NEWTON
Investment Management

February 2016
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Newton Global Emerging Markets strategy review and outlook

Although 2016 may be a lacklustre year for both emerging and developed-market indices, we believe there are still tremendous opportunities, on a selective basis, for high-growth emerging markets.

Executive summary

- As a result, we believe, of a thematic, long-term investment approach combined with rigorous stock analysis, the Newton Global Emerging Markets Fund has produced an absolute, positive three-year annualised gross return of +5.7% (in sterling terms) versus the MSCI Emerging Market Index return of -3.3%. Over 2015 the Fund delivered outperformance of +7.4% relative.[1]

- Going into 2016, we continue to believe in an increasingly differentiated and divergent outlook for emerging economies, and are not afraid to take large active positions away from the index to reflect our views. For example, we remain zero-weighted in Brazil, where we see the market outlook as being very poor, and retain our largest overweight in India.

- We wrote last year about 'commodity carnage', and this trend has continued, with Brent crude trading below $30 per barrel in January 2016. However, a low oil price can bode well for the emerging-market companies in which we invest, which for the most part are domiciled in net-importing oil economies.

- We expect a lower growth rate in China, as the government attempts to move towards a more balanced economy with a far higher consumer and services component, yet we continue to find many attractive investment cases, such as the companies we invest in within the e-commerce and health-care sectors. We also anticipate some further currency devaluation, but nothing too dramatic in the context of our equity opportunities.

- India is our preferred emerging market for the next five years. It is one of the few markets in the world where we see strong multi-year growth potential, underpinned by structural growth factors, such as economic reforms, demographics, credit penetration and improvements in productivity, with high-quality companies poised to benefit.

- We also favour Mexico, whose economy has been experiencing positive trends in real wage growth, falling unemployment and rising formal employment. The very positive population demographics and early credit-cycle factors in the Philippines remain attractive to us, and we think the Czech Republic is well placed to benefit from what could be a relatively resilient domestic core Europe.

- We view the comparative index merely as a performance measurement tool rather than of any use in portfolio construction. Our high-conviction positions are held in the areas we believe corporate profits and the index will be shifting to. Health care is an area where we see huge potential, owing to rising disease burdens and the unmet need from public investment.

- We believe as firmly as ever that an active, thematically guided long-term approach is the correct one for emerging markets and can offer great reward over the long term. We have a positive and constructive outlook for 2016 and beyond, where we believe there are still tremendous opportunities, on a selective basis, for high-growth emerging markets.

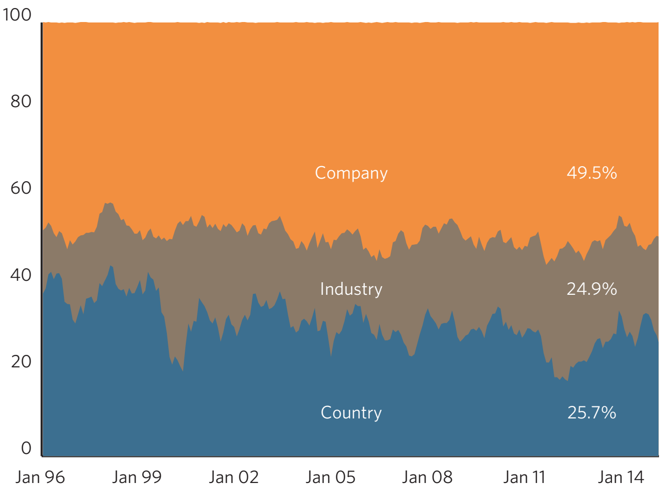
1 Source: Newton, Thomson Reuters Datastream, January 2016.

Groundhog Day?

The opening month of the new investment year has already been somewhat lively for emerging markets. As we pause to collect our thoughts for the year ahead, and reflect on the multifaceted events of 2015, we cannot help but be struck by the 'Groundhog Day' nature of the situation. Almost all our concerns and areas of preference from 12 months ago remain unchanged, perhaps only heightened. But there is, of course, one significant difference to the global investment backdrop: we are now in a post-US Federal Reserve 'lift-off' environment. However, given weak inflation, the low oil price and the persistent lack of solidity in US growth, especially in light of the recent Chinese instability, it seems likely that any further rate hikes beyond the 16 December 2015 move will be modest and well-spaced.

The MSCI Emerging Markets index ended the year down -9.7% in sterling terms, against which the Newton Global Emerging Markets Fund produced a -2.2% return, or +7.4% relative. The three-year relative outperformance for the Fund to 31 December 2015 is +9.1% annualised, while the positive absolute return on this Fund in sterling over the last three years has been +5.7% per annum.[2] We mention this not so much as a sales pitch, but to show that positive returns are possible in emerging markets for those who, after four years without earnings growth, have started to doubt. The key has been active positioning and bottom-up stock selection.

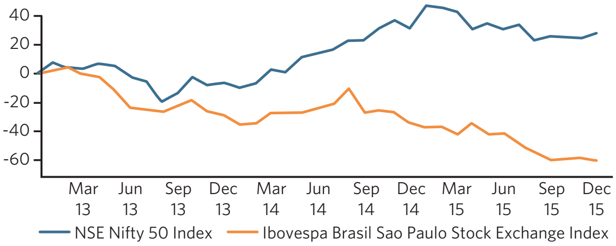
EXHIBIT 1: PROPORTION OF ALPHA EXPLAINED BY COMPANY, INDUSTRY AND COUNTRY EFFECTS WITHIN THE MSCI EMERGING MARKETS INDEX (6-MONTH MOVING AVERAGE)



Source: MSCI, Credit Suisse research, January 2016.

Differentiation remains key

EXHIBIT 2: INDIA'S NIFTY 50 INDEX VS. BRAZIL'S BOVESPA INDEX



Source: Bloomberg, January 2016.

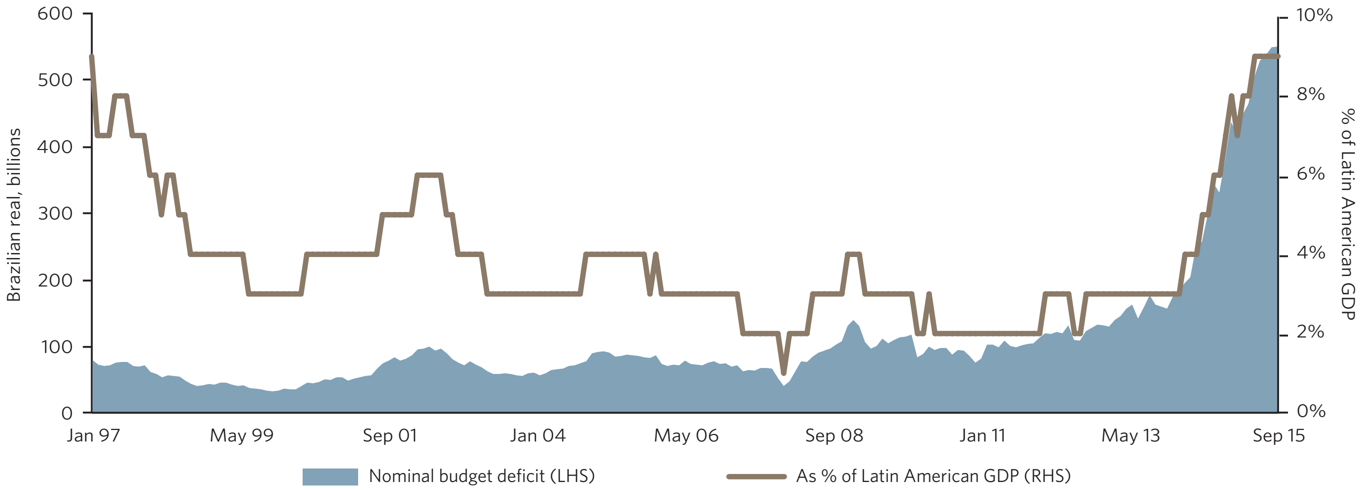
'Emerging markets' are often spoken about in the collective sense as one body, belying their vast differences not only in characteristics, but also in potential as investment locations. The effort taken to dip a little deeper into the specifics is well rewarded. For example, focusing on two economies from the now all-but-discredited 'BRICS' grouping of countries (Brazil, Russia, India, China and South Africa), shows that the disparity in performance has been stark and anything but correlated. Over the last three years, India's Nifty 50 index has produced annualised returns of +8.4%, while Brazil's Bovespa index has sunk -26.0% per annum. To provide some context, the UK's FTSE 100 index has returned +5.7% per annum over the same period. Emerging markets are not all the same.

Going into 2016, we continue to believe in an increasingly differentiated and divergent outlook for emerging economies, where the strong – those with fiscal and current account surpluses, foreign exchange reserves, reform agendas and strong leadership – are identified by investors, and marked out from the weak, such as those that previously benefited from commodity booms or extended credit cycles. 'Emerging markets' may be the neat catch-all name for the asset class, but we stress the message that they are anything but homogeneous, and should not be treated as such. We are not afraid to take large active positions away from the index to reflect our views. In fact, we feel that in the emerging world, an absolute mindset to assessing risks and return potential is a far superior approach to the consideration of index-relative risk. Hence, avoiding a certain economy altogether, when the market outlook is very poor, can actually be far less risky than maintaining a defensive position there.

Brazil is such a country, where we remain zero-weighted, having held very negative views for the last two years. The country's fiscal deficit has ballooned, rising three-fold in just 18 months, and a balance of payments crisis is certainly a realistic scenario.

2 Source: Newton, Thomson Reuters Datastream, January 2016. Gross of fees, close of business unit prices. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested.

EXHIBIT 3: BRAZIL: FISCAL DEFICIT (SURPLUS) AND AS % OF GDP



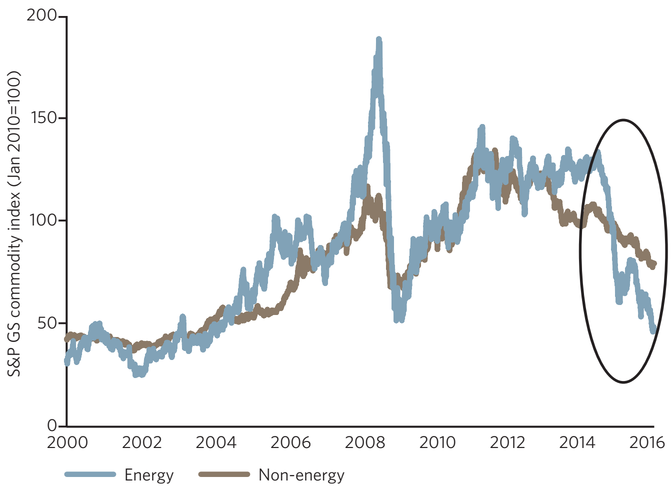
Source: UBS, Haver Analytics, Bloomberg, January 2016.

It is a similarly unpalatable story with corporate debt in Brazil, where c.50% of all debt is in US dollars,[3] causing further pain as cash flows fall in the recession. Despite the rise in debt, Brazil's return on equity has come down, as Brazilian corporate assets have become less profitable. But valuations remain uncompelling as consensus earnings estimates have not adjusted far enough, and the index is trading in line with historical averages, despite the cost of capital rocketing with 10-year bond yields now at over 16%.[4] Lower investments in a high interest-rate environment, future fiscal contraction and a retrenching consumer mean that Brazil is set for a multi-year recession, beleaguered by rising unemployment and inflation. Moreover, the fact that 85-90% of government expenditure is non-discretionary[5] makes necessary reductions very limited in the near term, and we see no reason to have exposure to even the best companies in Brazil. That is without even touching on the dual spectres of the continuing commodity rout and President Dilma Rousseff's pending impeachment. Against such a backdrop we still struggle to find attractive investments, despite our 3-5 year time horizon.

Commodity carnage

We wrote this time last year about 'commodity carnage', and this trend has only continued, with Brent crude trading below $30 per barrel in January 2016. The ratcheting up of Saudi-Iranian tensions certainly shook the market and is likely to remain an underlying dynamic for much of the year. We do not expect to see any significant appreciation in the oil price in the near term, as Iran is more likely to rile Saudi Arabia via increasing supply than to undertake the tail-risk event of attacking its pipelines. Saudi Arabia, however, is starting to feel the pinch from its own stake-out. Over the last eight years, its fiscal breakeven oil price has risen beyond all recognition from c.$20 to what is now >$100.[6] Already at the end of 2015 the country cut fuel subsidies to help with its fiscal deficit, and in the last few days it has confirmed that it is considering options for listing Saudi Aramco, an indication that it is preparing for the oil price to be low for a more prolonged period than the market seems to be expecting. In extremis, a year or two of sub-$30 oil is highly possible.

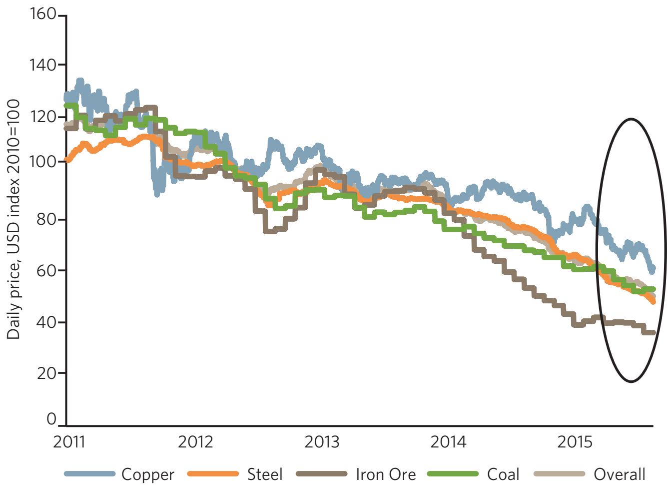
EXHIBIT 4: S&P GOLDMAN SACHS COMMODITY PRICE INDEX



Source: Emerging Advisors, December 2015.

3 Source: World Bank, 2013.
4 Source: Thomson Reuters Datastream, January 2016.
5 Source: BTG Pactual, Brazil National Treasury, January 2016.
6 Source: Natixis, 2015.

EXHIBIT 5: CHINA-RELATED COMMODITY PRICES



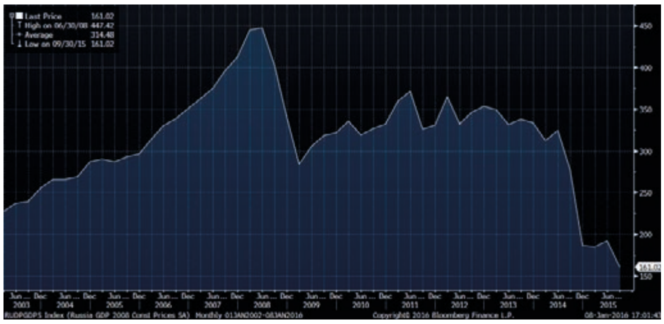
Source: Emerging Advisors, December 2015.

The superficial correlation between emerging markets and oil at an index level masks great underlying difference in exposure. A low oil price can bode well for the emerging-market companies in which we invest, which for the most part are domiciled in net-importing oil economies. The oil price has fallen a very long way during 2015 and at the start of 2016, and this will work its way through global supply chains, serving as a very deflationary force, of which we are highly conscious. Conversely, it was Russia which was the best-performing major emerging market during 2015 (outstripped only by Hungary). Despite the headwinds of the continued pressure on the oil price, and falling earnings, multiples in Russia expanded as investors rerated the market. With sanctions recently renewed for another six months, and dramatically worse fiscal and consumption metrics, we do not think that this is sustainable.

EXHIBIT 6: RUSSIA TERMS OF TRADE (IN US DOLLARS)

Source: Bloomberg, January 2016.

EXHIBIT 7: RUSSIA GDP (IN US DOLLARS)



Source: Bloomberg, January 2016.

Russian GDP has now seen more than a lost decade in US-dollar terms, falling by almost two thirds from peak to trough. We should not expect a revival in domestic industry in response to the foreign-exchange devaluation in the manner we saw in 1999, when Russian GDP went up 10% following the 1998 crisis. Back then, Russia still had excess Soviet-era industrial capacity and slack in the labour force; now, there is no free capacity, no free (skilled) labour and more red tape. Meanwhile, fiscal expenditure continues apace: military expenditure and support for the pension system cost respectively 1.5% and 2% of GDP annually[7] and the latter will remain a millstone around the government's neck until the 2018 election.

QE and global trade

For different, though still relevant, reasons, US dollar-denominated eurozone GDP has also seen significant declines. The problem here has been the unprecedented quantitative-easing (QE) programmes underway in both Europe and Japan, which have had the unintended consequence of crushing consumption demand from these regions in US-dollar terms, with considerable knock-on effects for global growth and trade. We believe investors have become too pessimistic, over-extrapolating some of these trends, whereas we think it likely that such effects should moderate over time. This is especially the case for some of the emerging-market countries that have also seen significant currency adjustments, putting them on a more sustainable or competitive footing, as witnessed by numerous inflections in current account balances across the region. The impact of such misguided QE on global trade also compounds the significant effect of lower commodity prices, which in turn leads to short-term destocking. Again, the market tends to over-extrapolate such factors, as lower commodity costs are ultimately positive for global growth, though certainly not for all countries.

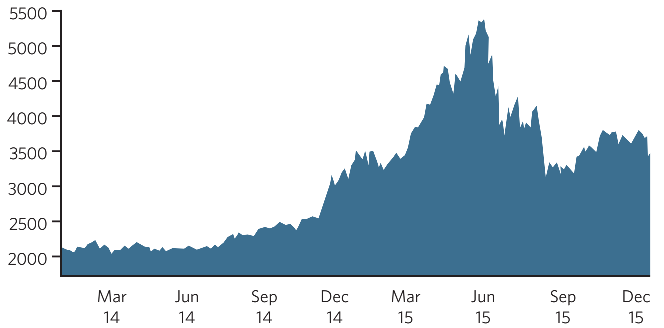
Currencies feel, on the whole, less vulnerable at the outset of 2016 than they did at the outset of 2015. The majority of the depreciation on account of terms-of-trade adjustment from commodity flows and the point in the credit cycle has been reflected. From here the greater pressure on those currencies that remain vulnerable will come from the fiscal side. The South African rand, for example, may come under further pressure as the country struggles to maintain its fiscal discipline amid slowing growth and under the watchful eye of rating agencies that are ever more likely to downgrade.

7 Source: Newton notes from meeting with former Russian finance minister Alexei Kudrin, December 2015.

We must talk about China

2015 saw wild gyrations in the levels of the Shanghai A-share stock market. Just before the half-year point, the market had risen c.150% over the previous 12 months, largely attributable to a series of policy misfirings from a government impatient to move its slowing economy from debt-funded, investment-led GDP growth towards a more balanced economy with a far higher consumer and services component. The 'wealth effect' that this created has left this market at the mercy of investor momentum, and the tide really turned the other way on 11 August, as the People's Bank of China took the decision to mildly alter the renminbi reference rate-fixing mechanism. We do not invest directly in the A-share market, but of course there were repercussions across markets, and as long-term investors we can take such opportunities of indiscriminate weakness as excellent buying opportunities, retaining our rigour on selectivity and quality of investments.

EXHIBIT 8: SHANGHAI STOCK EXCHANGE A-SHARE INDEX



Source: Bloomberg, January 2016.

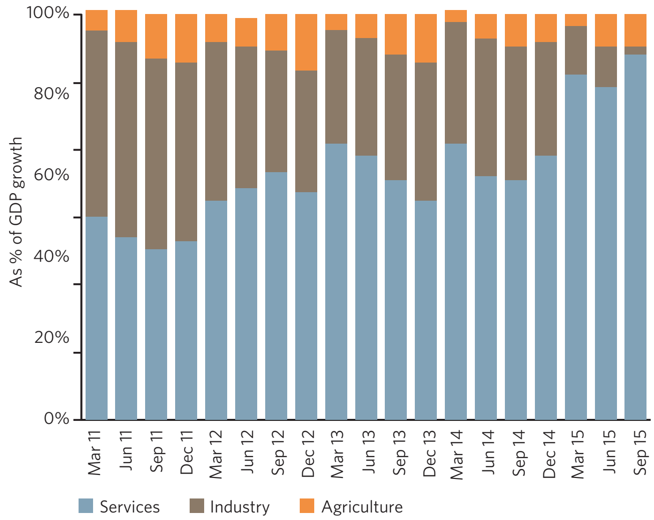
We expect continued Chinese GDP growth slowdown, led by lower capital investment, but still find growth opportunities in consumption and services. We also expect some further currency devaluation, but nothing too dramatic in the context of our equity opportunities. We think the government will continue to support the currency, not least because any marked depreciation would erode consumers' spending power and impede the economic rebalancing it is trying to achieve.
We continue to believe that there are many high-calibre companies in China, but do not invest at all in certain sectors, such as banks, metals or property companies, which, as can be observed, either face severe structural challenges or have seen alarming asset-price inflation. In general, we are very conscious of the debt excesses that have built up on the investment side of the Chinese economy, though do not currently expect a full-blown banking crisis. However, we do see companies exposed to these areas as highly vulnerable and hence value traps.

EXHIBIT 9: AVERAGE REAL-ESTATE SALES PRICE IN SHENZHEN

Source: Bloomberg, January 2016.

Recent growth in China has increasingly come from the services side of the economy, towards which the country continues to rebalance. We expect this trend to continue, and have positioned the portfolio to reflect this.

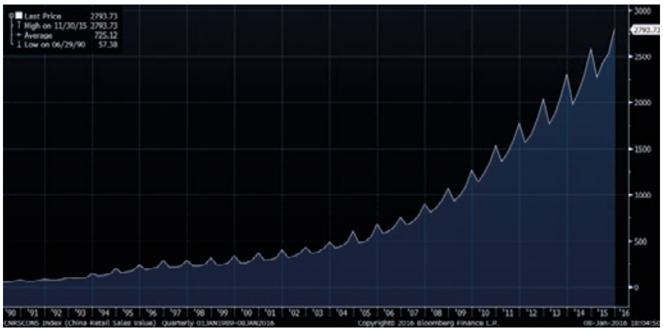
EXHIBIT 10: CHINA GDP GROWTH SHARE BREAKDOWN BY SECTOR



Source: Haver, NBS and Bernstein analysis, 2015.

Retail sales have been remarkably healthy, corroborating the strength of consumers and their desire to spend, not least via the internet where low-cost smartphones have had a particularly powerful effect for those consumers who previously lacked any internet access. It is to the leading internet ecosystems, such as Tencent, Baidu and Alibaba, that the value is really accruing from this shift, and this is reflected in significant Fund holdings which we topped up to positive effect in the aftermath of the August 2015 devaluation scare.

EXHIBIT 11: CHINESE RETAIL SALES VALUES



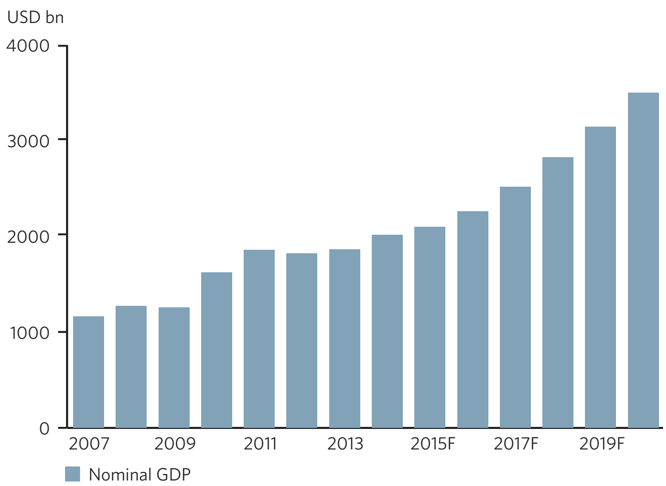
Source: Bloomberg, January 2016.

Ultimately, we do expect a lower growth rate in China, but we think this growth will be of higher quality. We continue to find many attractive investment cases which benefit from structural growth and which are not reliant on GDP growth, such as the companies we invest in within the e-commerce and health-care sectors.

The best emerging market for the next five years

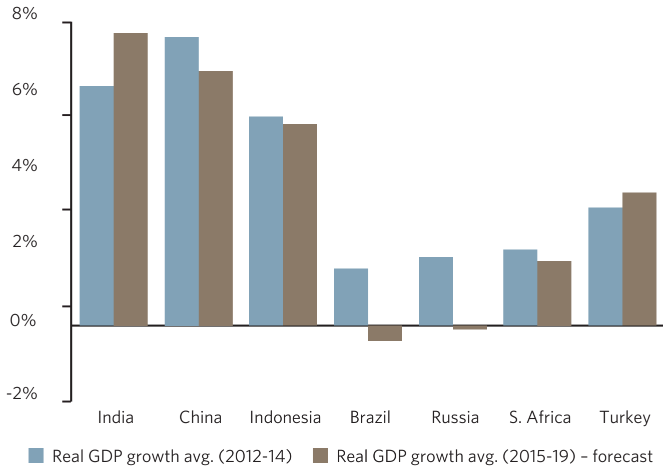
India, under the leadership of Narendra Modi, has an appealing multi-year growth and improvement story underway, owing to supportive demographics, a cyclical credit-cycle recovery (and hence pent-up demand and capital investment), and the potential for productivity catch-up. We are able to find a high number of compelling, entrepreneurial stock-specific investments there, which are the beneficiaries of low-cost labour and lower inflation and commodity prices.

EXHIBIT 12: INDIA IS LIKELY TO BECOME A US$3.5 TRILLION ECONOMY BY 2020, FROM US$2 TRILLION CURRENTLY



Source: CEIC, Deutsche Bank, January 2016.

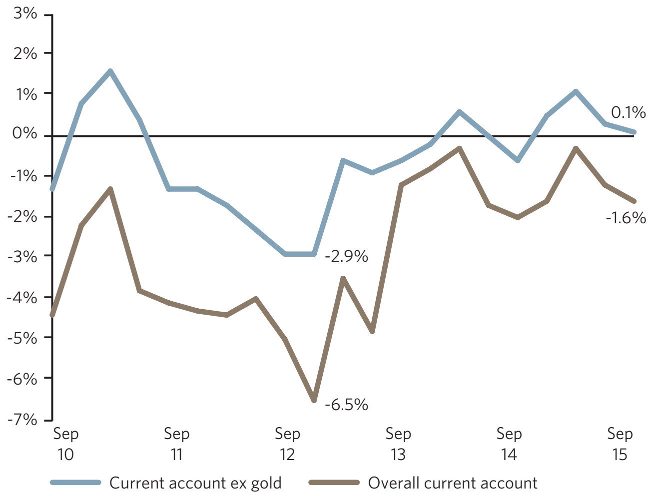
EXHIBIT 13: WE EXPECT INDIA TO GROW FASTER THAN KEY EMERGING-MARKET PEERS



Source: CEIC, Deutsche Bank, January 2016.

The government has made progress putting in a number of key reforms, but there is still a good way to go, including the passing of the key goods and services tax later this year. But the improvement in the current account deficit in such a short period of time is remarkable, and sets India well apart from its former 'fragile five' cohort.

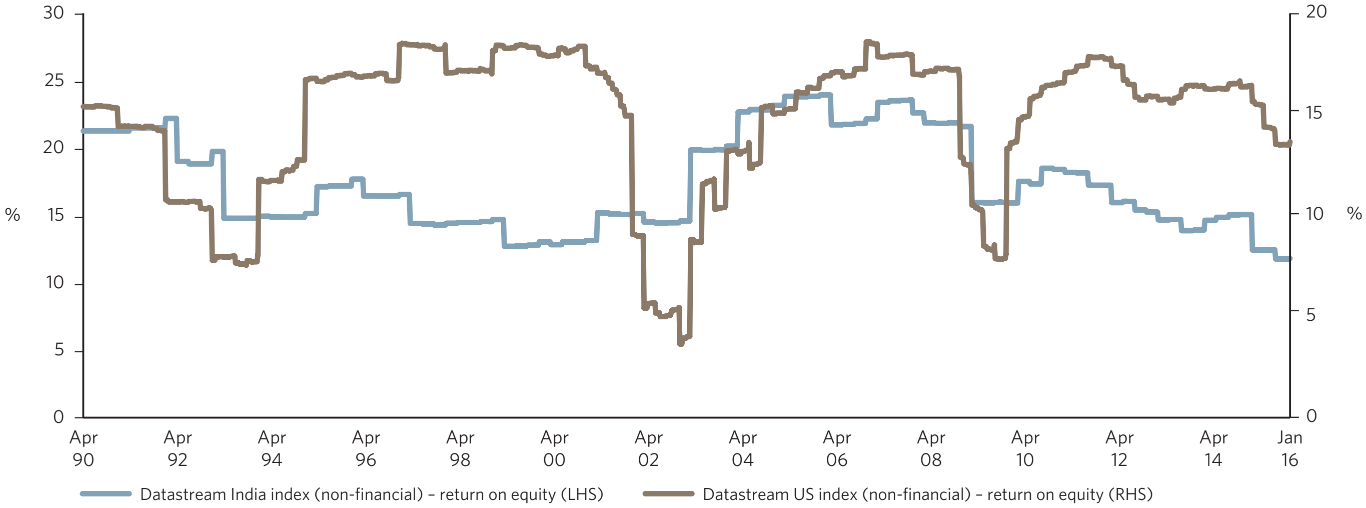
EXHIBIT 14: INDIA CURRENT ACCOUNT DEFICIT QUARTERLY ANNUALISED, % OF GDP



Source: CEIC, Morgan Stanley Research, January 2016.

One of the key positives is that India is just emerging from a deep credit cycle. This means that companies are at the beginning of their margin and returns improvement, off a low base, whereas the reverse is true in the US, where stocks trade at high multiples on historically high margins. Adjusted for this stage in the cycle, we think valuations still look attractive, and inflation, monetary policy and hence the currency are under far better control; fiscal management is also greatly improved with the removal of energy subsidies, while greater infrastructure investment is positive for growth.

EXHIBIT 15: INDIA AND US – RETURN ON EQUITY



Source: Newton, Thomson Reuters Datastream, January 2016.

The market became frustrated at the pace of change during 2015. But the reforms that the Indian government is undertaking take time, and economic improvement will not happen in a straight line. We accept that there are challenges, perhaps principally the slow growth in private capital expenditure, which has been affected mostly by external conditions such as global exports and deflationary pressures, as well as constrained public sector bank balance sheets. However, we believe that our investments are very well positioned to perform over the medium and long term as this economy really asserts itself. Recent changes in the power sector are very encouraging, but there is more to be done with Goods and Services Tax (GST) and labour reforms, among others.

India is one of the few markets in the world where we see strong multi-year growth potential, underpinned by structural growth factors, such as economic reforms, demographics, credit penetration and improvements in productivity, with high-quality companies poised to benefit.

Other emerging markets

Elsewhere in emerging markets we favour Mexico, where consumer strength has been driving GDP growth. The economy has been experiencing positive trends in real wage growth, falling unemployment and rising formal employment, which create longer-term structural positives, again benefiting the consumer. Inflation has fallen and there has been strong growth in remittances of overseas earnings. Mexican growth is currently challenged by oil-price weakness, but the ratio of government expenditure to GDP is only 25%, versus an average of 50% in developed markets,[8] so the impact should be less. Reforms should accelerate non-inflationary growth and boost productivity: oil and gas were nationalised prior to the current government, so any reform should boost investment and foreign direct investment, despite lower oil prices.

The Philippines, another of the Fund's overweight markets, has close-run elections in the first half of this year, and the right candidate will be important in terms of ensuring continuity of investment and reform-driven growth. The very positive population demographics and early credit-cycle factors remain attractive to us and have all been conducive to the strong GDP performance the country has seen, along with the relative resilience of the Philippine peso, which has helped to deliver real, hard-currency profits for the impressively run companies we invest in there.

In the EMEA region, we think the Czech Republic in particular, in the Central and Eastern Europe (CEE) group, is showing signs of strength and is well placed to benefit from what could be a relatively resilient domestic core Europe. A number of Eastern European countries have seen a significant correction in currencies and credit cycles and are highly competitive, so are well poised to benefit from any European recovery, should it occur. Unfortunately, interventionist government behaviour in certain countries has brought state intervention risks to the fore: the formerly stably governed Poland has taken on Hungary's mantle in this regard following the victory of the Law and Justice party in October 2015. A high number of recently announced populist and nationalist policies decrease the attractiveness of Poland as an investment location, as the government's motives do not seem aligned with shareholder returns. Turkey continues to battle with its structural current account deficit, and saw its currency decline 25% versus the US dollar over 2015.[9] The key challenge for 2016 will be for the ruling AKP party, which has taken an autocratic route over the last few years, to restore investor confidence through policy direction such as reform commitment and working to de-escalate tension with Russia and other regional neighbours. The Syrian refugee crisis has provided the opportunity for Turkey to re-engage with the EU over membership negotiations, which could be a significant positive. We have limited exposure to

8 Source: Organisation for Economic Co-operation and Development (OECD), 2015.
9 Source: Thomson Reuters Datastream, January 2016.

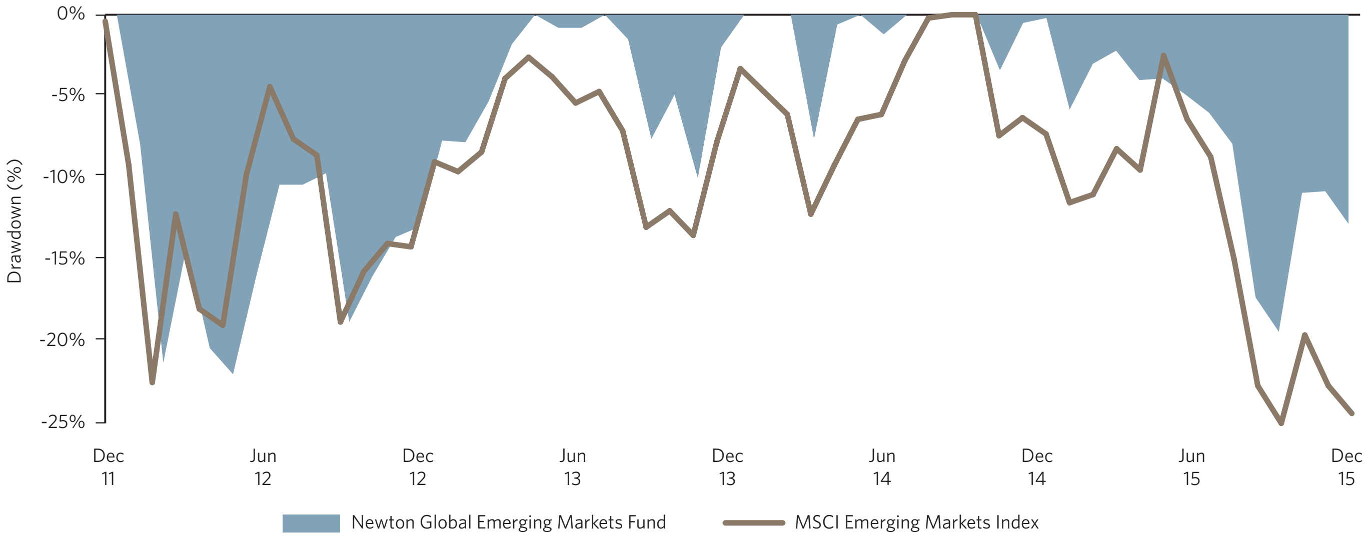
Turkey, as we are wary of the considerable vulnerabilities in the economy; however, there are a number of good companies there which we are monitoring for investment, should the outlook begin to improve.

Strategy review and outlook

Performance

Over the three years to 31 December 2015, the Newton Global Emerging Markets Fund delivered an annualised gross return of +5.7% (in sterling terms), versus a return from the MSCI Emerging Market index of -3.3%. We believe our thematic, long-term and active investment approach has been the key driver behind these strong numbers, combined with rigorous stock analysis (around three quarters of performance contribution comes from stock picking), and unwavering conviction for high-quality fundamentals during gyrating short-term market conditions. Over 2015, the Fund delivered a return of -2.2%, compared to the index return of -9.7%. **Since its inception in May 2011, the Fund has returned +6.6% per annum relative.**[10] We continue to believe that we generate these returns with a well-managed risk profile, protecting our clients' capital as well as delivering growth, depending on market conditions. This is why we pride ourselves on our superior drawdown characteristics.

EXHIBIT 16: NEWTON GLOBAL EMERGING MARKETS FUND – DRAWDOWN IN US$ (BEFORE FEES)

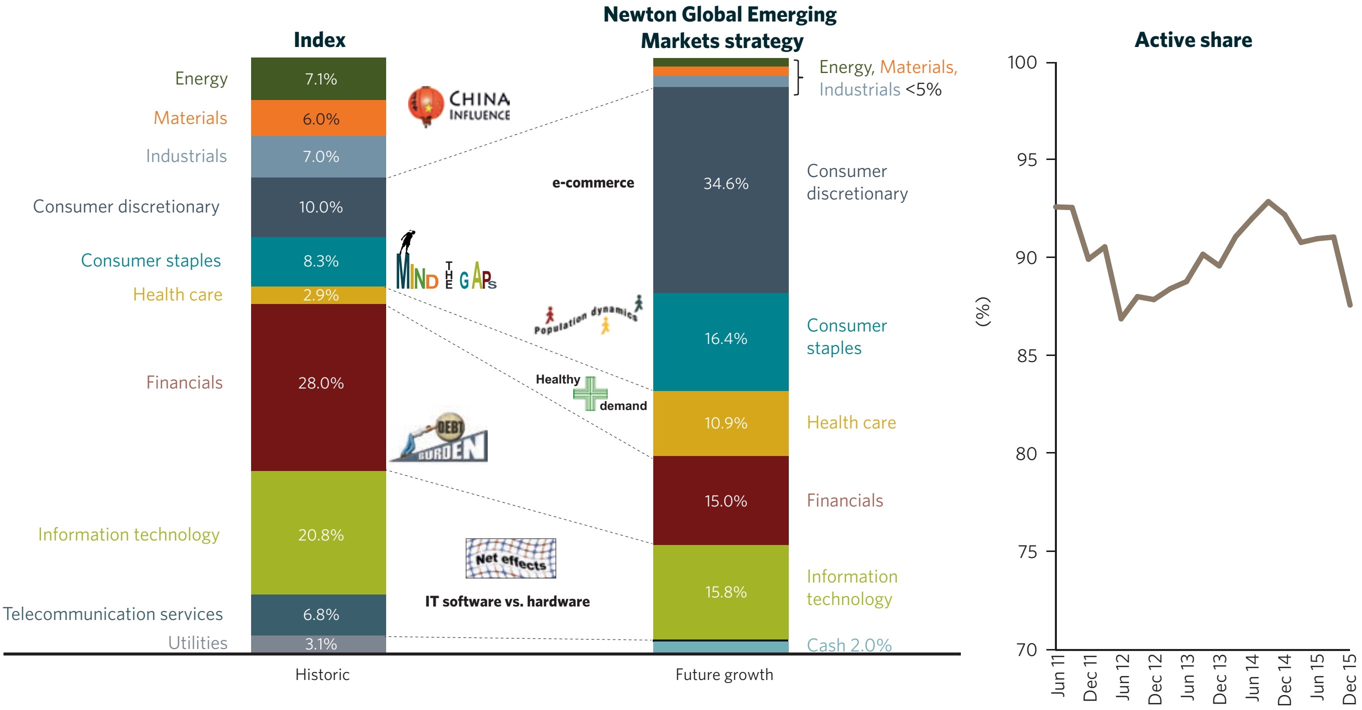


Source: Mercer, January 2016. This output should be read in conjunction with, and is subject to, MercerInsight MPA™ :Important notices and Third-party data attributions. See https://www.mercerinsight.com/importantnotices.aspx for details. ©2016 Mercer LLC. All rights reserved.

10 Source: Newton, Thomson Reuters Datastream, January 2016. Gross of fees, close of business unit prices. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested.

Positioning
Given the volatile nature of emerging markets, we must expect further bouts of volatility during the year ahead. A fund positioned to withstand these conditions, rather than being more exposed to what we think of as the 'old economy' (industrial parts of the market), should, we believe, fare well. The Newton Global Emerging Markets Fund has very high active share: the top 10 holdings currently account for 40% of the Fund, and the top 20 account for 60%. Our high-conviction active positions are held in what we regard as the burgeoning 'new economy' sectors – the areas that corporate profits and the index will be shifting to. Essentially we are investing for future value creation rather than being burdened by a backward-looking index construct.

EXHIBIT 17: NEWTON GLOBAL EMERGING MARKETS STRATEGY: ACTIVELY POSITIONING FOR FUTURE GROWTH OPPORTUNITIES



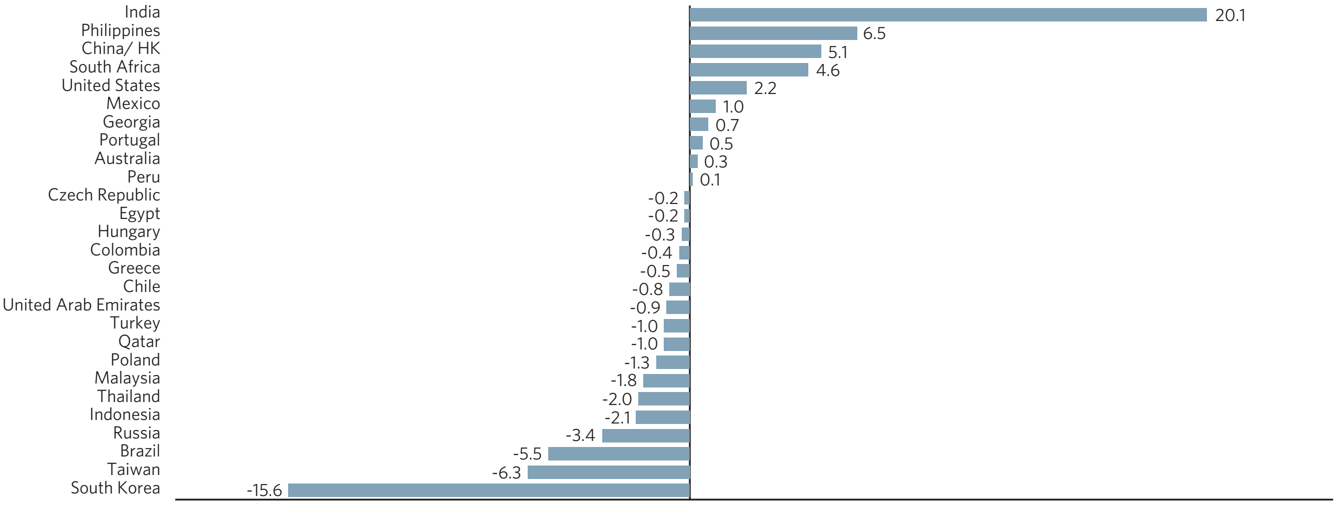
Source: Newton, 31 December 2015. The MSCI Emerging Markets Index is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index. Strategy holdings are subject to change at any time without notice and should not be construed as investment recommendations.

Indeed, the comparative index is merely a performance measurement tool rather than of any use in portfolio construction. Furthermore, given that the index is c.30% state-controlled,[11] many of the key constituent companies are unlikely to be run to the benefit of minority shareholders. Health care, as informed by our *healthy demand* theme, is an area where we see huge potential in emerging markets, owing to rising disease burdens and the unmet need from public investment. The sector is currently underrepresented in the index, and we have found some truly exciting and pioneering companies, such as China Biologics, the leading player in the Chinese blood plasma-base products industry, which has very high barriers to entry and low penetration.

On a country basis, our high-conviction positions remain in India, where our consumer-related positioning has significantly outperformed the local market, which has in turn outperformed the MSCI Emerging Markets index. Our China/Hong Kong positions have outperformed the MSCI China index over the year, despite initially lagging, as our skew towards domestic services growth areas such as internet, consumer, education and health care continued to prove correct.

11 Source: Deutsche Bank, MSCI; weighted average figure, January 2014.

EXHIBIT 18: NEWTON GLOBAL EMERGING MARKETS FUND: RELATIVE COUNTRY POSITIONING VERSUS THE MSCI EMERGING MARKETS INDEX



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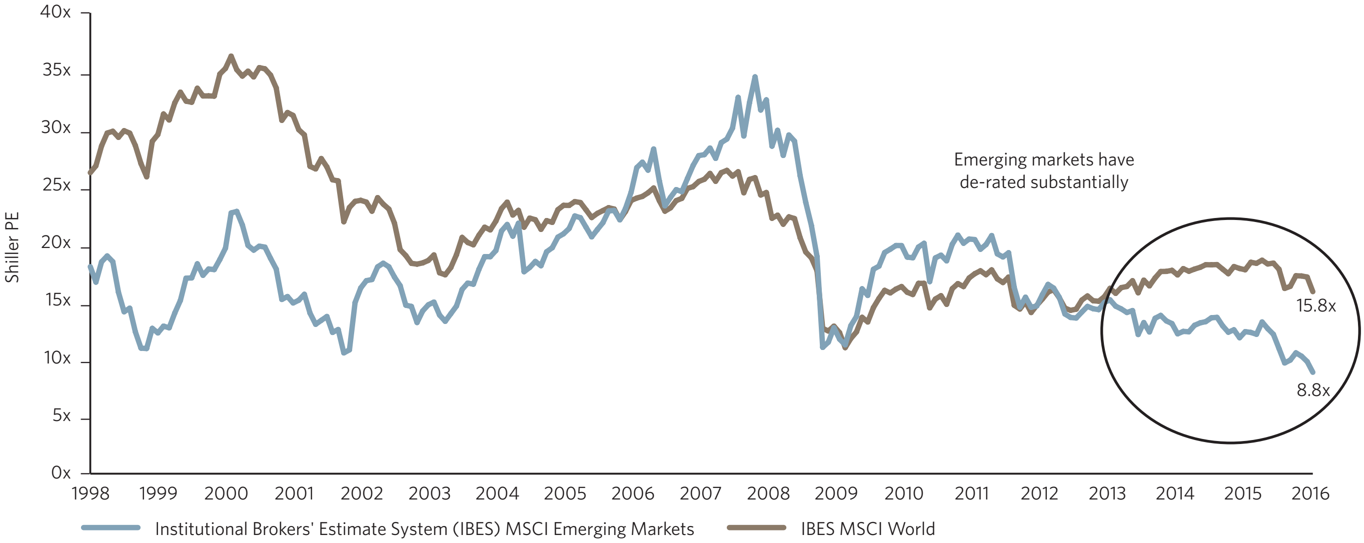
In conclusion

The beginning of 2016 seems to have seen a rise in risk-aversion. Against such a backdrop, we believe it is important to note that during periods characterised by spikes in volatility (a >5% month-on-month increase in the VIX index), companies with strong earnings certainty, solid free-cash-flow conversion, high dividend yield and strong earnings visibility have been the best performers, and this is exactly how we are positioned. Furthermore, the valuations in emerging markets are now at their widest discount to developed markets on through-cycle measures for over a decade, and we think the gap is beginning to look not only compelling, but unjustified.

EXHIBIT 19: SHILLER CYCLICALLY-ADJUSTED PRICE/EARNINGS RATIO – MSCI EMERGING MARKETS INDEX VS. MSCI WORLD INDEX

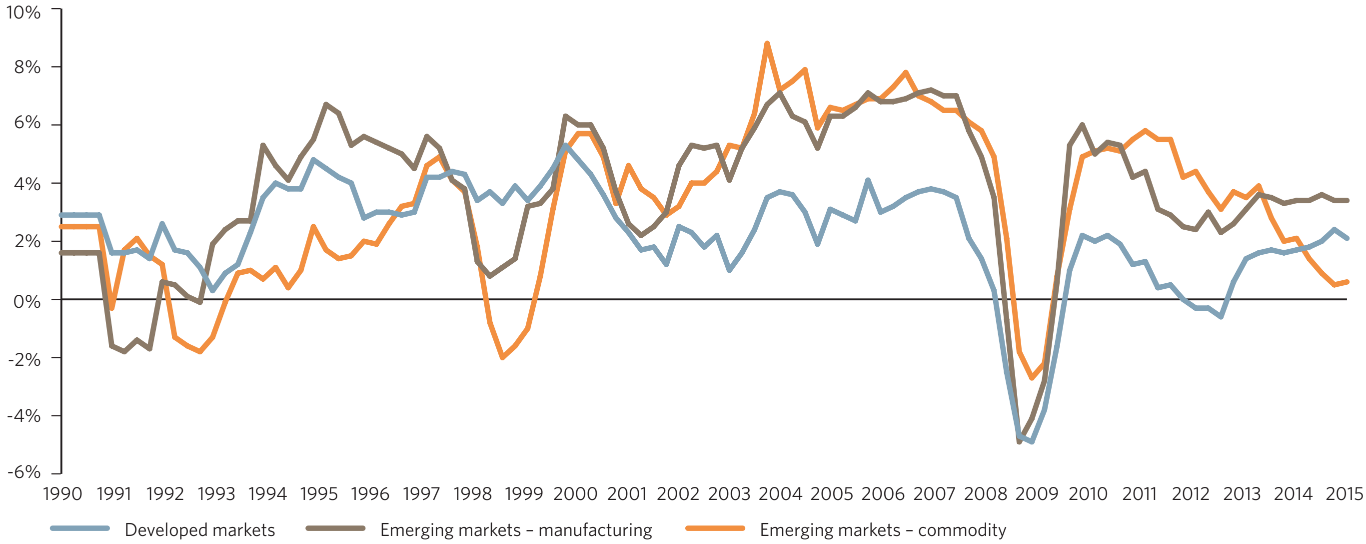


Source: Newton, Thomson Reuters Datastream, January 2016.
Shiller PE (price/earnings) ratio: a cyclically adjusted price/earnings ratio, otherwise known as the CAPE, measures the real price of a company's stock relative to real average earnings over the past 10 years. The Shiller PE aims to smooth out the economic and profit cycles to give a more informed view of a company's price than the traditional price/earnings ratio, which uses only one year of profits.

Of course, we do not advocate going out and buying the index at this multiple, but rather we believe that a highly selective active approach is the best way to invest in emerging markets. This may mean that superficial valuations are above average, but that can be warranted where value is being assigned to higher-quality and greater consistency of returns and growth and the ability to withstand economic cycles. We regard consensus price/earnings ratios as usually a very poor measure of future value creation in real hard currency terms. In a market that is experiencing some big structural shifts, investors should be mindful that ostensibly 'cheap' stocks may be far from cheap, once their earnings have fully adjusted to the new economic reality. It is for this reason that we currently avoid some sectors such as mining and the Chinese banks.

To reiterate the imperative point that emerging markets are not all made equal, the exhibit below separates emerging markets driven by commodities (Brazil, Russia, South Africa, etc.), from those driven by manufacturing. This simple division already clearly illuminates that while GDP growth for the commodity group has of course tumbled, for the manufacturing economies it has not wavered, with these economies still offering double the growth of developed markets.

EXHIBIT 20: COMMODITY-DRIVEN VS. MANUFACTURING-DRIVEN EMERGING MARKETS – REAL GDP GROWTH (% YEAR ON YEAR, SIMPLE AVERAGE)



Source: EM Advisors Group, January 2016.

We believe as firmly as ever that an active, thematically guided long-term approach is the correct one for emerging markets, and – especially at the present moment – that it can offer great reward over the long term. We distinguish ourselves by looking past the short-term noise, as we always have done, and have a positive and constructive outlook for 2016 and beyond, where we believe there are still tremendous opportunities, on a selective basis, for high-growth emerging markets. In the first instance we are guided by our investment themes, the most prescient of which for emerging markets continue to be *net effects, population dynamics, smart revolution, Chinese influence* and *mind the gaps*. In what may be a lacklustre year for both emerging and developed-market indices, we feel encouraged that our Global Emerging Markets strategy will be able to take advantage of our perspective to navigate the complex backdrop to find the best investment opportunities, and still produce capital growth. We aim to do this via our rigorous, long-term fundamental approach which has shown itself to be sustainable in seeking to maximise returns, while maintaining an acceptable risk profile.

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