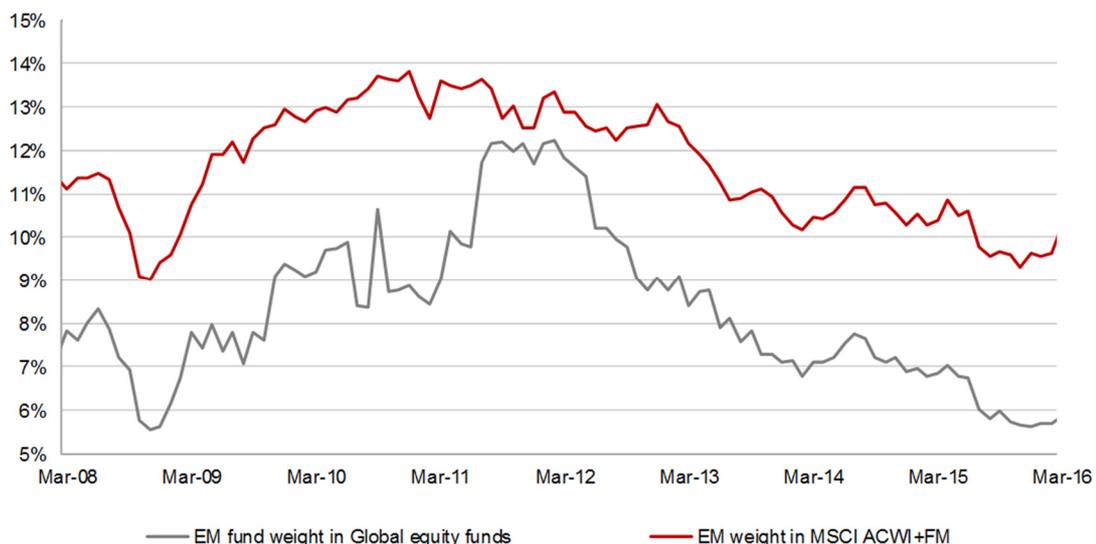


Why Invest in Emerging Markets Now?

Emerging markets are cheap, growing and under-owned

- On price to book, emerging markets are trading at 1.4x book value which is just above levels seen during the Global Financial Crisis of 2008/2009 (1.3x) at a time when investors feared a global meltdown.** One would have to assume we have a crisis similar to the 1997 Asian and 1998 Russian crises which drove valuations to below 1.0x book value; we don't believe emerging markets are set for this type of crisis. In terms of other valuation metrics, if you look at markets such as Russia, Brazil and China H-shares, these are trading at price earnings multiples in the 6-8x range, with many of these economies experiencing slow growth or even recession.
- Emerging markets are trading at cheap absolute and relative valuations.** Emerging markets are trading at 11.9x compared to developed markets at 16.5x. The average price earnings spread has been closer to 2x versus the current 4.6x. We expect that gap to close.
- Global funds continue to be underweight emerging markets as illustrated in Figure 1 below.** As emerging markets continue to outperform on a year-to-date basis investors will be forced to increase their weighting.
- We're finding earnings growth in emerging markets.** The long-term earnings growth rate of the companies we own is approximately 21%¹ compared to the consensus for the MSCI Emerging Market Index which is approximately 7% this year and increasing to 15% next year. We believe that investors will benefit from the 20% growth but also benefit from multiple expansion.

Figure 1: Global equity funds remain underweight on emerging markets



Source: MSCI, EPFR Global, HSBC Calculations, March 2008 to March 2016

1. Long-term earnings growth rate quoted for the RWC Global Emerging Markets Equity Fund as at 31 March 2016. Long-term earnings growth rate definition: CAGR of operating EPS over the next full business cycle (typically 3-5 years). Number is calculated using RWC analyst forward estimates and price data from Bloomberg.



Macro-economic risks are manageable and improving

- In anticipation of the Fed hiking rates, many investors are worried about the strong US dollar and weak emerging market currencies. Concern began in 2011 and accelerated in 2013 during the “Taper Tantrum”. Since 2011, the JP Morgan Emerging Market Currency Index has corrected by 41%.² **Emerging market currencies are therefore now cheap.** As a result current accounts are improving dramatically within emerging markets.
- **Local interest rates remain very high throughout emerging and frontier markets with Brazil, Russia, Turkey, Pakistan, Argentina and Nigeria all yielding above 10%.** With very low interest rates in developed markets, eventually global investors will look to emerging and frontier markets to pick up yield.
- **Emerging market economies have made significant progress in improving their macro policy framework over the past decade.** Most countries have allowed much greater flexibility in their exchange rate and introduced inflation targeting. The improvement in their monetary frameworks helped to maintain low inflation and reduce dollarization levels while improving the resilience of their economies to volatility in capital flows. In conjunction with monetary reform, many emerging markets adopted binding fiscal rules, which were effective in reducing fiscal dominance

where government debt levels were high. Strengthening of institutions and monetary and fiscal frameworks over the years led to greater credibility of economic policy, paving the way for the implementation of countercyclical policies in the face of external shocks. **Brazil, Argentina, Russia, Mexico, India and even China are moving towards more market-oriented pro-growth reforms, as are many other smaller countries.**

- **Over the past couple of years many emerging market countries continued to ease monetary policy to support growth despite significant weakness in their exchange rates due to large capital outflows. Real exchange rates have weakened to competitive levels and current account balances have been adjusting (see Figures 2 and 3).** While growth in many emerging market countries is below potential due to terms of trade shocks and overall weakness in global trade volume, they have managed to avoid greater macro dislocation, apart from a few that faced additional shocks (Brazil and Russia).

Figure 2: EM average current account balance, % of GDP

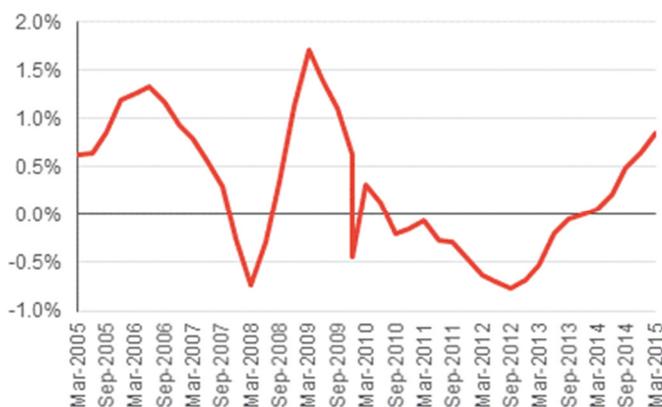
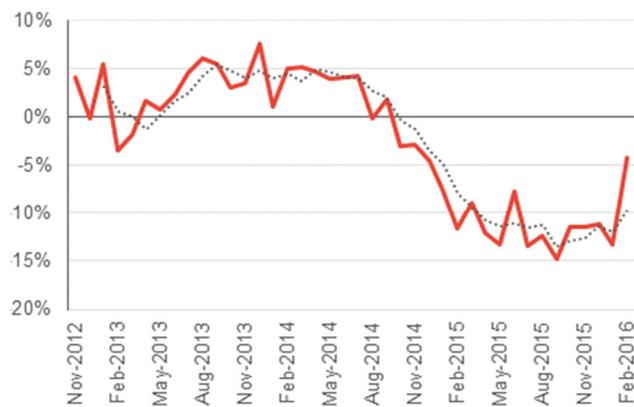


Figure 3: EM exports YoY



Figures 2 and 3 source: RWC Partners, Haver Analytics, Figure 2 data: 31 March 2005-31 March 2015, Figure 3 data: 30 November 2012-29 February 2016

2. Source: JP Morgan, 06 May 2011 to 06 May 2016.



Active equity investing will win over time in emerging markets

- **Although many fund managers have categorized Russia and even Brazil as un-investible, we've found opportunities in the non-energy sectors such as steel, banks and supermarkets.** Cem Akyurek, our economist, believes that the economy has bottomed and we are beginning to see signs of a cyclical upturn. Interestingly, the Russian index was flat last year in dollar terms despite weakness in oil and emerging markets. As a matter of fact, our largest position, Sberbank, was up 46% last year and 30% this year, but the stock still trades at less than 8x earnings³.
- **Frontier markets continue to offer opportunities, especially with the election in Argentina and the continued economic improvements in countries like Pakistan.** Overall, frontier markets remain very attractively valued at 8x earnings.
- **Brazil is another market that could be close to a turning point.** Although we have reduced exposure given recent gains, we will look to increase exposure given low valuations and potential for lower interest rates which will continue to power the bull market. On top of that, the end of the PT (Workers Party) led by Dilma and her failed policies will be forced out of office this year and the new administration will focus on pro-market, pro-growth policies. **We believe that Latin America is on the cusp of a reform wave for the next decade or longer.**
- The RWC Emerging and Frontier Markets 16 person team continues to travel the world searching for the best growth opportunities in emerging and frontier markets at a reasonable valuation while remaining index agnostic. From a bottom-up perspective, the average upside price targets of the stocks we hold is approximately 40%. Although perhaps not a consensus view, we believe emerging markets continue to have both great growth potential and investment opportunities.

The RWC Emerging & Frontier team continues to produce solid performance

- The RWC Global Emerging Markets Equity Fund (B USD share class) has outperformed the MSCI EM Index by 677bps YTD (to 6 May 2016), placing the fund in the top 5% versus its peers.
- The team's longer term emerging market strategy⁴ also ranks in the top 5% against 196 funds since inception in August 2012, as reported by eVestment.⁵

3. Source: Bloomberg, 01 January 2015 to 31 December 2015, 01 January 2016 to 06 May 2016.

4. "Strategy" is defined as the investment guidelines utilised by John Malloy in managing the Everest Capital Global Emerging Markets Equity Fund LP (the "Everest Fund"), Share Class A1 for the period 01 August 2012 – 28 February 2015 and in managing the RWC Emerging Markets Equity Master Fund Ltd. (the "RWC Fund"), Share Class C for the period 01 June 2015 – 06 May 2016. The Everest Fund ceased trading and the RWC Fund had not commenced trading during the period from 01 March 2015 to 31 May 2015. Performance shown is denominated in USD, shown net of all fees and expenses (including a 1% management fee that was charged to Share Class A1 of the Everest Fund and Share Class C of the RWC Fund), reflects the reinvestment of income and may be unaudited.)

Past performance is not a guide to future results. The prices of investments and income from them may fall as well as rise and an investor's investment is subject to potential loss, in whole or in part.

5. Source: eVestment database, as at 06 May 2016.



Meet the team

- Led by John Malloy and Thomas Allraum, the 16 members of the team encompass far-reaching depth and range of coverage
 - The portfolio managers have over two decades' experience investing in over 120 emerging and frontier markets
 - Many members of the investment team also work within the RWC Frontier Equity Market strategies, and so the fund's ideas are from an unusually wide range of markets and regions
 - The team travels extensively and frequently in order to produce the most thorough and accurate research possible



John M. Malloy, Jr., Portfolio Manager

23 years of experience in global investment management, commodity, debt and equity research analysis. Before joining RWC in March 2015 to manage the RWC Emerging Markets Equity Fund, John spent 18 years at Everest Capital where he focused on emerging markets investing. Formerly, John was a high yield manager at Barings focusing on Latin America and US markets. BS in Management, Norwich University. MBA, Boston University. Speaks Spanish.



Thomas K. Allraum, FSCI, Co-Portfolio Manager

32 years of investment management and research experience with a specialty in developed and emerging Europe and South Africa. Prior to joining RWC, Thomas spent 17 years at Everest Capital where he focused on Emerging Europe and South Africa. Formerly with M&G Investment Management where he launched a top performing European small-cap equity fund. Also Head of European equity team at Swiss Bank Corp. BS degree in Economics and Business Administration, Zürich Management Institute, Switzerland. Speaks fluent French, German and Italian.

Strategic and Analyst Resource

Average industry experience: 14 years, shown for each analyst below

Frontier Markets	Macro Research	EMEA	Asia	Latin America	Natural Resources
James Johnstone 19 years	Cem Akyurek 28 years	Marina Bulyguina 5 years	Charles Chen 5 years	Patricio Danzinger 11 years	Duncan Blount 8 years
		Al Housein Qureiyeh 4 years	Min Chen 13 years		
		Muchemi Wandimi 8 years	Jessica Lim 16 years		
			Garret Mallal 10 years		
			Jaimin Shah 8 years		
			Anil Tewari 18 years		
			Jamie Xiong 6 years		



RWC

RWC Emerging & Frontier Markets

Contact Us

Please contact us if you have any questions or would like to discuss any of our strategies.

RWC London

60 Petty France
London
SW1H 9EU
Tel: +44 20 7227 6000

Email: invest@rwcpartners.com
Web: www.rwcpartners.com

RWC Miami

2640 South Bayshore Drive
Suite 201
Miami
Florida, 33133
Tel: +1 305 602 9501

RWC Singapore

80 Raffles Place
#22-23
UOB Plaza 2
Singapore 048624
Tel: +65 6812 9540

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