

Reach Exciting New Markets



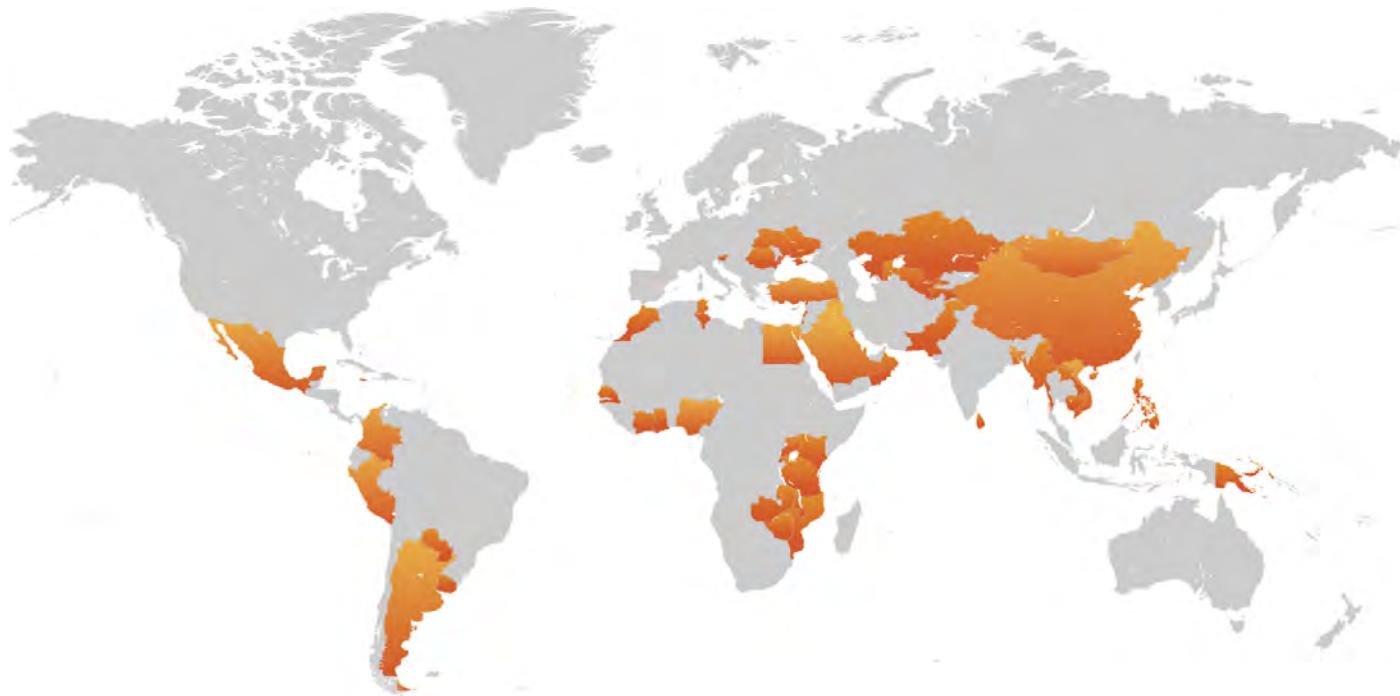
Vast Opportunities in the Frontier Markets

With so many developed equity markets setting or nearing all-time highs, and bond yields near record lows, investors are struggling to find attractive investments. Few investors appreciate that some very attractive investing opportunities still exist, if only they look beyond their own shores.

Frontier markets still offer investors opportunities considering they offer more substantial growth compared to more developed economies and are very often reasonably priced.

INVESTMENT OPPORTUNITIES

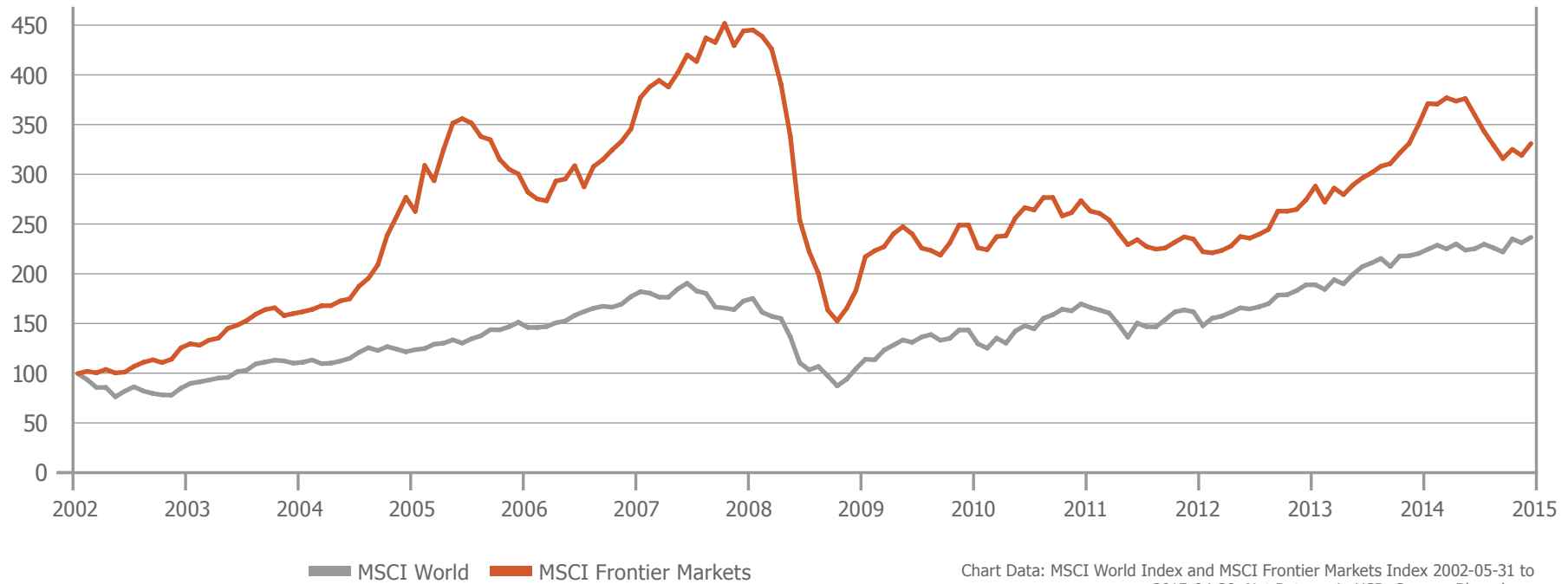
Frontier markets are becoming increasingly important to the world economy since many of these countries are opening to Foreign Direct Investments (FDI). FDI to the frontier markets has grown six-fold over the last two decades. According to HSBC, frontier countries account for 18% of the globe's population, 6% of its nominal GDP, yet only 3% of the world's stock market capitalization.



- | | |
|----------------|------------------|
| Argentina | Pakistan |
| Bahrain | Palestine |
| Bangladesh | Papua New Guinea |
| Cambodia | Paraguay |
| China Mainland | Peru |
| Colombia | Philippines |
| Cote D Ivore | Romania |
| Egypt | Rwanda |
| Ghana | Saudi Arabia |
| Iraq | Senegal |
| Jamaica | Slovenia |
| Kazakhstan | Sri Lanka |
| Kenya | Tadjikistan |
| Kuwait | Tanzania |
| Laos | Tunisia |
| Lebanon | Turkey |
| Malawi | Uganda |
| Mexico | Ukraine |
| Mongolia | Uruguay |
| Morocco | Uzbekistan |
| Mozambique | Vietnam |
| Myanmar | Zambia |
| Nigeria | Zimbabwe |
| Oman | |

Source: HSBC

Higher Growth – Better Long Term Returns



Clearly there is major room for these stock market prices to increase. Frontier markets are generally countries which are pre-emerging, but not yet categorized as emerging markets. They are countries which are on the cusp of becoming “hot” emerging markets with major potential for development and outsized returns. Indeed investing in frontier markets has become popular enough that it has become an asset class in its own right. It’s estimated that in 2014 some US\$ 2.2 bn in assets went into frontier funds. The Norwegian Sovereign Wealth Fund will seek to raise its exposure to frontier markets over the next three years.



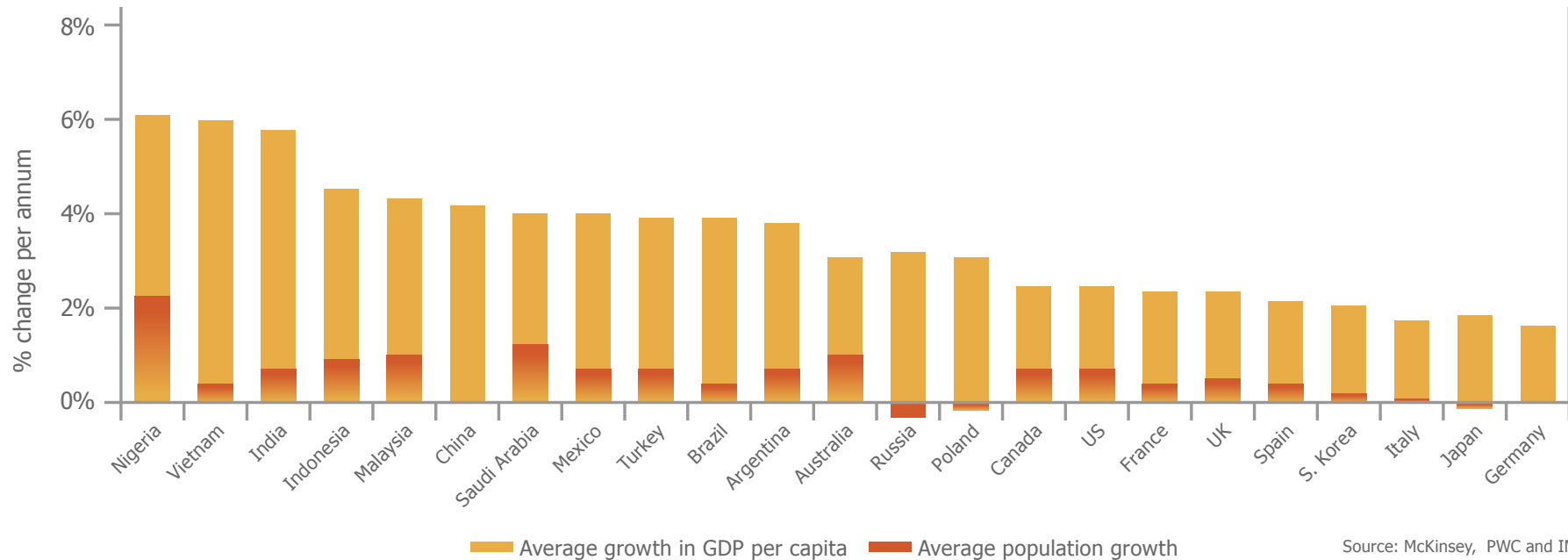
Office buildings in Lagos Island's commercial district. Lagos, Nigeria, West Africa.

CASE STUDY: NIGERIA AND THE EXPANDING MIDDLE CLASS

Forecasts suggest that over the next two decades the globe's consumer base will double and most growth will come from frontier markets. Many frontier markets have population growth which is booming and it's estimated that by 2050 a third of the world's population will come from here. A Goldman Sachs study suggests that around 2 bn people will by 2030 join the middle class, many of whom will come from frontier countries. The largest growth in the middle class will be found in Africa. With a population of over 160 million people, Nigeria is Africa's most populous country and has in 2014 become Africa's largest economy. Like many frontier markets Nigeria is commodity rich, being Africa's largest oil producer. ▶

Source: Goldman Sachs

BREAKDOWN OF COMPONENTS OF AVERAGE REAL GROWTH IN GDP AT PPP (2011 – 2050)

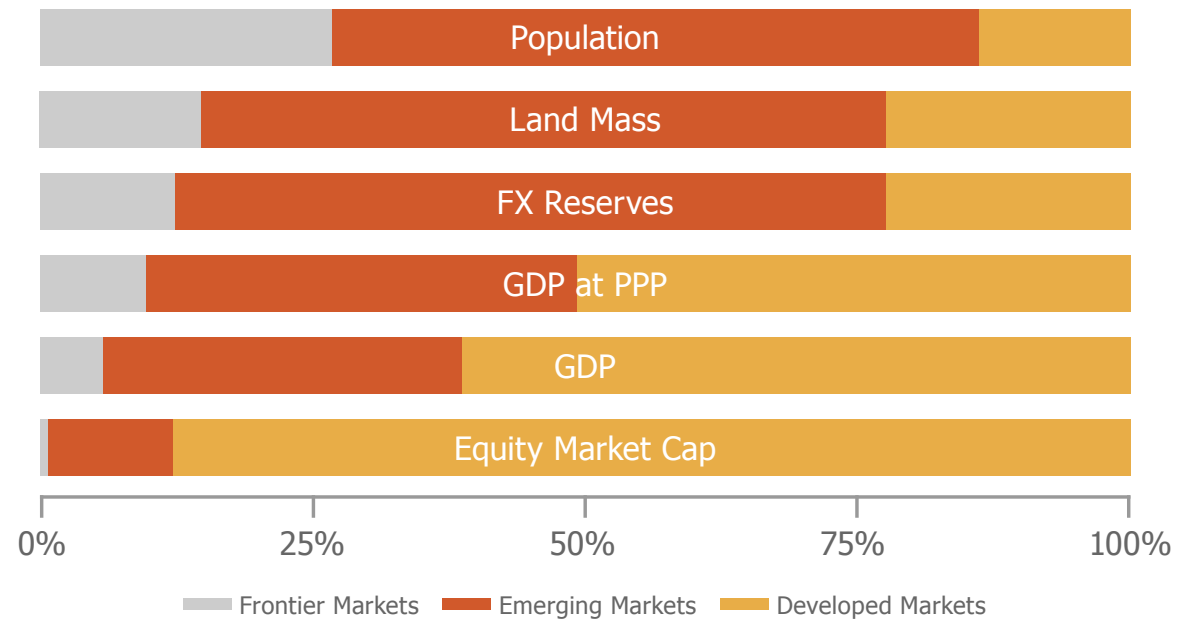


According to McKinsey & Co., Nigeria has the potential to be one of the world’s top 20 economies by 2030. By 2050 PricewaterhouseCoopers expects their GDP to be the world’s third-fastest growing behind Vietnam and India, a streak that will help the country eventually exceed Canada’s total output. The International Monetary Fund (IMF) also expects Nigerian GDP to grow at over 7% for the foreseeable future. The attractiveness of many frontier markets is the growth of the middle class. According to the New World Wealth study the number of Nigerian millionaires will nearly double in the next four years to 23,000. This new found wealth will allow many Nigerian industries to prosper for years to come.

FRONTIER MARKETS – STRONG ECONOMIC FUNDAMENTALS

Unlike developed world countries with average debt to GDP ratios of roughly 75%, frontier countries are less indebted. This enables many of these countries to invest in development and infrastructure aiding local stock markets and in turn attracting more foreign investors. Recently, the inflation rates found in many of these countries has come under control not to mention previous current account deficits have become surpluses resulting in improved sovereign credit ratings.

Many of these countries are improving their infrastructure to support their growing populations. Frontier markets make up some 1.2 bn people and



Sources: Black Rock, Merrill Lynch, BP, CIA World Fact book, IMF World Economic Outlook, MSCI.

unlike the developed world with an average age of 41, frontier markets have populations with average ages of 30. Nigeria for example, has one

of the world's youngest populations with 60% of the population under 25, and a median age of 19.

SECULAR COMMODITY RALLY

Many frontier countries have abundant natural resources and have benefited from generally high commodity prices, thus helping to build strong currency reserves. The secular rise in commodity prices has benefited government revenue generation and led to increased government spending.

Mongolia for example is said to be sitting atop more than US\$ 1.5 tn in commodity reserves. They have vast high quality coal, copper, silver and gold deposits and neighbor two emerging market giants, Russia to the north and China to the south. As China's economy continues to expand so will its appetite grow for Mongolian commodity exports. The Oyu Tolgoi mine, one of the world's largest, is the size of Manhattan and has the potential to make up a third of Mongolia's GDP, once it becomes fully operational.

Source: World Bank



22% of Mongolia's vast land mass is under license for mineral exploration, with some 3000 licenses having been issued.

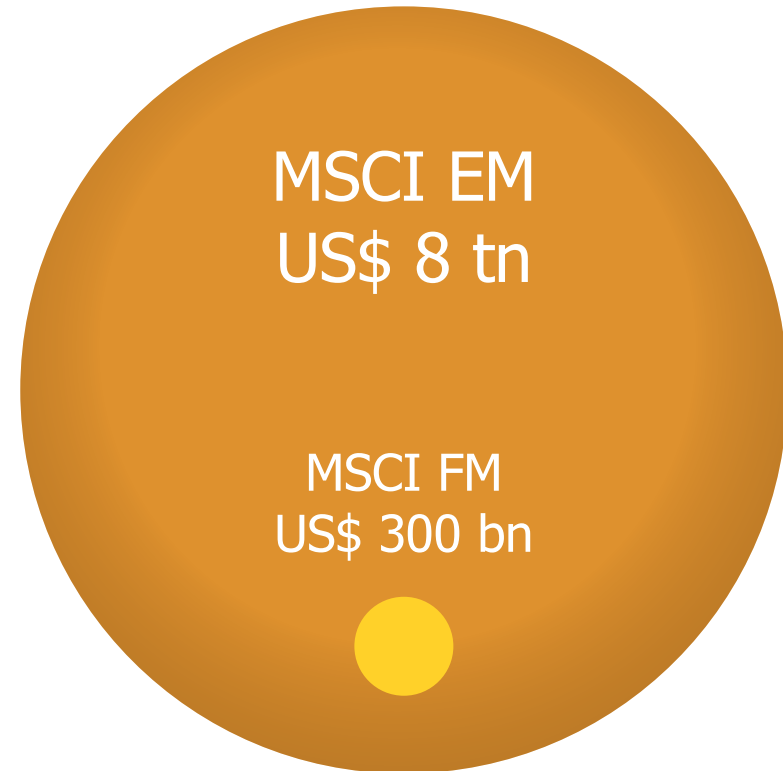
SECULAR COMMODITY RALLY

We believe the outlook for frontier markets is positive as many countries undertake reforms and invest in production and modernization that should lead to improved economic well-being. Nonetheless investing in these markets requires patience and fortitude.

Political instability, lax governance and corruption are all part and parcel of investing here. However, many of these countries have also made major inroads in improving rule of law, transparency and regulations.

These markets could also be very volatile and have low liquidity. Total stock market capitalization of all stocks included in the MSCI Frontier Markets index is roughly US\$ 300 bn, tiny when compared to the US\$ 8 tn the MSCI Emerging Markets Index is worth. However, even though liquidity issues remain, having a long term horizon will mitigate some of that risk.

Source: MSCI, Bloomberg



CONCLUSION

Despite very positive economic fundamentals and excellent growth outlooks these markets are trading at very attractive levels. The MSCI Frontier Index is trading at a 11 P/E ratio, low when compared the SP&500's 19 P/E. Frontier markets also make an excellent portfolio diversifier. The correlation of the MSCI Frontier Index to the S&P500 and to the MSCI World Index is 0.5 and 0.9 respectively. Another attractive element to frontier markets is that many of these countries have low correlations to each other and many emerging market countries.

Much of the risk in investing in these markets can be mitigated by investing in a diversified fund. The FMG New Frontiers Fund invests in roughly 20 countries and utilizes an econometric acceleration model for long term market timing and asset allocation. The FMG MENA, Mongolia and Africa Funds also offer excellent opportunities to invest in frontier markets albeit on a regional level.

Many Frontier Markets rank higher than the BRICs on both the Corruption Perceptions Index and the World Bank Ease of Doing Business Survey.

Frontier Markets have a combined population of roughly 1.2 bn people out of which almost 60% are below 30 years of age

Over the next decade Frontier Markets may be reclassified as emerging markets similar to what we saw with Japan and Hong Kong in the 1970s and 1980s

Frontier Markets contain around 41% of the world's proven oil reserves and nearly 26% of the world's gas reserves.

Source: IMF, World Bank, EIU, and Bloomberg

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