

# IS YOUR PORTFOLIO WELL POSITIONED TO

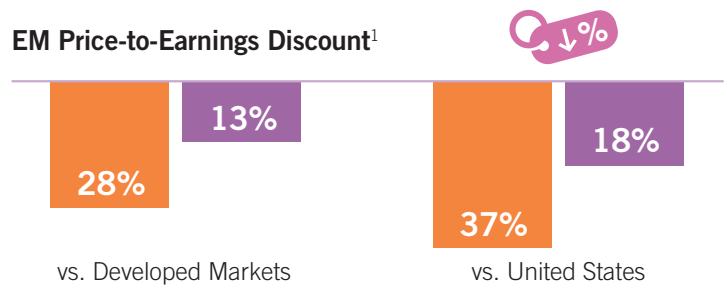
# Capture Emerging Markets Potential?

After a multi-year lackluster performance, the rebound of emerging markets (EM) has impressed many and raised the question: *Is it too late to tap into the potential of this important asset class?*

## THREE REASONS FOR OPTIMISM

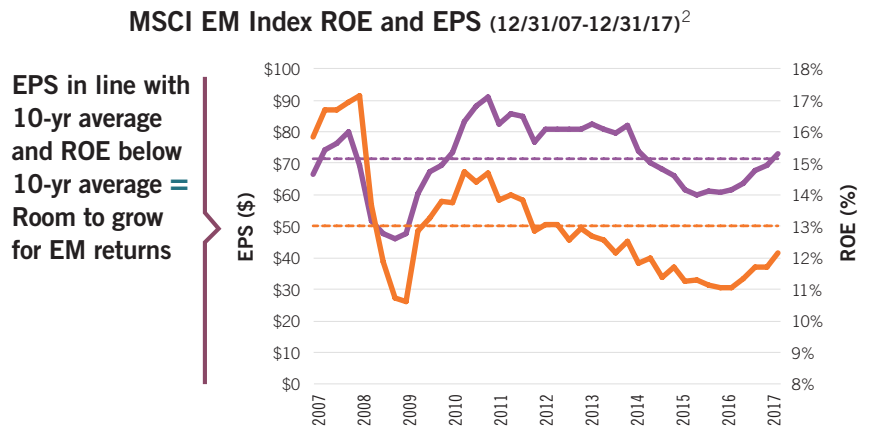
### 1 WE BELIEVE VALUATIONS REMAIN ATTRACTIVE

- As of 12/31/17
- 10-Yr Average



### 2 ROOM TO GROW FOR EPS AND ROE

- EPS (Earnings per Share)
- EPS Average
- Returns on Equity % (right-hand side)
- ROE Average



### 3 SELECT OPPORTUNITIES EXIST IN EM

...if you know where to look

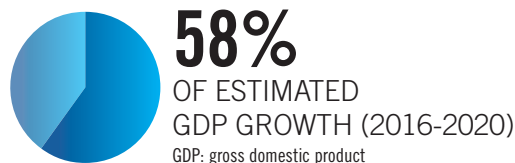
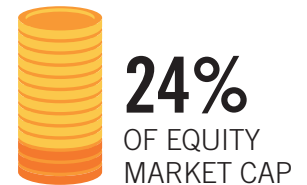


- “Mexico Faces a Choice Between Fear and Anger”*  
– Financial Times 12/3/17
- “Brazil Is Struggling with Scandals and Crises...”*  
– Business Insider 9/25/17
- “Losing Streak May Continue for South Korea Shares”*  
– Nasdaq 11/14/17

## MARKET OVERREACTION TO MACRO FACTORS = OPPORTUNITIES FOR ACTIVE INVESTORS

## WHY EMERGING MARKETS?

globally, emerging markets represent<sup>3</sup>...



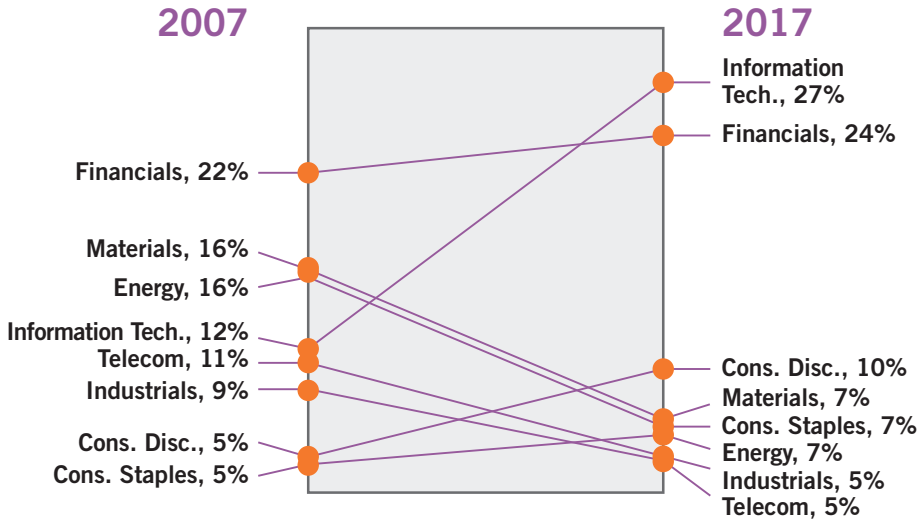
## ARE YOU UNDER-ALLOCATED TO EMERGING MARKETS?

As emerging markets returns have improved in the past few years, investors have slowly returned to the asset class mainly via passive strategies.<sup>5</sup> But in our opinion, actively managed strategies can help investors better access the most attractive opportunities in emerging markets.

# THE CASE FOR ACTIVE MANAGEMENT IN EMERGING MARKETS

## THE EVOLVING ASSET CLASS

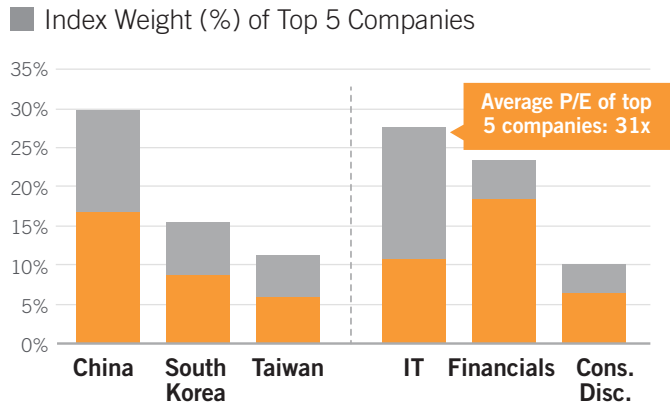
### MSCI Emerging Markets Index Sector Weightings<sup>6</sup>



Since market cap-weighted passive funds tend to be backward looking, we believe their allocations often do not reflect the most attractive opportunities based on valuations.

## HOW DIVERSIFIED IS YOUR INDEX FUND?

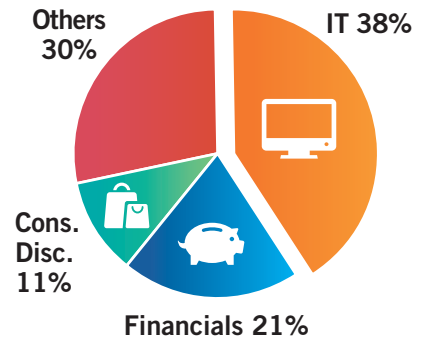
### MSCI Emerging Markets Index Weightings (as of 12/31/17)<sup>7</sup>



### DID YOU KNOW?

- More than 90% of MSCI EM's IT allocation is in China (44%), Taiwan (25%) and South Korea (25%)<sup>8</sup>
- Five companies accounted for about 30% of MSCI EM Index's 2017 return<sup>9</sup>

### MSCI Emerging Markets Index Return Sector Contribution<sup>9</sup> (YTD as of 12/31/17)

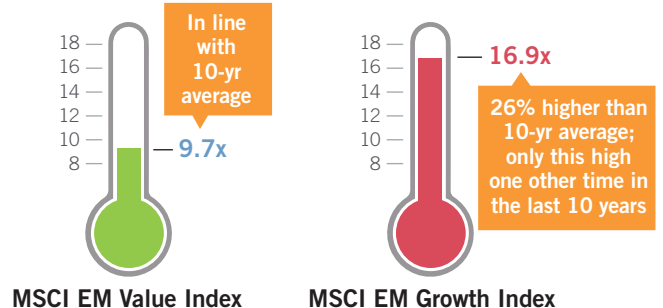


## STYLE MATTERS

### Average 5-Yr Annualized Value Premium<sup>10</sup>



### Forward Price/Earnings (as of 12/31/17)<sup>11</sup>



<sup>1</sup>Source: S&P and MSCI via FactSet. EM: MSCI Emerging Markets; Developed markets: MSCI World; U.S.: S&P 500. Past performance is not a guarantee of future results. One cannot invest directly in an index.

<sup>2</sup>Source: MSCI via FactSet 12/31/07-12/31/17. Past performance is not a guarantee of future results. One cannot invest directly in an index.

<sup>3</sup>Sources: Population: IMF as of 2/4/16; GDP growth: IMF as of 10/1/2017; Trade: IMF as of 10/1/17; Equity market cap: FactSet as of 12/31/17.

<sup>4</sup>Source: eVestment as of 8/24/2017.

<sup>5</sup>Source: eVestment, "Emerging Markets Report: Trends in Long-Only EM Strategies," 8/20/17.

<sup>6</sup>Source: HBSC; October 2017. Excludes sectors where representation is below 5% both in 2007 and 2017.

<sup>7</sup>Source: MSCI, FactSet as of 12/31/17.

<sup>8</sup>Source: MSCI, FactSet, Bloomberg as of 12/31/17.

<sup>9</sup>Source: MSCI, FactSet as of 12/31/17. Past performance is not a guarantee of future results. One cannot invest directly in an index.

<sup>10</sup>Source: MSCI, FactSet as of 12/31/17. Past performance is not a guarantee of future results. One cannot invest directly in an index.

<sup>11</sup>Source: MSCI, FactSet as of 12/31/17. EM Value: MSCI EM Value Index; EM Growth: MSCI EM Growth Index.

Price/Earnings: Price per share divided by earnings per share.

Forward Price/Earnings: Price per share divided by expected earnings per share.

Return on Equity: Net income divided by shareholders' equity.

**MSCI Emerging Markets:** Captures large- and mid-cap representation of emerging market countries. **MSCI Emerging Markets Growth:** Captures large- and mid-cap securities exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend. **MSCI Emerging Markets Value:** Captures large- and mid-cap securities exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield. **MSCI World:** Captures large- and mid-cap representation of developed markets. **S&P 500 Index:** Measures equity performance of 500 of the top companies in leading industries of the U.S. economy. MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

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The performance of foreign securities depends on the political and economic environments and other overall economic conditions in the countries where the Fund invests. Emerging country

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