For investors who can look past the volatility and interpret the confusing signals, today’s emerging markets reveal a focused selection of long-term investment opportunities. Unfortunately, the negative or even misleading headlines have led many investors to throw in the towel on emerging market stocks altogether. Yet, emerging market equities currently offer active investors the opportunity to focus on the countries, industries and companies that can continue growing.

Although there are well-founded concerns about rising US interest rates and China’s slowing economy, we believe that certain emerging economies and certain companies operating in those markets show the potential to hold up well even in the face of adversity. In addition, from a timing perspective, recent volatility has created an attractive entry point to initiate or expand a position in high-quality emerging market companies. Since the potential for growth appears focused within pockets of opportunity, we believe active security selection is the key to investing in the current emerging markets environment.

Emerging markets can survive (even thrive) if US interest rates rise

A US interest rate hike is unlikely to spell doom and gloom for all emerging markets. A rising interest rate environment reflects a stronger US economy which could herald greater import demand from the US. This should benefit emerging markets that rely on exporting their goods and services to the US such as Mexico, South Korea, China and India. For example, Mexico, with almost 80% of its exports going to the US, should see a boost as US import demand increases, which in turn, would have positive effects on Mexico’s economy.

Not only are emerging market export sectors positioned to withstand a US interest rate increase, emerging markets currencies also exhibit notable resilience. Many of today’s emerging markets, particularly those in Asia, are much less vulnerable to rising US interest rates than they were in the past. Since the

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1 US Department of State
Emerging market dispersion enables alpha generation

Emerging markets are not homogeneous. The volatility of the past few months has caused many investors to grow concerned about how a potential slowdown in China may have a ripple effect across the world. However, over the past five years, accommodative US monetary policy has changed the outlook for many emerging market economies, which have further benefited from strategies and reforms enacted by the emerging markets’ central banks. In 2014, the Philippines, as represented by the MSCI Philippines Index, performed extremely well with a return of 25.59% in USD terms, while Brazil declined 14.04% in USD terms, represented by the MSCI Brazil Index.

Even within a single country, divergent indicators were visible; while Chinese stocks have generally had a difficult second half in 2015 so far, the Chinese retail sector continued to grow, with retail sales expanding 10.8% year-over-year. We continue to believe that India is on the cusp of a multi-year bull market. Favorable monetary policy and reforms, including the “Make in India” campaign, are intended to transform India into a global manufacturing hub. The country is also anticipated to be one of the fastest growing economies, with forecasted gross domestic product (GDP) growth of over 7% in 2016.

Attractive valuations have created a potentially historic entry point

Valuations remain attractive across emerging market equities, relative to their developed market counterparts. The recent volatility has made emerging markets cheaper than developed markets on the basis of price-to-book ratio, an important metric for valuation. Relative to developed markets, emerging market valuations have not been this attractive in a decade.

The spread between emerging market and developed market valuations signals an opportunity to increase exposure to emerging markets. We believe the current market presents an opportunity to build a position selectively in high-quality companies in the emerging markets at discounted prices.
strategic, long-term investors who recognize
the growth potential of the emerging markets,
we believe making an allocation to this asset
class may position a portfolio to perform well
once global volatility eases and emerging mar-
et al equities start to recover.

Volatility and dispersion require
active management
At Mirae Asset, we believe that active
management can help uncover attractive
investments within the emerging markets.
Our emerging markets heritage and local
know-how give us insight into the dynamics
of emerging market investing at a level
that is hard to attain from outside these
complex markets.

What Matters is Household Income
Rising incomes have contributed to substan-
tial growth of the middle class in the emerging
markets. China and India, with their large pop-
ulations, are likely to experience significant
expansion of their middle classes according
to research by Ernst & Young. By 2030,
around one billion people in China (approxim-
ately 70% of its projected population) will be
middle class. India’s middle class is anticipat-
ed to reach 475 million people by 2030, up
from 50 million people in 2010.7

Related to the expansion of the middle class
is meaningful growth in wages. Real wages
(i.e., wages adjusted for inflation) have seen
stronger increases in emerging markets than
in developed markets. While developed mar-
kets experienced marginal increases in real
wages, emerging markets, such as the Philip-
ines and Indonesia, grew considerably more.

Since household income is a major determi-
nant of spending, a wealthier emerging
markets middle class is likely to have a signifi-
cant impact on consumption supporting both
local brands and global franchises. This
income trend translates into enormous invest-
ment opportunities among companies tapping
into economies at different stages of con-
sumption growth and maturity. Consumers’
purchasing history in India and Indonesia indi-
cates a preference for reasonably-priced local
brands. Consumers in China, on the other
hand, have tended to favor globally recog-
nized brands and are moving up the
consumption ladder, spending more on
“wants”, such as travel and leisure. This
growth in consumption by the emerging mar-
kets middle class will impact almost every
sector and industry globally.

GLOBAL SALARIES

Forecasts suggest India’s middle class population will more than
double during this decade and more than double again in the
next decade.

Ernst & Young, “Hitting the sweet spot. The growth of the middle class in emerging markets,” 2013.
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Definitions and Important Information

Alpha is a measure of risk-adjusted return. Alpha measures the difference between a portfolio’s actual returns and what it might be expected to deliver based on its level of risk. 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. Investing in an index is not possible. MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market. 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. MSCI Philippines Index is designed to measure the performance large and mid cap segments of the Philippines market. MSCI World Index captures large and mid cap representation across 24 Developed Markets countries. Price-to-Book Ratio (P/B) is the ratio of the share price of a publicly-traded company to its book value per share, which is the company’s total asset value less the value of its liabilities.

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