



Emerging Markets Equity Review

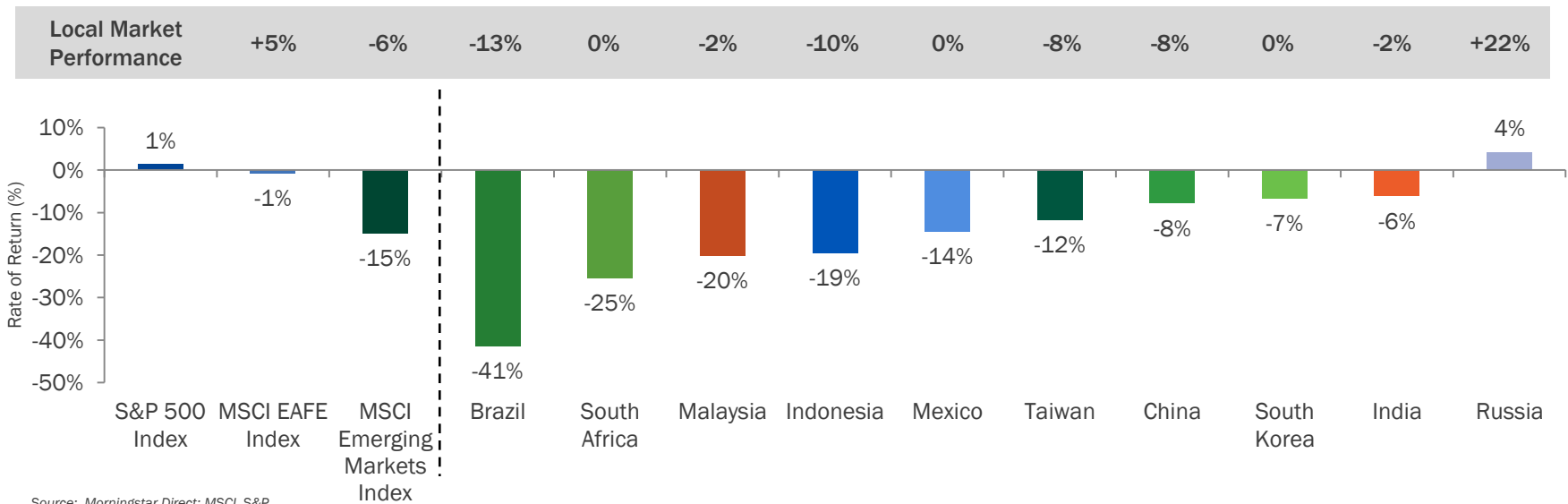
As of December 31, 2015



Emerging Market Returns by Country

Trailing 12-Months

(As of December 31, 2015)



Source: Morningstar Direct; MSCI, S&P

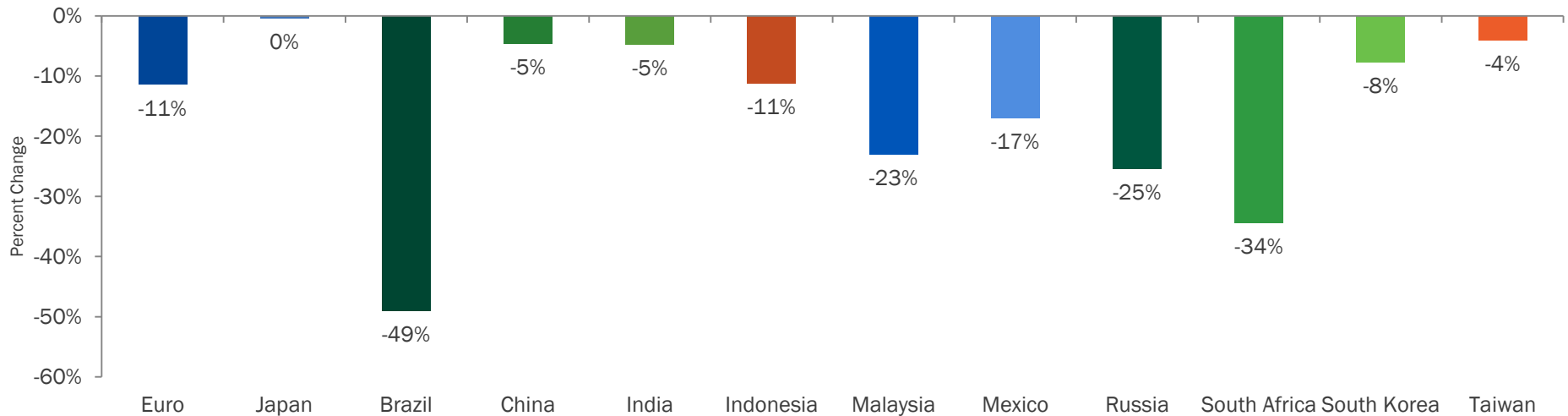
Observations on Emerging Markets Underperformance

	Market Concern	Observation
1.	Rising U.S. Interest Rates	<ul style="list-style-type: none"> Concerns over increased debt levels across various countries have increased risk Capital outflows from the emerging markets have led to weakened currencies
2.	Slowing Demand For Commodities	<ul style="list-style-type: none"> Countries such as Brazil, Indonesia and Russia have been hit hard by declining commodity prices
3.	Slowing GDP (led by China)	<ul style="list-style-type: none"> Emerging market GDP is expected to decline to 3.6% in 2015, the lowest level since 2001 (excluding the credit crisis). China's unexpected move to devalue its currency in August raised the alarm that the world's second-largest economy may be in worse shape than many investors had thought.

Emerging Market Currencies

1-Year Currency Performance vs. USD

(Change in Spot Rates as of December 31, 2015)



Observations

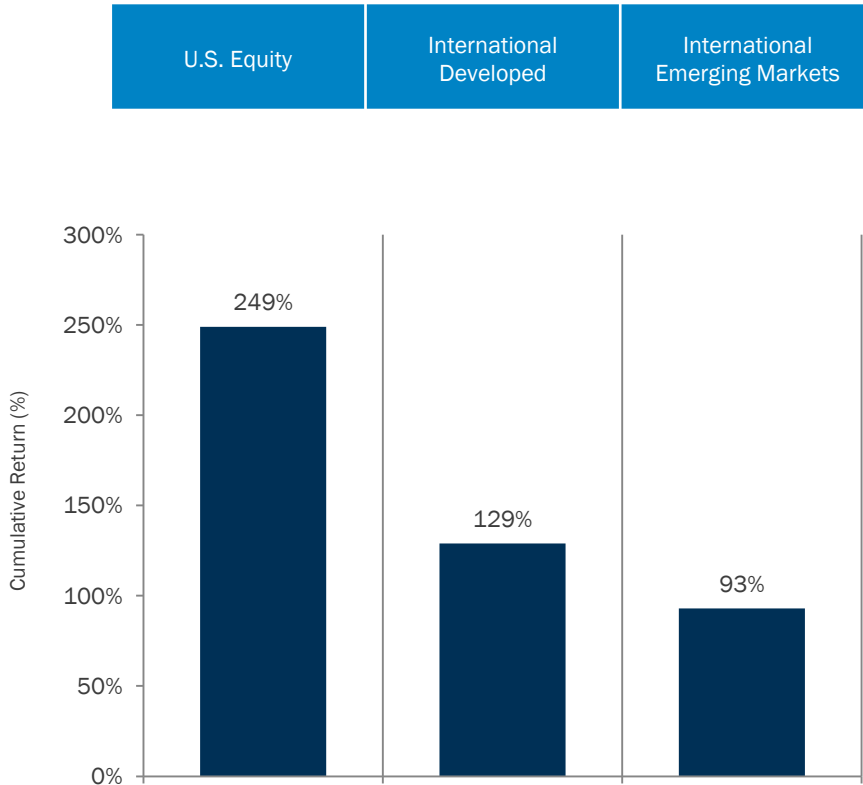
Topic	Observation
Free Floating Currencies	<ul style="list-style-type: none"> Most currencies no longer pegged to the U.S. dollar In the late 1990s, many emerging market exchange rates were pegged to the dollar. When these pegs were ultimately broken (initially in July 1997), exchange rates across emerging markets adjusted abruptly, and substantially. Now, in most cases, emerging market currencies are able to float much more freely.
Attractive Valuations	<ul style="list-style-type: none"> Historically, currency has tended to be the first emerging markets asset price to trough as economies emerge from crisis phases. Currently, emerging market currencies are trading below crisis levels (the JPMorgan Emerging Markets Currency Index is 15% below 2002 levels and 25% below 2009 levels).

Source: FactSet Economics

Global Equity Market Performance

As of December 31, 2015

Global Equity Returns since March 9, 2009

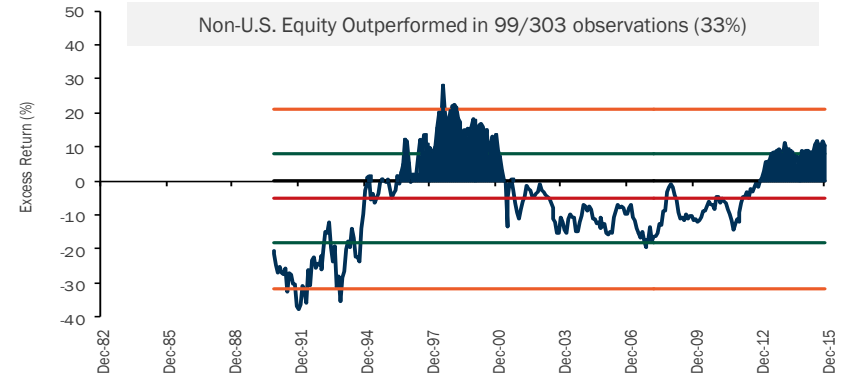


Source: Morningstar Direct, MSCI, Russell

Note: U.S. Equity = Russell 3000® Index; Developed = MSCI EAFE Index; Emerging Markets = MSCI Emerging Markets Index

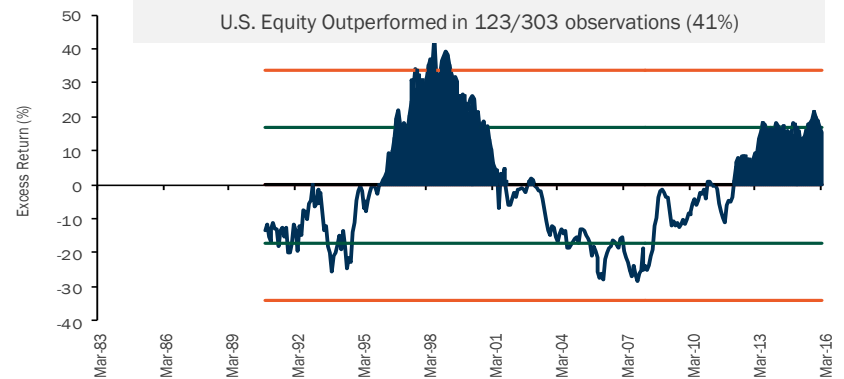
Rolling 3-Year Excess Returns

Non-U.S. Developed Equity vs. Emerging Markets Equity



MSCI EAFE Index vs. MSCI Emerging Markets Index. As of September 30, 2015.

U.S. Equity vs. Emerging Markets Equity



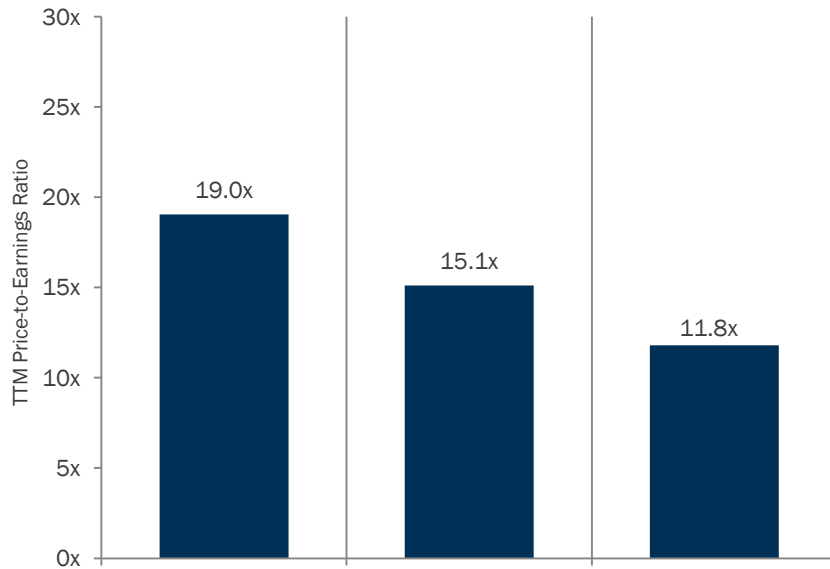
Russell 3000 Index vs. MSCI Emerging Markets Index. As of September 30, 2015.

Historical Global Equity Valuations

As of December 31, 2015

Trailing P/E Ratio

U.S. Equity	International Developed	International Emerging Markets
10-Year Averages		
16.4x	13.7x	12.5x

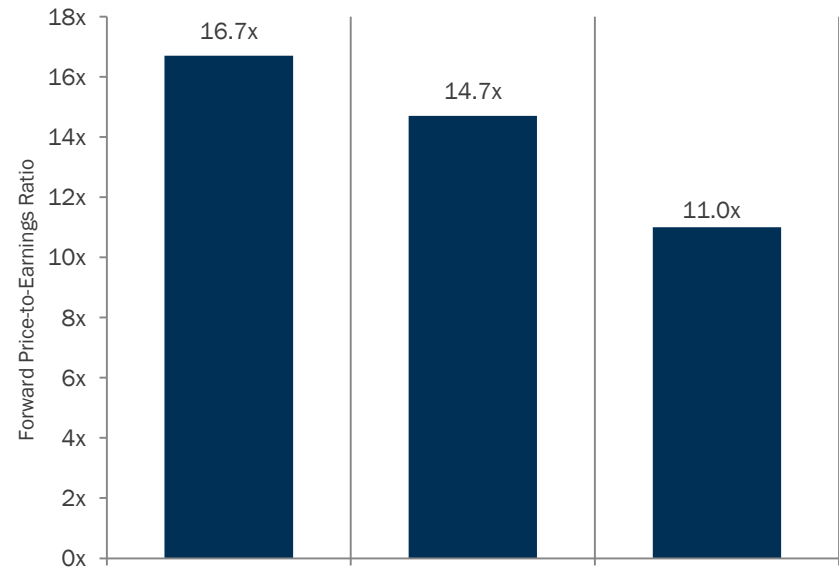


Source: Morningstar Direct

Note: U.S. Equity = Russell 3000® Index; International Developed = MSCI EAFE Index; International Emerging Markets = MSCI Emerging Markets Index.

Forward P/E Ratio

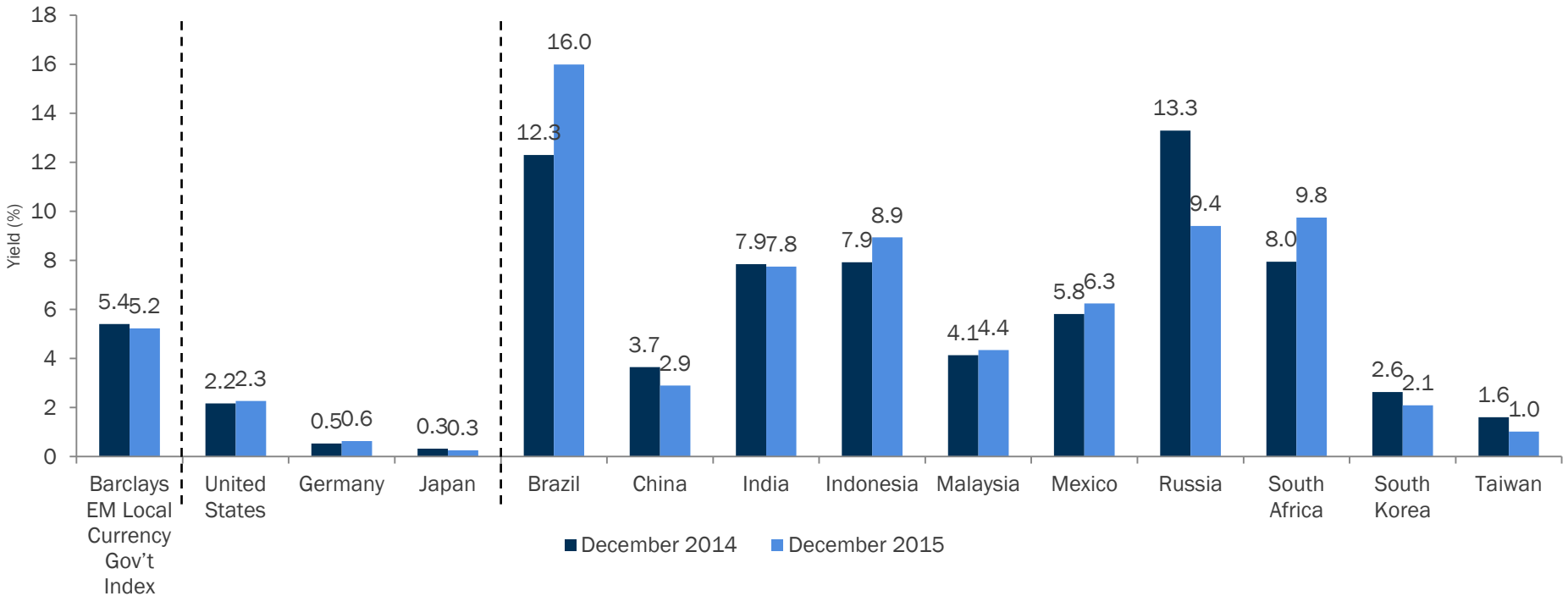
U.S. Equity	International Developed	International Emerging Markets
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Source: Morningstar Direct

Emerging Market Yields

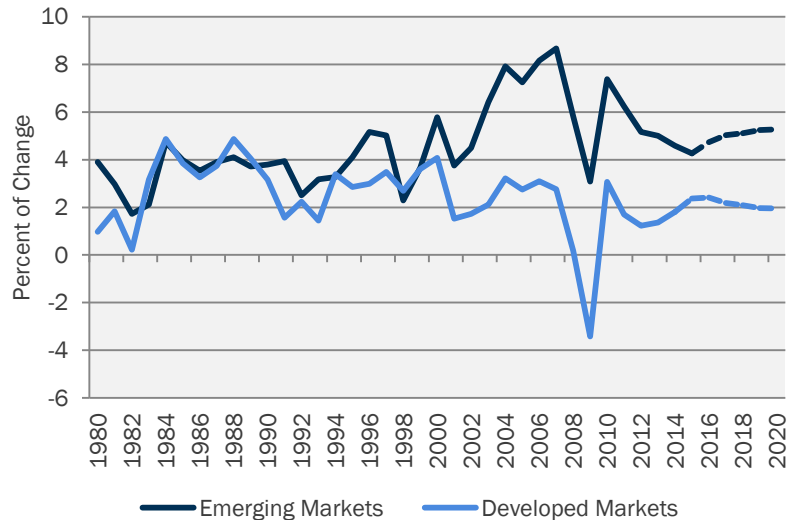
10-Year Government Bond Yields



Source: FactSet Economics; Barclays

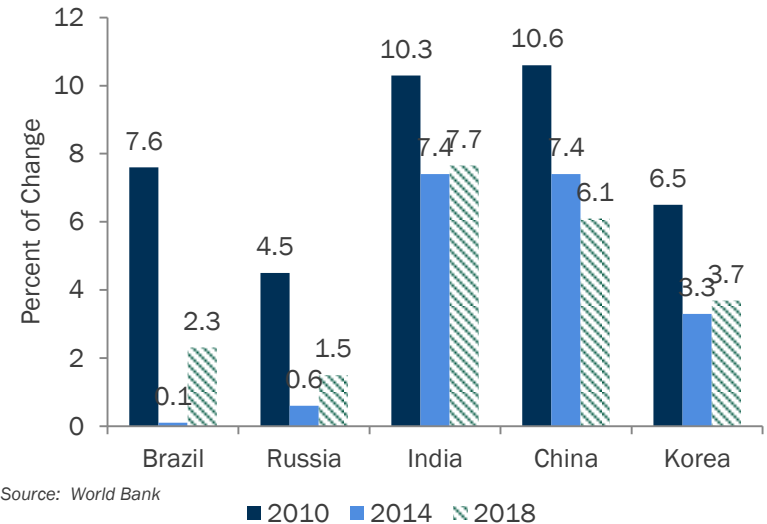
Emerging Market GDP Trends

GDP: Developed vs. Emerging



Source: IMF World Economic Outlook

Slowing GDP (%)



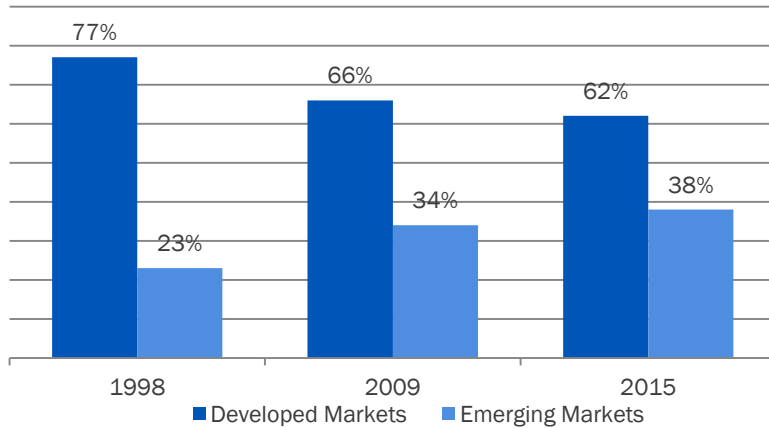
Source: World Bank

Observations

Topic	Observation
Convergence in EM vs. Developed GDP	<ul style="list-style-type: none"> The convergence of developed markets growth and emerging markets growth has been a key driver behind the sharp outperformance of U.S. equities. Despite sharp falls in emerging market currencies, there has not been a noticeable increase in exports to spur global trade.
Slowing Return on Equity (ROE)	<ul style="list-style-type: none"> Companies in the MSCI EM Index have seen ROE's go from 18% in October 2008 to 11% in 2015. Brazil company's ROE have gone from 22% in 2008 to 4% in 2015.
Capital Outflows	<ul style="list-style-type: none"> Total capital outflows from the largest 19 emerging market countries were \$940 billion over the trailing 13-months, double the value at the peak of the financial crisis in 2008/2009.

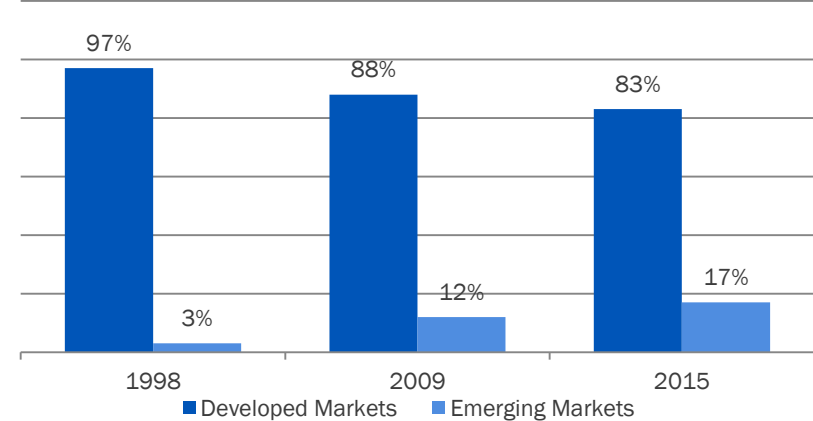
Emerging Market's GDP Contribution vs. Market Cap

GDP Contribution (USD)



Source: IMF World Economic Database

Market Capitalization



Source: MSCI

Observations

Topic	Observation
GDP Growth	<ul style="list-style-type: none"> Emerging markets are a large segment of the global economy and are growing faster than developed markets. Emerging markets are greater than a third of the World's gross domestic product (GDP) and many expect emerging markets to be greater than half of the World's GDP over the next decade.
Demographics	<ul style="list-style-type: none"> Demographic trends are more attractive in emerging markets as the U.S. Census Bureau projects that 900 million more people will enter the working age population in emerging markets in twenty years while the developed markets will experience a 40 million decline.
Rise of the Middle Class	<ul style="list-style-type: none"> Over the next decade, one billion global consumers will enter the middle class — predominantly in the emerging markets — driven by urbanization, rising incomes and favorable demographics

Endnotes

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Endnotes

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