

This emerging market fund prioritizes investments in countries based on civil, political and economic freedom

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One emerging market fund has found a new way to invest that avoids countries governed by an autocracy.

In many traditional emerging market exchange-traded funds, investments are weighed by country size — the nations with the largest market capitalizations automatically take the money lead in the fund.

For investors looking to gain exposure to emerging markets, but who also want to avoid countries such as China, that approach can be an issue.

To solve this problem, the [Freedom 100 Emerging Markets](#) exchange-traded fund at Life + Liberty Indexes decided to weigh emerging markets by measures of freedom.

“This is a way for investors to get allocation to emerging markets without funding autocracies [while also] giving freer countries a higher weight,” Perth Tolle, the founder of Life + Liberty Indexes, told CNBC’s Bob Pisani at the “Future Proof” conference.

To determine a freedom measure for emerging market countries, the fund uses third-party data from the Cato Institute and the Fraser Institute. The data encompasses measures of civil, political and economic freedoms. Taiwan currently has the highest freedom score, but the country with the biggest allocation in the index is Chile. Chile currently makes up 25% of the ETF.

That decision reflects Chile’s market outperformance — it’s up more than 20% this year — not just [its] freedom weight, Tolle said.

“Chile has exposure to all of the commodities in all of their sectors, and so that has done really well this year,” she said. “If you had a market-cap weight fund you would’ve had a 1% allocation to that.”