

2018 Emerging Markets Outlook

Rally In EM Equities to Continue – Particularly for Emerging Asia

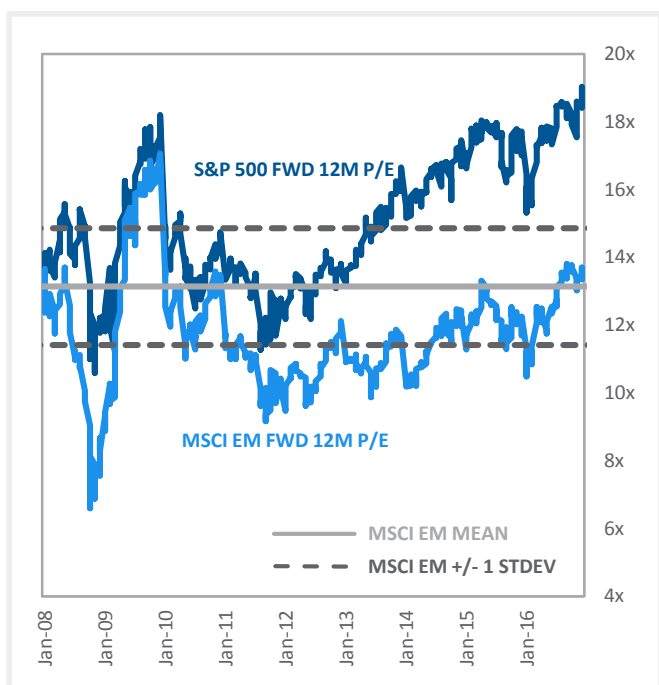


January 8, 2018

The natural question in the minds of most equity investors after the 30%+ returns in 2017 is: how far and how long will this rally in Emerging Markets (EM) equities last? We expect the rally in EM equities to continue, and our positive outlook rests on both relative and absolute valuations in addition to growth outlook. Unlike with the US equity markets, we believe the rally in EM equities is young and has the potential to continue for several years.

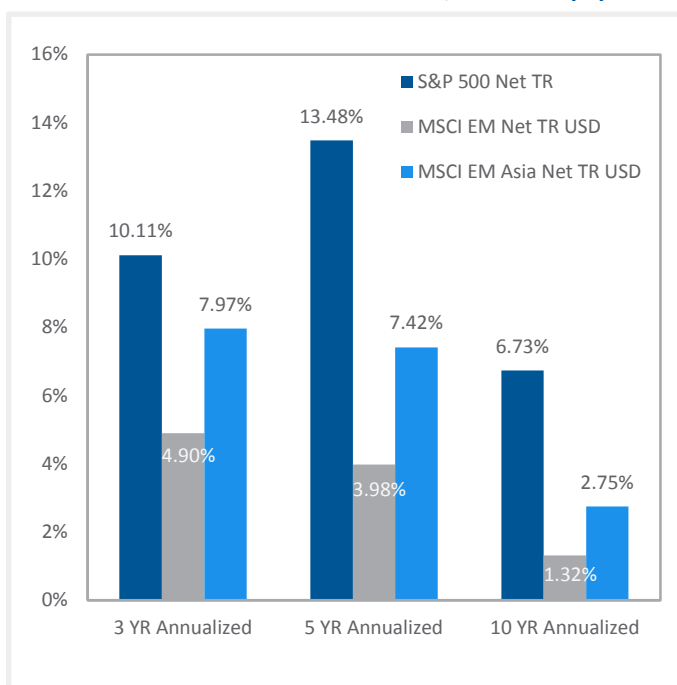
Anindya Chatterjee
SVP and Lead PM
Emerging Markets Equity

MSCI EM VS S&P 500 12 M FORWARD P/E MULTIPLES



Source: Bloomberg as of 12/31/17

HISTORICAL RETURNS – U.S. VS. EM/EM ASIA (%)



Source: Bloomberg as of 9/30/17

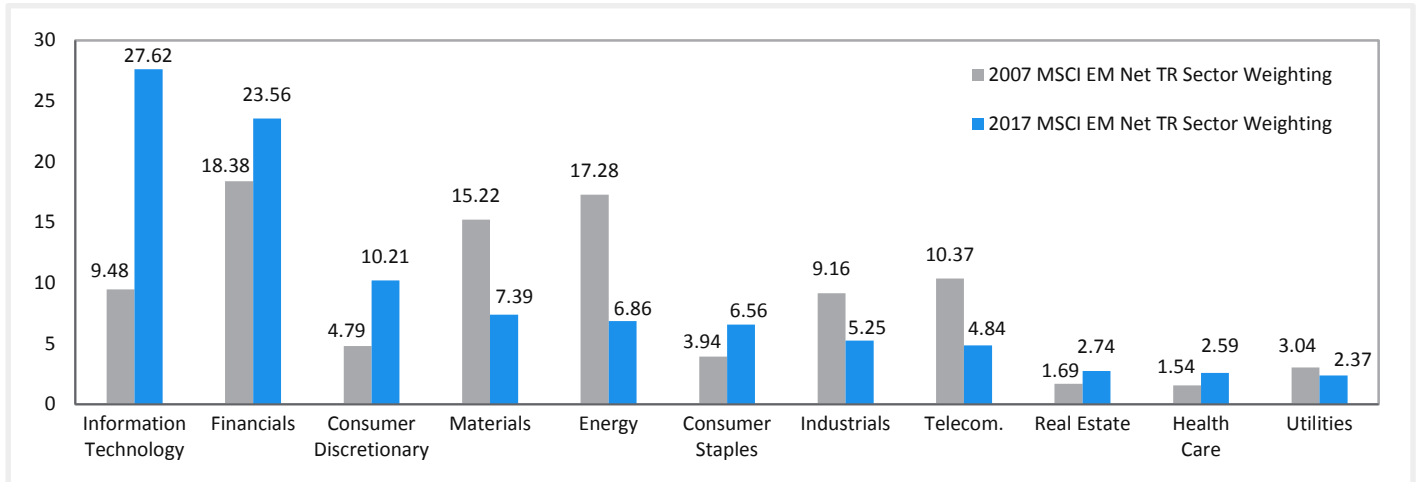
EM equities have underperformed US equities over the past decade. Today, EM equities are cheaper relative to both US equities than they were 10 years ago, and to their own historic valuation highs. In our opinion, the recent valuation catchup, or mean reversion, still has a long way to go.

Evolution in EM Equities – Now More Reflective of the Underlying Market Opportunities

The composition of today’s MSCI EM Index (MXEF) is very different from what it was a decade back. Energy and materials (mostly state-owned and heavily regulated) sectors formed nearly 35% of the MSCI EM Index in 2008, and today they constitute hardly 15%. On the other hand, the technology sector which currently represents around 28% of the MSCI EM Index was less than 10% of the index in 2008. The structural changes to the MSCI EM Index reflects the progress of the private sector, evolution of knowledge-based entrepreneurship and policy reforms of its respective governments.

We believe that these changes to MSCI EM index are a reliable indicator of the underlying value proposition and the growth opportunities in the EM economies. We expect technology and innovation to continue to drive global growth and command investor interest in the future. Furthermore, when compared to the past, the attractive relative valuations of the EM Index make the investment argument in favor of EM even more compelling.

MSCI EM NET TR SECTOR COMPARISON 2007 VS. 2017

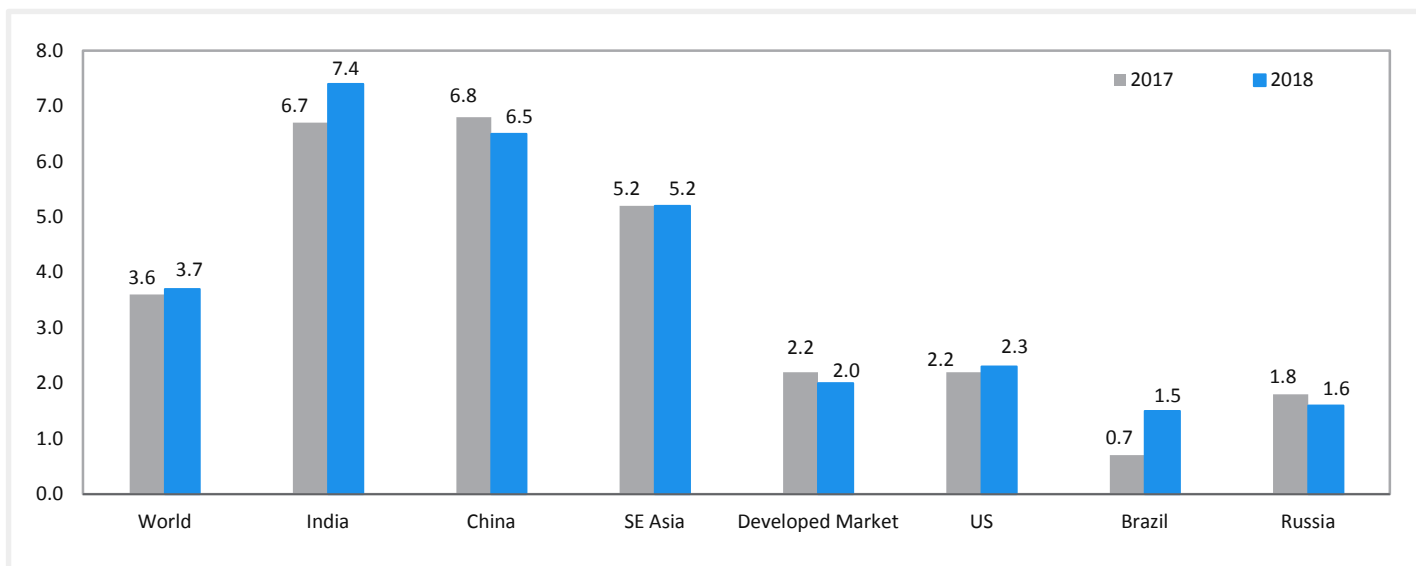


Source: Bloomberg as of 12/31/17

China, India and SE Asia to Lead Global Growth

The global economy has been stable and resilient. While there are concerns of an overdue cyclical downturn, most indicators point to continued global economic stability. However, in our view strong economic growth can still to be found in EM Asia and investors chasing growth will likely focus on opportunities there. Projections for real GDP growth indicate that China, India and SE Asia will likely continue to drive global growth ahead.

REAL GDP GROWTH (% YOY)

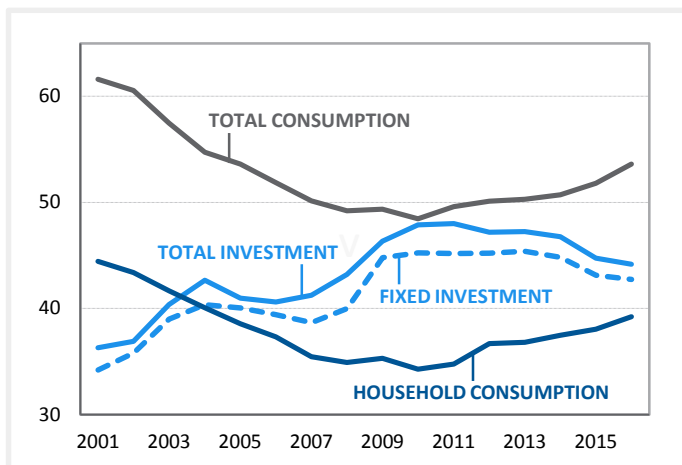


Source: IMF 2017

China Worries Subside

Investors had to climb a wall of worries when examining China’s growth and economic stability over the past seven years. The country’s debt-to-GDP ratio ballooned, and its unsustainable investment-led and exports-led growth strategy called for serious policy initiatives to rebalance the economy in favor of a more sustainable consumption-led and services-led growth strategy. China has indeed come a long way since 2010-11. Today, consumption is the dominant driver of China’s incremental growth. While concerns about its debt remain, China’s economy has demonstrated resiliency and GDP growth remains strong. This is significant, as China’s economic stability remains key to investors’ risk appetite for EM equities. As the China economic worries subside, we see an additional lever at work for the rerating of EM equities.

SHARE OF GDP - CHINA (%)



Source: CEIC, UBS estimates for the two charts above. As of 12/31/16.

U.S. Tax Cuts Should be Net Positive for Global Equities

The tax changes in the U.S could be the trump card for 2018 equities performance. Steep corporate tax cuts should buoy earnings, providing support to U.S. equities and fueling the animal spirits of equity investors. Stability in the U.S. equities market with upside bias should be constructive for EM equities.

Repatriation of U.S. Corporate Cash: Premature to Speculate on Net Impact

Several credible estimates have highlighted that U.S. companies have parked more than US \$3.2 trillion abroad to avoid the punitive taxes on profits. If the lower tax rate for profit repatriation brings back the cash stashed abroad, there would be significant implications for currencies and asset markets. However, it is difficult to predict how much of the repatriated and taxed money will again flow back out of the U.S. It is also uncertain how much of the corporate cash that comes back would be deployed in capital expenditures in U.S., and how much would be used to pay for dividends and buybacks. The similar exercise in 2004 resulted in the latter in the U.S. Repatriation of cash by U.S. companies could be negative for emerging markets currencies and asset markets, at least on an interim basis.

U.S. Rate Hikes Remain Key Concern

U.S. interest rate hikes in 2018 could be another hurdle for EM equities. While inflation is low, the tight US labor market poses an inflation threat and the Fed has signaled for three rate hikes in 2018. Though difficult to predict, two rates hikes may have already been priced into the equity market expectations. Much will depend on the impact of the U.S. tax cuts and other fiscal initiatives the current US administration is targeting such as infrastructure and healthcare reform. On the contrary, a robust repatriation of cash by U.S. corporates can work like a “quantitative easing program”. We are not particularly concerned with the U.S. interest rate increase risks, as we believe the global economy is strong enough, especially the EM economies, to withstand marginally higher interest rates.

Geopolitical Risks and Regional Politics

While Asians seem to feel more confident with the North Korean status quo than Americans, the more recent sanctions on fuel imports on North Korea may drive extreme reactions from the state’s unstable dictator. Geopolitical risks are expected to remain a potential negative wildcard for equity investors in 2018.

Politically, Asian EM looks fairly stable. China's President Xi has cemented his leadership position for a new five-year term. In India, Prime Minister Modi's party continues to win the regional elections. Malaysia is likely to stage general elections in the first half of 2018, and Prime Minister Najib's party is predicted to stay in power. Thailand, India and Indonesia's general or presidential elections are planned for end of 2018 or 2019, and we expect to see some buildup of investment themes geared to that.

Our Sector Preferences in Key Markets

In China, we continue to favor industries that have benefited from the government's policy of economic rebalancing and sectors experiencing long term structural tailwinds. Despite richer valuations compared to a year ago, China's internet and consumer technology sectors continue to enjoy strong earnings growth visibility from sustained structural tailwinds. We also like China's consumer discretionary space where we expect street earnings upgrades ahead in auto, travel, sportswear, etc. Positive industry reforms in the insurance and healthcare space also offer selective bottom-up opportunities.

While Indian equity valuations are broadly richer after the recent rally, bottom-up opportunities in the mid cap space keep India attractive. Growth is expected to pick up in infrastructure and corporate investments, so we like India's cyclical and infrastructure space. Defensive sectors like IT services and drug manufacturers underperformed in 2017, and are likely to come back in focus with earnings resilience.

SE Asia was a relative underperformer in 2017, and we expect a catch-up rally in SE Asian equities in 2018. In SE Asia we like infrastructure, banks and the consumer space. Consumer spending is set to accelerate across the region with elections and tax reforms to fuel demand.

Indonesia's fiscal deficit has narrowed in 2017, paving the way for President Jokowi's ambitious toll road and infrastructure program. The Philippines' government plans to raise infrastructure spending to 5.0% of GDP from 4.3% in 2017. Malaysia has announced several

major railway joint ventures with Chinese construction firms. China's One Belt and One Road program has strengthened trade relationships in South-East Asia and should accelerate infrastructure and tourism growth across the region. Furthermore, the region's banking sector profitability is expected to improve in 2018. Indonesian banks' asset quality should continue to recover after digesting peak non-performing loans in 2015-16 from the earlier commodity downturn. Philippine banks are entering a cycle of net interest margin expansion, while maintain high loan growth.

Risk-Rewards Favor EM Equities

Risk-Rewards are tilted in favor of EM equities. Valuations and growth particularly favor EM Asia. While the risks may result in interim pullbacks, we feel confident that there will be a continued bull run in EM equities.

INDEX DEFINITIONS

It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.

S&P 500 Index (US Equity) - The S&P 500 is a stock market index made up of approximately 500 US large cap stocks. It is often used as a common benchmark for US stock funds. The index comprises a collection of stocks of 500 leading companies and captures 80% coverage of available market capitalization. Index results assume the re-investment of all dividends and capital gains.

MSCI EM Index (Global EM) - The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

MSCI EM Net Total Return USD Index (Global EM) - MSCI Emerging Markets Net Total Return Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI EM Net Total Return USD Asia Index (EM Asia) - The MSCI Emerging Markets (EM) Asia Index captures large and mid cap representation across China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Taiwan and Thailand. With 561 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Emerging Markets Asia Net Total Return Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Asian emerging markets. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

GENERAL DISCLOSURES

This material is proprietary to Fiera Capital Inc. ("Fiera Capital"). This document is intended for information purposes only and may not be relied upon in evaluating the merits of investing in any Fiera Capital investment vehicle or portfolio.

The information provided reflects Fiera Capital's views as of the date of this presentation. Such views are subject to change at any point without notice. Some of the information provided herein is from third party sources and/or compiled internally based on internal and/or external sources and are believed to be reliable at time of production but such information is not guaranteed for accuracy or completeness and was not independently verified. Fiera Capital is not responsible for any errors arising in connection with the preparation of the data provided herein. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of such information by Fiera Capital or any other person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any such information.

These materials are not intended as investment advice or a recommendation of any security or investment strategy for a specific recipient, investments or strategies that may be described herein are provided as general market commentary. Nothing herein constitutes an offer to sell, or solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment area or vehicle.

Any charts, graphs, and descriptions of investment and market history and performance contained herein are not a representation that such history or performance will continue in the future or that any investment scenario or performance will even be similar to such chart, graph, or description.

Past performance is not a guarantee or indicator of future results. All investments involve risk, including possible loss of all or a substantial portion of the principal amount invested.

In addition to the risks associated with all investments, investments in emerging markets may be more volatile and less liquid than other investments. Investments in emerging markets are also subject to currency fluctuations, political instability, and other economic and market risks.

FORWARD-LOOKING STATEMENTS

Discussions regarding potential future events and their impact on the markets are based solely on historic information and Fiera Capital's estimates and/or opinions, and are provided for illustrative purposes only. A number of the comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of Fiera Capital's best judgment at the time this document is compiled, are subject to change at any time without prior notice, cannot be guaranteed as being accurate, and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual investment strategy/style, security, asset class, markets generally, nor are they intended to predict the future performance of any Fiera Capital investment vehicle or portfolio.