MIRAE ASSET
Building on principles

Mirae Asset Global Investments

2014 EMERGING MARKETS

MID-YEAR UPDATE

EMERGING MARKET EXPERTS

About Mirae Asset Global Investments

Mirae Asset Global Investments is one of the world's largest investment managers in emerging market equities.* With more than 560 employees, of which 120 are dedicated investment professionals, Mirae Asset offers a breadth of emerging markets expertise from its offices in Australia, Brazil, Canada, China, Colombia, Hong Kong, India, Korea, Taiwan, the U.K., the U.S. and Vietnam. The firm manages more than $60 billion in assets globally, of which more than $16 billion is invested in emerging market equities.**

www.miraeasset.com

*Source: Investment & Pensions Europe, January 2014
**As of June 30, 2014

2014 Emerging Markets Mid-Year Update

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EXECUTIVE SUMMARY

As we reflect back on the first half of 2014, emerging market equity performance has been somewhat different from the consensus predictions, as emerging market equities have performed better than expected, returning 6.1% as of mid-year.* Probable reasons include falling U.S. 10-year Treasury yields and the relative attractiveness of emerging markets versus European yields. Politics have also had an important influence in Turkey, Brazil, India and Indonesia. The rebound of emerging markets was further helped by the fact that much of the impact of tapering by the U.S. Federal Reserve was already seen in the second half of 2013, followed by quick damage-control exercises by the central banks of the "Fragile Five" (Brazil, India, Indonesia, South Africa and Turkey, as defined by Morgan Stanley). All of the Fragile Five markets have outperformed versus the MSCI Emerging Markets Index year to date.

*According to Bloomberg.

Despite the strong performance since March, emerging market equities remain under-owned and retain the feel of an unloved asset class. Concerns remain focused on: 1) the impact of further normalization of U.S. Federal Reserve policy and the reversal of U.S. yields, 2) China's slowing growth and developments in the property market and 3) geopolitical risks. On the positive side, emerging markets remain supported by: 1) recovering, albeit slow, global growth 2) a stabilization of earnings per share (EPS) growth revisions and 3) the prospects of structural reform. As exemplified by developments in India, the mere prospect of structural reform is a powerful driver of markets, while execution is a requirement for sustainable outperformance.

Asia ex-Japan — We remain positive on Asia as the key economies of China and India show signs of stabilization. Reforms will be an important part of the underlying story in both countries in the second half of the year. In China, we remain focused on industry consolidation, government reform sectors and "New China Industries" as key themes for the second half of the year. In India, we believe the market is on the cusp of a multiyear bull run, as a combination of good political leadership and a pragmatic Central Banker ensures that the much-touted demographic dividend is finally realized. As Asian economies improve in the second half of 2014 and earnings revisions bottom, we believe that investor sentiment will likely improve for the region, which, despite having a relatively good demographic profile, is trading at historically low valuations.

Latin America — Brazilian equities will likely remain volatile throughout the second half of 2014, leading up to the October elections, and will likely remain reactive to poll readings and political headlines. Despite a weak macroeconomic outlook for both 2014 and 2015, the Brazilian market offers upside potential in the event of a politically-driven re-rating, both before and after the presidential vote. Mexico remains an attractive market, despite lagging the region during the first half of 2014. Though Mexican equity valuations remain high relative both to the region and historical averages, future growth is likely to justify this premium. Latin American investors enter the second half of 2014 focused on politics in Brazil and Colombia, as well as on the timing and pace of a rebound in the Mexican economy.

EEMEA — The macroeconomic trends in the markets of Eastern Europe, the Middle East and Africa (EEMEA) are still showing clear divergences. The euro-area-linked economies of Poland, Hungary and the Czech Republic are doing much better than Russia, South Africa or Turkey. The Russian equity market and currency have missed out on the rally that we have seen in other emerging markets since March due to the Ukrainian conflict. While the market has not yet recovered its losses since the start of the conflict, it appears we could see further de-escalation. The Turkish market will remain volatile, but with the European Central Bank (ECB) showing a willingness to stimulate the euro-area economy, the ability of Turkey to fund its structural deficits remains intact. The market offers exciting opportunities, with accelerating growth potential and the most favorable demographics in the region.

Overall, it remains imperative to retain a selective and active approach to emerging markets as we enter the second half of 2014.

ASIA EX-JAPAN

As a region, Asia ex-Japan had a slightly stronger performance compared with the broad emerging markets. With the exception of China (the worst-performing country in the region), the other countries marked positive returns, with a few even posting double-digit gains in the first half of 2014.

Our recent trip through China has reaffirmed that, though slowing, the economy is unlikely to suffer a hard landing.

We continue to remain positive on Asia, as the key major economies of China and India show signs of stabilization. Chinese leadership has refrained from large-scale stimulus to tackle overinvestment, while pushing reforms to encourage private-sector competition to help improve capital allocation. Meanwhile, the new Indian leadership under Prime Minister Narendra Modi has shown the resolve to kick-start investment by fixing the fundamental issues of underinvestment and an inefficient bureaucracy.

Korea, as in the past, is showing signs of reinventing itself from an export-led manufacturer to a sophisticated service-industry model. Buoyed by the success of Korean popular music (K-pop) and television dramas, Korean consumer and Internet companies are expanding their footprints across the region, while attracting millions of travel-loving Chinese tourists.

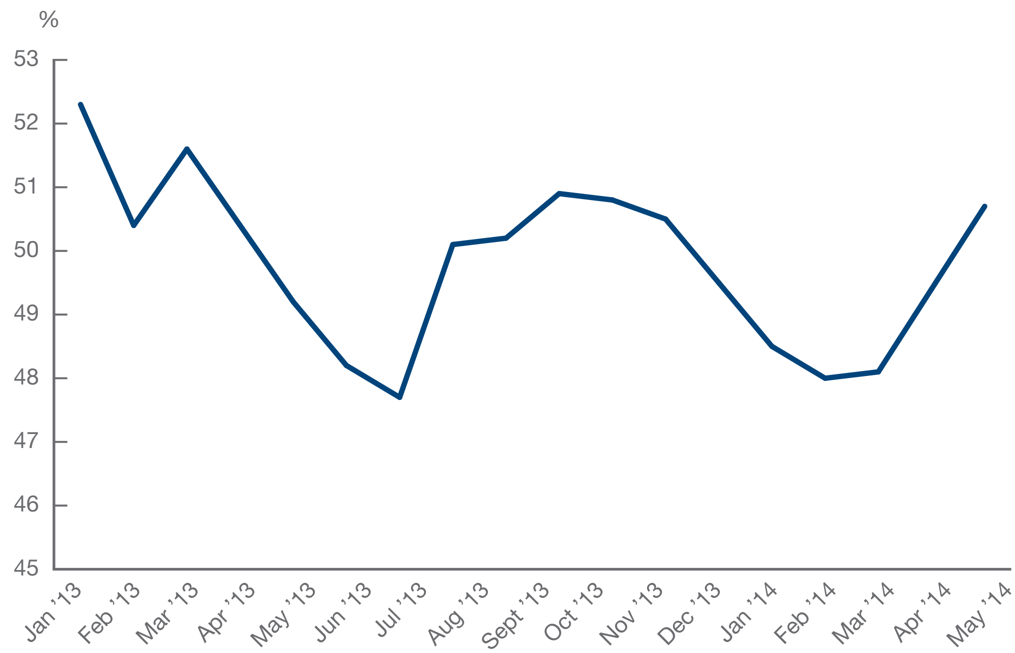
Despite interesting medium-term prospects, the Association of Southeast Asian Nations (ASEAN), a region of 435 million people with an average age of 30 years, comprising Indonesia, Malaysia, the Philippines, Singapore and Thailand, faces near-term challenges. Key challenges include addressing the negative effects of the military coup in Thailand and the overreliance on commodity exports in Indonesia. The Philippines, while still a relatively small stock market, remains the most attractive story, with favorable demographics and a large English-speaking population.

China

In the first half of 2014, China lagged both the Asian and emerging market regions, being the only negative performer in Asia ex-Japan. China's Purchasing Managers' Index (PMI) continued to hover around 48 for a large part of the first half of 2014, although it recently improved in May to 49.7, thanks to recovering export orders.

Domestic demand remains poor, although employment conditions remain stable on the back of an export-led recovery. Policymakers remain fully aware of the situation and, rather than going back to an unhealthy and large-scale stimulus, would focus on reforms such as tax breaks for small-scale enterprises and capital control relaxations for investing in/from Hong Kong. As a step toward reducing mispricing of credit and improving capital allocation, the regulators are talking about putting the onus of trust defaults on the issuing parties. Separately, a focus is on state-owned

HSBC CHINA PMI



Source: Bloomberg
January 2013-June 2014

enterprise (SOE) reforms, divesting retail marketing assets for oil and tower assets geared to telecommunications companies in order to potentially attract private capital and reduce capital intensity.

The worrisome part of the story remains the sharp slowdown in the property market and the falling Producer Price Index (PPI) this year. Our base case is more of a 5% to 7% fall in property prices and an export-led recovery to help ease the pain for the private sector, while the debt of SOE is managed by a relatively healthy sovereign fiscal situation. Tier 3/4 cities in China do have a significant oversupply of property; however, loan-to-value ratios (LTV ratios) stand around 50%, which is considerably lower than the 80% levels seen during 2007-2008 in the U.S., which should ensure that defaults are limited. Problematic loans are more apparent in small regional banks, as the Big 4 Chinese banks[1] turned conservative two to three years ago, with stories appearing of a new "bad bank" being formed to ease the pressure on small local banks.

Our recent trip through China has reaffirmed that, though slowing, the economy is unlikely to suffer a hard landing in the near term. Unemployment is low and wage growth in 2013 was 9%, with 6% expected in 2014, while the fiscal deficit is manageable at 2%, as the trade surplus still remains healthy. Consumption and decision-making have slowed down, led by an anticorruption clampdown on gifting and a widespread "fear psychosis" in the bureaucracy.

The key concern to our equity Goldilocks scenario (referring to a scenario where economic conditions are neither too hot nor too cold) was the threat of deflation in China, which has been somewhat mitigated by improvement in recent PMI data and deflation in Europe, the latter of which the ECB is trying to address through unconventional monetary tools.

[1]Big 4 Chinese banks: State-owned commercial banks in China are the Bank of China, China Construction Bank, Industrial and Commercial Bank of China and Agricultural Bank of China.

It seems that for the next couple of quarters, a mix of technology improvements and demand from other emerging markets would provide respite for the Taiwan IT supply chain.

Korea, Taiwan

Korea and Taiwan continue to show recovery in developed world exports, although exports to China remain a drag. Our company-level interactions have yet to find any meaningful pickup in local demand. The main concern for Korea still remains the reluctance of old economy companies to invest locally, a function of poor domestic demand creating a vicious cycle of poor wage growth and inadequate job creation that both serve to constrain demand recovery.

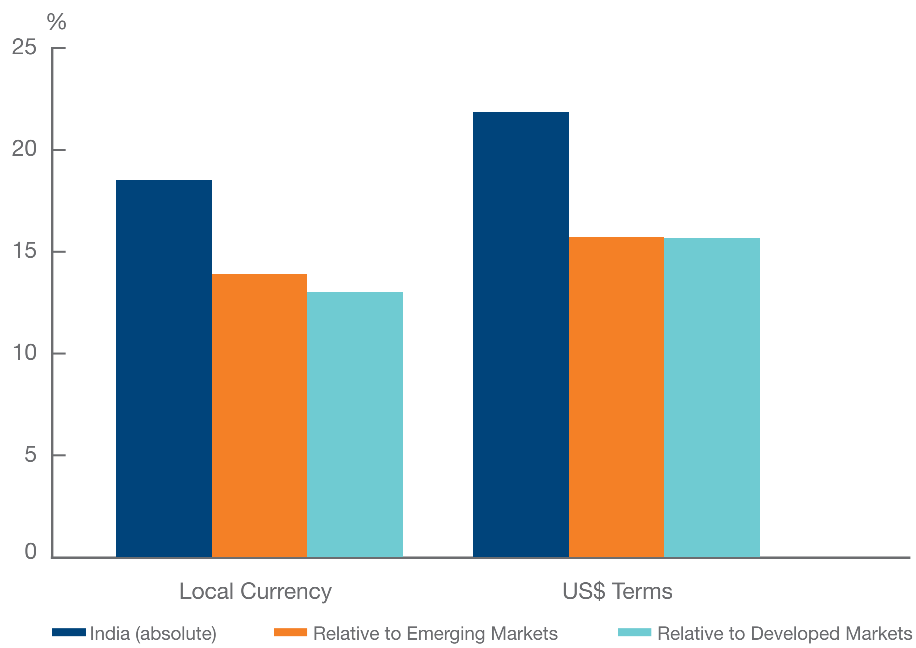
Quarterly results in Korea continue to be subdued, while in Taiwan, leading IT companies have shown significant outperformance versus expectations. Our underweight in Taiwan technology was premised on the fact that Chinese peers are rapidly catching up to their Taiwanese counterparts, and that the smartphone chain was becoming commoditized. It seems that for the next couple of quarters, however, a mix of technology improvements and demand from other emerging markets would provide respite for the Taiwan IT supply chain.

India

Indian markets have rallied significantly in 2014, and we believe that the rally, albeit at a slower pace, will continue for the next 3 to 5 years. Meanwhile, the highly anticipated Indian elections surprised even the optimists, with Narendra Modi's coalition winning a record 336 of 543 seats, the first time in the last 30 years that a party has won a majority on its own.

As expected, Modi's team has quickly settled down to address pressing issues of policy paralysis in the bureaucracy,

ELECTION SWING: INDIAN EQUITIES' 2014 YTD PERFORMANCE



Source: FactSet. MSCI Net Returns

seeking to resolve bottlenecks such as securing a coal supply for power projects and strengthening the public sector units. Modi's growth model is a blend of China-like infrastructure coupled with Singapore-like bureaucratic efficiency, adapted to India.

We believe that India is on the cusp of a multiyear bull market, as a combination of good political leadership and a pragmatic Central Banker ensures that the much-touted demographic dividend is finally realized. We believe that India's gross domestic product (GDP) growth could accelerate to nearly 6% in 2016, the fastest in the USD 2-trillion GDP club.

Association of Southeast Asian Nations (ASEAN): Indonesia, Malaysia, the Philippines, Singapore and Thailand

ASEAN markets continue to do well in 2014. The Indonesian inflation and trade deficit has improved in recent months, while both Singapore and Malaysia's first-quarter GDP is reflecting growth recovery on the back of an export boost. Thailand's vulnerability has increased further with a military coup in recent weeks, worsening the political stalemate that has impacted the country since October 2013. Though cheered by markets, we believe that the turmoil (which is likely to be more long-lasting than expected) may negatively impact tourism and foreign direct investment (FDI).

A similar story is being played out in Indonesia, where Joko "Jokowi" Widodo has claimed victory in a closely contested election, although the actual polling results are still being counted. Jokowi has a similar style to Modi (though with a softer demeanor) and projects an honest image, with decisive and pragmatic decision-making. The task for economic revival is much tougher in Indonesia than in India, however, because of the former's dependence on commodity exports. After a strong first quarter earlier this year, the Indonesian economy has slowed considerably, as reflected in subdued auto and cement demand in recent months. Key milestones to watch for include the ability of the new government to undertake the tough measures of cutting subsidies, reducing the fiscal deficit and opening the economy to attract the FDI necessary to create noncommodity-sector employment.

OUTLOOK

Going into the second half of 2014, we believe that U.S. 10-year Treasury yields may rise, thanks to improving economic data, robust PMIs and payroll numbers, in concert with the U.S. Federal Reserve's tapering program. Our focus would again be on the health of economies, including their ability to manage growth and attract capital out of the diminishing pool. After the initial sell-off in the first half of 2014, we believe global equity markets should do well on the back of the growth recovery in a Goldilocks scenario (until yields touch 5%).

As Asian economies improve in the second half of 2014 and earnings revisions bottom, we believe that investor sentiment will improve for the region, which, despite having a relatively good demographic profile, is trading at historically low valuations.

CHINA INVESTMENT THEME IN FOCUS

Market review

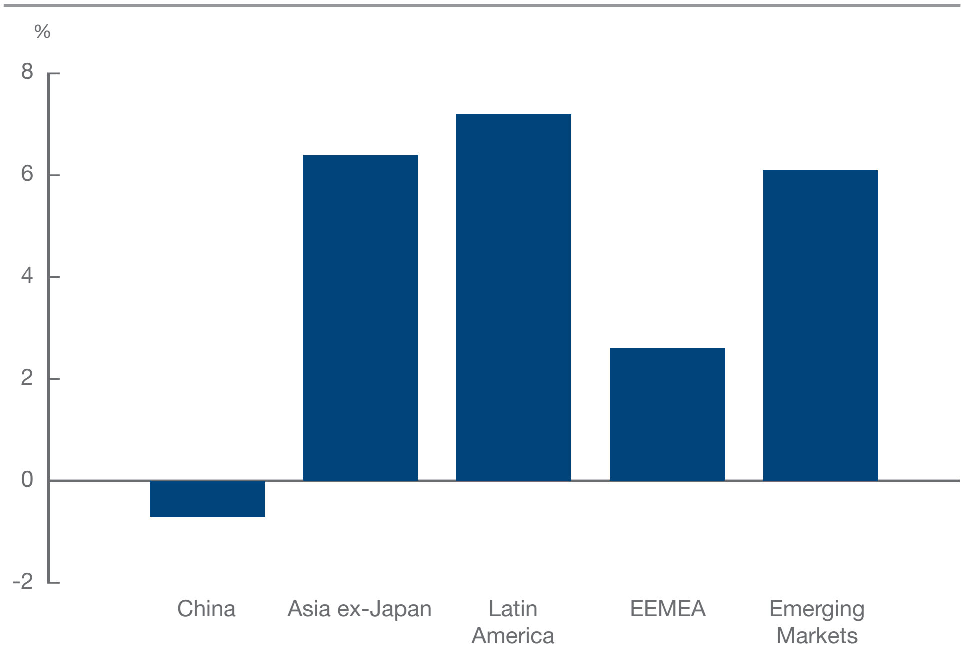
We believe that emerging markets, including China, will be positively affected in the second half of 2014.

The Chinese market traded within a very narrow index range in the first half of 2014. The MSCI China Index[13] started the year at 63 points and moved within the bounds of 56~63 points during the first six months of the year. Relative to the other equity markets, China's market performance was considerably weaker and did not feature notably impressive movements to investors.

The lackluster trend of the market in China can be explained by several factors. Internally, weak macro indicators, a lack of pro-growth policies and additional concerns regarding the shadow banking system served as major headwinds to the market. Externally, the U.S. Federal Reserve's quantitative easing (QE) tapering, the Argentina default affair and intensifying geopolitical tensions negatively affected investor sentiment.

These internal and external factors heightened risk aversion from investors, resulting in the shift of fund flows from emerging markets to developed markets in the first half of 2014. China was no exception to this trend, experiencing continuous outflows during the period, and lagging in performance compared with other regions.

CHINA'S WEAK 2014 YTD PERFORMANCE



Source: FactSet. MSCI Net Returns (USD)

Key positive catalysts for the second half of 2014

The constant outflows and the current 9x price-to-earnings (P/E) level confirm that most of the negative factors have already been reflected in stock prices. China's current market valuation stands at the lowest level compared with other markets across the region.

On a brighter note, we anticipate an improved market trend in the second half of 2014, not only due to cheap current valuation levels, but also thanks to several other encouraging dynamics that will likely benefit the equity market.

First, we believe that the economic cycle is favorable. The economic recovery of both the U.S. and Europe proved to be a protracted one, failing to impart any meaningful effects onto emerging markets, China included. However, the recovery has now attained pre-crisis levels, which marks a shift from a stabilization stage to an expansionary stage for the U.S. and Europe. Thus, we believe that emerging markets, including China, may be positively affected in the second half of 2014. The Chinese domestic economy will likely also enjoy better cyclical movement, with less government tightening and an inventory cycle upturn. The government's policy stance is gradually transitioning from tightening to neutral, and some macro indicators are bottoming out.

Second, it is anticipated that the Chinese government reform will drive extra momentum in the second half of 2014. Following the government's overarching policy framework announcement in 2013, the first half of 2014 may be considered a preparation period for the stated policies. Going into the second half of 2014, we anticipate more actions that should provide strong market impetus.

Third (and more of a longer-term factor), we have begun to witness structural changes in Chinese industries. The previous model of investment-driven industry growth is now being replaced by growth in consumption, service and technology-driven industries. Chinese companies are also gaining global market share by adopting advanced technology and employing more flexible manufacturing techniques. Together with improved sentiment and a cyclical upturn, these changes will likely be key factors going toward China's market re-rating.

Key themes for the second half of 2014

We identify three major themes in the China region for the second half of 2014.

First, we expect to observe a trend of industry consolidation in China. While second and third-tier enterprises are still experiencing difficult conditions, top-tier companies are becoming more competitive and making gains in market share. In the industrial or property sectors, smaller and fragile companies are shutting down, while industry leaders are becoming stronger, with larger scale and healthier efficiencies. Although small and medium enterprises, both in size and market share, may seem attractive from a price perspective, we anticipate that they will encounter difficulties in competing against established industry leaders.

Second, we see increasing investment opportunities in government reform-related sectors. Such sectors have already exhibited decent performance to date, namely in strategic financial areas, new energy-related stocks, anti-pollution-related industries and health-care industries. We anticipate that these sectors and industries will continue to perform well into the second half of 2014.

Third, we see a new trend of "New China Industries." The Chinese economy is currently in a transition phase. We anticipate that consumption, service and technology-related sectors may lead the growth in China in the coming years. More specifically, we see travel, health care, Internet, information technology (IT) and new energy as the key industries to watch. After strong rallies in 2013, these industries experienced corrections in the first half of 2014, yet we believe their structural growth is intact and will continue in the mid to long-term.

LATIN AMERICA

Latin American equities have performed well in the first half of 2014, rising moderately above the MXWO[2] and partially reversing a trend of underperformance seen throughout 2013. Mexican equities have remained flat, largely a result of tepid domestic activity and relatively high valuations. On the other hand, Brazilian equities have rebounded, following a weak start to the year in response to rising expectations of political change and the potential for more market-friendly economic policies. Global financial-market liquidity remains favorable for equities as an asset class, and depressed U.S. Treasury yields are broadly supportive for emerging markets.

Latin America continues to deliver below-trend GDP growth, dragged by weak output from both Brazil and Mexico, although the Andean region has sustained strong levels of growth. Corporate earnings revisions across the region have also remained negative; nevertheless, we are seeing some signs of a reversion of this trend, indicative of a more positive outlook into the second half of 2014.

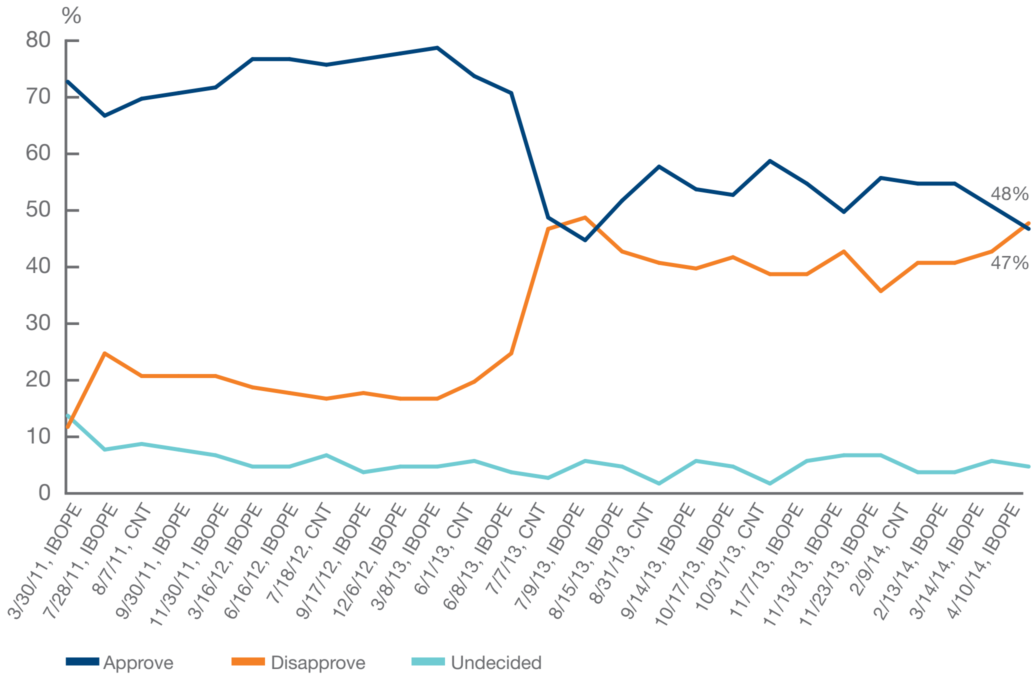
Despite a weak macroeconomic outlook for both 2014 and 2015, the Brazilian market offers upside potential in the event of a politically-driven re-rating both before and after the Presidential vote.

Brazil

Brazil has proved to be a positive surprise during the first half of 2014, despite the uninspiring economic backdrop. Underpinning the rebound in Brazilian equities is a material deterioration in approval ratings for the Dilma Rousseff government, with the opposition candidates now starting to gain ground in polls. The government of the incumbent socialist Workers' Party, Partido dos Trabalhadores (PT), has broadly lost the support of both domestic and international equity investors due to its high level of micromanagement and populist policymaking. The loss of confidence now has spread to the public

[2]MXWO: MSCI World UCITS ETF. The objective of the fund is to track the performance of the MSCI World Total Return (Net) Index. MXWO includes developed world markets, and does not include emerging markets.

PRESIDENTIAL APPROVAL RATINGS IN BRAZIL



IBOPE (Instituto Brasileiro de Opinião Pública e Estatística): Brazilian Institute of Public Opinion and Statistics provides research on media, public opinion, voting intention, consumption, behavior, marketing & branding.

CNT (Central Nacional de Televisão): also known as CNT and Rede CNT, is a Brazilian television network based in Curitiba/Paraná.

Source: BTG Pactual

at large due to perceived high levels of corruption and a poor track record on spending and investment. Brazilian equities look to remain volatile throughout the second half of 2014, leading up to the October elections, and will also likely remain reactive to poll readings and political headlines. Despite a weak macroeconomic outlook for both 2014 and 2015, the Brazilian market offers upside potential in the event of a politically-driven re-rating both before and after the presidential vote.

Mexico

Mexico remains an attractive market despite lagging the region during the first half of 2014. Like India, it is a market that has seen investor appetite increase as a result of political change and the expectation of significant reform. The first half of 2014, however, has seen Mexican equities trade sideways due to downgrades in 2014 GDP forecasts and negative earnings revisions. Consumer and industrial activity is now showing signs of bottoming, and the recent, unexpected cut in interest rates by the Banco de Mexico will likely stimulate activity in the second half of the year. Though Mexican equity valuations remain high relative to both the region and historical averages, future growth is likely to justify this premium. Higher consumer taxes have now been absorbed, and the Institutional Revolutionary Party (PRI) government is expected to raise investment levels as it enters the second half of its first year since returning to power.

Andean Trio (Colombia, Peru, Chile)

The Andean region continues to grow above the regional average, led by Peru, despite the ongoing deceleration in Chinese activity and the consequent weakness in copper prices, a key export for the area. Domestic activity is the key driver, with rising real income levels and banking penetration likely to sustain this trend. In Colombia, politics has dominated in the first half of 2014, with President Juan Manuel Santos narrowly beating opposition candidate Óscar Iván Zuluaga in the recent second round of voting to secure reelection. Santos is expected to maintain broadly market-friendly economic policies in his second term and continue the dialogue-driven peace process with the Revolutionary Armed Forces of Colombia (FARC) rebels. As such, we anticipate Colombia to remain an attractive equity market, especially with the infrastructure sector anticipating significant investment. In Chile, President Michelle Bachelet is similarly expected to sustain investor confidence, despite a more populist stance than during her prior term (2006-2010). We believe the rise in corporate taxation (from 20% to 25%, phased in) and the elimination of relevant tax breaks have been incorporated into Chile's market valuation levels, and we do not foresee any further major adjustments in economic policy in the near term.

The Andean region continues to grow above the regional average, led by Peru, despite the ongoing deceleration in Chinese activity and the consequent weakness in copper prices, a key export for the area.

OUTLOOK

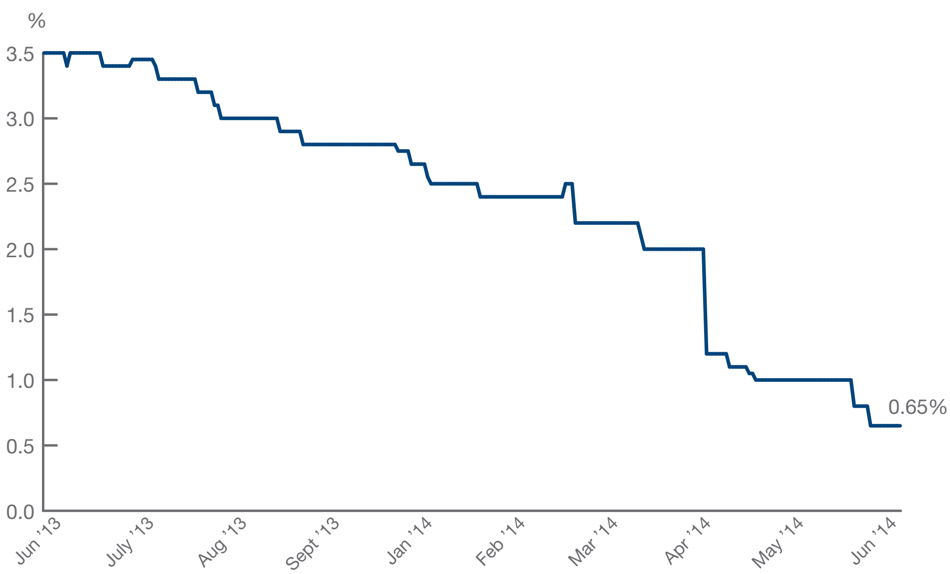
Latin American investors entered the second half of 2014 focused on politics in Brazil and Colombia and the timing and pace of a rebound in the Mexican economy. The structural growth case across the region remains intact and, in general terms, we remain focused on those sectors and companies exposed to rising wage growth, financial penetration and consumption. Although there are some concerns regarding consumer leverage levels within Brazil and asset quality at the public banks, the Latin American domestic growth potential remains significantly above that of the developed markets. Therefore, we are selective in our approach to sectors, preferring the insurance, banking, health care and retailing sectors.

From a regional and global perspective, the main risk facing Latin American equity markets is that of an abrupt and unexpected reduction in global liquidity provision by either the U.S. Federal Reserve or the ECB, as well as a spike in U.S. Treasury yields. In this scenario, several emerging markets would be at risk of underperformance, notably those relying on foreign investment to fund current account deficits, including Brazil. Although Argentina and Venezuela have made headlines in the first half of 2014 due to currency devaluations and rising inflation, we see little risk of contagion into the neighboring economies across the region. While selected corporates within the major Latin American equity markets have exposure to these two mismanaged economies, overall linkages are low, both economically and in the corporate sector.

EASTERN EUROPE, THE MIDDLE EAST AND AFRICA (EEMEA)

The EEMEA region started the year nervously as investors dealt with political and economic uncertainty, with markets and currencies coming under pressure in the first quarter. The removal of some of the overhanging risks, most notably a de-escalation to the Russian-Ukrainian conflict and (mostly peaceful) elections in South Africa and Turkey, helped markets to recover. The markets of the United Arab Emirates (UAE) and Qatar were included into the MSCI Emerging Markets Index[17] at the end of May 2014, joining Greece as recent additions to the emerging market universe.

CONSENSUS GDP FORECAST FOR RUSSIA (ANNUAL YoY%)



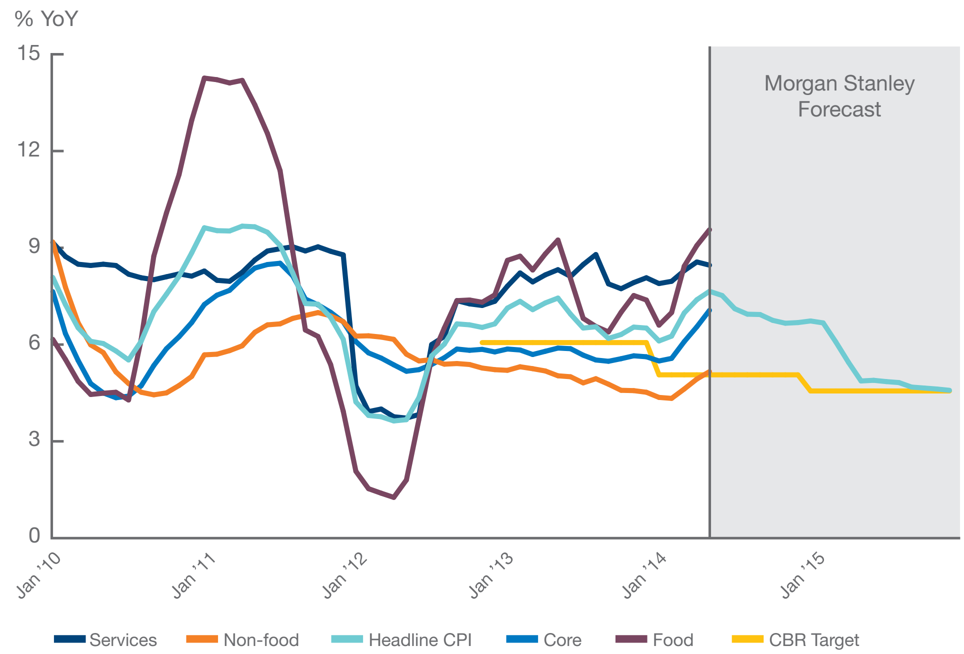
Source: Bloomberg

The election calendar in the second half of 2014 remains busy, with Turkey, Romania, Russia and Ukraine all set for elections. Implementation of pension fund reform in Poland will be important to watch, while in South Africa, an uncertain sovereign ratings review, coupled with protracted mining strikes, will be key news headlines to follow. The potential impact of these events is unlikely to have the same effect on the equity markets as in the first half of 2014. Macroeconomic trends in the EEMEA markets are still showing clear divergences, with the euro-area-linked economies of Poland, Hungary and the Czech Republic doing much better than Russia, South Africa and Turkey. On the other hand, the newly included markets of the UAE and Qatar are showing early signs of overheating, especially in the real estate and construction sectors.

Russia

The already slowing economy of Russia will be put under more pressure as sanctions imposed in response to the Ukrainian conflict are expected to continue to adversely affect the economy in the near term. The weaker ruble means that inflation is increasing as a result of more expensive imports and capital flight acceleration as wealthy Russians try to protect their assets (year to date). The inflation rate that is now around 8% is likely to top out well above the target inflation rate of 5.5% set by the Central Bank of Russia. This leaves the Central Bank without much room to maneuver as it struggles to jump-start the economy. Lower interest rates in the short term are unlikely. As a result, we anticipate the Russian GDP to grow less than 1% in 2014, followed by a tepid recovery in 2015 to around 2%.

PICKUP IN INFLATION DRIVEN BY RUBLE WEAKNESS



Source: Rosstat, CBR, Haver Analytics, Morgan Stanley Research forecasts

While oil prices remain stable and high, Russian public finances are in good shape, and the budget should be balanced for the full year. The successful hosting of the Winter Olympics, low unemployment and an increased sense of patriotism following the Ukraine conflict translated to high approval ratings for President Vladimir Putin. As such, the softer economic backdrop is unlikely to necessitate a need for additional fiscal stimulus.

The Russian stock market underperformed both the region and emerging market equities as it sold off sharply at the start of March when the conflict with Ukraine started. Both the equity market and the currency have since recovered, but still missed out on a strong performance of risky assets that included emerging market equities over the period. We remain positive on Russian privately owned companies and consumption-related stories as we believe these will be the drivers for economic growth and the structural winners from an increasingly consumption-led economy. The other area of optimism is cyclical companies, currently trading at a significant discount to global peers, which have the potential for increased capital distributions as their free cash flow improves.

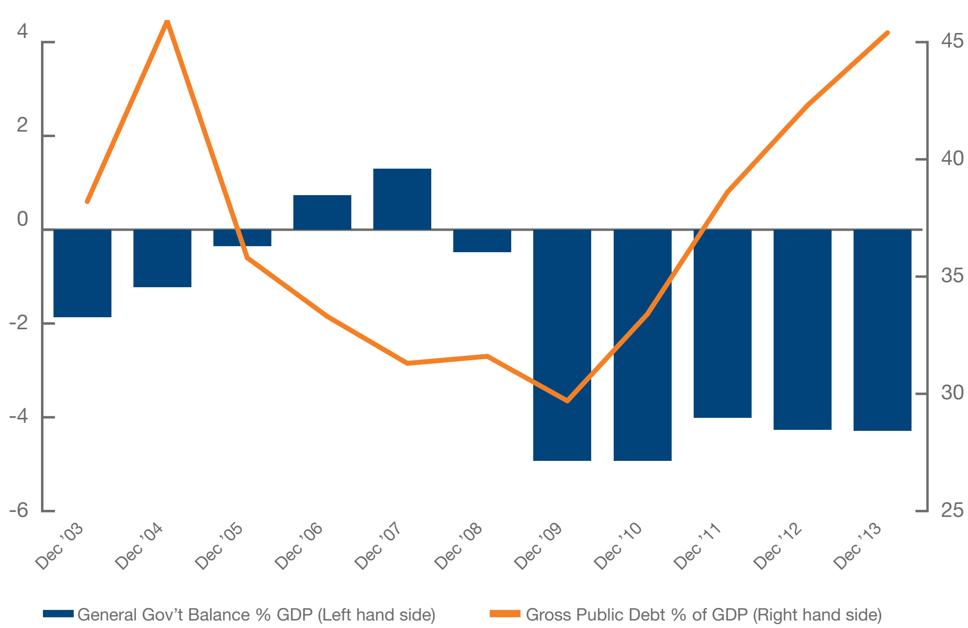
The deteriorating alliances between the labor unions and the ANC will be important and could shape the future landscape of South African labor relations.

South Africa

South Africa outperformed both its regional peer group and emerging market equities by a large margin as its status as a perceived safe haven in EEMEA caused investors to buy into the market. This status is decreasing, however, as uncertainty over its sovereign rating and protracted mining strikes become bigger issues moving into the second half of the year. The national and provincial elections held on May 7 saw the African National Congress (ANC) retain its majority with a 62% vote, while the Democratic Alliance (DA) increased its share of the vote to 22%. The markets took the outcome positively, and a continuation of policies should be expected, even with significant changes in the cabinet.

The ANC-led government should become increasingly more involved in trying to find a solution to the mining strikes, as the effect on the broader economy has been felt more severely than expected. The deteriorating alliances between the labor unions and the ANC will be important and could shape the future landscape of South African labor relations; this will be watched very closely by investors and unions alike. The strikes have caused economic expectations to be revised down sharply to less than 2.5% for 2014 (Bloomberg, July 2014), with the inflation expectations now above the South African Reserve Bank's target of 6%, limiting the bank's ability to provide the indebted consumer with room to breathe.

SOUTH AFRICA — GOVERNMENT BALANCE AND DEBT



Source: IMF, UBS estimates

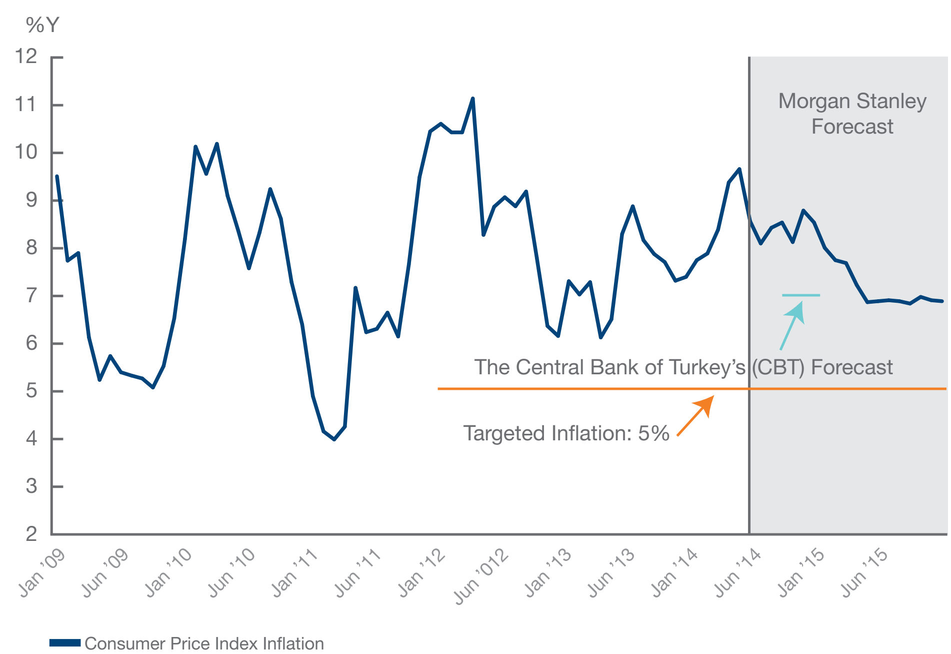
The high-quality management of many South African companies and an expected, benign political backdrop for the remainder of 2014 are positive signs. However, the valuation premiums in the equity market and slowing growth prospects leave little to get excited about, given that the improving fundamentals of other emerging markets are at much more attractive valuations.

Turkey

The election scandals that rocked the Turkish political and business elite forced the market to reconsider the risk premium that Turkish equities deserved. As both the structural issues around an entrenched political leadership and economic imbalances are still present, the Turkish market remains hostage to global liquidity and sentiment. The Central Bank of Turkey (CBT) needs to prove its independence to the markets, and the pressure from Prime Minister Recep Tayyip Erdoğan to keep monetary policy loose ahead of the elections has raised some concerns. The hike in interest rates in late January supported the Turkish lira, which came under severe pressure in weeks leading up to the hike, having depreciated more than 10% up to that point in 2014 before the Central Bank decided to intervene. This rapid deprecia-tion showed the vulnerability to external capital flows that exists in Turkey.

The Turkish market will remain volatile, but with the ECB showing a willingness to stimulate the euro-area economy, the ability of Turkey to fund its structural deficits remains intact. The market offers exciting opportunities, with accelerating growth potential and the most favorable demographics in the region.

TURKEY — INFLATION HAS PEAKED ACCORDING TO OUR PROJECTIONS



Source: Haver Analytics, Morgan Stanley Research forecasts

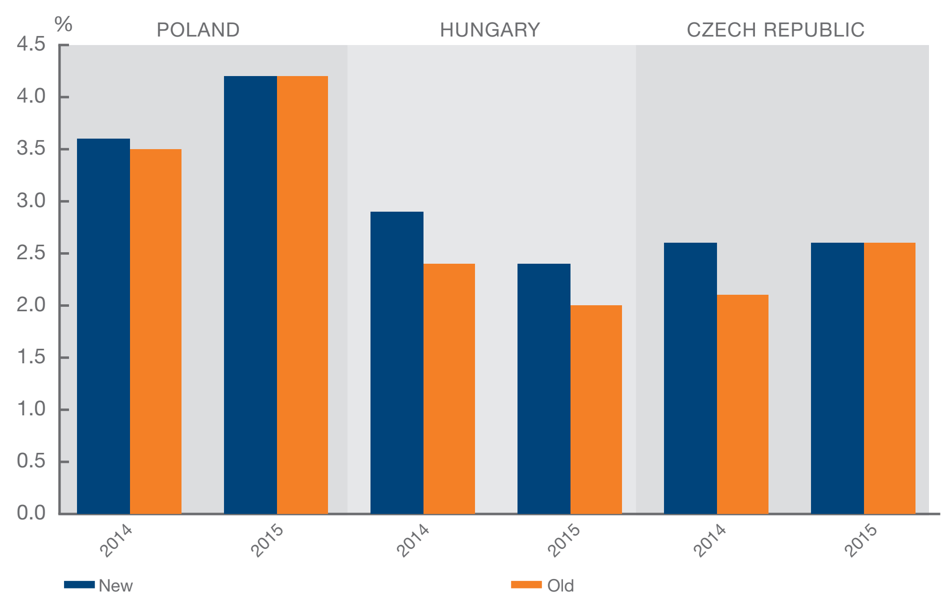
This is the first time that the markets of the UAE and Qatar will feature in the official emerging market universe, and they are a welcome addition.

Other EEMEA markets

The Central and Eastern European (CEE) markets of Poland, Hungary and the Czech Republic are experiencing strong economic momentum from a recovery that is underway in the euro area, and specifically in Germany. Poland, as the biggest equity market in the region, has benefited from this, but with its equity market now trading at historically high premiums compared with the region and with other emerging markets, investors could become more cautious. The Polish pension system will also implement the final steps to its reform in 2014, which might cause some changes to the strong domestic support for the equity market that has been a constant for many years. As non-German economic activity picks up in the euro area, the beneficiaries of stronger economic momentum could change to more peripheral markets in the region, such as Greece.

This is also the first time that the markets of the UAE and Qatar will feature in the official emerging market universe, and they are a welcome addition. The capital markets in UAE and Qatar remain small, but bring exciting new opportunities to the universe, with unique features that investors can get exposure to via the equity markets.

CEE GROWTH FORECASTS MARKED HIGHER, BUT ONLY MARGINALLY



Source: Morgan Stanley Research

OUTLOOK

With growth still being downgraded, we remain cautious for most of the region, but we see opportunities in high-quality companies and ideas where the investment case is not dependent on external factors where we have limited visibility. With the ECB willing to do whatever it takes to get the monetary transmission mechanism in peripheral countries working again, Greece remains an attractive story longer term. The current sweet spot that Turkey is experiencing, and also as one of the few economies in global emerging markets that saw growth upgrades, has made us more positive. The Turkish financial sector is attractive, as we are expecting a short easing cycle to come. We view South Africa as vulnerable, given the larger-than-expected impact from the mining strikes that shows the structural problems in the labor market. The deteriorating twin deficits in South Africa and a sovereign downgrade in June show that the premium valuations in the equity market are not justified. The strong economic recovery in Europe is fully priced in by the Polish equity market and, without a resolution to the Forex (FX) mortgage issues in Hungary, we currently see little opportunity in these markets.

Russia remains cheap relative to the region and to emerging markets overall. The recent outperformance of the market has been in response to the sharp sell-off earlier in the year, but still leaves Russia as the worst-performing market in EEMEA year to date. We remain positive on Russia and think that the valuation and performance gap should continue to close. Higher-than-expected oil prices, along with a weaker ruble and a clear bias for orderly depreciation from the Central Bank of Russia, mean the fiscal position in Russia should be in much better shape than we expected in the beginning of the year.

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DEFINITIONS

Dividend Payout Ratio is the percentage of earnings paid to shareholders in dividends.

Dividend Yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

Emerging Market is a country whose economy is progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and a regulatory body. The Investment Manager considers an emerging market country to include any country that is: 1) generally recognized to be an emerging country by the international financial community, including the World Bank, 2) classified by the United Nations as a developing country or 3) included in the MSCI Emerging Markets Index.

European Yields are bonds issued by the European Central Bank that pay a fixed interest rate regularly and pay the face value to the holder at maturity.

Foreign Direct Investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country.

Forex (FX) is the market in which currencies are traded.

Geopolitical is the relationship among politics and geography, demography and economics, especially with respect to the foreign policy of a nation.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Loan-to-Value Ratio (LTV ratio) is a lending risk-assessment ratio that financial institutions and other lenders examine before approving a mortgage.

MSCI China Indexes consist of a range of country, composite and nondomestic indexes for the Chinese market, intended for both international and domestic investors, including Qualified Domestic Institutional Investors (QDII) and Qualified Foreign Institutional Investors (QFII) licensees. All indexes are based on the MSCI Global Investable Market Indexes (GIMI) Methodology.

The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. You cannot invest directly into an index.

Price-to-Book Value (P/BV) is a valuation ratio that is arrived at by dividing the market price of a shareof stock with the respective company's book value per share.

Price-to-Earnings Ratio (P/E) is the valuation ratio of a company's current share price compared with its per-share earnings.

Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Quantitative Easing (QE) is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market.

Return on Equity (ROE) is the amount of net income returned as a percentage of shareholders equity.

A State-Owned Enterprise (SOE) is a legal entity that is created by the government in order to partake in commercial activities on the government's behalf. A state-owned enterprise (SOE) can be either wholly or partially owned by a government and is typically earmarked to participate in commercial activities.

U.S. 10-year Treasury Yields are debt obligations issued by the U.S. government that matures in 10 years. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.

YoY: Year over year.