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The Emerging Markets Update

2015 Review and 2016 Perspectives

EGA Investment Strategy Commentary

January 2016

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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
2015

- Equities in emerging markets (EM) have now underperformed developed markets (DM) for the last 3 years
- In 2015, the S&P 500 Index (+1.4% total return) and the MSCI EAFE Index (-0.2%) led, whereas the MSCI EM Index (-14.8%) and the MSCI FM Index (-14.7%) brought up the rear
- Within EM regions, Asia (-9.8%) was the top performer, beating EMEA (-19.7%) and Latin America (-30.9%)
- Countries that embraced reform (India, China) continued to outperform those embroiled in political crises (Greece, Brazil)
- Within EM sectors, the defensives outperformed the cyclicals and the consumer sectors led the broader EM Index
- A total of US$0.9 billion exited EM equity (ex-China A shares) ETFs in 2015

Source: Bloomberg, MSCI, EGA, as of 12/31/2015. *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.*

Summary

2016 Perspectives
What EM Investors Need to Know

1. The International Monetary Fund (IMF) forecasts a renaissance in EM growth, which has historically proven key to EM equity performance
2. EM earnings are forecast to lead in 2016, with consumer earnings forecast to outperform
3. EM investors should not fear the U.S. Federal Reserve: During the last three Fed tightening cycles EM equities have performed well
4. EM consumer sector has benefitted more when U.S. interest rates rise
5. EM U.S. dollar debt concerns likely overblown with liabilities as a percent of GDP range-bound for over 20 years and no sign of balance sheet stress within EM corporates
6. EM valuations appear attractive relative to other markets and relative to their own historical average

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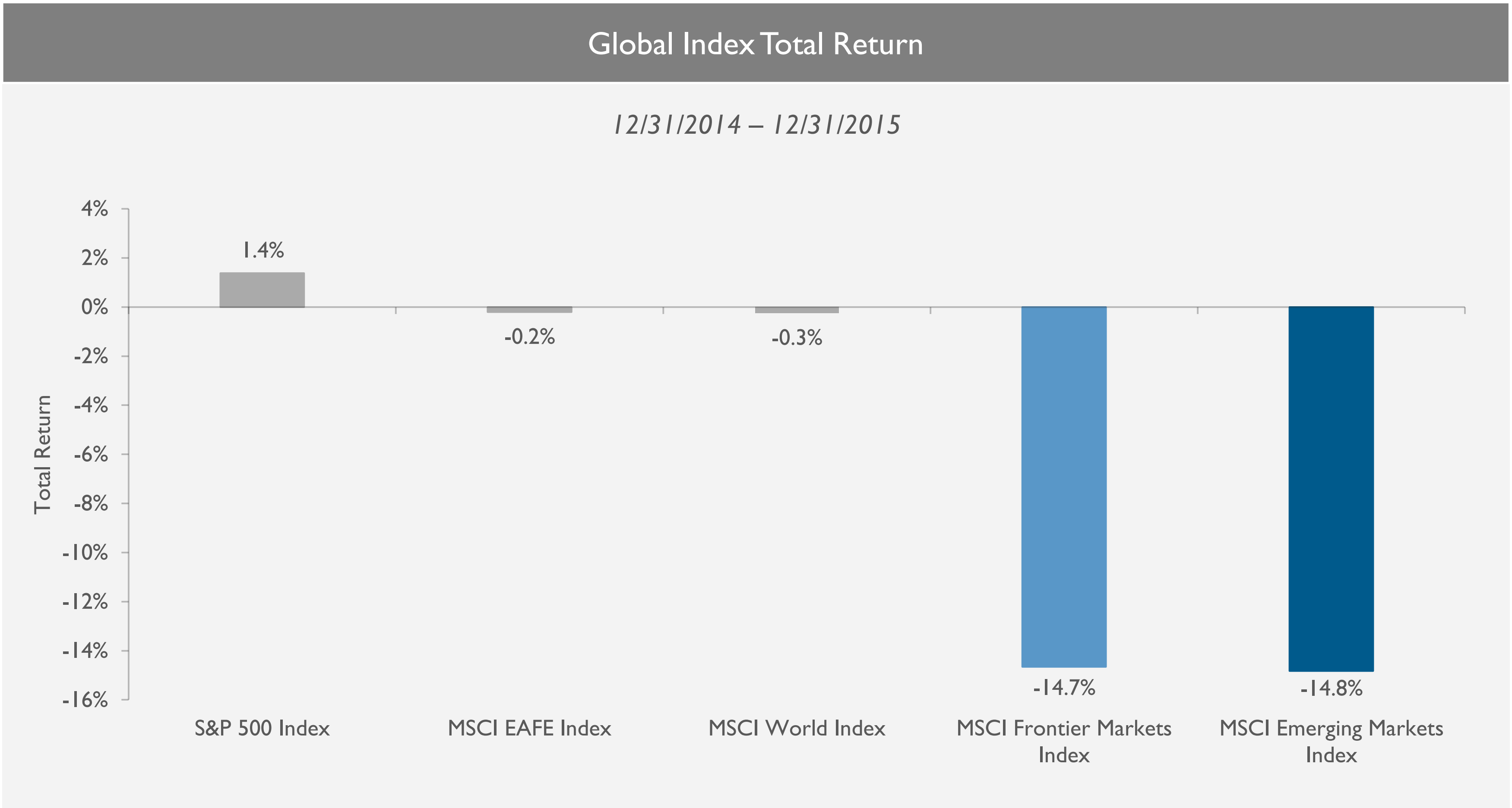
Section 1.

EMERGING MARKETS REVIEW: 2015

Global Index Performance



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Three years of underperformance from EM

- The MSCI EM Index lost 14.8% in 2015 and has not had a positive return since 2012
  - The *prospect* of the first U.S. rate hike in over 9 years pressured EM, with *all* of EM weakness coming *before* the Fed's December 16 move; in fact, while the S&P 500 lost over 1.3% since December 16, MSCI EM gained over 0.5%
  - Slowing Chinese growth and falling commodity prices also contributed
- S&P 500 Index led global regional indices in 2015 and returned 1.4%
  - An improving economic outlook in the U.S. as well as a stronger U.S. dollar helped U.S. equities perform better
- The MSCI EAFE Index was the worst performer in 2014, but in 2015 it showed strength and ended the year as the second best performing region with a flattish return of -0.2%
  - The continued support in the form of quantitative easing (QE) by the European Central Bank (ECB) and Bank of Japan (BOJ), as well as initial signs of economic recovery helped EAFE perform better
- The MSCI FM Index lost 14.7% in 2015, after producing a return of 6.7% in 2014
  - The concerns over slowing global growth and the slump in commodity prices, particularly oil, led to the underperformance of the MSCI FM Index

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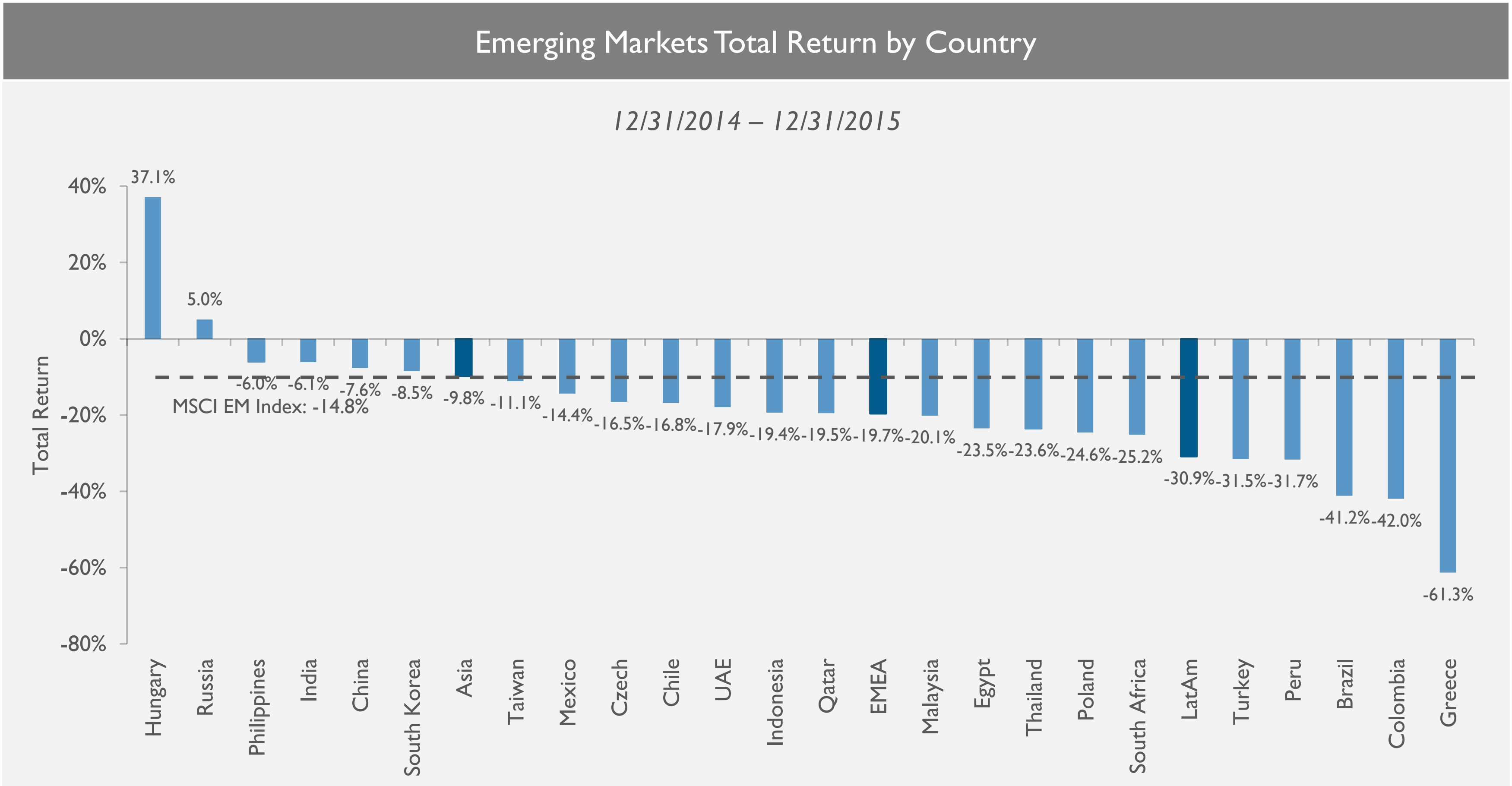
Emerging Markets Country Performance



Source: Bloomberg, MSCI, EGA, as of 12/31/2015. 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.*

Asia led, EMEA and Latin America lagged

- Within EM, just like 2014, Asia (-9.8%) was the best performer in 2015, Europe, Middle East and Asia (EMEA) (-19.7%) and Latin America (-30.9%) both posted heavy losses
- Hungary (+37.1%) and Russia (+5.0%) were the only countries to record positive returns; Philippines (-6.0%), India (-6.1%), China (-7.6%) and Korea (-8.5%) performed relatively better
  - Hungary led the pack after signs of economic improvement in the euro zone
  - Russia bounced back in 2015 after being the worst performing market in 2014
  - Reform-oriented countries like India and China did relatively better and reform-driven markets continued to outperform the broader EM index in 2015, continuing the trend from 2014
- Commodity driven markets and those embroiled in political crises were the worst performing markets
  - Greece (-61.3%), Colombia (-42.0%), Brazil (-41.2%), Peru (-31.7%) were the worst performing EM countries in 2015
  - Greece's performance was weighed down by the negotiation over a new debt agreement with its international creditors and the political drama that followed (market shutdown, referendum, re-election)
  - Brazil's loss was caused by a slump in commodity prices, deterioration in economic growth, credit rating downgrades and rising political risk

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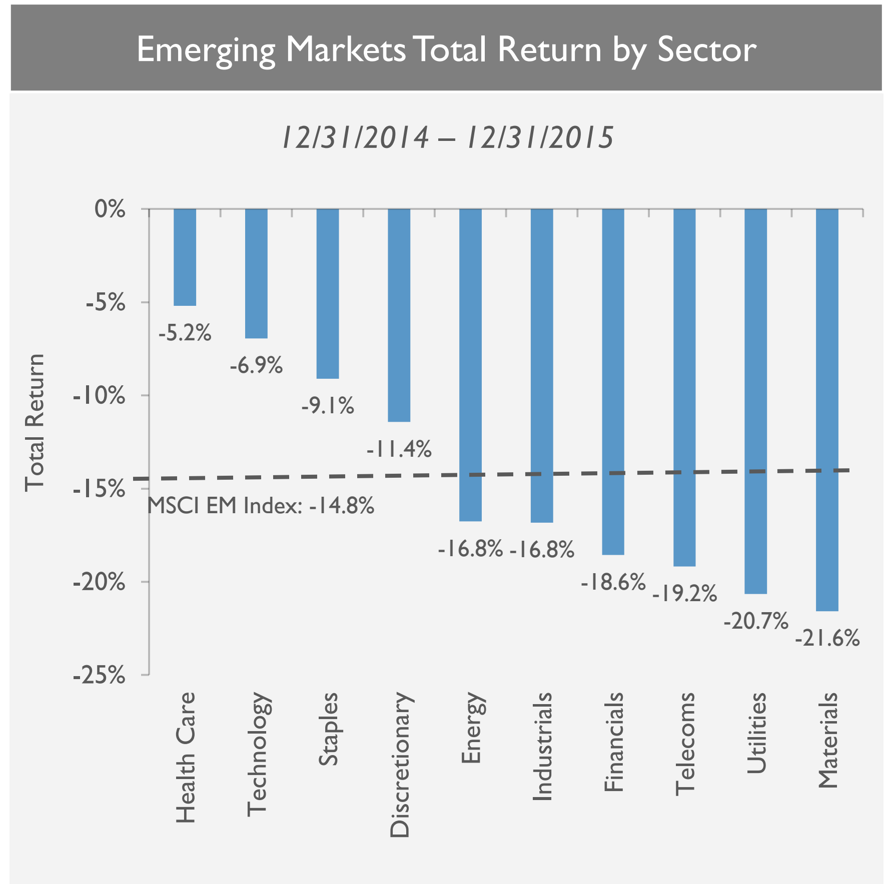
Emerging Markets Sector Performance

- Defensive sectors did relatively better compared to cyclicals
- All sectors registered negative returns for 2015
- Health Care (-5.2%), Technology (-6.9%), Consumers Staples (-9.1%) and Consumers Discretionary (-11.4%) outperformed the MSCI EM Index
- Materials (-21.6%), Utilities (-20.7%), Telecoms (-19.2%) and Financials (-18.6%) were the worst performers



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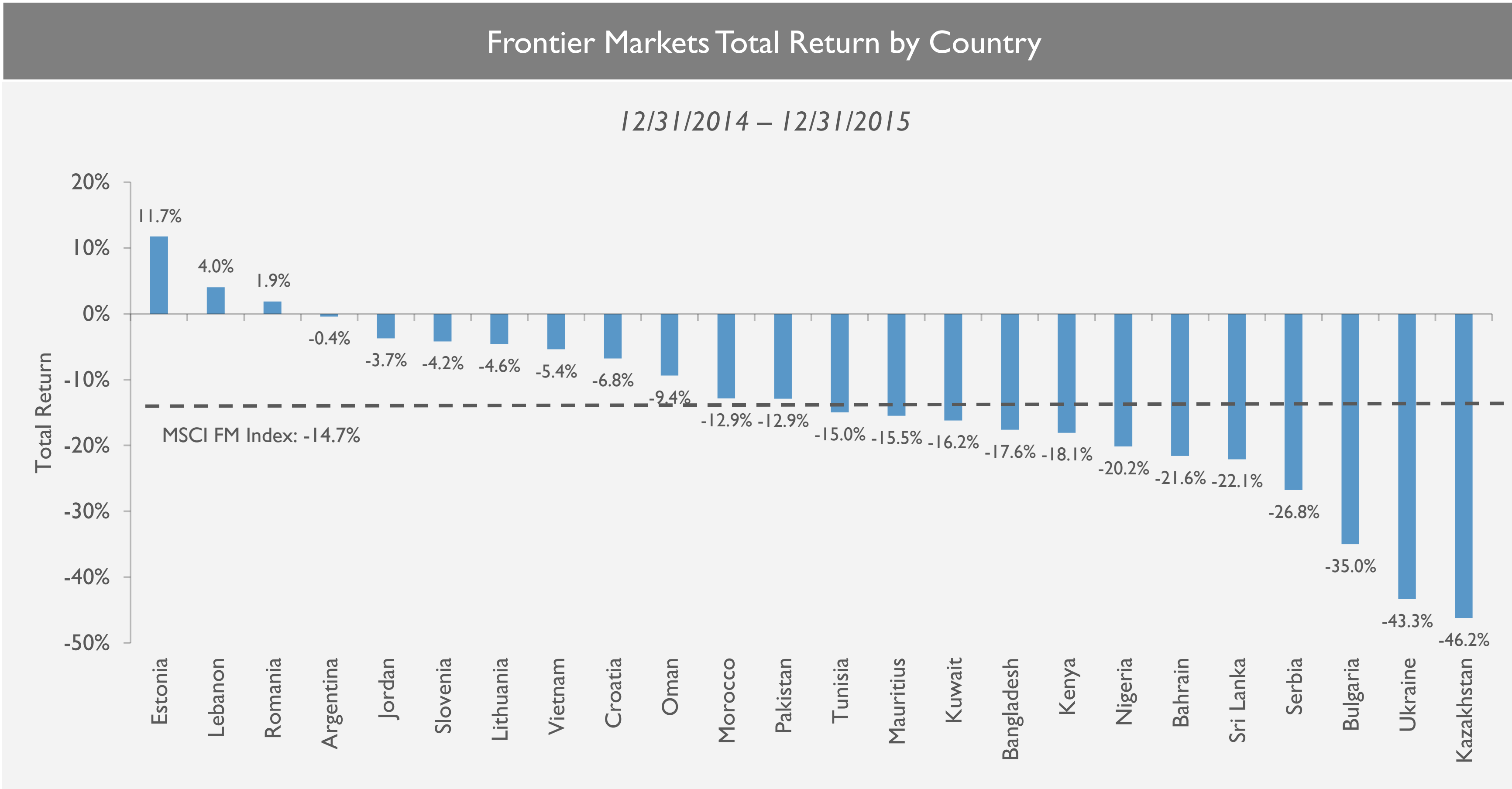
Frontier Markets Country Performance



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Frontier markets (FM) followed EM down

- The MSCI FM Index lost (-14.7%) in 2015
  - The concerns over the U.S. Federal Reserve (Fed) rate hike weighed on FM throughout the year. Like EM, FM losses were also *before* the Fed hike, with FM gaining over 1.3% since the December 16 Fed move, and S&P 500 losing over 1.3%.
  - Slowing global growth and geo-political issues weighed on FM performance
  - The losses were also linked to the sharp declines in commodity prices, which put pressure on commodity dependent economies

- Only three out of the twenty-four frontier countries managed to end 2015 in positive territory: Estonia (+11.7%), Lebanon(+4.0%) and Romania (+1.9%).

- Kazakhstan (-46.2%), Ukraine (-43.3%), Bulgaria (-35.0%), Serbia (-26.8%) and Sri Lanka (-22.1%) were the worst performers

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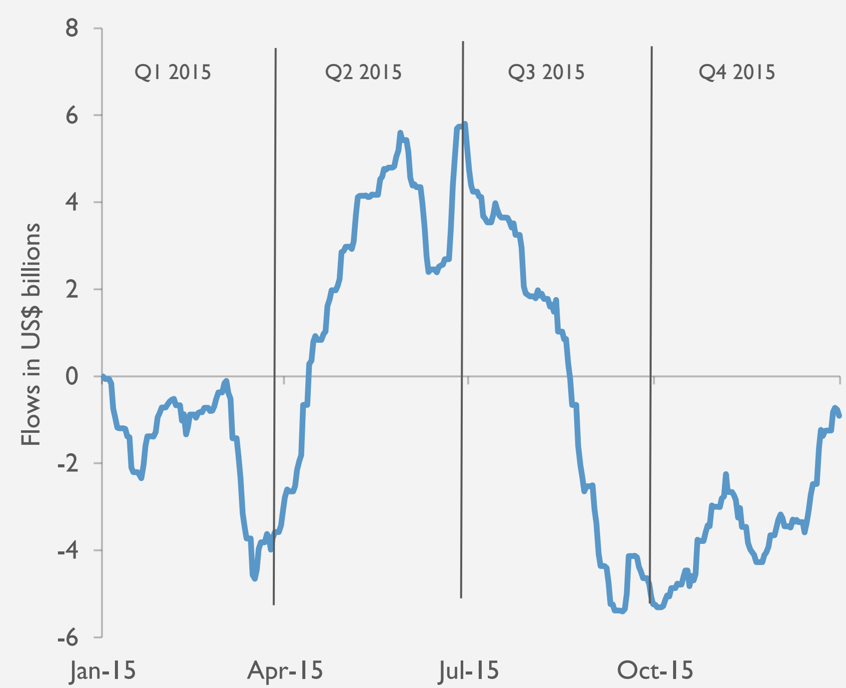
Outflows continue for emerging market equity ETFs

- A total of US$0.9 billion exited EM equity (ex-China A shares) ETFs. This follows US$3.7 billion of outflows in 2014.
- In Q1, EM saw an outflow of US$3.1 billion – Outflows increased in March when strong U.S. economic data signalled possibility of the Fed rate hike later in the year
- In Q2, EM experienced inflows of US$8.3 billion as the Fed pushed back the timing of its first rate hike
- Concerns over a global economic slowdown drained investors' risk appetite in Q3 where EM saw outflows of US$10.5 billion; however in Q4 EM saw inflows of US$4.3 billion

Emerging Market Equity ETF Fund Flows (cumulative)

1/1/2015 – 12/31/2015



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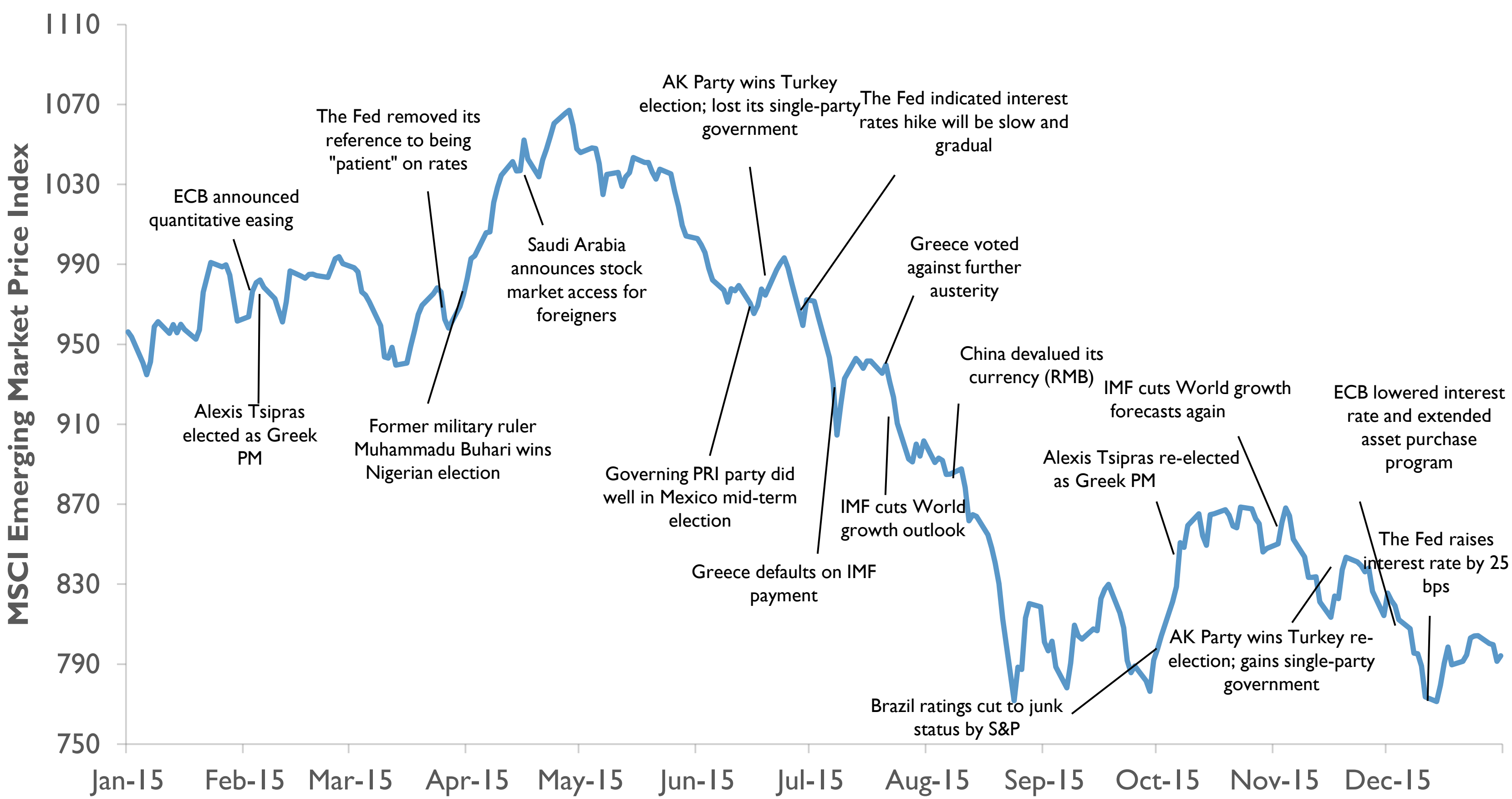
Notable Events in 2015



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Section II.

2016 PERSPECTIVE:
WHAT EM INVESTORS NEED TO KNOW

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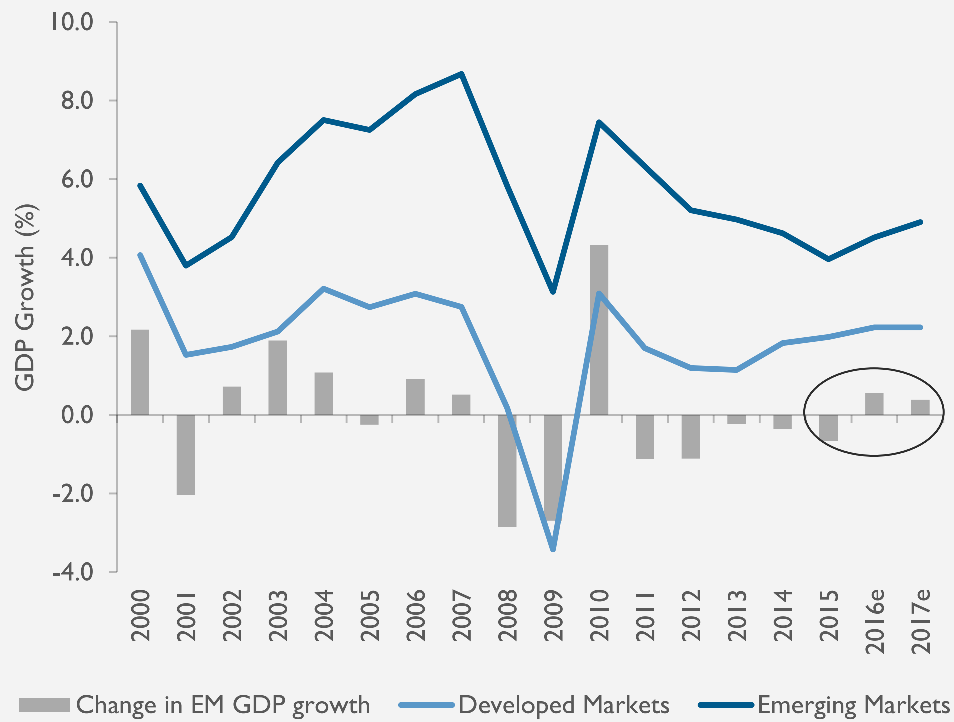
I A renaissance in EM growth

- IMF forecasts that emerging markets (EM) will grow 4.5% next year, up from an estimated 4.0% in 2015
- **This would be the first acceleration since 2010**, in part reflecting a less deep recession in countries that endured economic distress in 2015 (including Brazil and Russia)
- Developed markets (DM) expected to grow by 2.2% in 2016, up from an estimated 2.0% in 2015, supported by accommodative monetary policy and growth recovery in Europe and Japan

EM GDP growth expected to accelerate in 2016

2000 – 2017e



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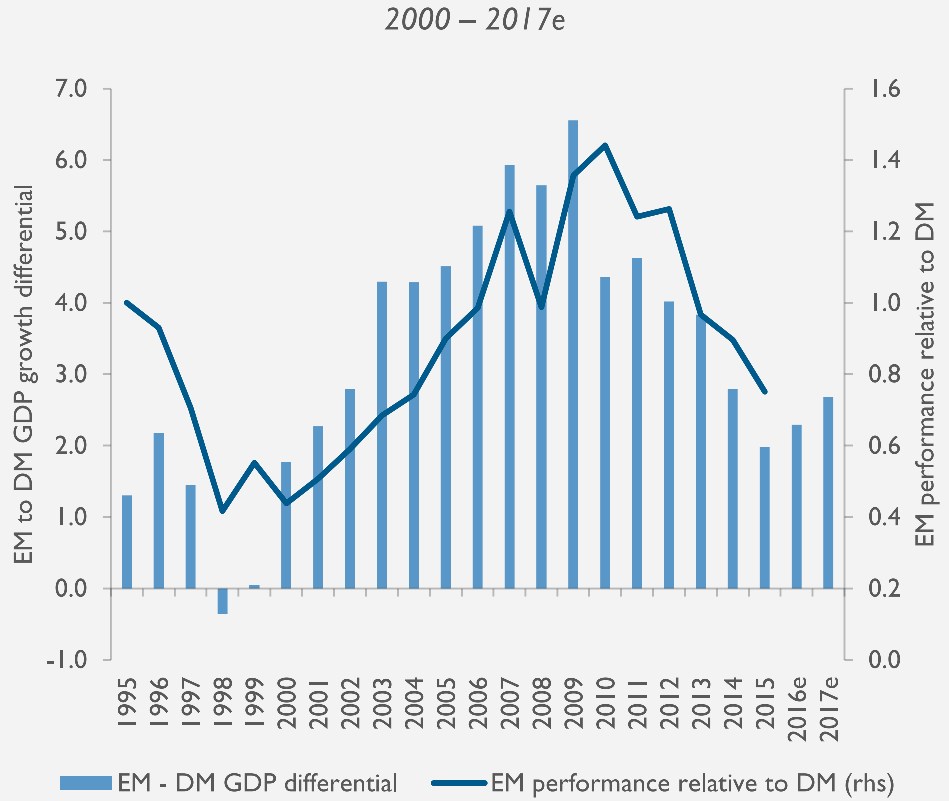
Growth is key to EM equity performance

- Growth is the key driver of EM equity performance
- Historically, when EM GDP growth accelerates quicker than DM GDP growth (i.e., the EM to DM growth differential increases), **EM equities have usually outperformed**
- The GDP growth differential between EM and DM is expected to increase in 2016 for the first time since 2011
- This may signal better performance for EM equities

Rising GDP differential signals better EM performance



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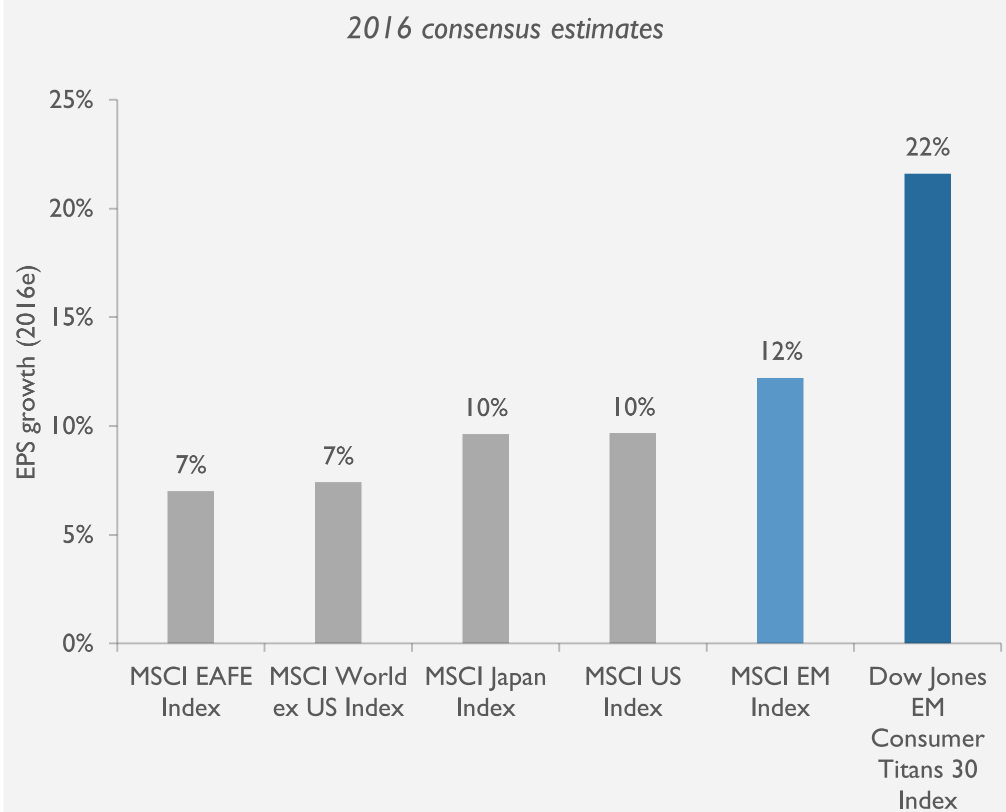
Strong EM earnings growth with consumer earnings forecast to outperform

For the first time in 9 years, consensus forecasts EM Earnings per Share (EPS) growth will lead in 2016

- During the last time EM earnings led (2007), the MSCI EM Index gained 39.7%, outperforming the MSCI ACWI Index (+12.4%), the MSCI EAFE Index (+11.9%) and the MSCI U.S. Index (+6.1%)
- The companies in the Dow Jones Emerging Markets Consumer Titans 30 Index, the index that the EGShares Emerging Markets Consumer ETF (ECON) tracks, are projected to see their earnings grow by 22% next year

Corporate earnings growth



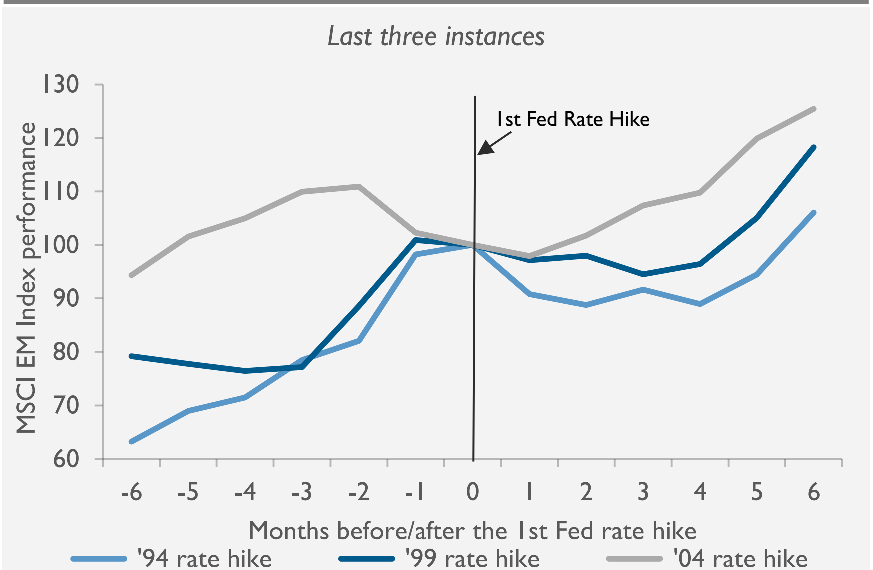
Source: Bloomberg, MSCI, EGA, as of 11/13/2015. *Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses, which could reduce returns. Indexes are unmanaged and one cannot 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.*

3 EM investors should not fear the Fed

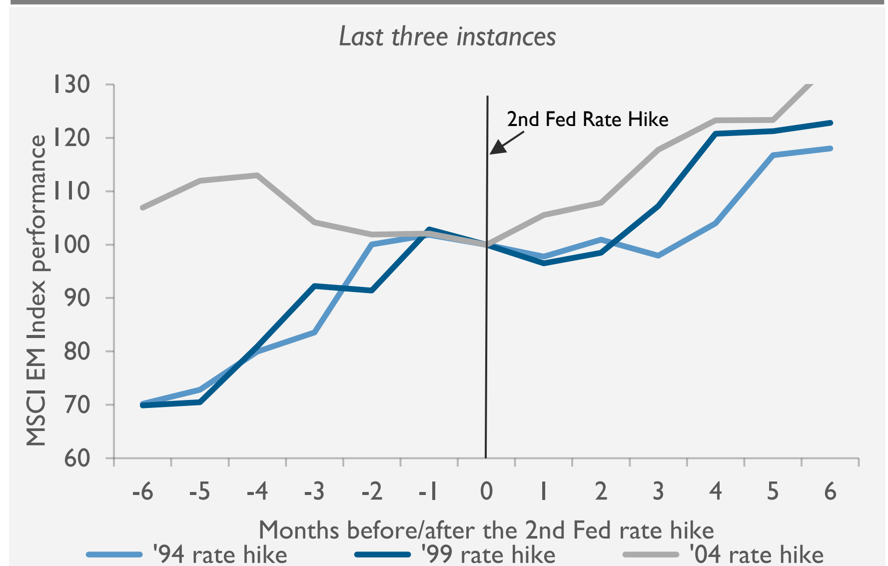
- **During the last three tightening cycles ('94, '99 and '04), EM equities have performed well**

- Historically, EM equities on average have been 17% higher six months after the first hike in Fed Funds rates (vs. 13% for EAFE and 5% for S&P 500 Index); and on average EM returned 25% six months after the second rate hike (vs. 13% for EAFE and 5% for S&P 500 Index)

Behavior of EM equities after 1st Fed rate hike



Behavior of EM equities after 2nd Fed rate hike



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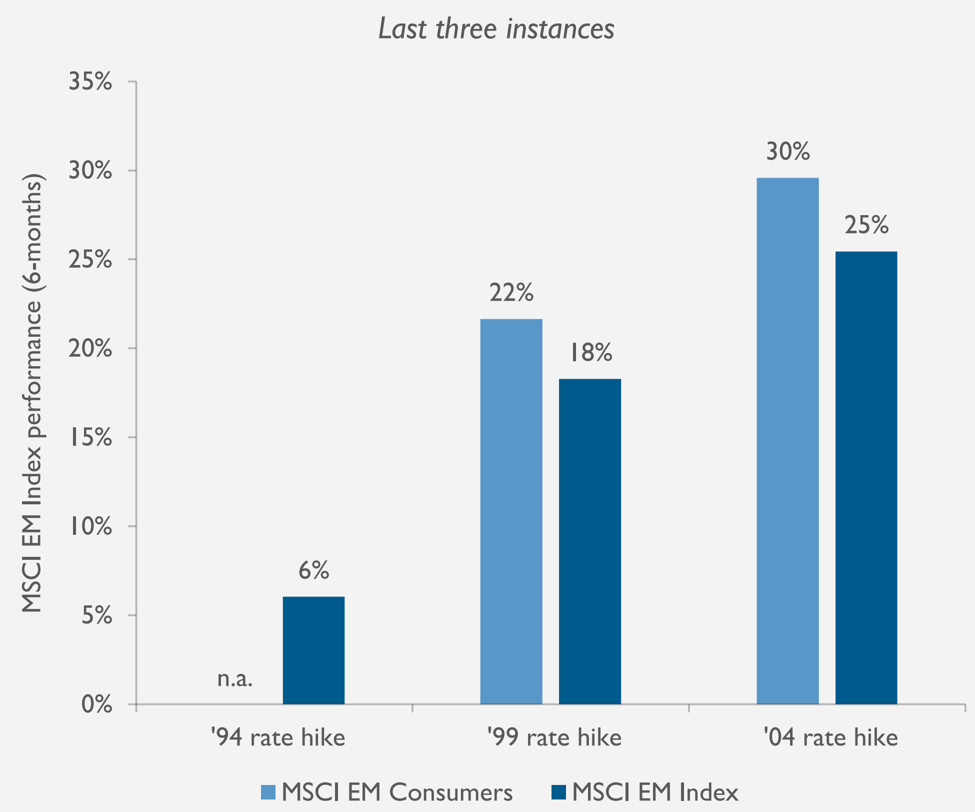
4 EM consumer sectors have benefited when U.S. interest rates rise

- Past data has already shown that rising U.S. interest rates is not necessarily a harbinger of doom and gloom for EM equities. On the contrary, EM stocks have risen after the Fed hikes interest rates.

- Within EM, it is the **consumer that has benefitted more when the Fed tightened monetary policy.** Over the last two cycles of rising U.S. interest rates, EM consumers have performed better than broader EM.

EM consumer stocks have performed better



Source: Bloomberg, MSCI, EGA, as of 12/31/2015. EM Consumers is a market capitalization weighted average of the MSCI EM Consumer Staples and MSCI EM Consumer Discretionary indices. Data for MSCI EM sectors are available from 1995, hence n.a. for EM Consumers in 1994. *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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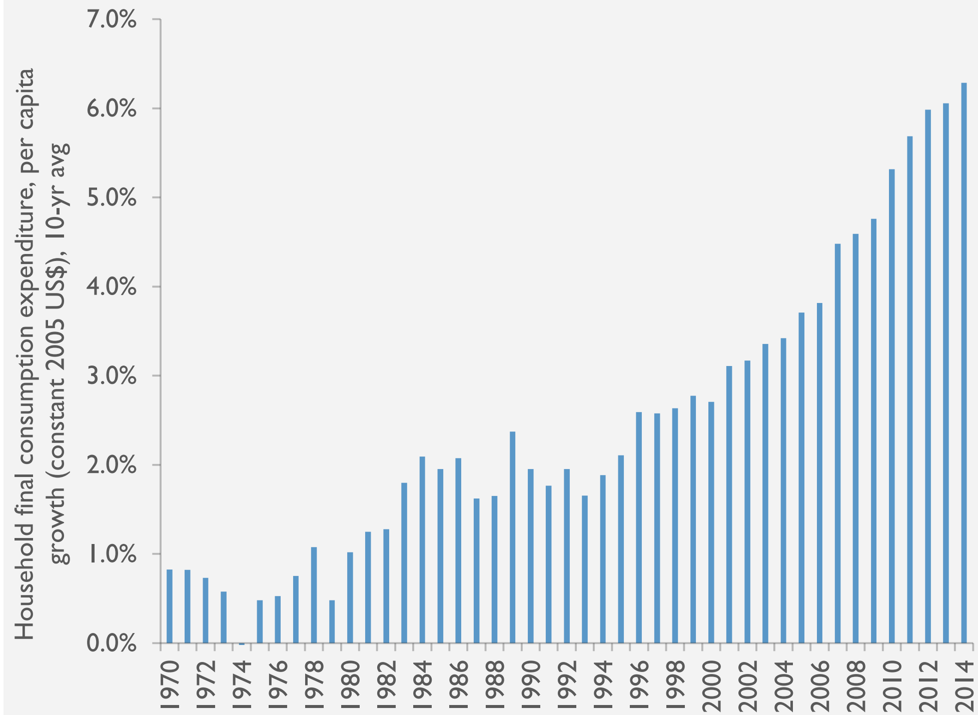
The rise of the Indian consumer

- India's per capita household final consumption expenditures levels (constant 2005 US$) has reached an all-time high $US730
- This reflects a 10-year average growth rate up 84% over the past decade and at an all-time high
- Looking at contributing macro factors such as an aging, yet still young population, birth rates, and per capita GDP, our analysis suggests that by 2020 per capita levels could reach $1,025

India: consumption at an all-time high

1970 – 2014



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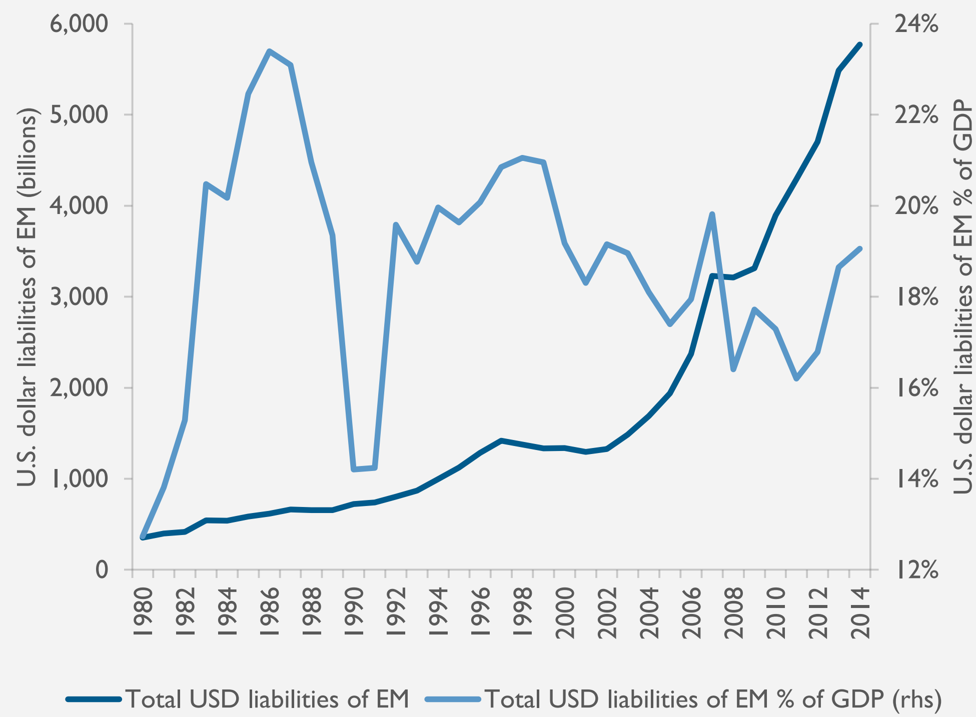
5 EM U.S. dollar debt should not be a concern

- U.S. dollar liabilities of EM economies (sovereign, corporate and individual) have been steadily rising over the last ten years
- 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**

EM U.S. dollar debt

1980 – 2014



Source: BIS, IMF – World Economic Outlook, EGA, as of 12/31/2015. *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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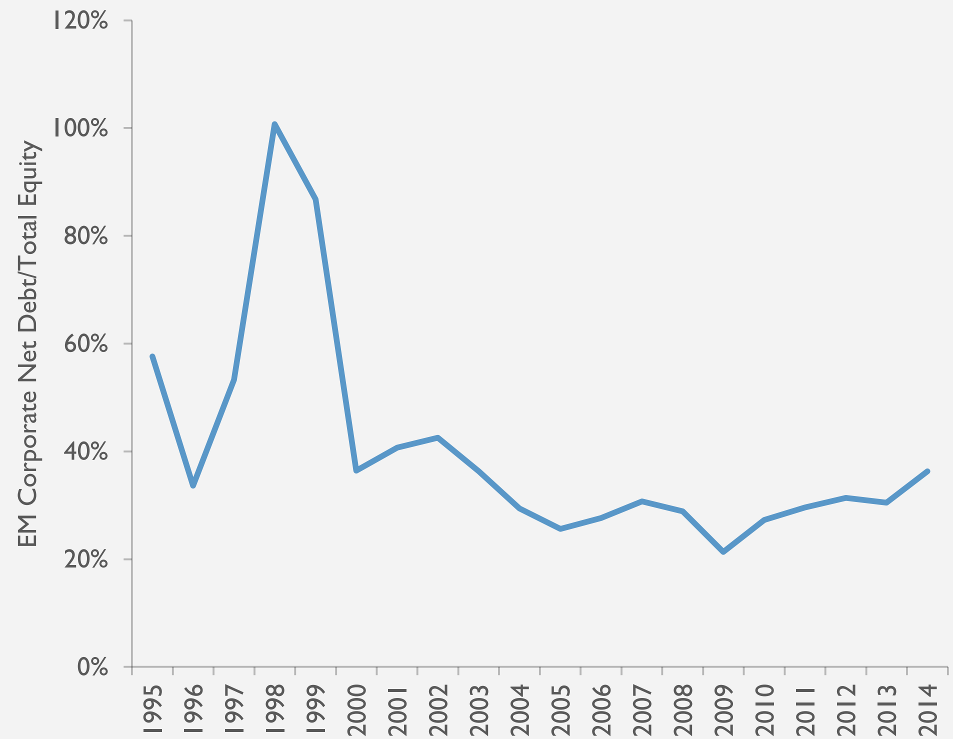
No sign of balance sheet stress within EM corporates

- Investors and the media alike have expressed concerns over the debt burden assumed by EM corporates
- However, debt should be considered on a net basis, that is gross liabilities net of gross assets
- Using the net debt/total equity ratio, **corporate EM does not appear to be too leveraged**; the leverage ratio has been in a narrow range since 2000, after substantial deleveraging following the 1997 Asian crisis

EM: Net Debt/Total Equity

1995 – 2014



Source: Bloomberg, MSCI, EGA, as of 12/31/2015. Net Debt is calculated by netting the value of a company's liabilities and debts with its cash and other similar liquid assets. *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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6 The valuation case for EM

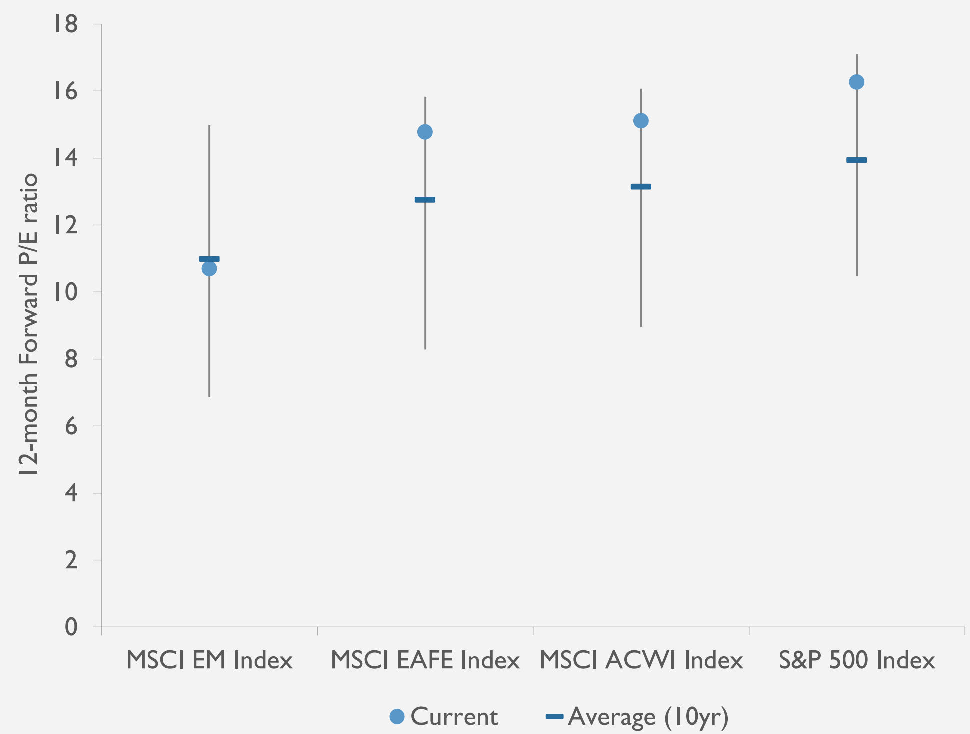
- **EM valuations appear attractive relative to other markets and relative to their own historical average**

- The MSCI EM Index has declined around 35% since its 2011 high and now trades at 10.7x estimated earnings, or almost one-third less than the valuation of the S&P 500 Index

- EM currently trades close to its 10-year average forward P/E ratio, while valuations in other regions are much higher and close to their 10-year highs

EM valuations are relatively cheap

12/30/2005 – 12/31/2015



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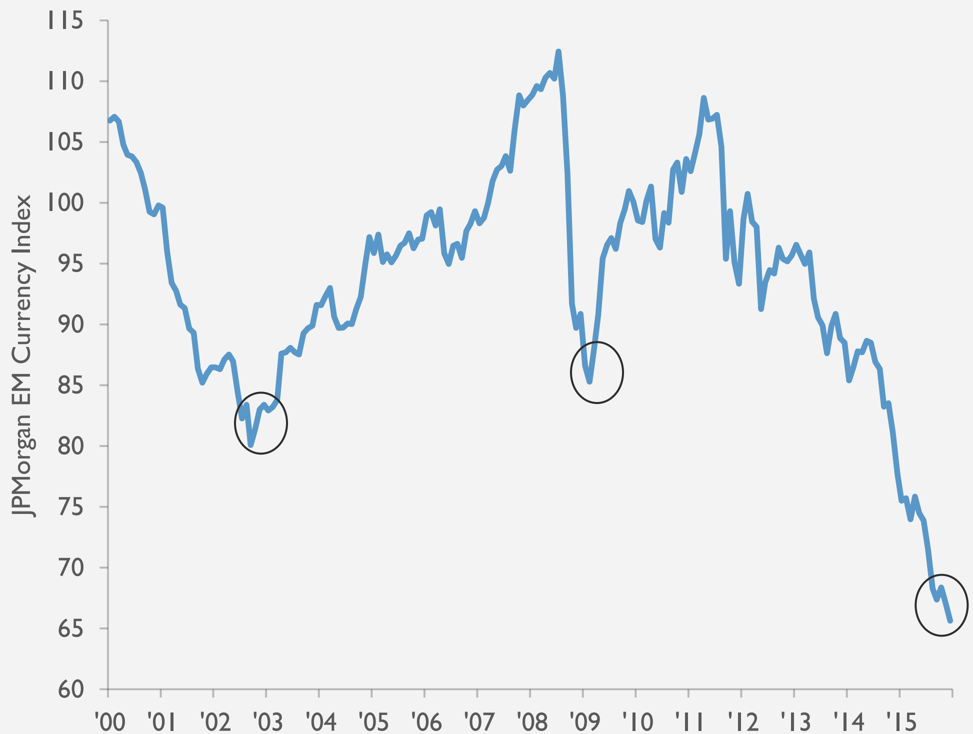
Keep in Mind: EM currencies are at an all-time low

- EM currencies have reached all-time lows and have fallen below the levels reached during the 2008 Financial Crisis

- **Record low currencies and low relative equity valuations should be supportive of the EM equities**

EM currency

1/31/2000 – 12/31/2015



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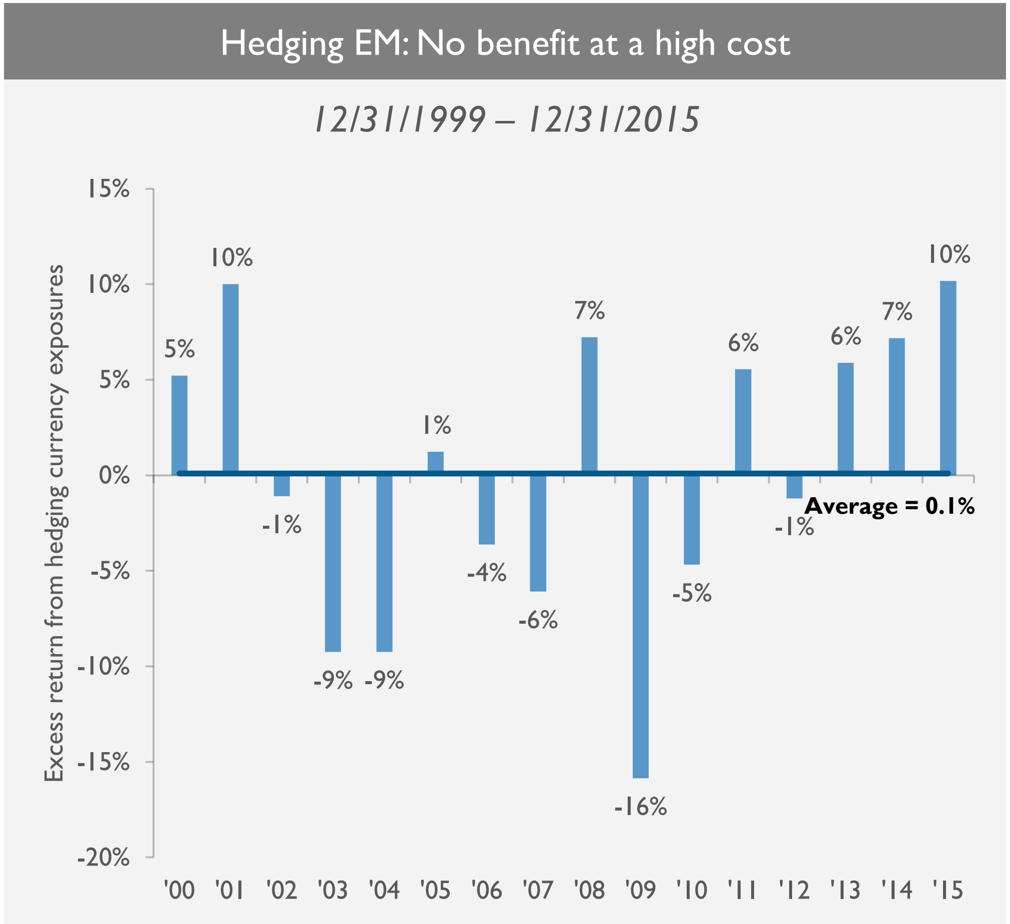
Keep in Mind: Hedging EM currency exposure is expensive with no benefit

- Over the past 16 years, there has been no return benefit from hedging EM equity investments: it would have helped in 8 years and hurt in 8 years
- The estimated EM FX short term interest rate differential currently is 3.9% per year – *before* transaction costs
- The currency markets for other international investments – Europe (euro) and Japan (yen), are deep and liquid. However, EM is not. EM FX is heterogeneous and its currencies are much more difficult to hedge.



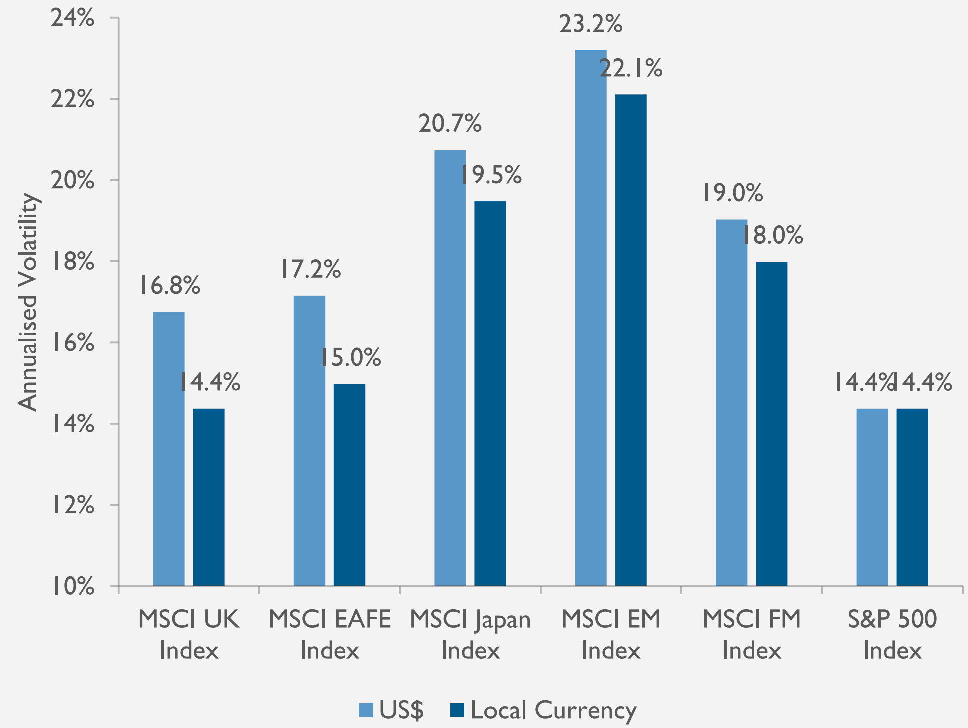
Source: Bloomberg, MSCI, EGA, as of 12/31/2015. Hedged Returns are represented by MSCI Emerging Markets Index (Local), Unhedged are represented by MSCI Emerging Markets (USD). *Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do 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.*

Keep in Mind: EM currencies do not create relatively 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 2.4% increase contributed by currencies in the UK, 2.2% increase in EAFE, and the 1.3% increase in Japan

EM currencies do not create relatively higher volatility

12/31/1987 – 12/31/2015



Source: Bloomberg, MSCI, EGA, as of 12/31/2015. 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.*

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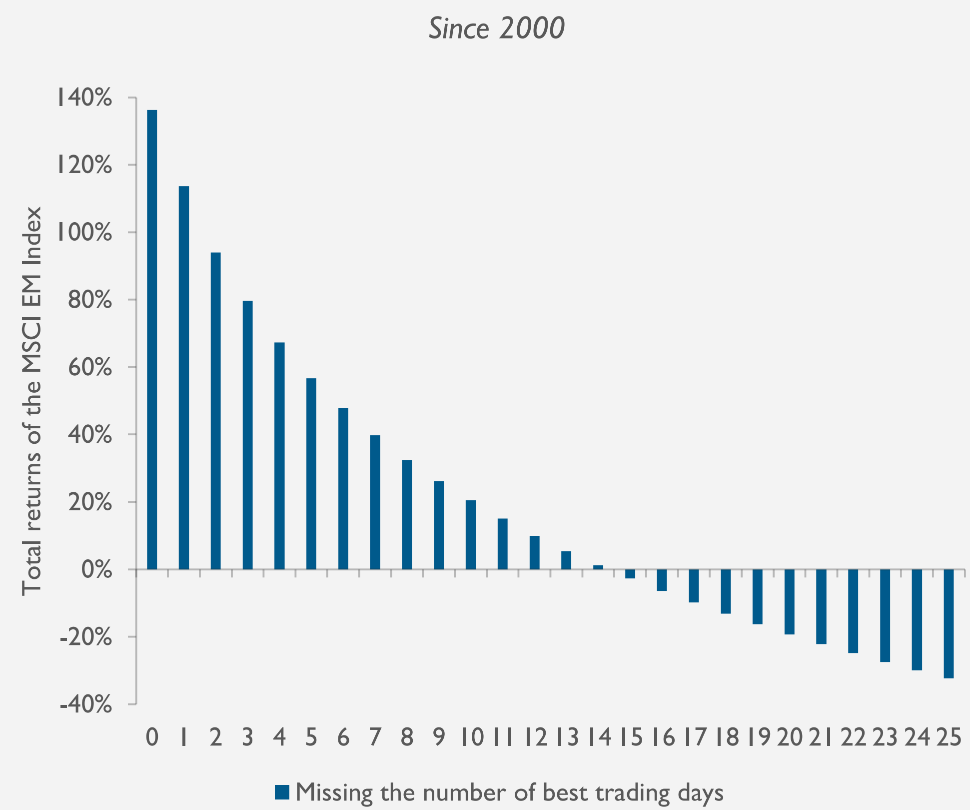
Keep in Mind: Time in the markets is more important than timing the markets

- Missing just a very few of the best performing trading days can be significantly detrimental to returns
- Total returns for the MSCI EM Index since the start of 2000 is 136%, yet falls off sharply to below zero once only the best 15 of the 4175 trading days have been missed

EM: Market Timing vs. Time In The Market



Source: Bloomberg, MSCI, EGA, as of 12/31/2015. *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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Summary

2016 Perspectives
What EM Investors Need to Know

1. The International Monetary Fund (IMF) forecasts a renaissance in EM growth, which has historically proven key to EM equity performance
2. EM earnings are forecast to lead in 2016, with consumer earnings forecast to outperform
3. EM investors should not fear the U.S. Federal Reserve: During the last three Fed tightening cycles EM equities have performed well
4. EM consumer sector has benefitted more when U.S. interest rates rise
5. EM U.S. dollar debt concerns likely overblown with liabilities as a percent of GDP range-bound for over 20 years and no sign of balance sheet stress within EM corporates
6. EM valuations appear attractive relative to other markets and relative to their own historical average

Source: Bloomberg, MSCI, EGA, as of 12/31/2015. *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.*

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.

Earnings per Share (EPS) is the amount of income earned during a period per share of common stock.

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 (QE) is a type of monetary policy where central banks target the supply of money by buying government bonds.

Price to Earnings Ratio (P/E Ratio) (Forward) is the sum of Bloomberg consensus estimates for the future 12-month earnings of the equity holdings, divided by the total market value of the equity holdings. Both positive and negative earnings are included in the calculation.

Index Definitions

Dow Jones Emerging Markets Consumer Titans 30 Index is a free-float market capitalization-weighted index that measures the performance of 30 leading emerging market companies in the Consumer Goods and Consumer Services Industries as defined by S&P Dow Jones Indexes.

JP Morgan Emerging Market Currency Index is a benchmark for Emerging Markets currencies versus the US dollar.

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 (EM) 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 (FM) 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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