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2015 Emerging Markets Mid-Year Update

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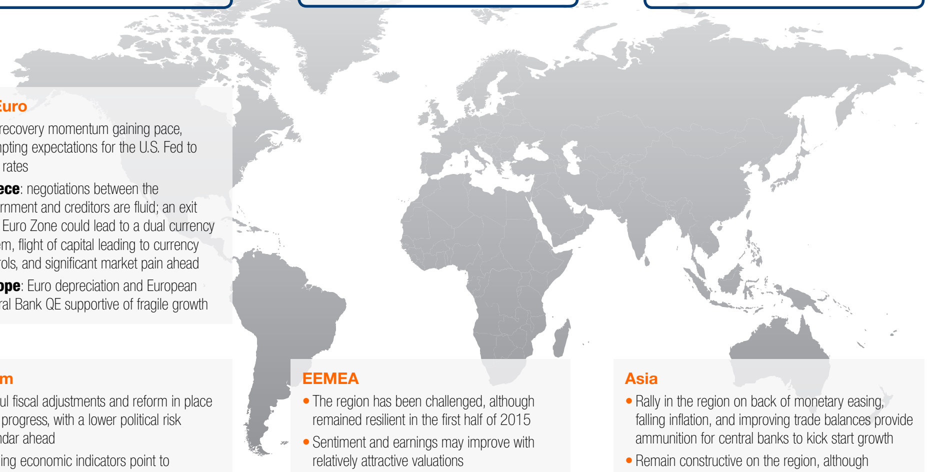
2015 Second Half: Emerging Markets At-A-Glance

"U" Shaped Growth Recovery
Global trade operated below full strength in the first half of 2015, which may improve with a modest "U shaped" recovery in global growth, rather than the historical "V shaped" of past

Demand Scarcity with Capital Abundance
The world faces a demand problem from structural issues of poor demographics and high indebtedness with an abundance of capital from large central banks as investors search for yield

U.S. Fed Rate Hike
Communication around drivers and magnitude of increasing rate cycle are crucial and will set the tone for markets ahead. Markets that can take advantage of an increase in trade should benefit



US/Euro
- **US**: recovery momentum gaining pace, prompting expectations for the U.S. Fed to raise rates
- **Greece**: negotiations between the government and creditors are fluid; an exit from Euro Zone could lead to a dual currency system, flight of capital leading to currency controls, and significant market pain ahead
- **Europe**: Euro depreciation and European Central Bank QE supportive of fragile growth

LatAm
- Painful fiscal adjustments and reform in place or in progress, with a lower political risk calendar ahead
- Leading economic indicators point to macroeconomic improvements
- The region should be a prime beneficiary of any recovery in global growth

EEMEA
- The region has been challenged, although remained resilient in the first half of 2015
- Sentiment and earnings may improve with relatively attractive valuations
- High risk of political headlines and volatility for remainder of year

Asia
- Rally in the region on back of monetary easing, falling inflation, and improving trade balances provide ammunition for central banks to kick start growth
- Remain constructive on the region, although pullbacks are likely as growth response to monetary easing uneven across economies
- Benign commodity cycle a key positive to the region

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2015 Second Half Emerging Markets Update

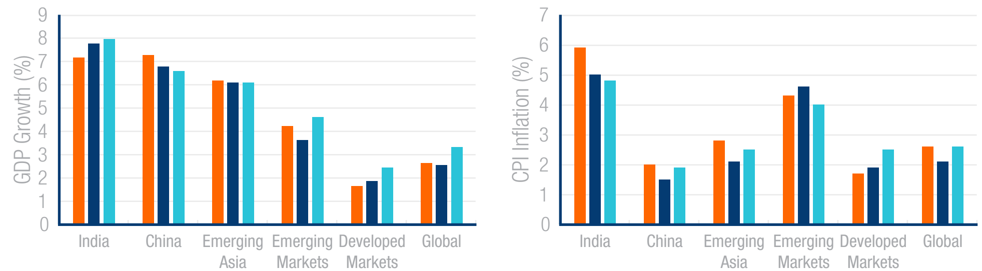
Executive Summary

Emerging markets (EM) performed broadly in line with the MSCI AC World Index over the first half of 2015 by posting a 3.05% return. Asia led the way again as the region benefits from lower oil and commodity prices, which take the pressure off inflation and allow regional central banks to ease monetary policy. Asia also continues to exhibit defensive growth characteristics which support positive earnings trends. Economic growth and earnings trends in the Eastern Europe, Middle East and Africa (EEMEA) and Latin America (LatAm) regions remain weaker for now. A key focus in the second half of 2015 will be the U.S. Federal Reserve (Fed) and an assessment of policy credibility; rate hikes predicated on growth and policy normalization offer opportunities in EM. Policy action that suggests the Fed may be behind the curve, however, would instead lead to volatility and in particular for the more vulnerable EM countries. Geopolitics will remain in the headlines over the second half of the year in places such as Greece, Russia and Turkey. In LatAm there is significant scope for improvement in sentiment and we like what we are seeing on the fiscal reform front in Brazil. Although there is still more short term pain given the required steps, the outlook beyond is gradually improving.

GDP Growth and CPI Inflation 2014-2016E by Region

Source: Citi Research, Mirae Asset Global Investments (June 2015)

2014 2015E 2016E



Key Events & Trends

"U Shaped" Growth Recovery

In a disinflationary world, growth recovery would be a gradual "U shaped" rather than a historical "V shaped" recovery.

EM outside of Asia underperformed broader EM through the first half of the year, as global trade operated below full strength. Many countries were unable to generate enough stimulus to reach escape velocity, prompting a movement of weaker currencies in an effort to stimulate exports. This foreign exchange trend has contributed to better trade balances, while lower oil prices have also benefited oil importing countries such as China, India, Korea, Turkey, South Africa and Chile, but have been a drag on others, such as Russia, Mexico, the United Arab Emirates (U.A.E.) and Colombia

Demand Scarcity with Capital Abundance

We believe that world today faces a demand problem while capital remains in plenty thanks to quantitative easing (QE) by big central banks. In such a scenario, relatively unleveraged economies with favorable demographics and stable political structures like India, Philippines and Indonesia are likely to attract significant investment interest from businesses, creating a virtuous loop.

U.S. Fed Raising Rates

As we head into the second half of 2015, expectations of the U.S. Fed raising interest rates will become more of a market focus. Communication around drivers and magnitude of the increasing rate cycle will be crucial. Rate hike cycles predicated on strong growth and normalization of monetary policy offer an opportunity in EM. Markets that can take advantage of an increase in trade from strong global growth should benefit in our view; especially those trading at below average valuations.

Regions

Asia Pacific

We witnessed a rally in the regional markets in the first half of 2015 on the back of monetary easing across Asia as falling inflation and improving trade balances provided the necessary ammunition to central banks to kick start growth.

We remain constructive on Asian equities in 2015, although post a strong run up, pullbacks are possible as growth response to monetary easing would be fairly uneven across economies. The benign commodity cycle is a key positive for the Asian region overall, yet the widening premium in China A-shares over H-shares and extended valuations suggest that the Chinese market may have become overheated. Within this backdrop, we adhere to the view of getting "China right" as a central element within our Asia portfolio, moderating polarizing utopian and doomsday scenarios by investing in high quality companies at reasonable valuations through bottom-up stock picking.

Latin America

LatAm has suffered through negative sentiment and earnings revisions, with painful fiscal adjustments undertaken by various governments. With many of these reforms now in place (along with a lower risk political calendar ahead in second half of 2015), we believe that the region is poised for a turnaround in sentiment, backed by leading indicators pointing to macroeconomic improvement.

Eastern Europe, Middle East and Africa

In EEMEA we foresee a pick up in sentiment and earnings growth, when global growth produces an improved trade environment. We see relatively attractive valuations in the region, although we acknowledge a high risk of political headlines causing volatility in the region for the remainder of the year.

2015 Second Half Emerging Markets: Upsides and Downsides

Headwinds

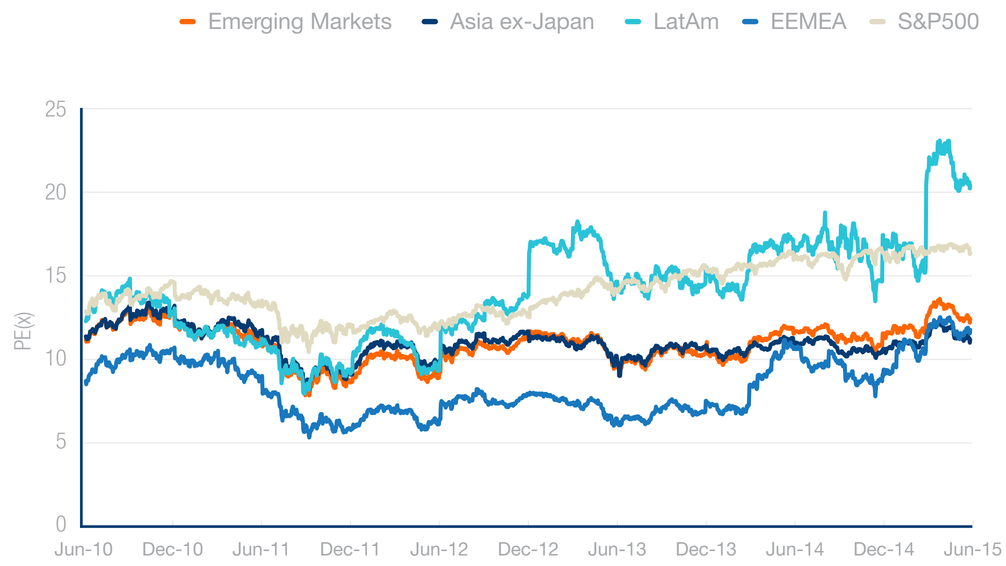
- Uncertainty surrounds geopolitical risks in EEMEA (Grexit and regional tensions)
- U.S. Fed rate hike timing and magnitude throws recovery off course
- Disinflationary, demand-scarce world remains vulnerable

Tailwinds

- Continued global growth for fragile "U shaped" recovery and improved trade environment
- Benign commodity prices, particularly crude oil, benefits consumption
- Progress in structural reforms lead to reduction in equity risk premium

Price to Earnings Multiples of Emerging Market & Developed Market Equity Markets

Source: Bloomberg, Mirae Asset Global Investments (June 2015)



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"*In a disinflationary world, growth recovery would be a gradual "U shaped" rather than a historical "V shaped" recovery*"

2015 Second Half Outlook on Emerging Markets

Asia

We witnessed a rally in the regional markets in the first half of 2015 on the back of monetary easing across Asia as falling inflation and improving trade balances provided the necessary ammunition to central banks to kick start growth. Europe's rally was a result of euro deprecation and QE, providing much needed pressure valve to ward off tail risk of deflation. Poor demographics and high indebtedness remain the key roadblocks for a strong global economic recovery as seen in previous business cycles.

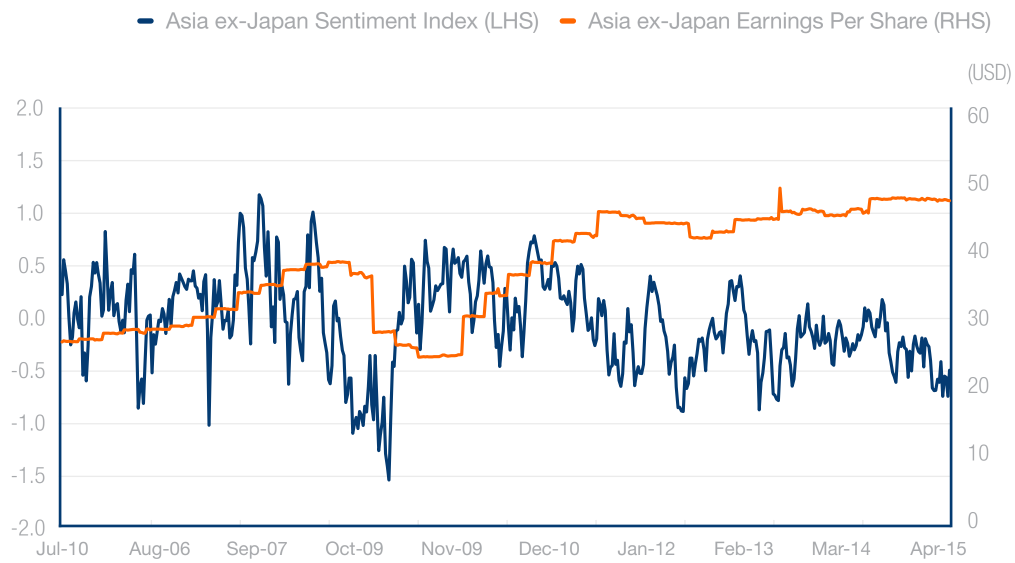
We remain nonetheless constructive about Asian equities in 2015. However, post a strong run up, and despite the benign commodity cycle being a key positive, pullbacks are likely as growth response to monetary easing would be fairly uneven across economies. The notable example is apparent in the China A-shares market turbulence, garnering international headlines and stoking investor concern. Nevertheless we find that China requires a balanced view, as overcapacity and capital misallocation hang over a slower economic recovery on the back of a raft of monetary measures taken by the People's Bank of China (PBOC) in the form of four interest rate cuts, local government debt relief, and capital account opening as Beijing eschews the export, investment-led model of the past. We see nimble small and medium-sized enterprises that can capitalize on fast-changing consumer trends as index agnostic investment opportunities, backed by our on-the-ground research teams.

We believe that the world today faces a demand problem while capital remains in plenty thanks to QE by big central banks. In such a scenario, relatively unleveraged economies with favorable demographics and stable political structures like India, Philippines and Indonesia are likely to attract significant investment interest from businesses, creating a virtuous loop.

As major economies in Asia undergo a transition, huge opportunities would arise for active managers like us. We believe that our current portfolio positioning of reasonably priced quality consumer discretionary, healthcare, internet and financials would outperform the broad markets.

Asia ex-Japan Sentiment Index vs. Asia ex-Japan Earnings Per Share

Source: Citi Research, Bloomberg, Mirae Asset Global Investments (June 2015)



We remain overweight India, Philippines, Indonesia (despite near term headwinds) and Internet, clean energy, travel & tourism and insurance names across the region.

With Asia accounting for over 50% of world population through themes like aspirational consumer where millions at the bottom of the pyramid in India, Indonesia and Philippines look for good quality, reasonably priced branded consumer products, while a number of affluent Chinese long to look and feel good through the use of cosmetics, buying luxury goods and traveling across the world.

We are positive on healthcare as millions in China and India continue to suffer from chronic ailments like diabetes, cancer, stroke and cardiovascular diseases because of sedentary lifestyle, environmental pollution and food contamination.

We like internet companies as a harbinger of new technology trends where users graduate beyond sharing pictures, playing games to doing more offline activities like shopping, booking taxis, movies and restaurants online.

Finally, insurance is a good way to invest in rich Asian consumers in China, Hong Kong and Singapore who are living longer and need to save for retirement and their kids' education. Retail banks in India, Indonesia and Philippines also provide exposure to millions of underleveraged consumers who dream of owning a house and a car.

China

The recent China A-shares market correction has been driven in large part by retail money, policies and liquidity as opposed to fundamentals. The extreme pessimism about China from late calendar year 2014 is not entirely warranted in our view, although one requires a growth recovery to justify a further uptick in markets. The economic data continues to be soft with markets somewhat overwhelmed by the strong policy action. PBOC has cut interest rates four times since November 2014, announced a scheme to buy nearly 2 trillion RMB of local government debt, and has taken steps towards interest rate liberalization. The opening of the capital account has surprised positively through the launch of the Shanghai-Hong Kong Stock Connect followed by the Shenzhen-Hong Kong Stock Connect in late 2015 and the Mainland-Hong Kong Mutual Recognition of Funds initiative.

The disappointment has been on tackling the tough task of closing unviable excess capacity, the approach favored is to create a feel good for the unlevered household sector for a much needed economy recovery eschewing the old export or investment-led growth model. The recovery is likely to be slow and long drawn out as poor capital output ratios, and overinvestment would deter fresh investment cycles.

Northeast Asia

Korea and Taiwan continue to struggle under the burden of weak domestic demand and greater competition from the Chinese peers in the traditional strongholds of shipbuilding, smartphones and IT hardware components. Tourism, a bright spot in Korea, has been somewhat dented by the breakout of Middle East Respiratory Syndrome (MERS). We believe that although it was disruptive in the near term, the medium impact for the flow of Chinese and other tourists to Korea should be limited.

India

India, a favored market of 2014, struggled in the first half of 2015 as growth recovery was slow and earnings disappointed. In the past year, the new government focused on formulating key policies and building the right team for execution. Notable highlights include auctioning of mining blocks, a massive financial inclusion plan and meritocratic appointment of senior bureaucrats, all steps towards institutionalizing the economy. Positive developments are being done at the state level as politicians realize that the key to winning elections lies in development rather than outdated caste or religion based politics.

In the near term, interest rate cuts by the central bank and a pick-up in government expenditure should help to revive the economy. Green shoots are visible in the form of rising tax collections, port data and improving car and commercial vehicle demand. In a disinflationary world, Indian growth recovery would be a gradual "U shaped" rather than a historical "V shaped" recovery.

The Association of Southeast Asian Nations (ASEAN)

The ASEAN region continues to struggle with the Philippines as the sole bright spot. Although first quarter of 2015 GDP growth of 5.2% in the Philippines disappointed on the back of weak government spending, growth rates should bounce back to 5.5% to 6%. Meanwhile, Thailand continues to struggle on the back of political uncertainty, high household debt and loss of export competitiveness.

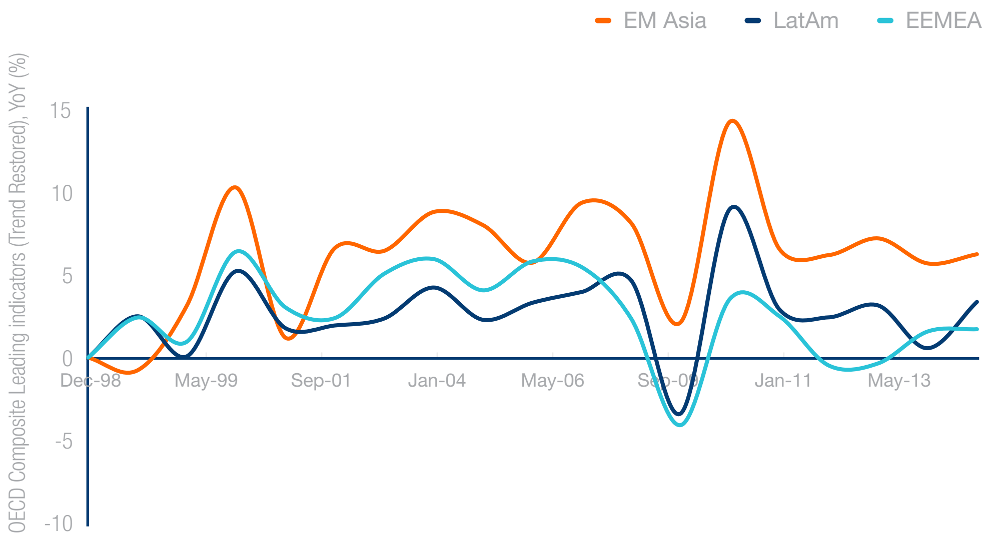
In Indonesia, euphoria around Jokowi's victory has withered a bit as the new government tries to find its feet. Post a bold step of cutting fuel subsidies, the government has struggled to galvanize private sector and foreign investment in the economy. We remain convinced of the medium term potential, however in light of headwinds from a fall in commodity income, the onus remains on the government to kick start the investment cycle through infrastructure spending.

Non-Asia: LatAm & EEMEA

EM outside of Asia underperformed broader EM through the first half of the year, as global trade operated below full strength. Many of these economies were unable to generate enough stimulus to kick start their own growth cycles, which led to a movement of weaker currencies in an effort to stimulate exports. This trend in foreign exchange has led to an improvement in trade balances. Lower oil prices have also been a benefit to various importing countries, such as Turkey, South Africa and Chile, but have been a drag on others, such as Russia, Mexico, the U.A.E. and Colombia. The extent of the positive effect of increasing exports will depend on the strength of the global economy. LatAm and EEMEA remain a leveraged play on global growth.

Organisation for Economic Co-operation and Development (OECD) Composite Leading Economic Indicators for Emerging Market Regions

Source: OECD, Mirae Asset Global Investments (June 2015)



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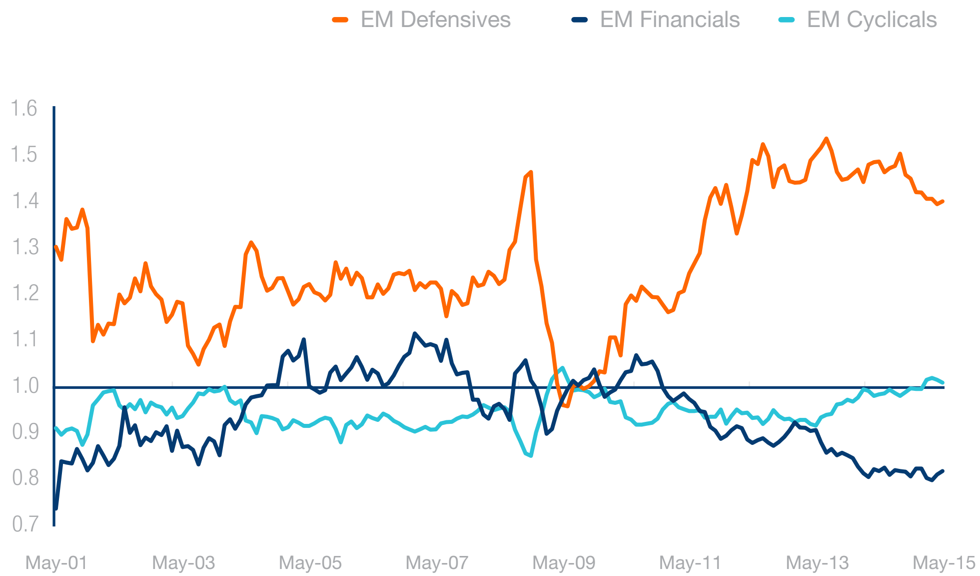
As we head into the second half of 2015, expectations of the U.S. Fed raising interest rates will become more of a market focus. Communication around the drivers and magnitude of an increasing rate cycle will be crucial. Rate hike cycles predicated on strong growth and normalization of monetary policy offer an opportunity in EM. Markets that can take advantage of an increase in trade from strong global growth should benefit; especially those trading at below average valuations. We see valuations in EEMEA as particularly attractive with financial and cyclical sectors, specifically, well positioned. On the political front we will see elections in Egypt, Argentina, Colombia, Poland and Venezuela. None of these should be disruptive to markets.

12 Month Forward Price-Earnings Relative to Emerging Market Index

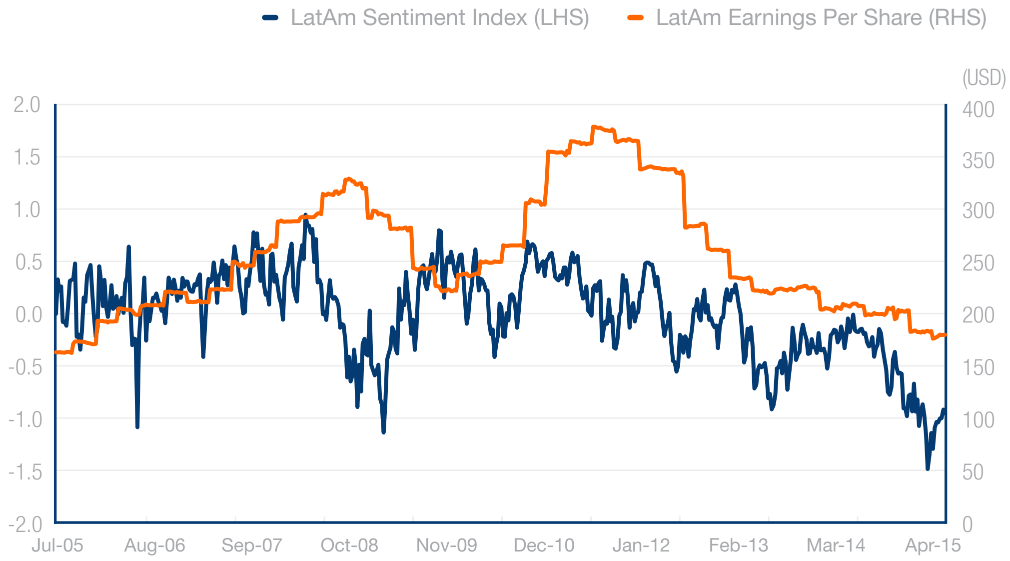
Source: IBES, Citi Research



In EM ex-Asia, we see an increase in financial intermediation due to significant under penetration; increased wealth over time and further sophistication of available products (mortgages, insurance, etc.). Increased consumption is expected to take place as disposable incomes rise and as the middle class grows. Aside from an increase in consumption, changes to consumption patterns are also occurring and a part of this involves increased consumer brand awareness. Reflecting this low base, air traffic per capita throughout LatAm remains amongst the lowest in all of EM and we see increased travel as a theme that leverages off increased urbanization, more disposable income and an increased interest in taking holidays. We also like commercial property developers due to the significant under penetration in the ex-Asia regions and increased demand over time as these countries develop further. This applies to office space as well as shopping mall builders. Industrial plant developers in places such as Mexico, where many auto makers and airplane parts makers set up in order to export to the U.S., is also related. Finally, we see similar trends unfolding in the healthcare space as in Asia, as advancements in therapeutics that treat serious diseases, relieve suffering, and improve quality of care of those afflicted from various conditions drive global drug spending.

LatAm Sentiment Index vs. LatAm Earnings Per Share

Source: Citi Research, Bloomberg, Mirae Asset Global Investments (June 2015)



LatAm

LatAm has suffered through negative sentiment and negative earnings revisions, as various governments are embracing the pain required for fiscal adjustments to play out. With many of these reforms now in place (along with a lower risk political calendar ahead in the second half of 2015), we believe that the region is poised for an improvement in sentiment. Much of the negativity around the region in the first half of 2015 was based on potential rating downgrades and political uncertainties and we believe that these subjects are behind us for the time being. Leading economic indicators are pointing to macroeconomic improvements, which bodes well for future earnings cycles. Earnings in the region remain well below levels of the 2008 Financial Crisis and should be the biggest beneficiary of a recovery in global growth.

Brazil

In Brazil, investors continue to focus on the government's goal to improve the country's fiscal balances in order to avoid a sovereign rating downgrade. This process involves painful short term measures, such as tax increases, subsidy cuts, and rate hikes, but is necessary for the health and long term growth prospects of the country. The political will to implement these reforms in a difficult economic environment has provided the market reason for optimism. We are unlikely to see a rebound in growth in the second half of the year, but we believe that the market should look past short term indicators and toward a longer term correction that will allow the country to begin cutting interest rates and stimulating growth in the next two years. The continued reform of national oil champion, Petrobras, is also an important driver of sentiment and structural change.

Mexico

Mexico should continue to benefit from an improvement in the U.S. economy and a stronger U.S. dollar. With midterm elections out of the way, the reform agenda should take center stage again going forward. The market will continue to watch the historic energy reform movement closely, as a successful process would translate into a major positive catalyst for the country in regards to growth, employment and competition. With a stabilizing price of oil, improving fiscal position and a population that continues to move past last year's tax increases, we believe that the consumer recovery should continue to strengthen through the rest of 2015. Given the structural reform and the link to the U.S. economy, we see Mexico as a defensive growth story.

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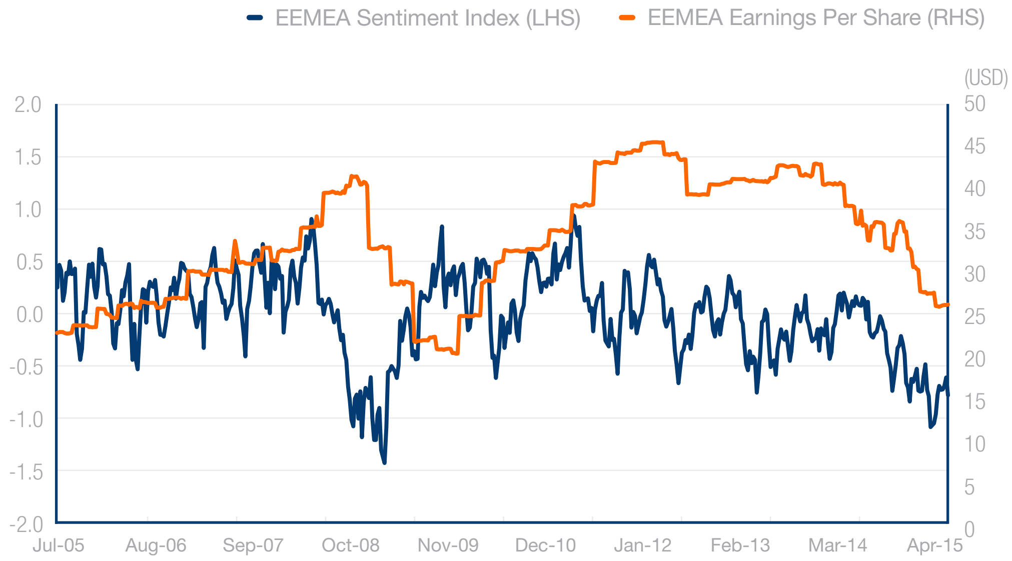
Andean Trio

We believe that the Chilean market should improve in the second half of the year, as the economy has troughed and positive growth revisions are beginning to come through. After reaching a record low approval rating, President Bachelet replaced most of her cabinet with more market-friendly appointees, which translates into a focus on restoring growth. Peru should continue its pace as the fastest growing country in the region, but negative growth (and earnings) revisions along with a commodity based economy should translate into a tepid second half year for the market. Colombia has been the region's worst performing market, as the country's growth along with funding for its highly anticipated 4G Infrastructure Reform Project is closely tied to oil prices. A combination of expensive valuations, low liquidity and a challenging macroeconomic backdrop present a challenging scenario for the second half of the year.

EEMEA Sentiment Index vs. EEMEA Earnings Per Share

Source: Citi Research, Bloomberg, Mirae Asset Global Investments (June 2015)



EEMEA

In EEMEA, we foresee a pick up in sentiment and earnings growth similar to LatAm, when global growth produces an improved trade environment. Valuations in EEMEA are more attractive than in LatAm and earnings have already begun to improve. With that said, we also acknowledge a high risk of political headlines causing volatility in the region for the remainder of the year. Like LatAm, EEMEA could also benefit from political and structural reforms, specifically in Turkey, Greece, South Africa and Russia. It is also important to note that most markets in EEMEA have become more competitive in exports, given an across the board currency depreciation last year, which is positive for the region's economies.

Russia

The biggest surprise of the first half of 2015 was Russia's resilient growth post U.S. and European sanctions. We believe that the sharp depreciation in the Ruble and the required emergency rate hike to protect the currency will show its effects only in the second half year. The first half's high interest rates and the deleveraging seen in the consumer sector, should anchor down growth in the second half year. We do not believe that sanctions will be lifted in the second half year, which means that external financing options will remain limited. Politics and oil remain the most important topics for Russia in the second half year. Both oil and politics remain uncertain and we expect the market to remain volatile. With that said, the market remains under owned and we continue to monitor attractive opportunities during periods of risk aversion.

South Africa

Structural issues, such as electricity supply, continue to be a drag on South Africa's potential growth rate. If the South African Reserve Bank increases rates, the second half of the year should present a weak consumer and anemic growth. When global growth and trade bounce back we expect the South African market to lag other current account deficit markets, as we see the structural issues as a longer term problem. South Africa remains at risk of a sovereign ratings downgrade, as fiscal debt levels remain high and the prospect for growth appear tepid.

Turkey

Turkish elections surprised the markets with no single party winning absolute power. This has led to a situation not seen since 2002. Much needed structural reform and specific programs aimed at boosting growth in the near term are unlikely to materialize, as political jostling takes place. The election was a clear long term positive, as the ruling AK Party can no longer have their way without input from the opposition. The market should take this as positive after digesting the final outcome from the political positioning to take place over the next few months. At current valuations, and with an improved political landscape for second half year and beyond, we see potential for the market to surprise on the upside. The Central Bank of Turkey's behavior under a new political mandate will be a key driver going forward, as a move to more conventional monetary policy without interference from political leadership would be a positive catalyst.

Other Countries

Poland and the rest of Central Europe remain in a sweet spot of low inflation and healthy growth, as they benefit from European Union (EU) economic momentum. With new leadership in Poland vowing to address issues such as the banking system and taxation, we remain wary of the potential to inflect harm to the market through adverse policy making. Hungary remains the clearest way to benefit from a strong EU and we expect the low interest rate environment and growth in the EU to benefit the country in the second half of the year. In Greece, we continue to monitor negotiations between the government and its creditors. Though a deal should translate into a significant short term rally, growth prospect remain weak. An exit from the eurozone could lead to a dual currency system, a flight of capital leading to currency controls, and significant market pain looking forward.

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