Africa (EEMEA), and Latin America (LA). For each destination market, we compute average total equity investments across the years 2000-2011 in US dollar millions from emerging markets Panel A and from developed markets in Panel B. Destination markets are ranked by average total equity investment across years and the top twenty destination countries are displayed. The average investment ratio is calculated as follows. In each year, we calculate the investment ratio from a particular source country to a destination country as the ratio of total investment from the source country to that destination country, divided by the total investment from the source country to all destination countries. For each destination country, we take the equal-weighted average of the investment ratio across all source countries from each group (EMs in the left panel, DMs in the right panel) to compute the average investment ratio. In the left panel, the average benchmark for a destination country is calculated as follows. For each destination country in each year, we first compute the ratio of its market capitalization relative to world market capitalization minus a particular EM source country's market capitalization. This calculation is repeated for each EM source country relevant to that destination country in that same year. For each destination country, we then take the equal-weighted average of the investment ratios across all EM source countries. Then we take the average of the benchmark ratios over the years 2000 to 2011. The difference between the average investment ratio and average benchmark gives the average excess allocation (or under allocation) for each destination country. In the right panel, we repeat the same calculations using DM source countries. In both panels, we use CPIS data to compute country-pair investment data.

Panel A. Emerging Markets (2008-2009 only)							Panel B. Developed Markets (2008-2009 only)						
Destination Market	Average Investment (US \$ mills.)	Class	Region	Average Investment Ratio	Average Benchmark Ratio	Average Excess Allocation	Destination Market	Average Investment (US \$ million)	Class	Region	Average Investment Ratio	Average Benchmark Ratio	Average Excess Allocation
United States	51,845	DM	NA	0.3508	0.3345	0.0162	United States	1,382,854	DM	NA	0.3061	0.3396	-0.0335
United Kingdom	49,714	DM	Europe	0.1405	0.0573	0.0831	United Kingdom	894,021	DM	Europe	0.1235	0.0593	0.0642
Bahrain	6,906	EM	MEA	0.0234	0.0005	0.0229	Japan	608,188	DM	AP	0.0496	0.0865	-0.0369
Brazil	4,662	EM	LA	0.0098	0.0212	-0.0115	France	547,505	DM	Europe	0.0979	0.0446	0.0532
UAE	3,559	EM	MEA	0.0232	0.0019	0.0213	Germany	452,097	DM	Europe	0.0752	0.0314	0.0438
Austria	3,073	DM	Europe	0.0480	0.0016	0.0463	Switzerland	440,023	DM	Europe	0.0401	0.0251	0.0151
Hong Kong	2,789	DM	AP	0.0157	0.0294	-0.0137	Canada	299,884	DM	NA	0.0158	0.0339	-0.0181
Singapore	2,670	DM	AP	0.0150	0.0060	0.0090	China	272,580	EM	AP	0.0450	0.0982	-0.0532
Germany	2,620	DM	Europe	0.0335	0.0303	0.0032	Netherlands	216,707	DM	Europe	0.0286	0.0120	0.0166
Netherlands	2,548	DM	Europe	0.0458	0.0115	0.0342	Spain	197,341	DM	Europe	0.0364	0.0289	0.0076
France	2,493	DM	Europe	0.0340	0.0431	-0.0091	Australia	197,194	DM	AP	0.0320	0.0243	0.0077
Australia	2,359	DM	AP	0.0363	0.0235	0.0128	Brazil	179,792	EM	LA	0.0143	0.0220	-0.0077
Belgium	2,083	DM	Europe	0.0149	0.0053	0.0096	Hong Kong	162,400	DM	AP	0.0190	0.0305	-0.0115
Russia	1,964	EM	AP	0.0136	0.0151	-0.0015	Italy	150,601	DM	Europe	0.0204	0.0115	0.0089
Spain	1,374	DM	Europe	0.0073	0.0279	-0.0206	Korea	131,672	DM	AP	0.0102	0.0169	-0.0067
India	1,328	EM	AP	0.0382	0.0222	0.0161	Taiwan	99,688	EM	AP	0.0067	0.0128	-0.0060
Turkey	1,233	EM	MEA	0.0101	0.0042	0.0059	Sweden	93,662	DM	Europe	0.0201	0.0087	0.0114
Korea	1,156	DM	Europe	0.0052	0.0163	-0.0110	Finland	90,960	DM	Europe	0.0119	0.0034	0.0086
Egypt	1,155	EM	MEA	0.0080	0.0022	0.0058	India	89,351	EM	AP	0.0106	0.0230	-0.0124
Switzerland	1,149	DM	Europe	0.0186	0.0242	-0.0056	Mexico	70,359	EM	LA	0.0036	0.0073	-0.0038
Top 20 Markets	145,531			0.0446	0.0339	0.0107	Top 20 Markets	6,576,879			0.0483	0.0460	0.0024
Total Investments	159,681						Total Investments	7,180,420					

Table A2. Summary statistics for restricted sample

Panel A of this table shows the summary statistics for the CPIS dataset when we restrict the sample to the observations for which we have data on all the variables used as controls in the composite regression (Table 4, panel A, column 6). We show summary statistics only for emerging market source countries. Panel B shows the summary statistics based on the Lionshares dataset using similar restrictions. For each variable, we report the number of observations (N), equal-weighted mean (mean), standard deviation ("Std. Dev."), 25th percentile, median, and 75th percentiles. The variables' definitions are listed in Appendix C.

Panel A. CPIS sample						
Variable	N	Mean	Std.Dev	25 th	Median	75 th
Excess allocation (Benchmark 1, world)	4117	-0.006	0.084	-0.017	-0.005	-0.001
Excess allocation (Benchmark 2, regional)	4117	0.001	0.092	-0.016	-0.004	-0.001
Excess allocation (Benchmark 3, matched)	4101	0.013	0.117	-0.003	0.000	0.003
Trade	4117	0.033	0.071	0.003	0.009	0.031
FDI	3973	0.028	0.271	0.000	0.000	0.002
Distance	4117	8.204	0.880	7.709	8.544	8.835
Border	4117	0.039	0.193	0.000	0.000	0.000
Common Colonizer	4117	0.016	0.125	0.000	0.000	0.000
Colony Relationship	4117	0.009	0.097	0.000	0.000	0.000
Common Language	4117	0.131	0.338	0.000	0.000	0.000
GDP per capita	4117	9.612	1.202	8.729	10.252	10.511
Number of firms	4117	2.539	1.242	1.526	2.688	3.500
Market capitalization/GDP	4117	0.958	0.918	0.414	0.713	1.135
Market turnover	4117	0.971	0.617	0.495	0.860	1.305
Transaction Fees	4117	0.222	0.108	0.150	0.195	0.266
Difference in returns	4117	-0.028	0.425	-0.252	-0.027	0.186
Variance ratio	4117	0.986	0.513	0.640	0.880	1.205
Correlation	4117	0.454	0.321	0.241	0.510	0.708
Registration Rules	4117	1.720	1.154	0.000	2.000	3.000
Ownership Rules	4117	0.907	0.908	0.000	1.000	1.000
FX Convertibility Limits	4117	0.188	0.427	0.000	0.000	0.000
Govt Effectiveness	4117	1.091	0.791	0.330	1.240	1.790
Regulatory Burden	4117	0.989	0.703	0.410	1.180	1.570
Rule of Law	4117	0.913	0.864	0.120	1.250	1.680
Panel B. Lionshares sample						
Excess allocation (Benchmark 1, world)	18050	-0.004	0.084	-0.016	-0.005	-0.002
Excess allocation (Benchmark 2, regional)	18050	-0.003	0.077	-0.017	-0.006	-0.001
Excess allocation (Benchmark 3, matched)	18050	0.015	0.079	0.000	0.000	0.000
Parent country	18050	0.008	0.088	0.000	0.000	0.000
Peer country	18050	0.018	0.131	0.000	0.000	0.000

Table A3. How important are fixed effects in our baseline regressions?

In this table, we evaluate the explanatory power of the fixed effects relative to other controls that are used in the composite specifications in Table 4. Panel A is based on country-level CPIS regressions and Panel B is based on Lionshares institution-level regressions. The first five columns of Panel A are regressions for the CPIS sample of emerging market source countries. Columns 1-5 show the R^2 contributions of the control variables (excluding the fixed effects); the year fixed effects; the source country fixed effects; destination country fixed effects; and, finally, all of these right-hand side variables (control variables and all three sets of fixed effects). The fifth column is the same composite specification as Column 6 in Table 4 Panel A. The next five columns in Panel A repeat this exercise using regressions for the CPIS sample of developed market source countries. The tenth column is the same composite specification as Column 12 in Table 4 Panel A. Panel B conducts a similar exercise using Lionshares data. The fifth column is the same composite specification as Column 6 in Table 4 Panel B. The tenth column is the same composite specification as Column 12 in Table 4 Panel B.

Panel A. CPIS Sample.

Dependent variable: Excess allocation (Benchmark 1, world)										
	Emerging					Developed				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Controls	Yes	No	No	No	Yes	Yes	No	No	No	Yes
Year FE?	No	Yes	No	No	Yes	No	Yes	No	No	Yes
Source Country FE?	No	No	Yes	No	Yes	No	No	Yes	No	Yes
Destination Country FE?	No	No	No	Yes	Yes	No	No	No	Yes	Yes
<i>N</i>	4117	9283	9283	9283	4117	5904	13028	13028	13028	5904
Adj-R ²	0.098	-0.001	0.092	0.073	0.236	0.165	-0.001	0.010	0.239	0.324

Panel B. FactSet Lionshares Sample.

Dependent variable: Excess allocation (Benchmark 1, world)										
	Emerging					Developed				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Controls	Yes	No	No	No	Yes	Yes	No	No	No	Yes
Year FE?	No	Yes	No	No	Yes	No	Yes	No	No	Yes
Source Country FE?	No	No	Yes	No	Yes	No	No	Yes	No	Yes
Destination Country FE?	No	No	No	Yes	Yes	No	No	No	Yes	Yes
<i>N</i>	18050	43683	43683	43683	18050	806271	1802536	1802536	1802536	806271
Adj-R ²	0.214	-0.000	-0.000	0.258	0.403	0.090	-0.000	0.000	0.183	0.247

Table A4. Effects of information endowments on external investment allocations: Pre- and post-global financial crisis periods (including 2008 and 2009)

This table replicates the results of the basic regressions using information endowment proxies that are reported in Table 5. Panel A contains the equivalent of the regressions reported in columns 1 and 2 of panel A of Table 5, with the CPIS sample of emerging market source countries split into the pre-crisis (2001-08) and post-crisis (2009-11) periods. Panel B contains the equivalent of the regressions reported in columns 1 and 2 of panel B of Table 5, with the Lionshares sample of emerging market institutions split into the pre-crisis (2001-08) and post-crisis (2009-11) periods. T-statistics are shown in parentheses below the coefficient estimates. The superscripts ^{*}, ^{**}, and ^{***} indicate that a coefficient is statistically significant at the 10 percent, 5 percent, and 1 percent level, respectively.

Panel A: Excess Portfolio Allocations (CPIS Data)

	Excess allocation (Benchmark 1, world)			
	(1)	(2)	(3)	(4)
	Pre-crisis		Post-Crisis	
Trade	0.567 ^{***} (6.72)		0.354 ^{***} (3.64)	
FDI		0.058 (1.59)		0.015 [*] (1.95)
Controls	Yes	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes	Yes
Source Country FE?	Yes	Yes	Yes	Yes
Destination Country FE?	Yes	Yes	Yes	Yes
<i>N</i>	2843	2762	1431	1368
<i>r</i> ² _a	0.329	0.265	0.293	0.249

Panel B: Excess Portfolio Allocations (Lionshares Data)

	Excess allocation (Benchmark 1, world)			
	(1)	(2)	(3)	(4)
	Pre-crisis		Post-Crisis	
Parent country	0.030 (1.58)		0.035 (1.36)	
Peer country		0.025 ^{**} (2.05)		0.032 [*] (1.93)
Controls	Yes	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes	Yes
Source Country FE?	Yes	Yes	Yes	Yes
Destination Country FE?	Yes	Yes	Yes	Yes
<i>N</i>	10432	10432	8174	8174
Adj-R ²	0.419	0.419	0.391	0.392