Global Emerging Markets
5 Reasons why GEM have been under pressure
September 2013

MIRABAUD 1819
Asset Management

Recent weakness in GEM vs developed markets (DM) equities

1. Speculation about QE tapering by the Fed

We believe that when the Fed does finally decide to reduce the level of QE, it should be accompanied by stronger US economic growth which would be supportive for exporters in GEM. In the meantime, monetary policy is likely to remain loose in the US and may become even more loose in Europe and Japan depending on the performance of those economies.

2. Slowing GDP growth in GEM

The deceleration should not come as a surprise given the rapid expansion in previous years and the much larger base from which GEM economies now need to grow.

3. Investors incrementally more positive on the outlook for the US economy

The speculation about QE tapering has sent 30 year fixed mortgages up about 1% to 4.4%, making US mortgages more expensive and potentially undermining the health of the housing market which is key to the US economic recovery.

Why GEM equities have been under pressure

4. Concerns of hard landing in China

The deceleration in the Chinese economy has to a great extent been self-engineered as the Chinese government seeks to improve the quality of the growth and make the economy more domestically focused.

5. Political protests in Turkey, Brazil & Egypt as well as unrest in the Middle East

The protests in Turkey and Brazil have largely stopped. The troubles in Egypt continue but have now been overshadowed by the worsening situation in Syria which has sent oil prices higher and adversely impacted investor sentiment. If the situation escalates then higher oil prices should benefit Russia and the Gulf states but negatively affect net oil importers such as Turkey, India and Korea.

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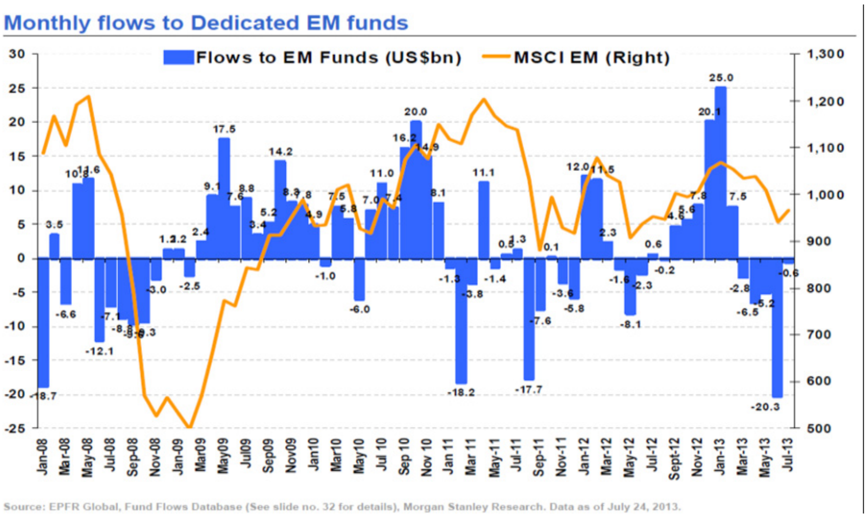
The worst of the concerns is over

1. Investors are universally bearish on GEM equities

The funds flow chart below shows that there are been significant flows out of the GEM asset class year-to-date, which offers an interesting contrarian buy signal.

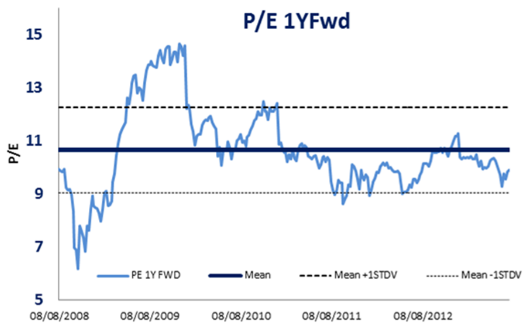


Why we are confident on the outlook for GEM

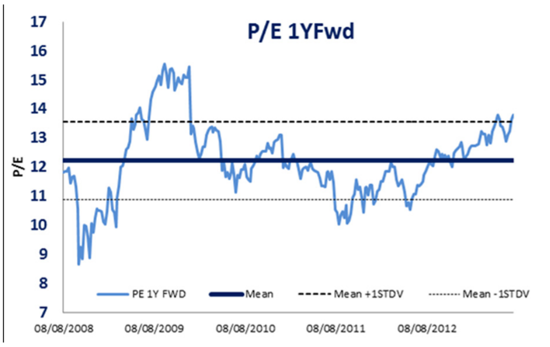
2. Valuations are attractive

Valuations for GEM equities are near the bottom of their historical range (around 1 standard deviation below the average). By contrast DM equities are near the top of their range (more than 1 standard deviation above the average).

Historical valuations of GEM Equities



Historical valuations of DM Equities



The worst of the concerns is over

3. China is not likely to have a hard landing

Over the past decade, the Chinese economy has grown extremely quickly driven by fixed asset investment which has led to overcapacity in many industries. The new government is steering the economy through a transition stage whereby it is rebalancing the economy towards more sustainable and higher quality growth driven by domestic consumption. The government has monetary and fiscal tools at its disposal to ensure a sustainable, albeit lower growth rate can be maintained.

Why we are confident on the outlook for GEM

4. Companies are reporting strong results

Even in an environment of slowing GDP growth, it is our role to find GEM companies which are flourishing. So far the 2Q13 results season has seen strong results for a number of the holdings in our fund. For example:

- Sands China: The Macau gaming operator reported EBITDA which grew 55% YoY.
- Yandex: The Russian internet search engine company reported earnings per share which rose 44% YoY
- HalkBank: The Turkish bank reported net profits up 14% YoY
- Magnit: The Russian retailer reported earnings grew 38% YoY
- Mobily: The Saudi telco released results showing earnings up 13% YoY
- Siam Commercial Bank: The Thai bank grew net income by 26% YoY
- AIA: The pan Asian insurance company announced profits rose 34% YoY
- Samsung Electronics: The Korean tech company grew earnings 50% YoY
- Great Wall Motor: The Chinese car company issued a positive profits warnings stating earnings had soared 74% YoY.

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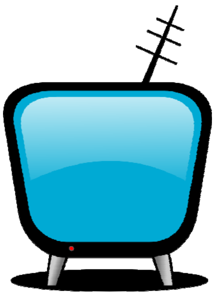
5. The long term case for GEM is still intact

- GEM is a huge investment universe spread across 21 GEM and 23 Frontier markets offering a broad range of investment opportunities.
- GEM accounts for more than 50% of world's GDP and around 80% of growth in global GDP. At the same time GEM equities are under-represented in global stock markets as they only account for 11% of the MSCI All Countries World Index.
- Demographics are supportive given the young and growing population of working age in GEM versus the aging population in the developed world.
- Domestic consumption is still in its infancy and will be driven by strong economic growth, increasing availability of financial products (eg mortgages and credit cards) and declining precautionary savings rates as governments roll out improvements to healthcare services and pensions.
- Household and sovereign debt levels are low in GEM compared with DM.



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