

POTENTIAL NEW EMERGING MARKETS ON THE BLOCK: ARGENTINA, SAUDI ARABIA AND ROMANIA



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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.

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 modernise its society.

Romania – Modernising 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 modernising its capital markets to make it more accessible 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.

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Sources and Important Information 1 MSCI, eVestment, Morningstar and Bloomberg, as reported on 9/30/17. 2 Source: Reuters and Bloomberg. The 2.4% potential weight excludes the IPO for oil giant Saudi Aramco which is expected in late 2018. 3 FTSE 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. Past performance is no guarantee of future results. Investment Risk – There can be no guarantee that any investment strategy (risk management or otherwise) will be successful. All investing involves risk, including the potential of loss of principal. Emerging Markets Risk – The risks of foreign investments are typically greater in less developed countries, which are sometimes referred to as emerging markets. For example, legal, political and economic structures in these countries may be changing rapidly, which can cause instability and greater risk of loss. These countries are also more likely to experience higher levels of inflation, deflation or currency devaluation, which could hurt their economies and securities markets. For these and other reasons, investments in emerging markets are often considered speculative. Similarly, investors are also subject to foreign securities risks including, but not limited to, the fact that foreign investments may be subject to different and in some circumstances less stringent regulatory and disclosure standards than US investments. 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 and summary prospectus. To obtain a prospectus or summary prospectus, please contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing. Mirae Asset Global Investments (USA) LLC is the investment advisor for the Mirae Asset Discovery Funds. Mirae Asset Discovery Funds are distributed by Funds Distributor, LLC. Copyright © 2018 by Mirae Asset Global Investments. All rights reserved. Mirae Asset Global Investments (USA) LLC n 625 Madison Avenue, 3rd Floor, New York, NY 10022 n (888) 335-3417 n investments.miraasset.us NEM-SS-0118