

Potential New Emerging Markets on the Block: Argentina, Saudi Arabia and Romania

February 2018



As an active manager focused on the emerging markets (EM), Mirae Asset not only looks at the current EM universe, but also at leading economies within the frontier index with forthcoming prospects for inclusion into the EM benchmarks. These high growth countries generally have significant momentum in terms of meeting the strict requirements for EM index inclusion by MSCI and/or FTSE Russell (FTSE).

Inclusion into the EM index is not easy to come by. A country must meet size and liquidity requirements, as well as specific conditions for market accessibility. These requirements bode well for research coverage, governance, and liquidity. In the past decade, MSCI has only upgraded three countries from frontier to emerging markets status: Qatar and the United Arab Emirates in 2014, and Pakistan in 2017.

Index inclusion can act as a positive driver in terms of capital flows (the MSCI Emerging Markets Index currently has more than \$1.6 trillion in assets benchmarked to it¹), and also in regards to general sentiment. At Mirae Asset, we see that these “almost EM” countries often boast high-growth, quality companies at attractive valuations. Various countries are currently under consideration for EM inclusion and we see strong opportunities for Argentina, Saudi Arabia, and Romania.

Please see important information on back.

Argentina — Back on the Global Stage

The election of Mauricio Macri as president in December 2015 marked a major turning point for Argentina. The country had been dominated by the Peronist* party since 1946. President Macri, representing globalism and a free-market approach, has made economic changes that have brought the country out of isolation and back onto the global stage. Macri’s orthodox market-friendly reforms include the removal of currency controls, eliminating import tariffs, reducing the budget deficit, and tackling double-digit inflation via an independent central bank.

In addition, Macri’s administration is continuing to put forth additional reforms centered around labor, taxes, and infrastructure. As a result, Argentina’s GDP growth has been revised upwards, domestic and foreign investments have picked up, inflation has decreased significantly, and consumer confidence has rebounded.

With these reforms, investors are optimistic that MSCI will upgrade Argentina from frontier market status to emerging market status during its 2018 market classification review.

*Peronism is the policies or principles advocated by the former Argentinian president Juan Perón. Peronism is often associated with populist and nationalistic policies.

Saudi Arabia — Attracting Foreign Investments

Saudi Arabia, the Middle East's largest equity market, has also been proactive in integrating its capital markets with the rest of the world with the goal of achieving emerging market status from both MSCI and FTSE. Over the past couple of years, they have made their equity market more accessible to foreign investors. Qualified foreign investors can now trade directly on the Tadawul, Saudi Arabia's local stock exchange, and subscribe to initial public offerings. They have also moved from T+0 (same day settlement) to T+2 market settlement, a standard more commonly used by international investors.

As a result of these regulatory changes, MSCI added Saudi Arabia to its watch list for potential 2018 inclusion into the MSCI EM Index. Saudi Arabia is currently a standalone from MSCI's broader groupings. If Saudi Arabia joins the MSCI EM index, it can attract about \$9 billion of passive flows and have a potential country weighting of 2.4%² making it a top 10 weight within the index. If Saudi's state energy company, Aramco, was also included, the country's weight in the EM index could rise to 7%.

FTSE is also expected to promote Saudi Arabia from its current unclassified status to secondary emerging market status³ in 2018. Inclusion into the indices is a positive step forward for Saudi Arabia's "Vision 2030"- the country's blueprint to reduce its dependence on oil, diversify its economy and modernize its society.

Romania — Modernizing its Capital Markets

Romania's Bucharest Stock Exchange (BVB) aims to become a new investment hub for foreign investors in Eastern Europe. Over the past several years, Romania has been reforming and modernizing its capital markets to make it more assessable to foreign investors. Regulators have made improvements to corporate governance, updated their financial reporting rules to match international standards, and diversified the financial instruments traded on the BVB. In 2017, two private companies listed on the BVB, the largest listings in its history.

In recognition of its reform efforts, FTSE announced in 2016 that they had added Romania to its watch list for possible reclassification from frontier to secondary emerging market. FTSE did not update Romania's status in 2017 but will continue to keep it on its watch list for another year. The FTSE upgrade will largely depend on BVB's ability to fulfill the market liquidity requirement. Romania is also working towards meeting MSCI's criteria for upgrade status consideration.

International Recognition: The potential reclassifications by MSCI and/or FTSE is an acknowledgment that these countries have made the necessary improvements to their respective equity markets and have met the criteria set forth by the index providers. While implementation may range from one to four years depending on the index provider, the decision itself will have an immediate impact on these countries, putting them on the radar of foreign investors and creating an opportunity for meaningful capital appreciation.

FOR FINANCIAL PROFESSIONAL USE ONLY

Sources and Important Information

¹MSCI, eVestment, Morningstar and Bloomberg, as reported on 9/30/17.

²Source: Reuters and Bloomberg. The 2.4% potential weight excludes the IPO for oil giant Saudi Aramco which is expected in late 2018.

³FTSE Russell divides emerging markets into 2 categories: advanced emerging and secondary emerging.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Initial Public Offering (IPO) is a company's first sale of stock to the public.

MSCI Emerging Markets Index is a free float –adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. One cannot invest directly in an index.

Disclaimer

This document has been prepared for presentation, illustration and discussion purpose only and is not legally binding. Whilst compiled from sources Mirae Asset Global Investments believes to be accurate, no representation, warranty, assurance or implication to the accuracy, completeness or adequacy from defect of any kind is made. The division, group, subsidiary or affiliate of Mirae Asset Global Investments which produced this document shall not be liable to the recipient or controlling shareholders of the recipient resulting from its use. The views and information discussed or referred in this report are as of the date of publication, are subject to change and may not reflect the current views of the writer(s). The views expressed represent an assessment of market conditions at a specific point in time, are to be treated as opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. In addition, the opinions expressed are those of the writer(s) and may differ from those of other Mirae Asset Global Investments' investment professionals.

The provision of this document shall not be deemed as constituting any offer, acceptance, or promise of any further contract or amendment to any contract which may exist between the parties. It should not be distributed to any other party except with the written consent of Mirae Asset Global Investments. Nothing herein contained shall be construed as granting the recipient whether directly or indirectly or by implication, any license or right, under any copy right or intellectual property rights to use the information herein. This document may include reference data from third-party sources and Mirae Asset Global Investments has not conducted any audit, validation, or verification of such data. Mirae Asset Global Investments accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. Investment involves risk. Past performance figures are not indicative of future performance. Forward-looking statements are not guarantees of performance. The information presented is not intended to provide specific investment advice. Please carefully read through the offering documents and seek independent professional advice before you make any investment decision. Products, services, and information may not be available in your jurisdiction and may be offered by affiliates, subsidiaries, and/or distributors of Mirae Asset Global Investments as stipulated by local laws and regulations. Please consult with your professional adviser for further information on the availability of products and services within your jurisdiction.

Australia: Mirae Asset Global Investments (HK) Limited is exempt from the requirement to hold an Australian financial services license in respect of the financial services it provides in Australia. Mirae Asset Global Investments (HK) Limited is authorised and regulated by the Securities and Futures Commission of Hong Kong under Hong Kong laws, which differ from Australian laws. For Wholesale Clients only.

Hong Kong: Before making any investment decision to invest in the Fund, investors should read the Fund's Prospectus and the Information for Hong Kong Investors of the Fund for details and the risk factors. Investors should ensure they fully understand the risks associated with the Fund and should also consider their own investment objective and risk tolerance level. Investors are also advised to seek independent professional advice before making any investment. This document is issued by Mirae Asset Global Investments and has not been reviewed by the Hong Kong Securities and Futures Commission.

United Kingdom: This document does not explain all the risks involved in investing in the Fund and therefore you should ensure that you read the Prospectus and the Key Investor Information Documents ("KIID") which contain further information including the applicable risk warnings. The taxation position affecting UK investors is outlined in the Prospectus. The Prospectus and KIID for the Fund are available free of charge from <http://investments.miraeasset.eu>, or from Mirae Asset Global Investments (UK) Ltd., 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom, telephone +44 (0)20 7715 9900.

This document has been approved for issue in the United Kingdom by Mirae Asset Global Investments (UK) Ltd, a company incorporated in England & Wales with registered number 06044802, and having its registered office at 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom. Mirae Asset Global Investments (UK) Ltd. is authorised and regulated by the Financial Conduct Authority with firm reference number 467535.

United States: An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing.

India: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.