Why Invest In Emerging Markets?

Why Now?
Over the long term, Emerging Markets (EM) have been a winning alternative compared to traditional Developed Markets (DM)...
...and on an annual perspective EM have come out on top every year since 1998...

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>Brazil</td>
<td>Jamaica</td>
<td>China</td>
<td>Dubai</td>
<td>Turkey</td>
<td>Mongolia</td>
<td>Mongolia</td>
<td>Brazil</td>
<td>Tunisia</td>
<td>Mongolia</td>
<td>Kazakhstan</td>
<td>Montenegro</td>
<td>Dubai</td>
<td>Bulgaria</td>
<td>Pakistan</td>
<td>Russia</td>
<td>Vietnam</td>
<td>Turkey</td>
<td>Greece</td>
</tr>
<tr>
<td>2nd</td>
<td>Kazakhstan</td>
<td>Latvia</td>
<td>Pakistan</td>
<td>Abu Dhabi</td>
<td>Egypt</td>
<td>Zambia</td>
<td>Sri Lanka</td>
<td>Russia</td>
<td>Ghana</td>
<td>Zambia</td>
<td>Peru</td>
<td>Kazakhstan</td>
<td>Romania</td>
<td>China H</td>
<td>Romania</td>
<td>Mongolia</td>
<td>Mongolia</td>
<td>Russia</td>
<td>South Korea</td>
</tr>
<tr>
<td>3rd</td>
<td>Peru</td>
<td>Hungary</td>
<td>Egypt</td>
<td>Bulgaria</td>
<td>Philippines</td>
<td>Jamaica</td>
<td>Peru</td>
<td>Sri Lanka</td>
<td>Laos</td>
<td>Montenegro</td>
<td>Vietnam</td>
<td>Dubai</td>
<td>Egypt</td>
<td>Lithuania</td>
<td>Bulgaria</td>
<td>Latvia</td>
<td>China</td>
<td>Malta</td>
<td>Spain</td>
</tr>
<tr>
<td>4th</td>
<td>Russia</td>
<td>Denmark</td>
<td>India</td>
<td>Nigeria</td>
<td>Estonia</td>
<td>USA</td>
<td>Ukraine</td>
<td>Peru</td>
<td>New Zealand</td>
<td>China</td>
<td>China</td>
<td>Egypt</td>
<td>Montenegro</td>
<td>Brazil</td>
<td>Estonia</td>
<td>Qatar</td>
<td>Nigeria</td>
<td>Indonesia</td>
<td>France</td>
</tr>
<tr>
<td>5th</td>
<td>Pakistan</td>
<td>Malta</td>
<td>Sri Lanka</td>
<td>Kenya</td>
<td>Nigeria</td>
<td>Philippines</td>
<td>Estonia</td>
<td>Indonesia</td>
<td>Morocco</td>
<td>Slovenia</td>
<td>Cyprus</td>
<td>Colombia</td>
<td>Colombia</td>
<td>Thailand</td>
<td>Kuwait</td>
<td>Botswana</td>
<td>Latvia</td>
<td>South Korea</td>
<td>Switzerland</td>
</tr>
<tr>
<td>6th</td>
<td>Namibia</td>
<td>Slovakia</td>
<td>Philippines</td>
<td>Ghana</td>
<td>Thailand</td>
<td>Indonesia</td>
<td>Thailand</td>
<td>Norway</td>
<td>Slovakia</td>
<td>Nigeria</td>
<td>Mongolia</td>
<td>Lebanon</td>
<td>Slovakia</td>
<td>Argentina</td>
<td>Russia</td>
<td>Jordan</td>
<td>Jamaica</td>
<td>Mexico</td>
<td>Portugal</td>
</tr>
<tr>
<td>7th</td>
<td>Hungary</td>
<td>Ireland</td>
<td>Argentina</td>
<td>Argentina</td>
<td>Kenya</td>
<td>Qatar</td>
<td>Indonesia</td>
<td>Turkey</td>
<td>Lebanon</td>
<td>Croatia</td>
<td>Montenegro</td>
<td>Saudi Arabia</td>
<td>Saudi Arabia</td>
<td>Turkey</td>
<td>Czech Republic</td>
<td>South Korea</td>
<td>Denmark</td>
<td>Finland</td>
<td>USA</td>
</tr>
<tr>
<td>8th</td>
<td>Morocco</td>
<td>Japan</td>
<td>Indonesia</td>
<td>Ireland</td>
<td>Pakistan</td>
<td>Mauritius</td>
<td>Chile</td>
<td>Argentina</td>
<td>Jordan</td>
<td>Mauritius</td>
<td>China H</td>
<td>Russia</td>
<td>Czech Republic</td>
<td>Kuwait</td>
<td>Qatar</td>
<td>Slovakia</td>
<td>Bulgaria</td>
<td>Japan</td>
<td>Germany</td>
</tr>
<tr>
<td>9th</td>
<td>Colombia</td>
<td>Estonia</td>
<td>Turkey</td>
<td>Pakistan</td>
<td>Greece</td>
<td>New Zealand</td>
<td>Argentina</td>
<td>Chile</td>
<td>Japan</td>
<td>Turkey</td>
<td>Serbia</td>
<td>Kuwait</td>
<td>Lithuania</td>
<td>India</td>
<td>Hungary</td>
<td>Kuwait</td>
<td>Tunisia</td>
<td>Greece</td>
<td>Morocco</td>
</tr>
<tr>
<td>10th</td>
<td>Bulgaria</td>
<td>China</td>
<td>Qatar</td>
<td>Finland</td>
<td>Laos</td>
<td>Malaysia</td>
<td>Philippines</td>
<td>India</td>
<td>Qatar</td>
<td>Brazil</td>
<td>Morocco</td>
<td>Mongolia</td>
<td>Hungary</td>
<td>Chile</td>
<td>Slovakia</td>
<td>Nigeria</td>
<td>Saudi Arabia</td>
<td>Egypt</td>
<td>Switzerland</td>
</tr>
</tbody>
</table>

Source: Bloomberg
...but since the 2008 financial crisis, the returns of EM equities has been poor...

EM has underperformed DM by 60% over the last 8 years

Source: Bloomberg
EM, with Brazil, Russia, India, and China (BRIC) as the main players, are consistently contributing more to Global GDP. BRICs today contribute 22% to Global GDP - an all-time high. Parallel to this, DM have slowed down contributing less to Global GDP.

However, BRICs Market Cap only represents 13% of Global Equity Market Cap. Since 2008, EM have lagged as investors rushed into buying bonds and DM equities. Today, EM are at a very fascinating junction - valuations are attractive compared to DM whilst providing investors higher dividend yield and earnings growth. This dislocation creates a unique opportunity.

Source: Bloomberg
Let’s take a closer look at the most interesting triggers which could well support positive stock market returns for many years to come:

1. Young & Growing Markets
2. Economic Growth
3. Equity Valuations
4. Trade Wars
5. Resources & Commodity Prices
6. Borrowing Costs
7. Portfolio Diversification
1 Young & Growing Markets

Most investors consider EM risky but do not ponder on the fact that today’s DM (such as Italy, Spain) not long ago were “emerging” or even “frontier” themselves. Many of the developing nations are catching up and in the process companies can deliver higher returns in this high growth environment.

Why not DM Equities?

- Ageing Population
- Little or no Real GDP Growth
- High and Rising Sovereign Debt levels
- Reliance on EM Trade Balance
- Rising Inflation

Why EM Equities?

- Falling Inflation
- Solid Currencies
- Growing Exports
- Strong Local Demand
- Growing Consumption
- Relatively Low Debt Levels
2 Economic Growth

DM are now projected to grow by 1.9% in 2017 and 2.0% in 2018.

The primary factor underlying the strengthening global outlook over 2017 to 2018 is, however, the projected pickup in EM growth.

EM growth is currently estimated at 4.1% in 2016, and is forecast to reach 4.5% for 2017.

A further pickup in growth to 4.8% is estimated for 2018.

The table shows China and India as key contributors to global EM growth. A slowdown in these countries could become a key risk.

Source: Bloomberg
3 Equity Valuations

Valuations in EM equity and debt remain compelling

The cyclically adjusted P/E multiple is now trading at 12.8x. This is a significant discount to its long-term average of 25x

In contrast, the US S&P 500 index is trading at 23.4x cyclically adjusted earnings, within a whisker of its long-term average of 23.6x

Today EM equities trades at a 25% discount to DM equities

Source: Bloomberg
4 Trade Wars

DM share of global trade moved from 70% in 1995 to only 52% in 2015.

During 1995 to 2005, DM trade growth was only 24% dependent on EM while over the next 10 years it was 53%.

As long as intra-EM policies are not affected, EM may ironically become even bigger winners as they further increase their intra-EM trade and substitute DM products.

Trump's election may slow down this shift towards EM trade, especially for Mexico and China.

Source: Bloomberg
5 Resources & Commodity Prices

Historically EM stocks have been highly correlated to, or dependent on, commodity prices. In fact, energy and material stocks used to represent 30-40% of global EM market cap in 2004

This dependency has now come down to 15% due to a stronger domestic consumption which has driven up industries such as consumer staples, financials, IT and industrials

A key risk could be a slowdown in the consumer story - should this materialize, correlation and dependency on commodity prices would rise

Source: Bloomberg
6 Borrowing Costs

Higher debt levels, as a % of GDP, will continue to hamper growth in DM

**EM Sovereign Borrowing Costs are at Very Low Levels**

**Government Debt as a % of GDP**

Source: Bloomberg
DM equities remain highly correlated to each other (>0.8). EM equities still provide relatively uncorrelated returns for equity investors.

Source: Bloomberg
Conclusion

We believe it is challenging to time markets. Owning inexpensive assets with significant growth potential over a long term is the way to go. Maintaining a portfolio of EM stocks allows increased diversification benefits and gives investors access to the world’s fastest growing economies.

FMG is dedicated to affording investors efficient and multiple ways to gaining exposure to these markets. Due to compelling valuations and attractive growth prospects we highly recommend being overweight EM at this time.
Disclaimer: FMG (Malta) Limited ("FMG") is licensed by the Malta Financial Services Authority ("MFSA") as a category 2 Investment Services Provider as provided in the Investment Services Act Chapter 370 of the Laws of Malta. FMG is authorized to act as a full scope alternative investment fund manager ("AIFM") in terms of Directive 2011/61/EU of the European Parliament and of the Council on alternative investment fund managers ("AIFMD"). This summary is for information purposes only and does not constitute an offer to sell or a solicitation to buy. Citizens or residents of the United States and India may not invest in these Funds. All Funds may not be marketed to Swiss citizens or residents except those considered as "regulated qualified investors" by the Swiss Collective Investment Schemes Act and the Swiss Collective Investment Schemes Ordinance. Investors who wish to obtain information on these funds will only be provided any such materials upon receipt of an appropriate reverse solicitation request in accordance with the requirements of the EU AIFM Directive/Swiss Law and/or national law in their home jurisdiction. Opinions and estimates constitute the manager’s judgment and are subject to change without notice. Past performance is not indicative of future results. Investments in Emerging Markets should be considered high risk where a portion or total loss of capital is conceivable. No assurance can be given that the investment objective will be achieved or that an investor will receive a return of all or part of his/her initial capital, and investment results can fluctuate substantially over any given time period. Please refer to the relative Fund’s prospectus which contains brief descriptions of certain risks associated with investing in the fund. FMG funds or funds marketed by FMG are aimed at experienced investors and you have to fit in this category to be able to invest in such funds. Questions should be directed to your local representative or financial advisor. This document may not be reproduced, distributed, or published for any purpose without the prior written consent of the manager. Copyright (C) 2017 FMG. All rights reserved. TAG2017044