The Emerging Markets Update

Q3 2015

EGA Investment Strategy Commentary

October 2015

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Frontier markets countries generally have smaller economies or less developed capital markets than in more advanced developing markets and, as a result, the risks of investing in developing markets countries are magnified in frontier markets countries.

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The Emerging Markets Update

SUMMARY

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Summary

Emerging Markets Review
Q3 2015

- Developed market (DM) equities outperformed emerging markets (EM) and frontier market equities (FM)
  - The S&P 500 Index (-6.4%) and the MSCI EAFE Index (-10.2%) led
  - While the MSCI FM Index (-10.5%) and the MSCI EM Index (-17.8%) lagged
- Within EM, Hungary, Czech Republic, Qatar and India outperformed, while commodity based markets and those entangled in political crises, such as Greece, Brazil, Indonesia and Colombia were the worst performers
- EM equity (excluding China A-share) ETFs saw significant net outflows of $10.6 billion in Q3

Perspectives
What EM Investors Need to Know

- Is U.S. dollar debt a concern for EM?
- Do EM currencies contribute to higher volatility?
- Should we invest in EM countries where economic data is uncertain?
- Are EM reforms being reflected in performance?
- Should EM fear the Fed?

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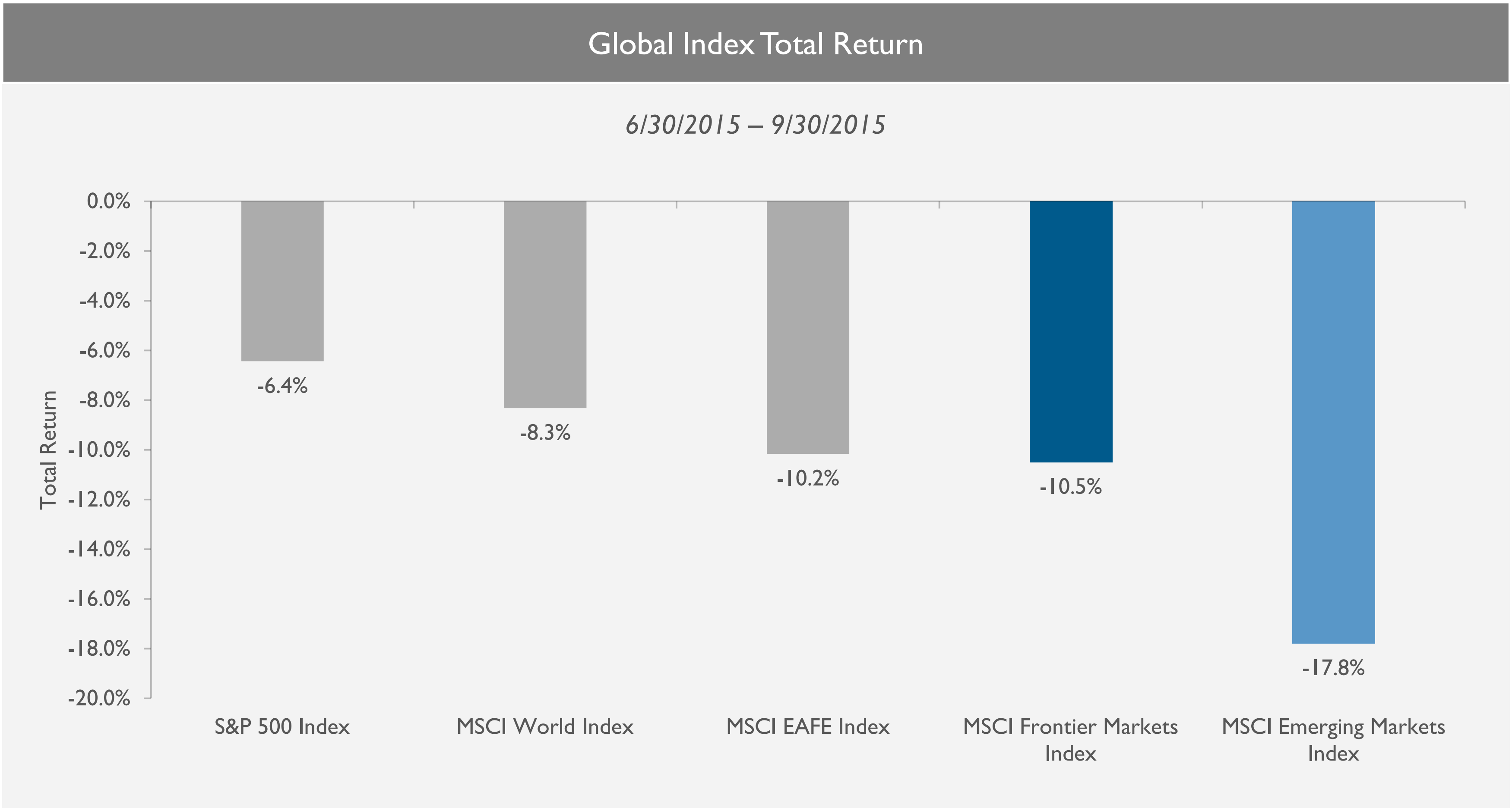
Section 1.

EMERGING MARKETS REVIEW: Q3 2015

Global Index Performance



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EM logged its weakest quarterly performance in four years

- The MSCI EM Index lost 17.8%, underperforming the MSCI World Index, which lost 8.3% in Q3 2015
  - In early August, China sent shockwaves through the global markets by devaluing its currency. Investors were concerned with the slowdown in China's economic growth.
  - The prospects of a rise in U.S. interest rates has dampened investor risk appetite and resulted in significant outflows from riskier assets
- The MSCI FM Index declined 10.5% in the third quarter – Concerns over decelerating global growth and the consequential slump in commodity prices led to the underperformance of the MSCI FM Index
- Against the background of continued support in the form of quantitative easing (QE) by the European Central Bank (ECB) and the Bank of Japan (BOJ), as well as nascent signs of economic recovery, the MSCI EAFE Index outperformed and lost 10.2%
- An improving economic outlook in the U.S. as well as volatility in international markets helped U.S. equities, with the S&P 500 Index losing only 6.4% amid the global rout

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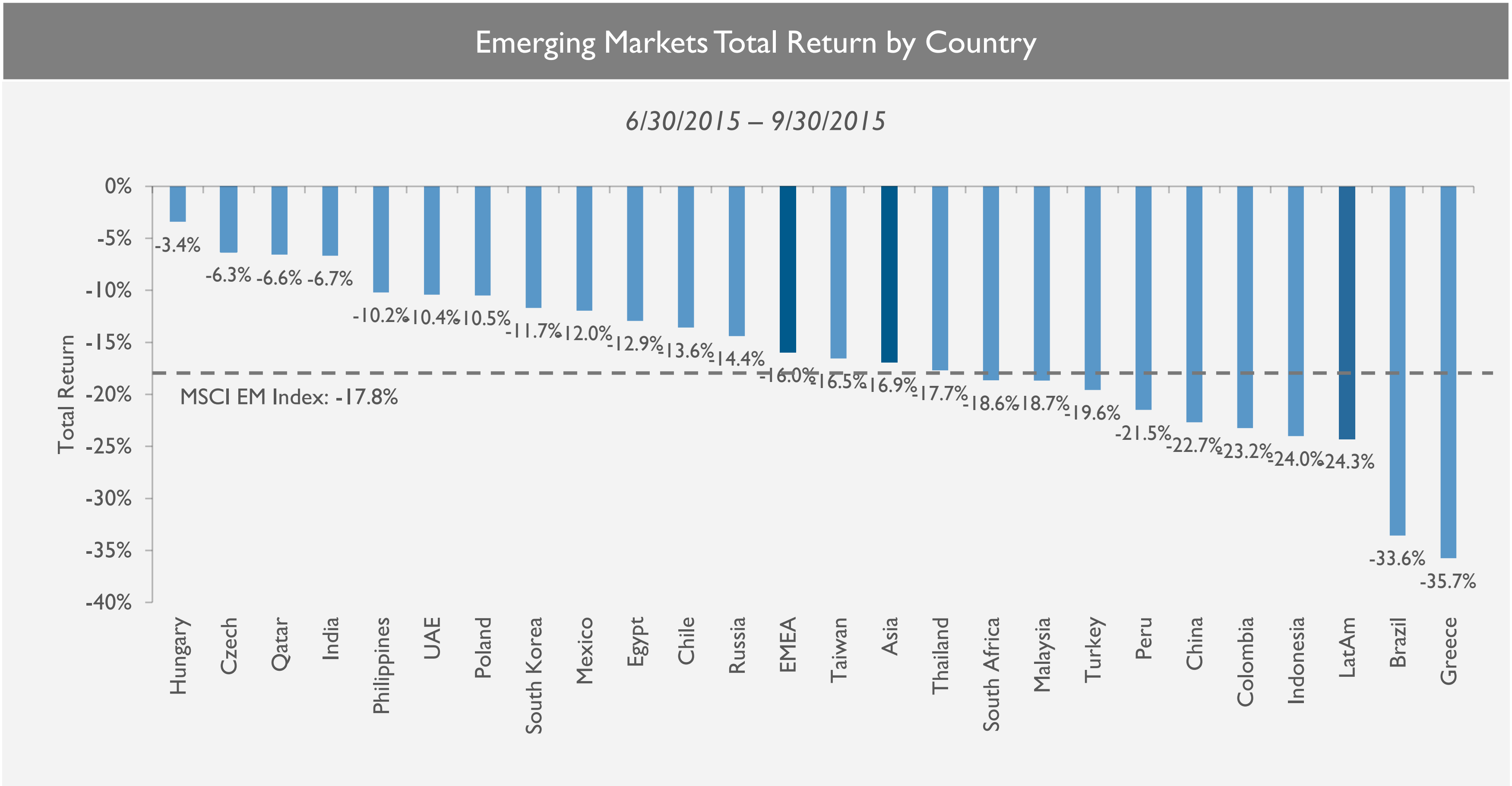
Emerging Markets Country Performance



Source: Bloomberg, MSCI, EGA, as of 9/30/2015. LatAm is the MSCI Latin America Index, EMEA is the MSCI EM Europe, Middle East and Africa (EMEA) Index and Asia is the MSCI EM Asia Index. *Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses, which could reduce returns. Indexes are unmanaged and one cannot invest directly in an index. Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance data may be higher or lower than actual data quoted. For the most current index performance data please call + 1 888 800 4347.*

Markets dependent on commodity exports and exposed to geo-political risks took a hit

- Within EM, the MSCI Europe, Middle East and Africa (EMEA) Index (-16.0%) and Asia (-16.9%) outperformed the aggregate EM index, while Latin America (-24.3%) underperformed
  - Hungary (-3.4%) led the pack after signs of economic improvement in the euro zone, whereas Greece (-35.7%) was the worst performer on the back of the ongoing debt and political crisis
- Hungary, Czech Republic, Qatar and India outperformed in Q3
  - Emerging economies in eastern Europe benefitted from clear signs of improvement in the euro zone, helped by favorable currency and stimulus by the European Central Bank (ECB)
  - Reform-oriented countries such as India were favored by investors. Reforms remain critical in supporting consumption and investment growth
- Commodity driven markets and those embroiled in political crises were the worst performing markets
  - Greece (-35.7%) suffered as negotiations over a new debt agreement with its international creditors continued and fears over a political deadlock paralyzed the government's ability to govern effectively
  - Brazil (-33.6%) was hit hard in the wake of rising political risks and continued deterioration in economic growth and balance sheets, which resulted in a credit rating downgrade. The slump in commodity prices played its part too, as Brazil along with other commodity exporters suffered

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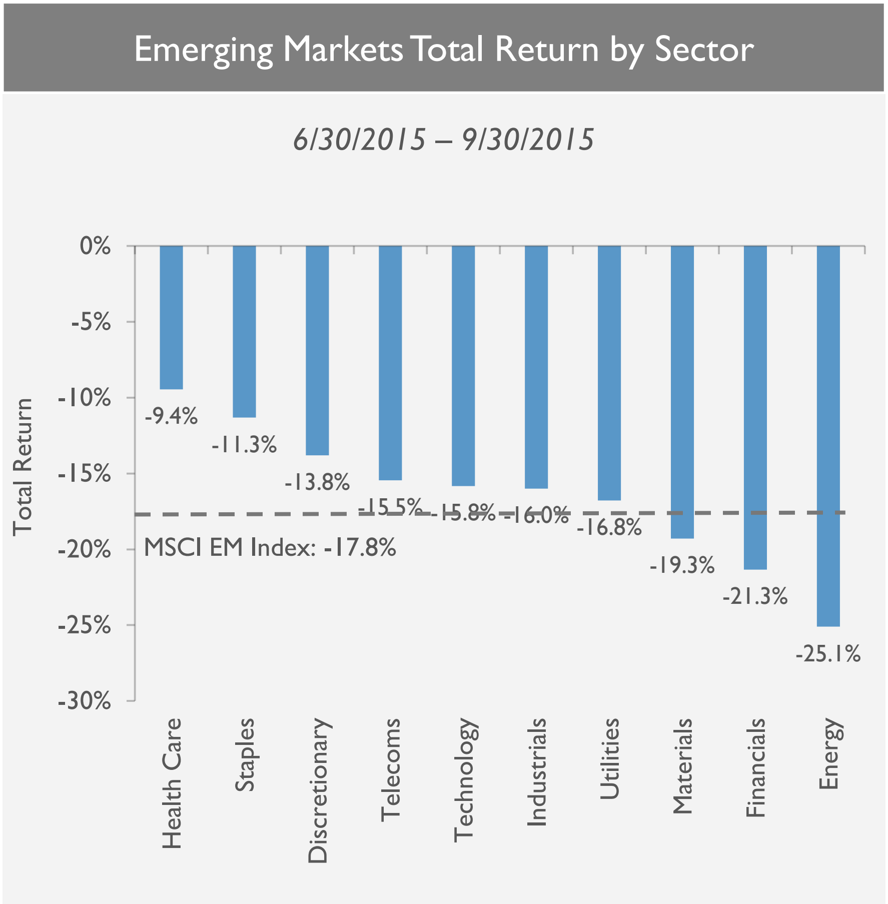
Emerging Markets Sector Performance



- Defensive sectors performed relatively better than cyclicals
  - All sectors posted negative performance
  - Domestic demand driven sectors – Health Care (-9.4%), Consumer Staples (-11.3%), Consumer Discretionary (-13.8%), Telecoms (-15.5%) and Utilities (-16.8%) – outperformed the MSCI EM Index
  - Cyclical sectors – Materials (-19.3%), Financials (-21.3%) and Energy (-25.1%) – underperformed the MSCI EM Index

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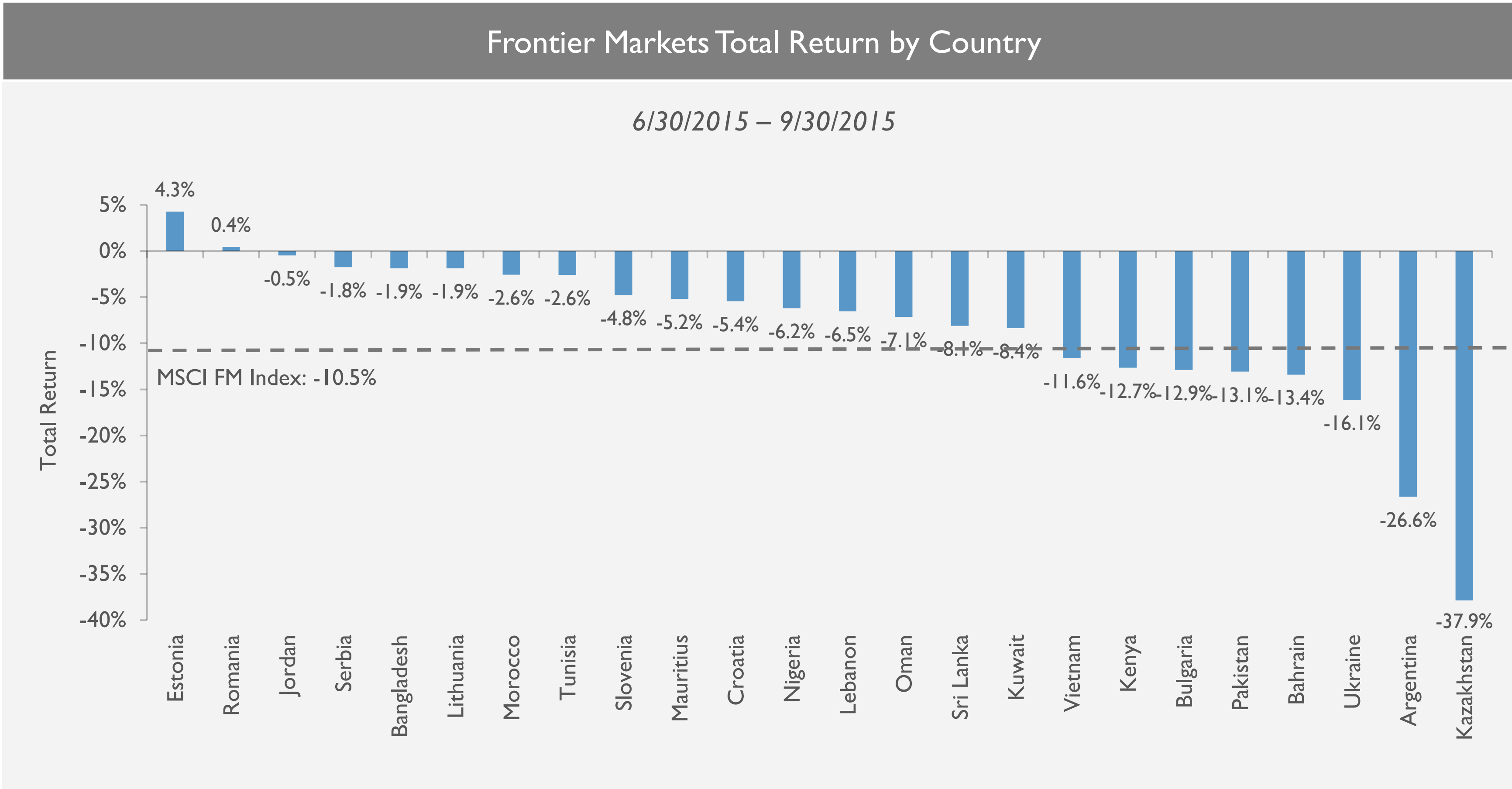
Frontier Markets Country Performance



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Frontier markets were the second worst performers

- The MSCI FM Index was the second worst performing global equity index in Q3, falling -10.5%
  - The losses were largely linked to the sharp declines in commodity prices, which has put pressure on commodity dependent economies
  - Geo-political issues and concerns over the prospective actions of the U.S. Federal Reserve also weighed on FM
- Only two out of the twenty-four frontier countries managed to end Q3 in positive territory: Estonia (+4.3%) and Romania (+0.4%)
- Kazakhstan (-37.9%), Argentina (-26.6%), Ukraine (-16.1%), Bahrain (-13.4%) and Pakistan (13.1%) were the worst performers

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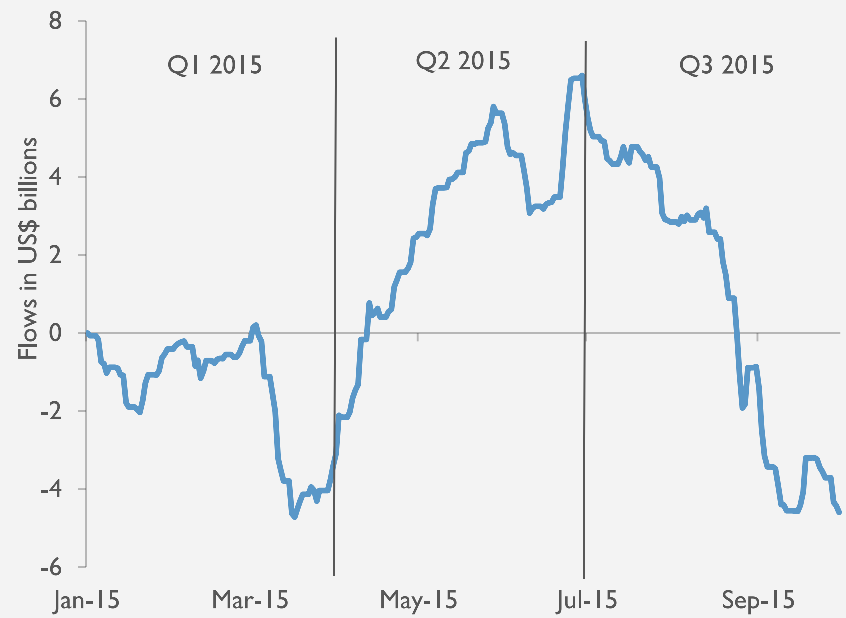
EM experienced significant outflows in Q3

- In Q3 2015, EM equity (ex-China A shares) ETFs saw significant net outflows of $10.6 billion
- Outflows were persistent throughout the quarter as fears of China's slowdown and prospects of higher U.S. interest rates prompted investors to pull out of riskier assets

Emerging Market Equity ETF Fund Flows (cumulative)

1/1/2015 – 9/30/2015



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Notable Events in Emerging Markets

Date	Event	Comment
July 9	IMF cuts World growth outlook	A weaker first quarter in the U.S. and the financial market turbulence from China to Greece led to downward revisions in global growth forecasts by the IMF this year. The world economy is expected to grow 3.3% in 2015, less than the 3.5% pace projected in April .
August 10	China devalued RMB	China shocked global market by devaluing its currency – Renminbi (RMB) – by 3.5% against the U.S. dollar over two days
August 14	Greece gets 3rd bailout	Eurozone finance ministers have agreed to lend Greece up to 86 billion euros after Greek lawmakers accepted their austerity conditions despite a revolt by supporters of leftist PM Alexis Tsipras
August 21	Turkey with no Government	PM Ahmet Davutoglu formally ended attempts to find a junior coalition partner, handing the mandate back to President Tayyip Erdogan and making a fresh election inevitable
September 9	Brazil ratings cut to junk status	Brazil's sovereign rating was cut to junk by S&P with negative outlook, removing the investment grade, as President Dilma Rousseff's government struggles to shore up fiscal accounts amid a faltering economy
September 17	Federal Reserve holds rate steady	The Federal Reserve kept rates near zero, amid concern slowing growth in China would weigh on the global economy and recent financial market volatility
September 21	Greece gets Tsipras as PM again	Greek leftist Alexis Tsipras stormed back into office with an unexpectedly decisive election victory, claiming a clear mandate to steer Greece's battered economy to recovery

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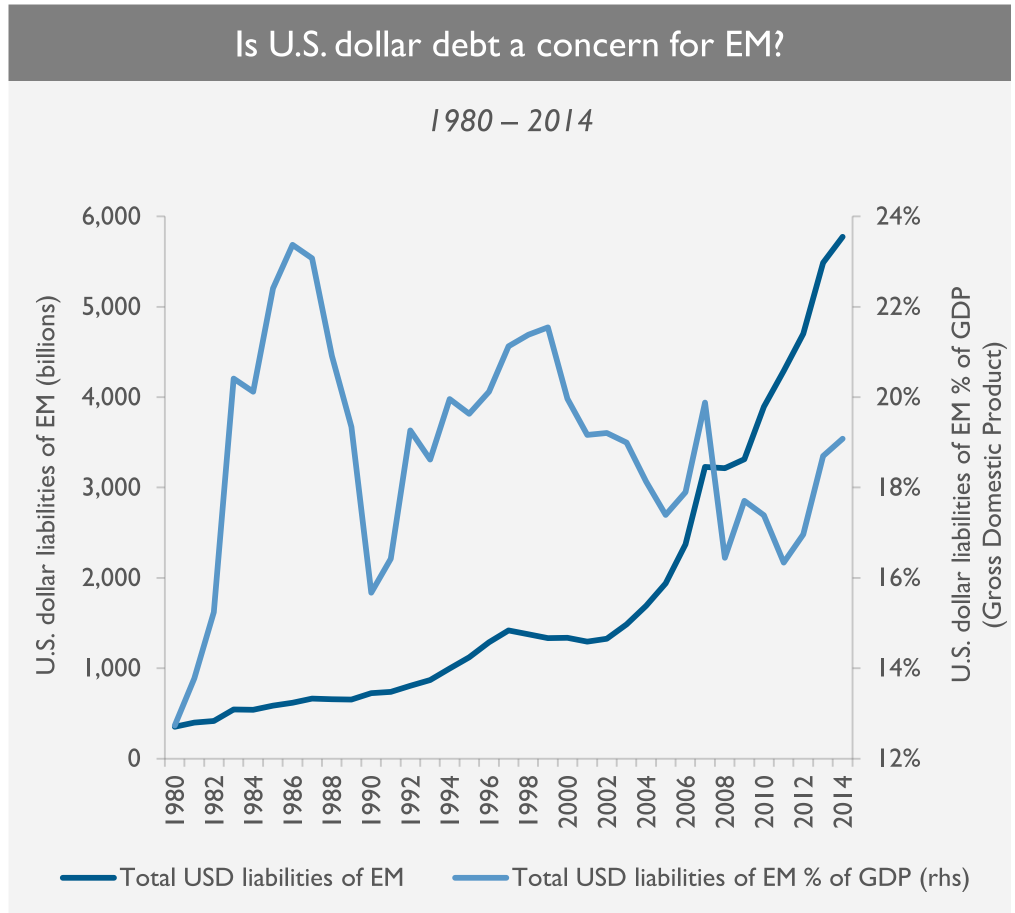
Section II.

PERSPECTIVE:
WHAT EM INVESTORS NEED TO KNOW

Is U.S. dollar debt a concern for EM?

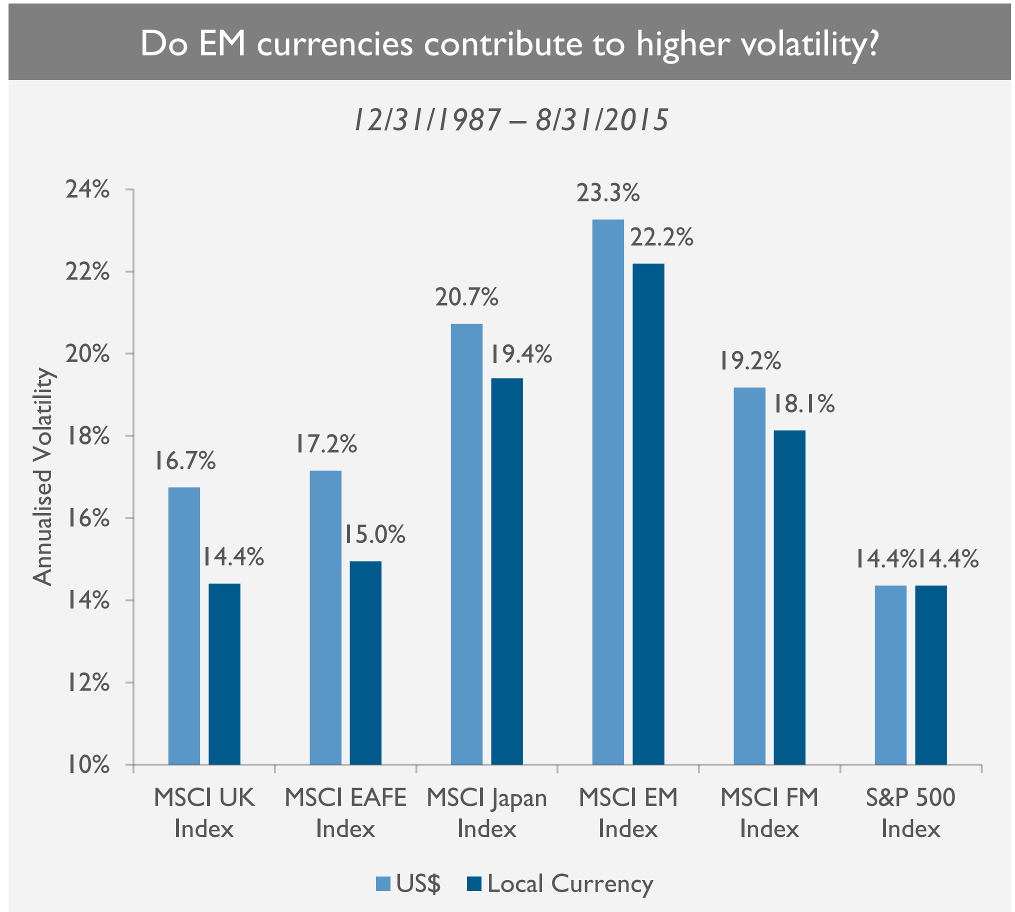
- Investors are concerned that a further rise in the U.S dollar could impair the capacity of EM economies to service their debt
  - U.S. dollar liabilities of EM economies have been steadily rising over the last ten years
  - The rise has been the result of low U.S. dollar borrowing costs
- However, this concern appears overblown in context
  - When these liabilities are measured as a percentage of economic output, a different picture emerges
  - Liabilities appear to be range-bound since 1990 and these concerns appear overblown



Source: BIS, IMF – World Economic Outlook – April 2015, EGA. Past performance does not guarantee future results.

Do EM currencies contribute to higher volatility?

- EM currencies contribute to higher volatility of U.S. dollar denominated equity returns
- However, EM and FM are not alone with this challenge…
- …variations of currencies in UK, EAFE and Japan have led to even higher volatility in U.S. dollar returns in their respective equity indices
- Over the long run, EM and FM currencies have each resulted in a 1.1% increase in equity volatility, which compares favorably to the 2.3% increase contributed by currencies in the UK, 2.2% increase in EAFE, and the 1.3% increase in Japan



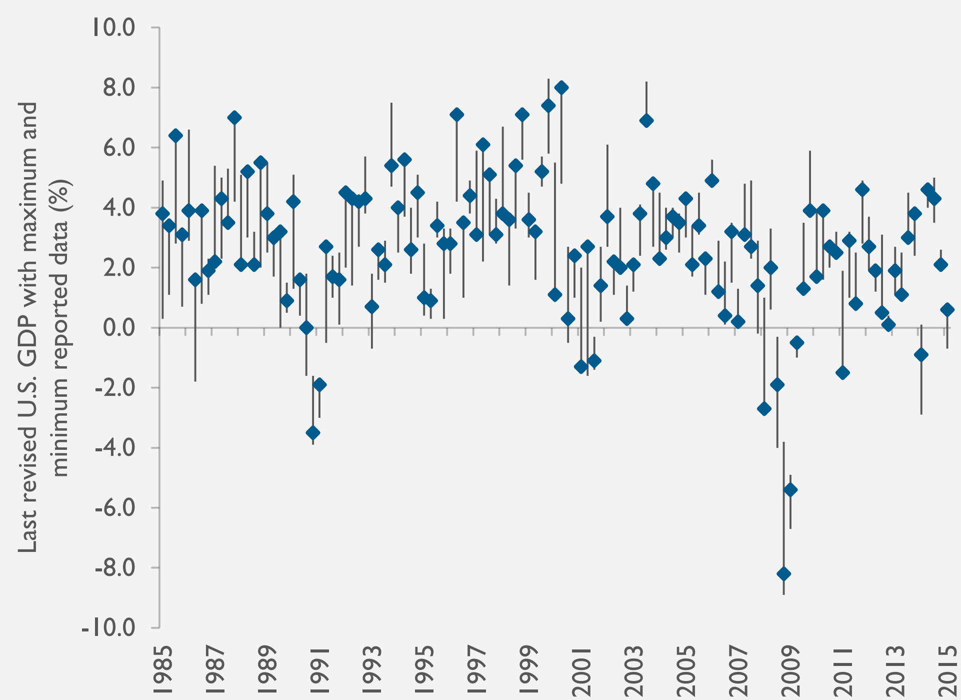
Source: Bloomberg, MSCI, EGA, as of 8/31/2015. Note: Calculations for the MSCI FM Index starts from May, 2002. Index *returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses, which could reduce returns. Indexes are unmanaged and one cannot invest directly in an index. Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance data may be higher or lower than actual data quoted. For the most current index performance data please call + 1 888 800 4347.*

Should we invest in EM countries where economic data is uncertain?

- Emerging markets, like China, are not unique in reporting uncertain economic data
- Virtually all economic reports are accompanied by a revision of a past report – e.g., the U.S. continually restates its GDP
- As displayed in the chart, U.S. GDP data is typically revised a half dozen or more times…and not truly final until many years after the fact
- The average range between the high and low reports for any given quarter is 2.14% and has been as high as 5.10%

U.S. GDP revisions

Q1 1985 – Q2 2015



Source: Bureau of Economic Analysis, EGA as of 8/27/2015. Past performance does not guarantee future results.

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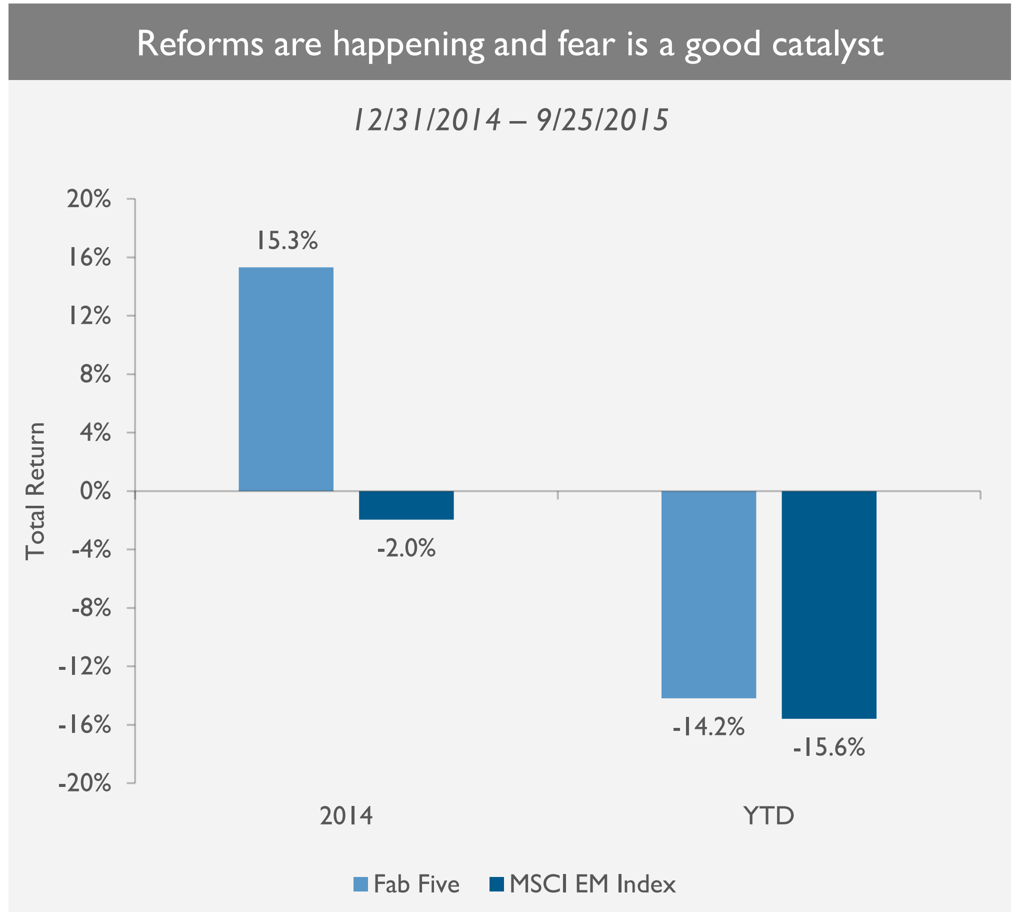
Are EM reforms being reflected in performance?

- Global growth has been particularly weak in the aftermath of the 2008 Financial crisis
- Although EM economies still grow faster than DM, momentum has been lost
- In those EM countries enacting reform, the "Fab Five" of China, India, Indonesia, Mexico and Philippines, the equity markets have performed better than the broader EM equity indices



Source: Bloomberg, MSCI, EGA, as of 9/30/2015. 'Fab Five' is the average return of the MSCI country indices for China, India, Indonesia, Mexico and Philippines. *Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses, which could reduce returns. Indexes are unmanaged and one cannot invest directly in an index. Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance data may be higher or lower than actual data quoted. For the most current index performance data please call + 1 888 800 4347.*

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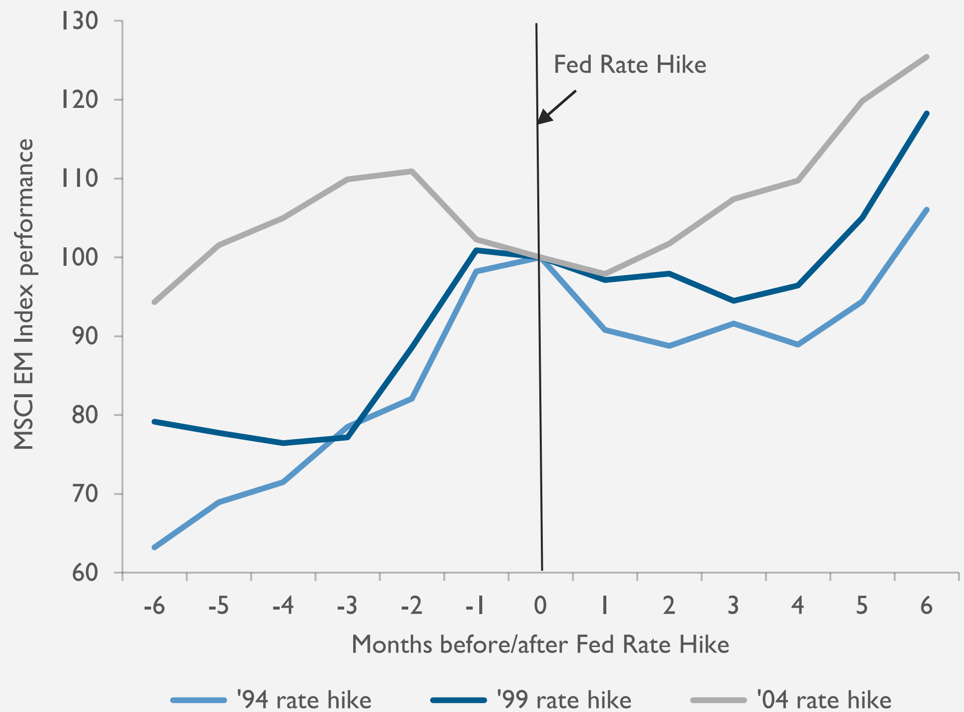
Should EM fear the Fed?

- Rising U.S. rates render the U.S. dollar and U.S. dollar denominated assets relatively more attractive
- As a result, EM equities have historically been weak around the timing of the first Fed rate hike
- This weakness was more pronounced in the 2004 cycle
- Historically, once the first increase in U.S. interest rates has occurred, EM equity markets have seen positive performance in the six months following the increase

Should we fear the Fed?

Last three instances



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DEFINITIONS AND ADDITIONAL DISCLOSURES

Glossary of Terms

Developed Markets (DM) are countries that are most developed in terms of economy and capital markets. They generally have high per capita income or GDP, as well as openness to foreign ownership, ease of capital movement and efficiency of market institutions.

Earnings Growth is the rate at which a company has grown its profitability per unit of equity over a given time period.

Emerging Markets (EM) are countries with less advanced capital markets and less established stock markets than those in developed markets; these countries have embarked on economic development and reform programs as well as begun to open up their markets and emerge.

Frontier Markets (FM) are countries with less advanced capital markets and less established stock markets than those in the emerging markets.

Gross Domestic Product (GDP) a money measure of the goods and services produced within a country's borders over a stated time period.

Quantitative Easing is a type of monetary policy where central banks target the supply of money by buying government bonds.

Index Definitions

MSCI All Country World (ACWI) Index is an index that captures large and mid-cap representation across 23 developed markets and 23 emerging markets countries.

MSCI Europe, Australasia, Far East (EAFE) Index captures large and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is an index that is designed to measure the equity market performance in global emerging markets.

MSCI EM Asia Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Asia.

MSCI EM Europe, Middle East and Africa (EMEA) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East & Africa.

MSCI EM Latin America Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets in Latin America.

MSCI Frontier Markets Index is an index that captures large and mid cap representation across 24 Frontier Markets countries.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese markets.

MSCI United Kingdom (UK) Index is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI World Index is an index that captures large and mid cap representation across 23 Developed Markets countries.

S&P 500 Index is a broad-based measure of U.S. stock market performance.

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