

Mirae Asset Global Investments

**2012 Global Outlook
on Emerging Markets**



EMERGING MARKET EXPERTS

About Mirae Asset Global Investments

Mirae Asset Global Investments is one of the world's largest investment managers in emerging market equities.* With over 650 employees, including more than 125 dedicated investment professionals, Mirae Asset offers a breadth of emerging market expertise. Mirae Asset's offices are located in Hong Kong, China, Korea, India, Taiwan, Vietnam, Brazil, the U.K. and the U.S. The firm manages approximately \$45 billion in assets globally, of which more than \$17 billion is invested in emerging market equities.**

www.miraeasset.com

*Source: Investment & Pensions Europe, January 2011

**As of September 30, 2011

Table of Contents

Executive Summary 1

Global Emerging Markets 2

China 8

India 11

ASEAN (Association of Southeast Asian Nations) 13

Korea 15

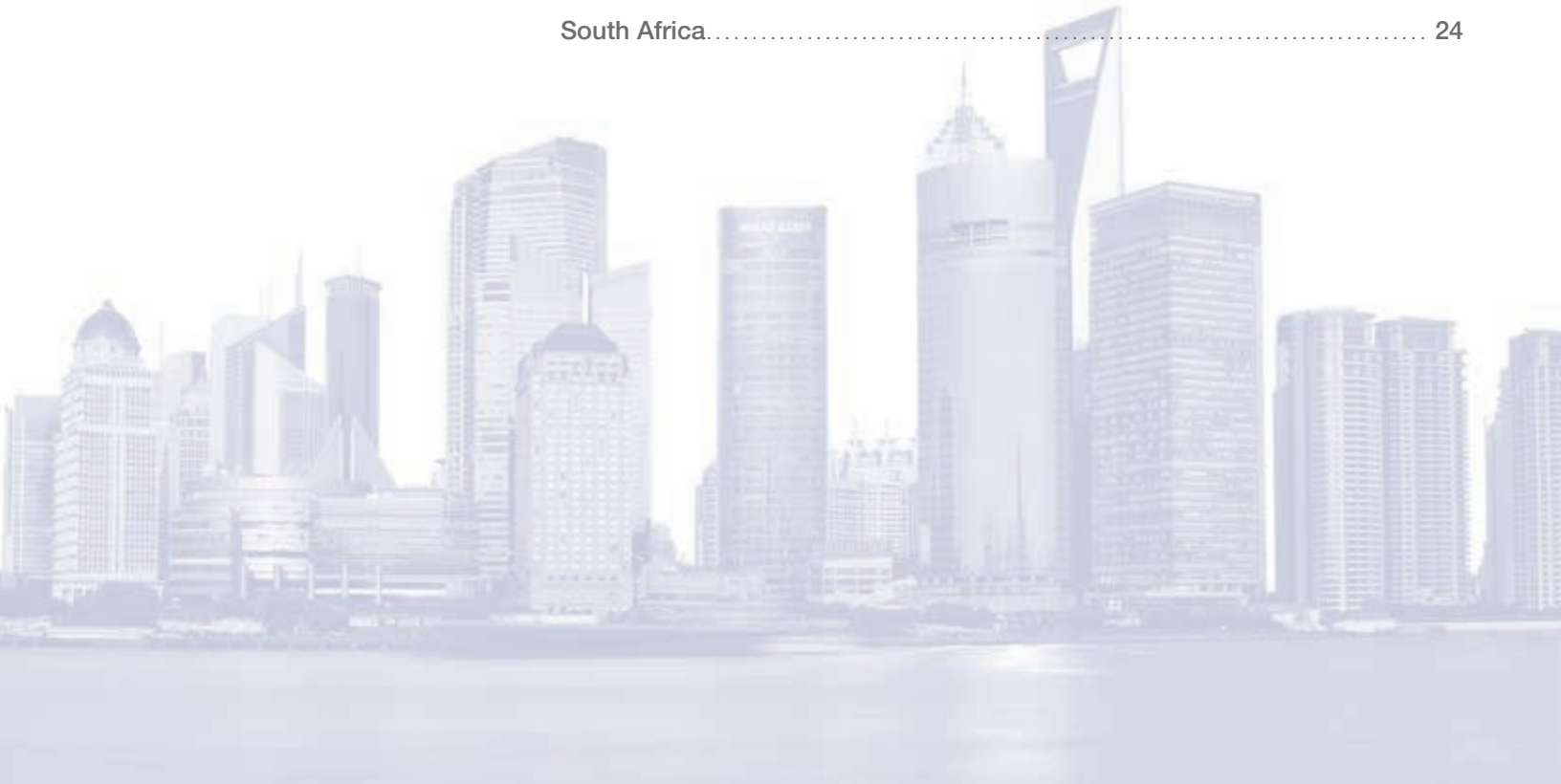
Latin America 18

EMEA (Europe, Middle East, Africa) 21

CE3 (Czech Republic, Hungary, Poland) 22

Turkey 23

South Africa 24



2012 Global Outlook on Emerging Markets

Executive Summary

- Increased levels of volatility have enveloped global equity markets in the second half of 2011. Contagion in the euro zone and fiscal uncertainty in the US have weighed on stock prices and future growth prospects globally.
- Inflationary pressures have abated across emerging market countries on the back of a slowdown in global growth. Food and commodity prices have fallen from their early 2011 peaks, which has resulted in a drop in consumer and producer prices.
- In anticipation of weaker demand and slower growth from developed markets, central banks in emerging market economies have begun to loosen monetary policy. We expect this trend to continue into the first half of 2012, as the macro environment remains unclear.
- Valuation remains attractive across emerging market equities, relative to their developed market counterparts. Price-to-earnings ratios are below long-term historical averages and close to 2008 lows.
- Emerging market equity fund flows, while negative for the year, are likely to reverse course modestly in 2012 given attractive valuation and resilient economic growth in the region, although risk appetites will remain suppressed until a clearer resolution of the euro zone debt crisis materializes.



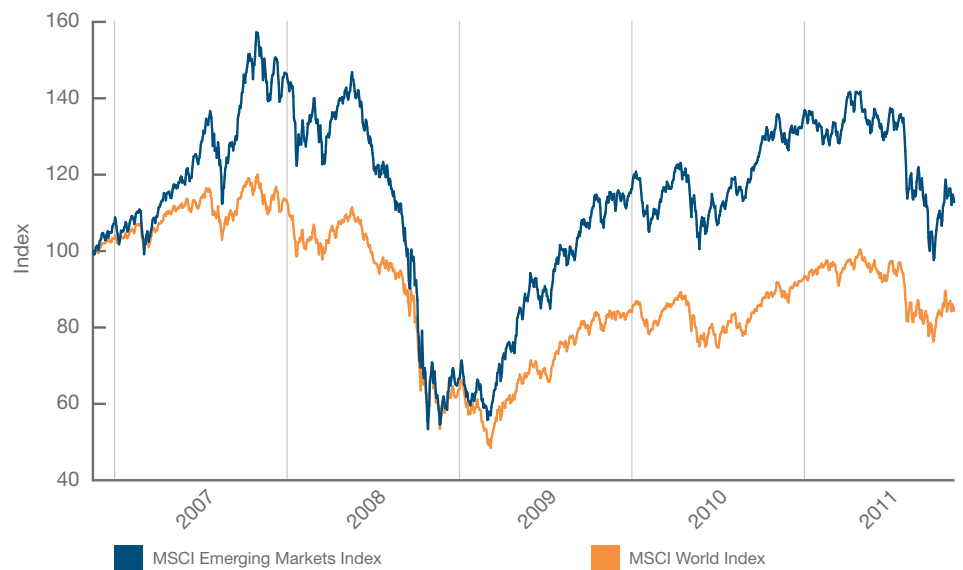
Global Emerging Markets

Increased volatility in equity markets

Global markets have seen extraordinary levels of volatility in the second half of 2011. Fiscal and regulatory uncertainty across the developed world has roiled markets and hampered growth prospects. Standard & Poor's (S&P) downgraded US sovereign debt below AAA for the first time in history, while the euro zone sovereign debt crisis engulfed France, Italy and Spain. US consumer confidence has dropped to crisis-level lows,¹ and the Misery Index² is at its highest in nearly 30 years.

In the absence of stark headlines from the developed world, investors will refocus on underlying fundamentals of the emerging markets.

EMERGING MARKETS HAVE UNDERPERFORMED THE DEVELOPED WORLD IN 2011



Past performance does not guarantee future results.

Source: Thomson Reuters Datastream

MSCI EM Index and MSCI World Index levels rebased to 100 on 11/15/2006

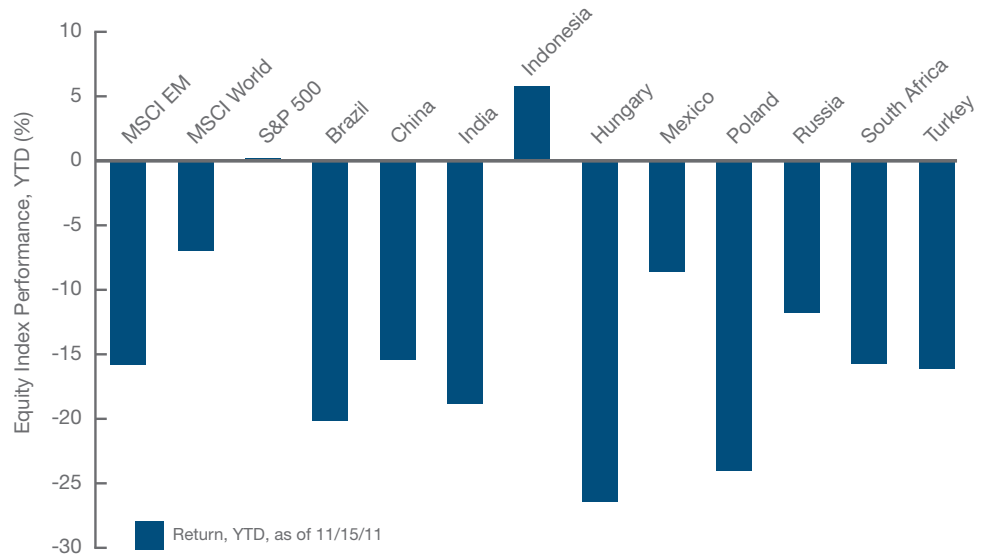
¹Conference Board Consumer Confidence Index fell to a two-year low of 39.8 in October 2011.

²Misery Index is an economic indicator calculated by Bloomberg that combines US inflation and unemployment levels.

Through mid-November, the MSCI Emerging Markets Index was down 15.8%, compared with a loss of 6.9% for the MSCI global benchmark.³ The biggest underperformers are Brazil, Hungary and Poland, with each down more than 20% for the year. Indonesia has been the bright spot among emerging market equity performance with a year-to-date gain of nearly 4.5%.⁴ Robust Gross Domestic Product (GDP) growth, strong domestic demand and declining inflationary pressures have boosted economic growth and profit forecasts for Southeast Asia's largest economy.

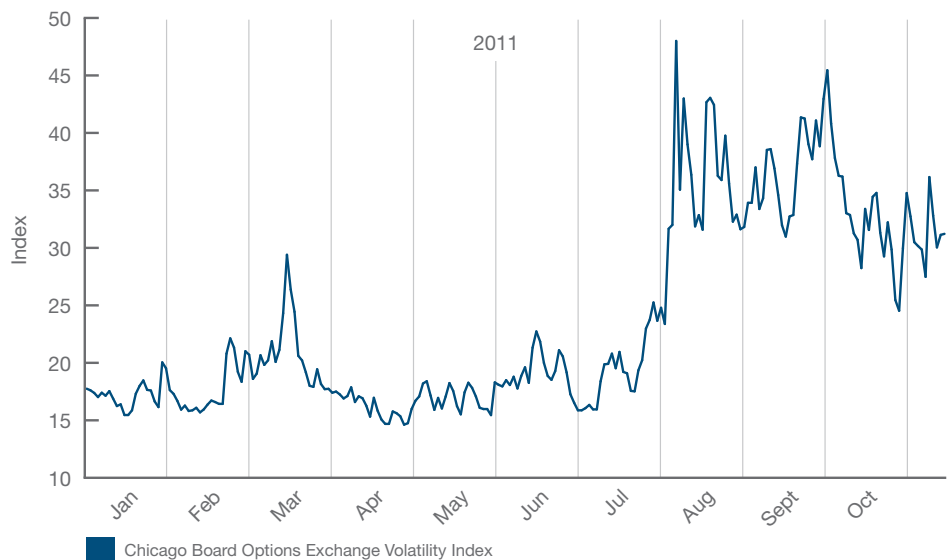
Recently, progress made at the EU summit, positive economic data from the US and China and strong corporate earnings growth helped to buoy global equity markets. The CBOE Volatility Index (VIX) traded below 30 for the first time since early August on the back of a comprehensive euro zone package agreed upon by EU officials, although political uncertainty since the announcement has once again driven volatility higher. While investor sentiment is slowly beginning to improve, the global macro trend remains unclear. We expect markets to remain volatile into early 2012, as the euro zone crisis continues to unfold. In the absence of stark headlines from the developed world, investors will refocus on underlying fundamentals of the emerging markets.

INDONESIA OUTPERFORMED DEVELOPED AND EMERGING EQUITY MARKETS



Past performance does not guarantee future results.
 Source: Bloomberg
 YTD equity returns through 11/15/2011
 Individual country performance data from MSCI indices

VIX SPIKED IN SECOND HALF OF THE YEAR



Source: Thomson Reuters Datastream

³MSCI World Index includes all developed world markets.

⁴Bloomberg, as of 11/15/11.

Europe remains biggest downside risk

The euro zone sovereign debt crisis remains the biggest downside risk facing the global economy. Markets have endured months of heightened instability as European politicians struggle to avoid a disorderly Greek default and contagion across core euro zone economies.

In light of the current situation in Europe, we expect to see a mild recession in the region and very weak growth into 2012. Political uncertainties will persist until a final resolution comes to pass, and markets will fluctuate accordingly. As European banks are forced to recapitalize, they will likely sell assets to shrink their balance sheets and tighten lending standards. Tensions within sovereign bond markets will keep funding costs at historically high levels.

Growth in the US has been slow but steady, and we expect the trend to continue. GDP growth in the third quarter came in stronger than expected at 2.0% annually. Corporate earnings have been strong in the third quarter, as 73.4% of S&P 500 companies that have reported earnings beat consensus estimates.⁵ Still, growth forecasts have been revised downward by the FOMC. Real GDP is not expected to exceed 3% in 2012, and unemployment and inflation forecasts were revised higher — even in their long-term projections. Fed Chairman Ben Bernanke emphasized that interest rates would be “at least” zero through mid-2013 and confirmed that buying mortgage-backed assets was a “viable option” if conditions were “appropriate.”⁶

Japan has recovered remarkably quickly from the devastating earthquake and tsunami in March that paralyzed the country’s global supply chain. Output improved significantly over the months following the natural disaster before dropping off steeply on global growth concerns. In 2012, GDP growth is expected to rebound sharply on the normalization of the country’s industrial production chain and the base effect of negligible growth in 2011. Consensus estimates now forecast a 2.5% year-over-year change in real GDP in 2012.⁷

Inflationary pressures ease

In the first half of 2011, concerns over inflation plagued emerging market countries. Food and commodities costs spiked, and central banks tightened monetary policy accordingly. Decreased export demand and slower growth from

the US and Europe in the second half of the year have helped to cool inflationary pressures in large, emerging market economies like China and Brazil.

Declining commodity and food prices have led the drop in consumer and producer prices in the second half of the year. The UN Food and Agriculture World Food Price Index has fallen more than 9% from its February 2011 high. The dairy and sugar components, which together account for 24% of the index weight, have each fallen more than 13% this year. Among commodities, we have seen a 13.5% drop in the S&P GSCI Spot Index from its April high. Gold and Brent Crude have outperformed, with year-to-date gains of 21.3% and 15.6%, respectively. Cotton, nickel and wheat have seen sharp drops of more than 20% over the same period.⁸

INFLATIONARY PRESSURES DECLINED ACROSS EMERGING MARKETS



Source: Thomson Reuters Datastream, World Bank

Inflation rates of Brazil, China, India, Indonesia and Russia included in weighted average calculation

⁵Bloomberg, as of 11/15/11.

⁶Federal Reserve, Federal Open Market Committee.

⁷Bloomberg, as of 11/15/11.

⁸Bloomberg, as of 10/31/11.

In China, the consumer price inflation rate has declined steadily to 5.5% year-over-year in October from a high of 6.5% in July, and we expect the trend to continue into 2012. Housing prices have plummeted from their highs in April. Property transactions dropped 25% in October from the prior month, and new residential housing starts declined for the first time this year over the same period.⁹ Producer prices have declined consistently over the second half of the year, with October growth at 5.0% year-over-year. We expect the trend to continue into the first quarter of 2012.

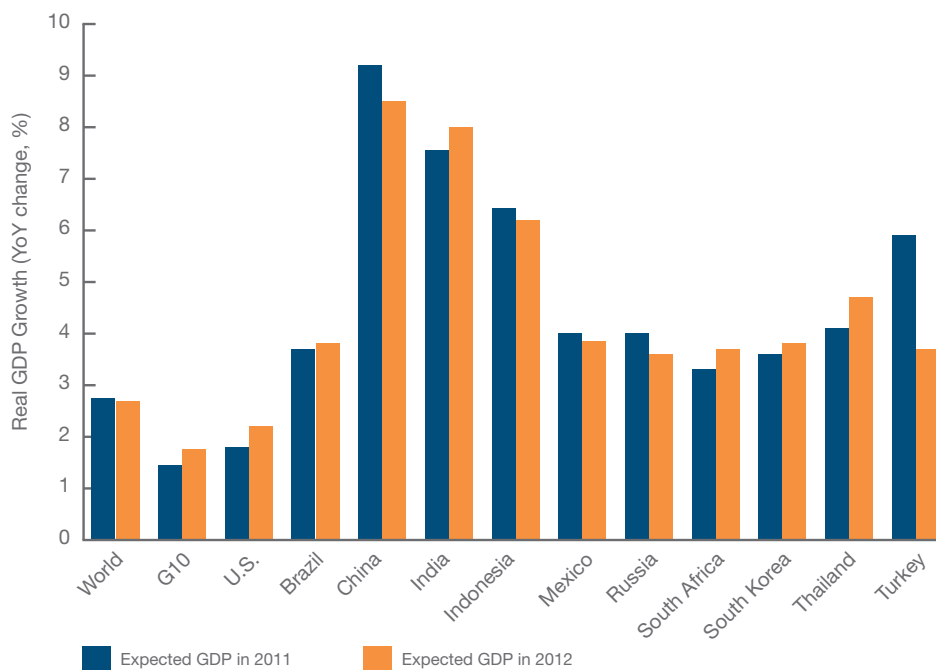
Inflation in Brazil and India remains elevated and has been an overhang on the economies, although we believe both have peaked. Weakening global demand and declining input prices will help to bring inflationary pressures lower.

Economic growth in emerging markets outshines the world

Weak growth beleaguered the developed world during the second half of 2011 and is forecast to weaken into 2012. The IMF slashed its 2012 growth forecasts for all G7 countries¹⁰ and is predicting GDP growth of less than 2% for the US and euro zone economies.¹¹ Emerging markets, however, remain a bright spot in the global growth story.

China reported a third-quarter GDP increase of 9.1% year-over-year, compared with 9.4% cumulative year-over-year changes as of the third quarter. Concerns over a hard landing for the Chinese economy have abated in light of encouraging economic data and a likely easing of monetary policy. Chinese Premier

GROWTH FORECASTS ARE MIXED IN 2012



Source: Bloomberg

Consensus forecasts as of 11/15/2011

G10 countries include Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom and United States

Wen Jiabao emphasized that China will “fine-tune” its macroeconomic policies in order to maintain “reasonable” credit growth. Markets reacted positively to the hint of policy change from the premier, as the MSCI China Index outperformed the MSCI AC World Index by more than 5% since the announcement.¹² The somewhat unexpected cut in the reserve requirement ratio at the end of November illustrated a marked change in monetary policy positioning of the People’s Bank of China (PBOC). Chinese leaders have finally started to respond to a shifting global environment of slower growth and lower inflation.

Emerging markets remain a bright spot in the global growth story.

⁹National Bureau of Statistics of China.

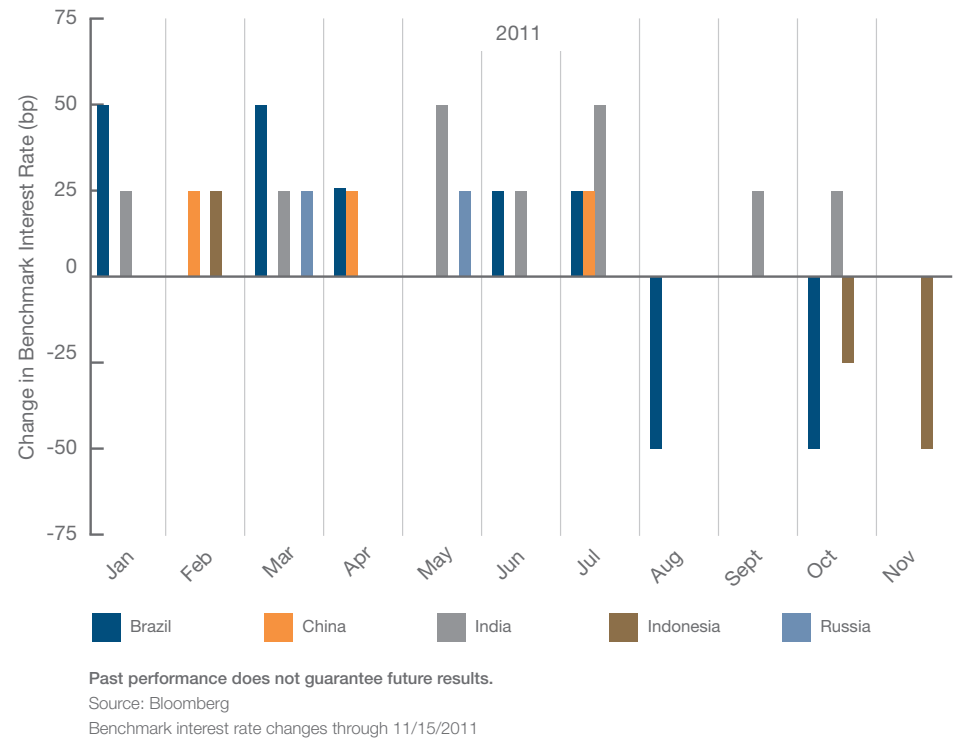
¹⁰G7 countries include Canada, France, Germany, Italy, Japan, United Kingdom and United States.

¹¹IMF World Economic Outlook, September 2011.

¹²Bloomberg, performance from 10/25/11–11/15/11.

As volatility abates, we expect the market to refocus and return to trading on fundamentals.

CENTRAL BANK BEGAN LOOSENING MONETARY POLICY



In anticipation of a global economic slowdown, central banks across emerging markets have begun slashing interest rates. Brazil has already made two 50-basis-point cuts since August to bring the Selic rate to 11.5%. Indonesia, which has reported GDP growth of 6.5% for the first, second and third quarters of 2011, surprised markets by lowering

its reference rate by 25 basis points in October and 50 basis points in November. The Bank of Indonesia explained that it was imperative for the country to be “ahead of the curve in anticipating the impact of the global economy.”¹³

¹³Bank of Indonesia.

Attractive valuations among equity markets

Valuations look attractive across emerging markets, as price-to-earnings and price-to-book value ratios remain below historic long-term averages.¹⁴ As volatility abates, we expect the market to refocus and return to trading on fundamentals. The MSCI Emerging Markets Index now trades at a 12-month forward P/E ratio of 11x, or 27% lower than its long-term historical average. The MSCI World Index trades at 13.3x and the S&P 500 at 13.2x.¹⁵

Inflows return to emerging market equity funds

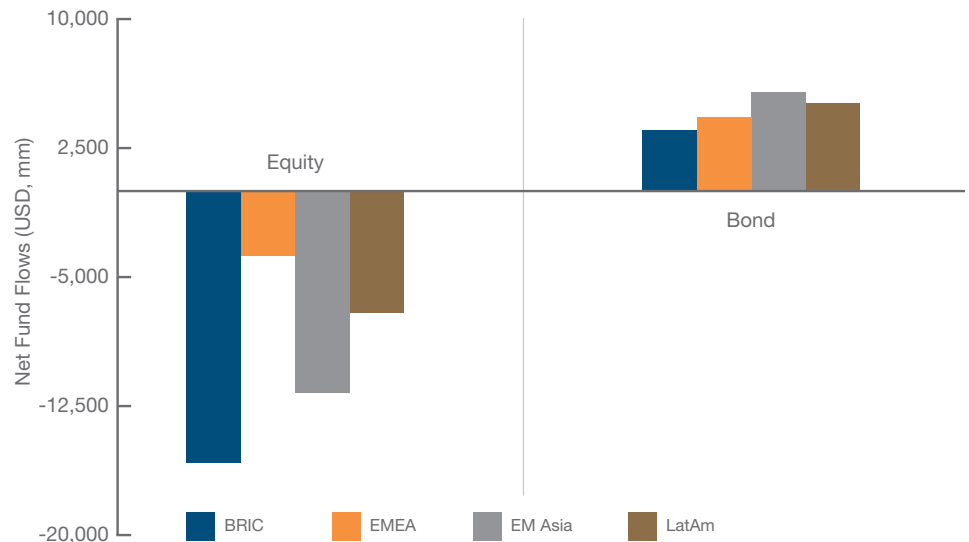
On a year-to-date basis, outflows across emerging market equities have reached \$22.8 billion, compared with \$40 billion in 2008. The BRIC region had the largest outflow this year at \$15.8 billion.¹⁶ Recently, emerging market fund flows have begun to reverse course and trend positive, as market volatility subsides from August peaks. Going forward, we expect modest inflows to emerging market funds once the developed market turmoil is contained and investor risk appetite returns to pre-crisis levels.

PRICE-TO-EARNINGS RATIOS REMAIN NEAR RECORD LOWS



Source: Bloomberg
As of 10/31/2011

NET FUND FLOWS ARE NEGATIVE ACROSS EMERGING MARKET EQUITIES



Source: EPFR Global
As of 11/11/11

¹⁴Average since January 1995.
¹⁵Bloomberg.
¹⁶EPFR Global as of 11/11/11.

China

Concerns over growth slowdown are overdone

China has been a growth story for global equity investors for decades. Generally speaking, in good years driven by bull markets, it has tended to outperform other stock markets. The reverse has been true in bear markets.

2012 will be the transitional year of next-generation political leaders, and also the second year of the current 12th Five-Year Plan.

Amid the domestic tightening, as well as weakening external demand, investors have been increasingly worried about the potential sharp slowdown of GDP growth in China in 2011. As a result, the Hong Kong/China market declined to trough level during the third quarter of 2011.

We believe that domestic macro conditions in China are improving and that the chance of a hard landing is very low. Inflation is under control and is expected to cool off gradually. On the policy side, we have already seen selective, supportive movement on Small- and Medium-sized Enterprises (SMEs), local government debt, railway funding and pilot tax reforms. 2012 will be the transitional year of next-generation political leaders, and also the second year of the current 12th Five-Year Plan. As a result, we expect the policy stance to become more supportive going into 2012.

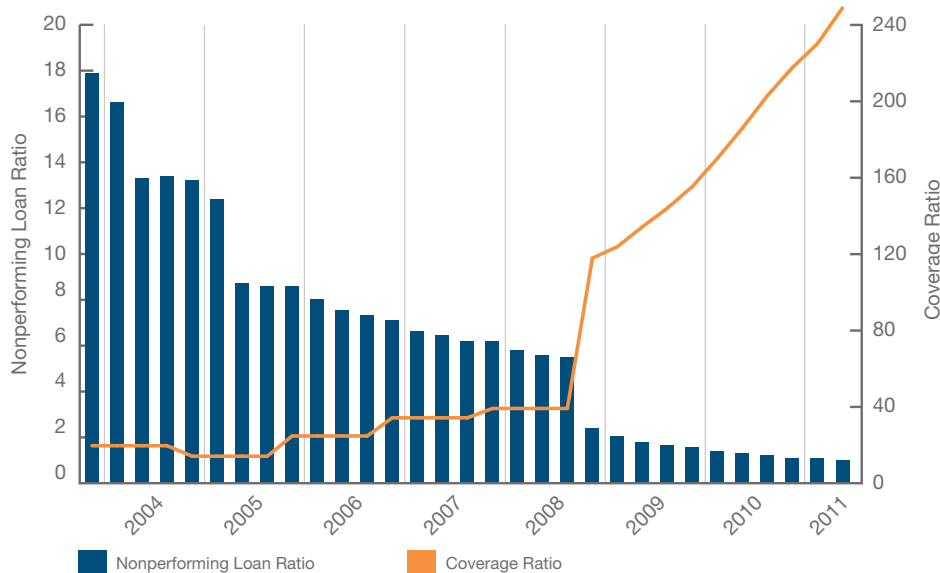
China is going through a period of economic transition, and GDP growth going forward is expected to be lower than in previous periods. Volatility, however, should lessen as domestic demand increases and certain industries upgrade themselves. Therefore, in our opinion, the huge swing we have seen in investor expectations between economic overheating and fears of a hard landing should gradually ease.

Our cross-country analysis indicates that the slowdown of GDP growth does not necessarily translate into lower stock market returns. The stock market is just more sensitive to a sharp economic slump.

Financial system risks are controllable

We believe China is in a stronger financial position than the U.S., the European Union and many other emerging markets. Its government debt ratio is about half of GDP, including both national and local debts. This is relatively low compared to

ADEQUATE COVERAGE RATIOS SHOULD PREVENT A DEEPLY DISTRESSED BANKING SECTOR



Source: SSB, Wind as of October 2011

the debt level of more than 100% in most of the developed countries. The solvency of local government is manageable based on stable fiscal revenue increases and new issuance initiatives.

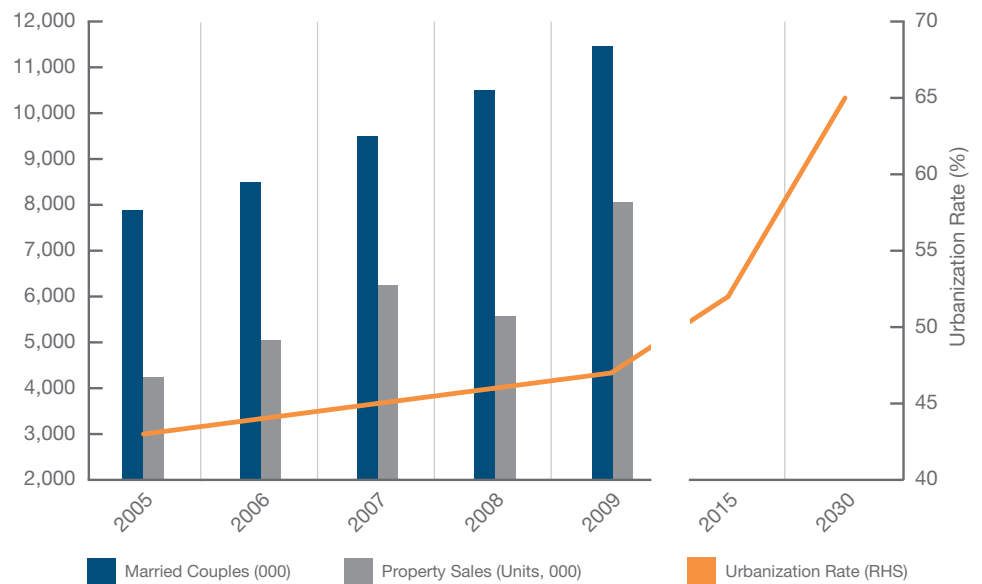
Issues related to nonperforming loans (NPLs) have raised concerns over the possibility of a sharp slowdown in growth and negative real interest rates. We note, however, that the coverage ratio should be high enough for the banking sector to endure any potential headwinds. We do not see the previous Wenzhou SME concerns as the nationwide case, with the evidence of robust private investment activities.

We are not concerned about a nationwide property bubble, as the current price-to-income multiple is about 6.4x. Although the ratio is higher in big cities, we believe it reflects the supply shortage. For example, while there are more than 11 million marriages a year in China, annual property sales are only about 9 million. Property development and mortgages account for less than 20% of loan book exposure, which points to less of a downturn threat. In addition, the aggressive social housing plan should mitigate the supply/demand imbalance going forward.

China has maintained a positive current account in the past decade, with foreign exchange reserves growing steadily to 48% of GDP by 2010. Hence, we believe that any currency risk is quite low.

China has maintained a positive current account in the past decade, with foreign exchange reserves growing steadily.

MARRIAGE RATES OUTNUMBER PROPERTY SALES, HIGHLIGHTING SHORTAGE OF HOUSING IN CHINA



Source: Ministry of Civil Affairs

We expect service sectors such as tourism, entertainment, health care and education to have vast growth opportunities.

Portfolio Strategy

As we enter the second year of China's structural transitional period, our core strategy focuses on the following four major themes, which we call "B.I.G.S."

1. Branded consumers: Driven by structural changes in the economy, we expect labor wage increases to exceed GDP growth, which could unlock the consumption power inside China. Increases in both middle-class and super-rich households, as well as greater interest by consumers in buying brand merchandise, are all expected to support branded consumer goods.

2. Information technology: Internet users in China spend a longer time online than users in other countries. This may be partially due to the social demands of the younger generation under China's one-child policy. With the increasing penetration of smart phones (we expect

the total shipment of smart phones to exceed that of PCs in 2012), the mobile Internet space could have fast growth.

3. Green energy: China is one of the world's major energy consumers and carbon dioxide (CO₂) emitters. Energy efficiency, measured by energy consumption per GDP, has been improving over the past decade, and the government is enforcing aggressive alternative energy plans to bring down further the fossil-fuel dependence of the economy.

4. Services: Urbanization is an ongoing process, with both the size and number of cities on the rise in China. We expect service sectors such as tourism, entertainment, health care and education to have vast growth opportunities.

In addition, if we see positive policy movements in 2012, we will look for cyclical opportunities in policy-sensitive sectors such as financials and cyclical industries.

India

Tightening has peaked

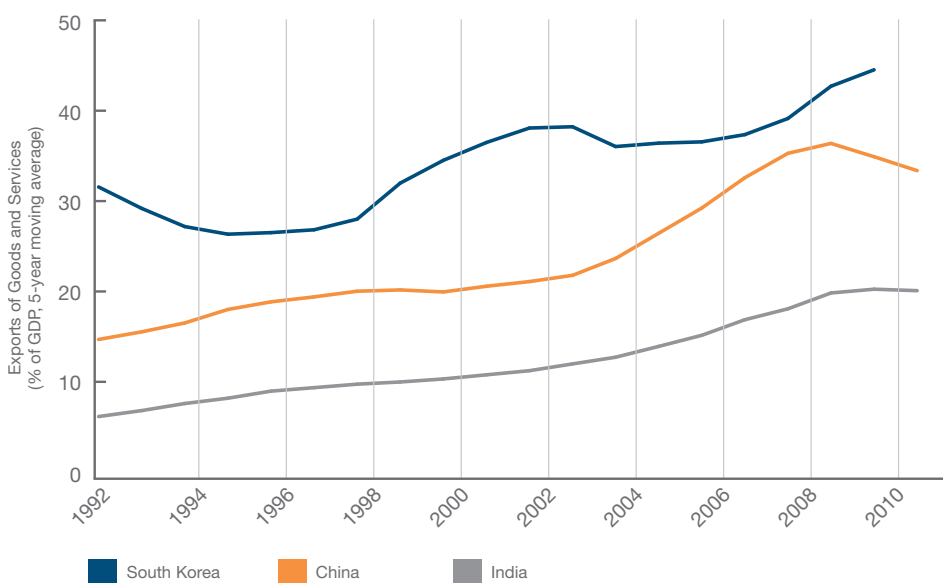
With respect to monetary policy, we believe that the Reserve Bank of India (RBI) is likely done for the time being with rate hikes. Inflation is expected to come down from the current 9.5% to about 7% by February 2012 on the back of falling commodity prices and base effects.

Because India's economy is showing signs of a slowdown, and the possibility exists of a global growth scare, the RBI will likely adopt a wait-and-watch attitude through spring of 2012. In fact, if the developed world goes into recession in 2012, we may see the RBI cutting interest rates in April or May.

Falling costs could benefit corporate earnings

Despite a robust growth in revenues, corporate earnings have been under pressure because of higher raw material prices and the interest rate burden. We believe that revenue growth may slow, although declining raw material costs and interest rates will likely act as positive catalysts in 2012.

DOMESTIC DEMAND WILL HELP TO PROTECT INDIA FROM EFFECTS OF A GLOBAL SLOWDOWN



Source: Thomson Reuters Datastream

We see a GDP growth rate in India of around 7% to 7.5% for fiscal year 2012 (March-end) and around 7% for fiscal year 2013. Although these growth rates are lower than in previous years, they would make India the second-fastest-growing economy in the world after China, with a GDP of at least \$1 trillion. We continue to believe that domestic demand will be the key theme over the next three to four years, with the rural/semi-urban economy growing faster than its urban peers.

In the near term, both the fiscal deficit and the current account deficit remain concerns that we believe can be overcome.

Portfolio Strategy

Within sectors, we like companies that are good rural economy plays, such as tractors, two-wheelers, fertilizers and agrochemicals. Government expenditure allocation on key rural schemes has jumped five to six times over the past five years. We also favor consumer staples companies in underpenetrated categories such as cigarettes, household insecticides and hair colorings.

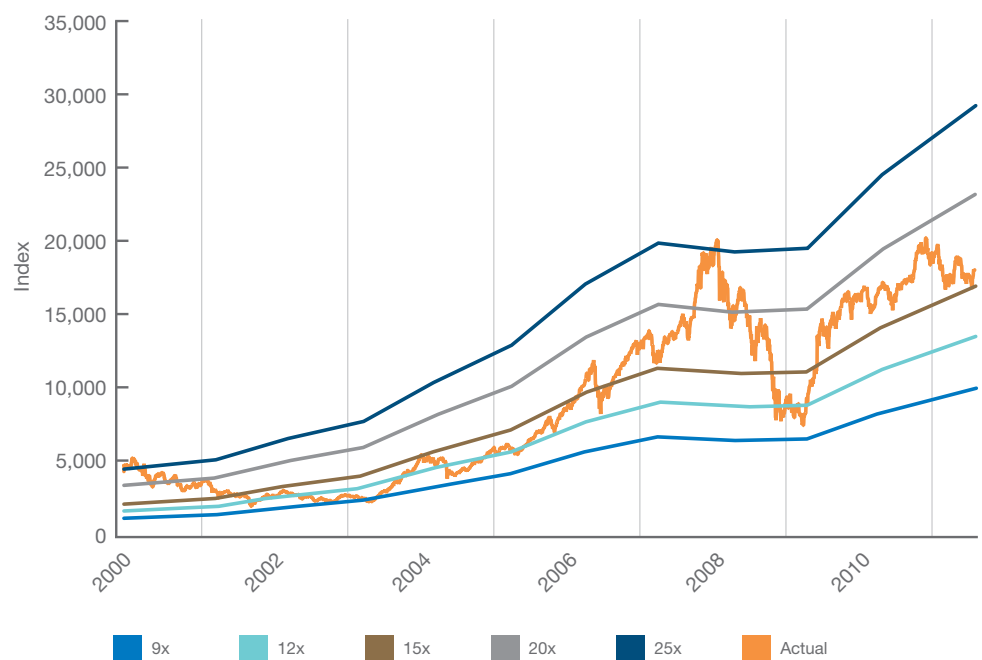
As monetary headwinds recede and policy paralysis by the government ends, we are likely to increase our exposure to financials into the first half of next year, as we believe that the sector should outperform in 2012 after its underperformance in 2011. In the near term, both the fiscal deficit and the current account deficit remain concerns that we believe can be overcome if the Indian government

rekindles a positive investment climate by facilitating foreign direct investment (FDI), fast tracking the award of coal mine permits and clearing pending projects.

Since 2012 will be a year of slow growth rather than a deep recession for the developed world, in our opinion, we are neutral on the IT sector because we believe that companies, particularly in financial and retail businesses, will continue to use IT to stay competitive and enhance productivity. We remain underweight on oil and gas as headwinds from the global growth slowdown remain high.

The MSCI India Index is forecast to trade at 13.5x 2012 earnings, with a 6.4% growth rate in earnings per share. Any further upside will be contingent on positive policy action from the Indian government.

PRICE-TO-EARNINGS RATIOS IN INDIA HAVE DECLINED THROUGHOUT 2011



Source: Bloomberg

ASEAN

Association of Southeast Asian Nations

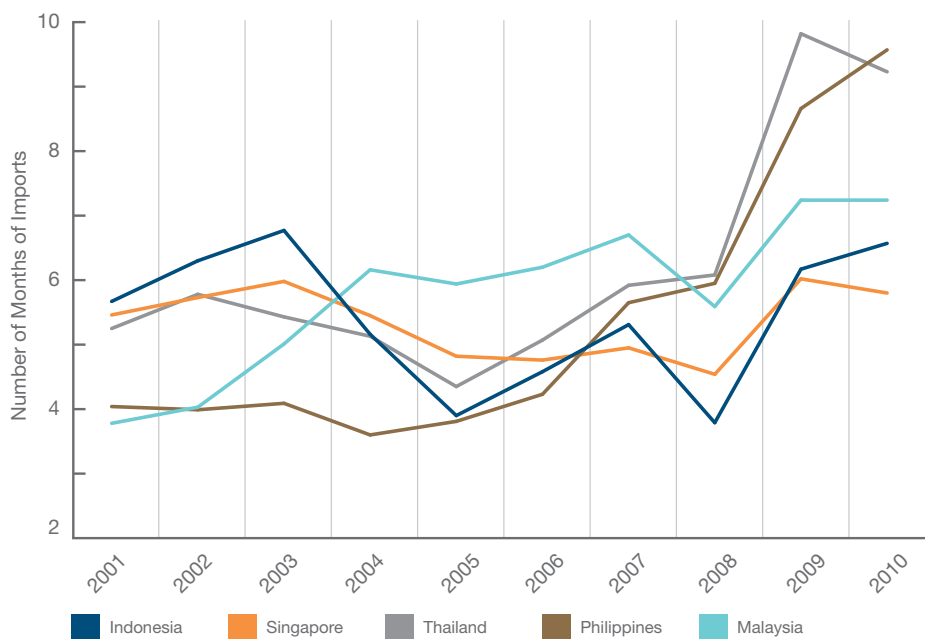
Growth story remains intact

Following a strong performance in 2010 and 2011 by the ASEAN region, we believe that ASEAN markets will take a breather and that GDP growth rates will moderate on the back of slowing growth rates in developed markets. The slowdown will be less severe than in previous downtrends, however, as a result of increased dependence on China and India.

Despite the near-term slowdown in GDP growth, the long-term story for the region remains intact. The potential for growing demand from a population of 500 million is a strong point for the region. Other positive indicators include stable, forward-

looking policy regimes, as well as relatively sound macroeconomic health as a result of a low debt-to-GDP ratio, fiscal deficits and current account surpluses. Finally, the region is also likely to benefit because of the export of commodities such as Indonesian coal and palm oil, Malaysian palm oil and Thai agricultural products.

FOREIGN RESERVES HAVE INCREASED DRAMATICALLY



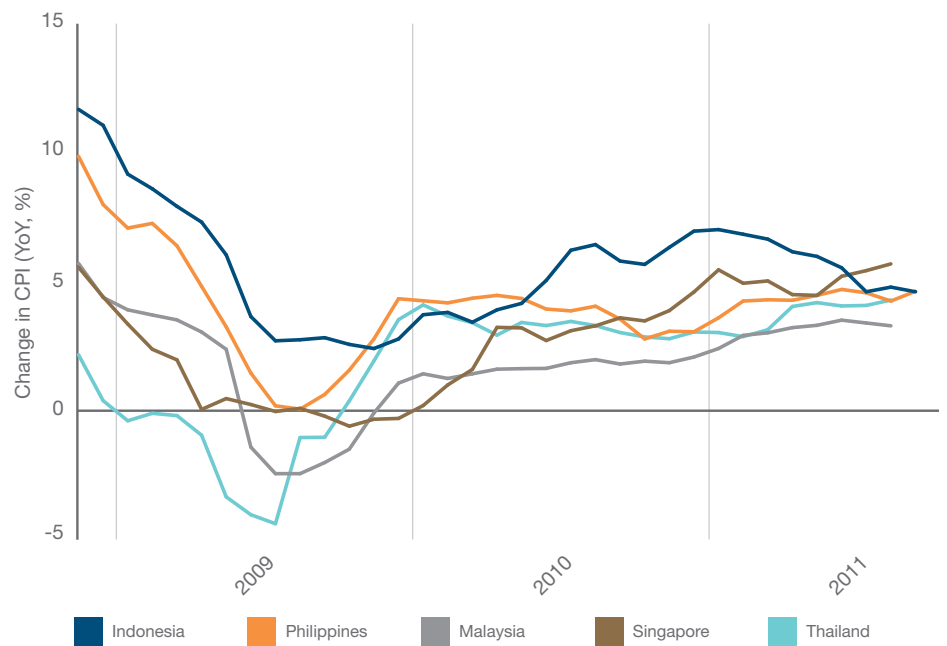
Total reserves in months of imports (USD)

Source: World Bank

The central banks have accumulated sizeable reserves over the past years, enhancing their ability to reduce volatility in the event of a sudden outflow in capital. ASEAN countries have significantly increased their months of imports coverage ratio over the past five years.

Inflation has remained manageable for the region at about 5%, and its trajectory should be lower with a correction in crude oil prices. We believe that ASEAN central bankers will remain proactive to interest rate cuts if growth should fall under pressure from the global slowdown.

INFLATIONARY PRESSURES HAVE MODERATED ACROSS THE REGION



Source: Thomson Reuters Datastream

We believe that ASEAN central bankers will remain proactive to interest rate cuts if growth should fall under pressure from the global slowdown.

Influx of manufacturing benefits the region

The ASEAN region, particularly Thailand and Indonesia, is benefiting from an influx of manufacturing work from China and Japan. For example, the shift in manufacturing from Japan has gained ground following the country's devastating earthquake in March and the recent strength of the yen. The reallocation from China is largely the result of sharp increases in wages in that country, primarily in the low-cost manufacturing workforce. At the same time, the Philippines benefits by being the largest supplier of personnel for service industries such as hotels and airlines.

The region has prospered because of a booming demand for both agricultural and hard commodities, as well as a rise in retail goods and autos. Meanwhile, Singapore is fast emerging as a preferred tourist destination because of its theme parks and casinos.

Portfolio Strategy

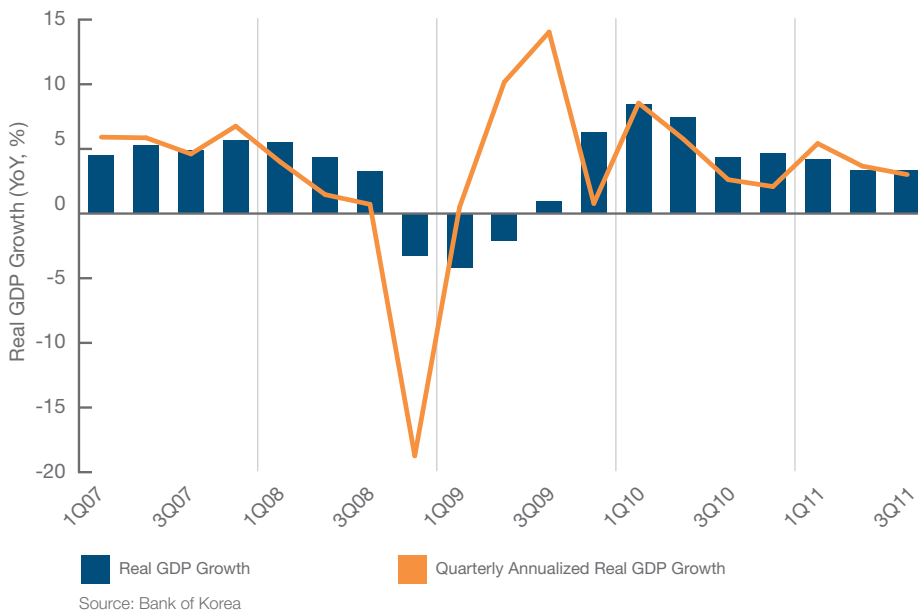
In terms of countries within the ASEAN region, we favor Indonesia, Thailand and the Philippines over Singapore and Malaysia. Key sectors in Indonesia include financials, as well as consumer discretionary and media. The secular demand story in Thailand favors hospitals and retailers, while our exposure to cyclical stocks comes partially from rig builders in Singapore and coal companies in Indonesia.

Korea

Economy: slow but moderate

Despite deteriorating global conditions, Korea's economy has maintained resilience on the back of double-digit export growth in 2011. Such growth was possible as dwindling demand in the developed markets was largely offset by that of emerging markets. While 2011 GDP growth is forecast at 3.8% year-over-year, we are expecting a modest growth slowdown in 2012, as uncertain global conditions may adversely impact export and domestic consumption.

KOREAN GROWTH MODERATES ON THE BACK OF GLOBAL SLOWDOWN



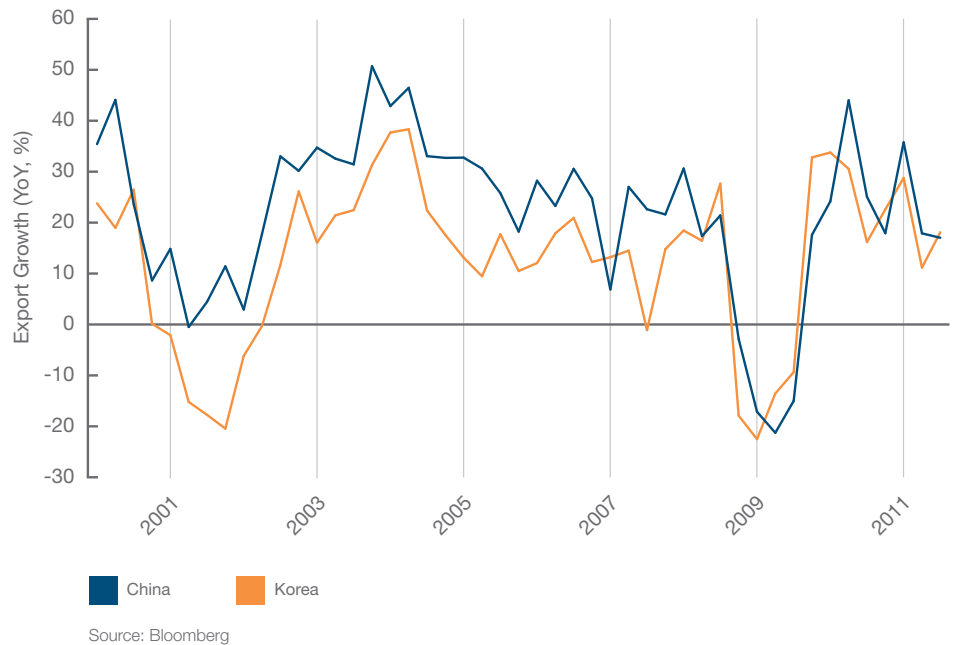
Uncertain global conditions may adversely impact Korean export and domestic consumption levels.

A key concern regarding exports is a possible slowdown in demand of emerging market countries due to developed market conditions. For example, if China's exports to developed markets slow, this, in turn, may reduce overall EM Asia's demand, hurting Korean exports. However, considering China's economic transition to a consumption-led economy, and although export growth may not be as great as in 2011, we expect the aforementioned adverse impacts to be limited.

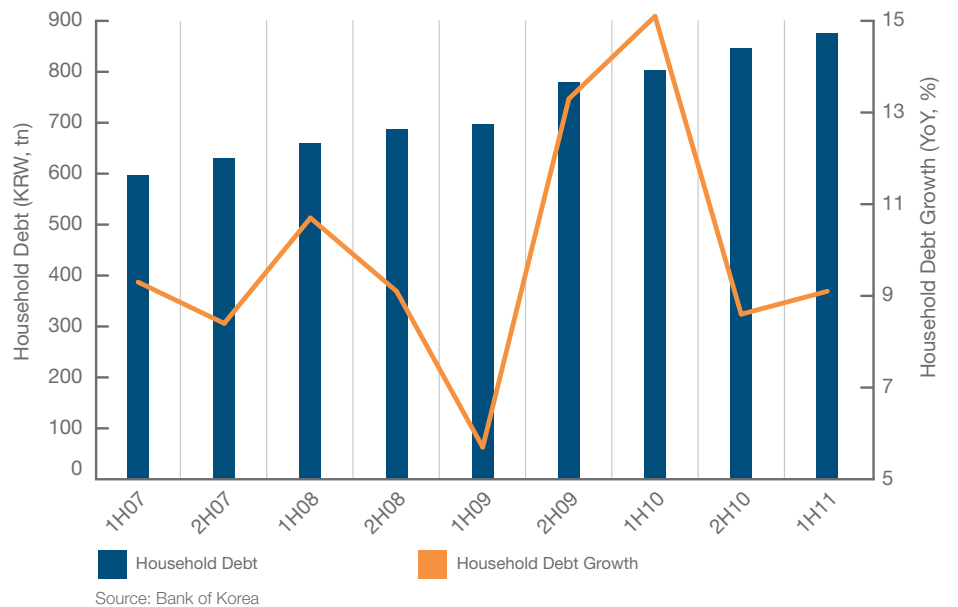
Household spending may come under pressure, as a hike in utility rates is expected, while rent costs and household debt remain elevated. However, with public debt only at 30% of GDP and an upcoming presidential election in December 2012, the government has much room and reasons to stimulate domestic demand. Thus, policies to boost domestic demand and its effects will be in focus during 2012.

Regarding the Korean won (KRW), there are both upside and downside risks. KRW may rapidly depreciate, possibly to the 1,200 level, if the European debt crisis remains as a headline issue in the market. If developed markets' central banks decide upon another round of quantitative easing, however, KRW may appreciate only to the 1,050 level.

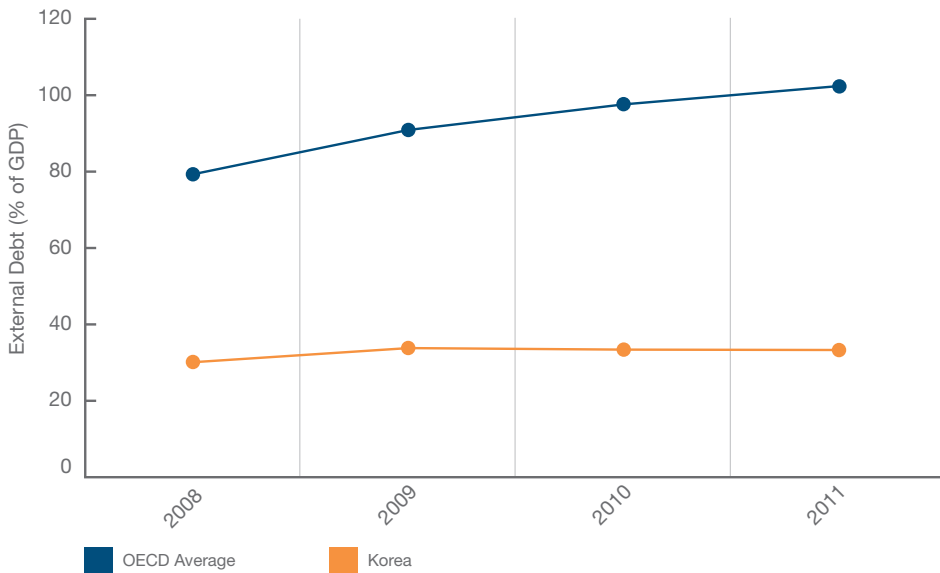
EXPORT GROWTH OF CHINA AND KOREA IS CLOSELY LINKED



KOREAN HOUSEHOLD DEBT BURDEN CONTINUES TO RISE



SOVEREIGN DEBT LEVELS REMAIN CONTROLLABLE



Source: Ministry of Strategy and Finance, OECD

With respect to the 2012 global growth forecast, as demand remains relatively skittish, we find it important to focus on the competitiveness of the supply side.

Portfolio Strategy

The current KOSPI market is at an attractive valuation level, and the market cap is at a pre-Lehman crisis level (KRW 1,000 trillion), while net profits have jumped to KRW 100 trillion in 2011, compared with KRW 60 trillion in 2007. In 2012, three main factors are expected to influence the Korea stock market, in our view: **1.** developments of the European debt crisis going forward and its impact on the global real economy; **2.** recovery of US employment and the housing market; and **3.** the possibility of the monetary policy easing in China.

With respect to the 2012 global growth forecast, as demand remains relatively skittish, we find it important to focus on the competitiveness of the supply side. That is, one should search for companies/sectors with strong competitiveness that will enable them to generate high earnings growth even in times of uncertainty.

Considering product quality, brand power and cost competitiveness, we find Korean export manufacturers such as IT and automobile companies to be at better ends than their peers. Therefore, the investment timing and weight in such export-led manufacturers are expected to impact overall performance.

Korean IT companies are at an advantage compared to their global peers (e.g., Taiwan and Japan) in both pricing power (due to a relatively weak KRW) and additional investment capacity.

While the automobile sector is expected to maintain steady above-GDP growth, we favor part-producing companies over finished goods producers. Considering current capacity and the high operating ratio, we expect demand for auto parts from overseas companies to be greater than demand for cars.

We have a positive view on long-term investment in consumer stocks that continue to increase brand value and expand into overseas markets amid sluggish global economic conditions. Considering Korea's economic development, EM demand for Korean-made consumer goods such as cosmetics and toiletries is expected to increase.

Lack of industry-related plant and equipment investment over the past few years and stabilized earnings on the back of steady demand from EM and China are major upside factors for chemical and refinery sectors. Therefore, signs of easing inflation may lead to moderated monetary policies in China, which is good news for investors.

Latin America

Markets refocus on fundamentals

Latin American equities trailed global equities in 2011, giving back a small part of the huge outperformance delivered over the past decade.

Inflationary pressures that negatively affected Latin American equities in 2011 are expected to ease into 2012, removing the key, recent, local overhang to performance.

Risk aversion has persisted since the fourth quarter of 2010, largely because of deterioration in the financial stability of the euro zone. In 2012, however, we anticipate that markets will once again focus on local fundamentals. Starting from a base case of decelerating inflation across Latin America, we see room for multiple expansion across the region's equity markets over the coming 18 months. In addition, because the political calendar appears relatively quiet in 2012, we believe election-related market volatility likely will be reduced.

Inflationary pressures that negatively affected Latin American equities in 2011 are expected to ease into 2012, removing the key, recent, local overhang to performance. The one exception is in Argentina, where official data mask a more deep-rooted inflation issue. In Brazil, we forecast that inflation data will have peaked in 2011, followed by a downward trend throughout the first half of 2012. Brazilian IPCA readings have remained stubbornly high since April 2011, above the 6.5% ceiling of the target band.

Both the Brazilian Central Bank and the Brazilian government have signaled that monetary stimulus will continue in an attempt to boost output, while simultaneously implementing gradual fiscal tightening. In our view, this represents a meaningful and potentially positive divergence from the strategy adopted during the financial crisis of 2008/09 when fiscal stimulus was first used, followed by subsequent cuts to the Selic rate. Despite this, economic growth forecasts have been cut to below 4% in both 2011 and 2012 as a result of slowing global activity and a decelerating domestic industrial segment.

We anticipate that the current cycle of monetary easing in Brazil will continue at least until the first half of 2012, with the other Latin American economies prepared and able to follow suit in the event of a more meaningful slowdown in growth. Personal indebtedness levels across Latin America are significantly below developed-market averages, and falling debt costs will help improve debt service ratios. The current moderation of credit growth rates is desirable, and we do not see a material deterioration in asset quality across the region's banking sector despite a significant rise in credit penetration over the past three years.

Political risks will continue but should be contained

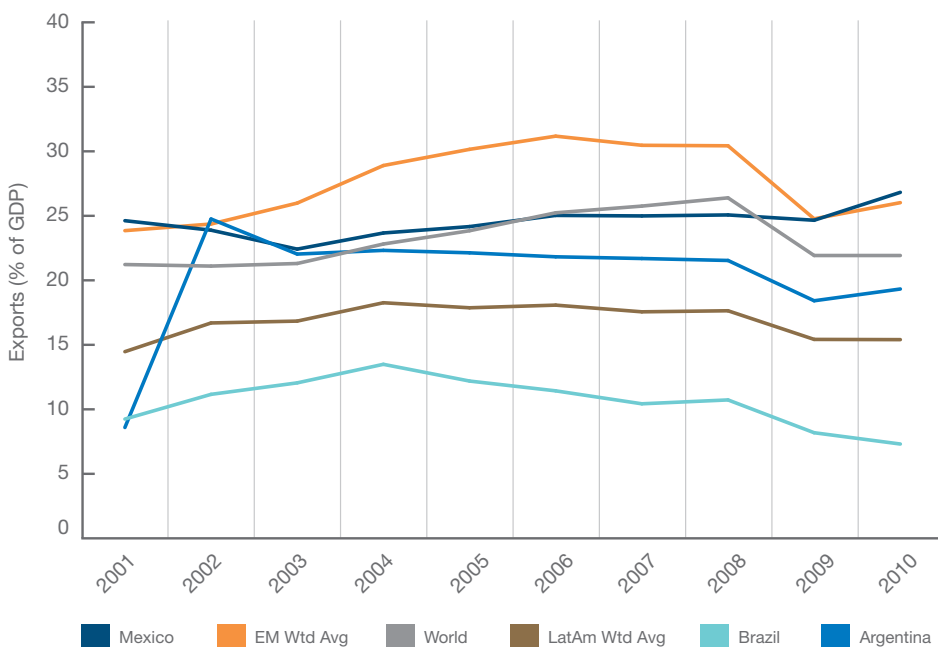
Economic fundamentals in Latin America have improved over their recent history and are stronger than those of the region's developed peers. Although political risks exist, we believe they can be contained. This improvement in sovereign risk across the region is reflected in tighter credit default swap (CDS) spreads over developed markets. State influence in the economy remains the largest question mark for investors in Latin America, although a gradual rise in taxation of the mining and energy sectors in Brazil is not expected to deter investment or prevent attractive private-sector returns over the coming decade. Protectionism risks need to be watched, but this is a global rather than a regional risk factor.

The following graph shows exports as a percentage of GDP since 2001, thus illustrating the degree to which selected Latin American countries trade with other countries or economies. Brazil is considered to be a "closed country" when compared with others, such as Argentina and Mexico, that are more receptive to external trade.

This finding contrasts with data in the pie chart on page 20 that shows that global cyclicals remain the largest component of Brazil's Bovespa Index, at 45% of the equity market composition. Global cyclicals include basic materials and energy stocks, while domestic cyclicals include consumer discretionary, financials and industrial stocks. Domestic defensives include consumer staples, telecoms and utility stocks.

Improvement in sovereign risk across the region is reflected in tighter credit default swap (CDS) spreads over developed markets.

BRAZIL IS LESS RELIANT ON FOREIGN TRADE THAN ITS COUNTERPARTS



Source: World Bank

EM weighted average includes all 21 MSCI Emerging Markets Index countries

Latin America weighted average includes Argentina, Brazil, Chile, Colombia, Mexico and Peru

THE BRAZILIAN EQUITY INDEX MOSTLY COMPRISES GLOBAL CYCLICAL NAMES



Source: Bloomberg
Brazilian equity index: Bovespa

We retain a favorable stance on the long-term investment potential for the region's key markets, including Brazil, Chile, Colombia and Mexico.

Due partly to the composition of local equity markets, Latin America remains a high beta market, exhibiting above-average volatility in times of global financial stress. Domestic sectors remain under-represented in the local equity indices except for Mexico. Although there are no major listed copper companies on the Chilean market, the correlation between the index and the commodity itself is high, in part reflecting the significant impact on Latin American terms of trade from movements in commodity price, principally from iron ore, copper, soybean and other soft commodities. As a result, the growth trajectory of China and India remains a key driver for Latin American equity performance.

Portfolio Strategy

The MSCI Latin America Index sits some 30% below its 2008 peak. Although the pace of 12-month earnings growth has slowed from double to single digits, the region's public, corporate, banking and household sectors show comfortable levels of leverage. As a result, we retain a favorable stance on the long-term investment potential for the region's key markets, including Brazil, Chile, Colombia and Mexico. Although the outlook for growth in Argentina and Peru is also strong, most notably in the consumer sectors, we are taking a more cautious, medium-term stance in these countries because of political risks to capital market performance.

Following the reelection of President Cristina Fernandez de Kirchner, our stance on Argentinean equities is cautious, given the likelihood of continued capital flight, inflationary pressures and subsequent currency depreciation. And in Peru, early signs suggest that Ollanta Humala, the recently elected left-wing president, will adopt a more moderate stance than initially expected.

EMEA

Europe, Middle East, Africa

Russia

Political uncertainty abates

Russia has fared better in the current market turmoil than in the 2008 crisis. Corporate debt levels are more manageable, with longer duration and a lower proportion of foreign currency loans. The central bank has allowed the ruble to float more freely and, thus, has avoided an attack on the currency. Inflation also remains under control.

Therefore, while Russia remains highly exposed to global growth and commodity prices, economic growth should remain positive in 2012 barring a global recession and a collapse of energy prices. In addition, the political uncertainty that had been weighing on the market has been lifted, with Vladimir Putin announcing his candidacy for the presidency.

A near-certain Putin presidency likely points to a continuation of policy. Russia's agreement with Georgia should assist the country in finally gaining membership in the World Trade Organization (WTO).

Membership in the WTO could provide positive momentum for further liberalizing the economy and undertaking necessary structural economic reforms to increase Russia's potential economic growth.

Portfolio Strategy

While Russia lacks the positive demographic profile present in other emerging markets, our portfolios are positioned to capitalize on the increasing formalization and sophistication of modern retail, and the increasing spend of the underleveraged Russian consumer who historically has not had access to a full suite of consumer products. Hence, we are still constructive on food retailers, the leading search engine in Russia and a large retail bank. We are cautious on those sectors and companies under tight government control, such as a state-controlled oil and gas company, and the utilities sector. Gazprom, for instance, achieves returns less than its cost of capital and, despite generating good cash flow, does not return an optimal amount of cash to shareholders.

We are still constructive on food retailers, the leading search engine in Russia and a large retail bank.

EMEA (continued)

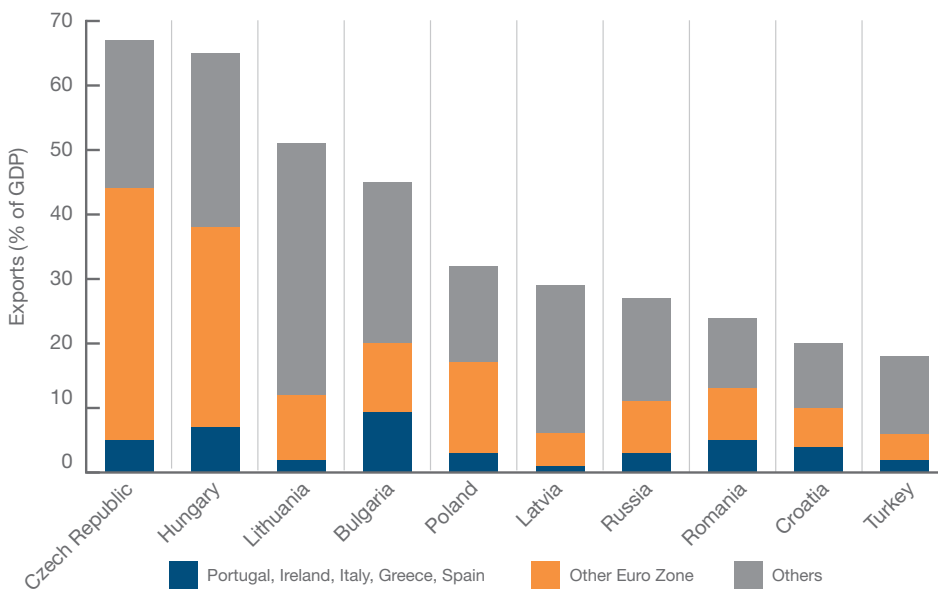
CE3 (Czech Republic, Hungary, Poland)

Proximity to euro zone remains a detriment

We remain cautious on the region given its close proximity to the euro zone. All three countries have close ties to euro zone countries, and especially to Germany. For example, exports make up 68% of GDP in the Czech Republic, two-thirds of which go directly to euro zone countries. Therefore, any slowdown in Europe directly affects these countries. On top of external shocks, Hungary continues to be plagued by policy uncertainty. To reduce the budget deficit, the government contin-

ues to go after profitable companies in the forms of higher taxes and mandated wage increases for workers (which then increases income tax revenue). In addition, currency weakness especially relative to the Swiss franc has put the consumer under pressure given the large amount of mortgage loans issued in Swiss francs. Poland, with a large domestic economy, a stable and generally market-friendly government and less exposure to the euro zone, is the best positioned country in the region. While some consumers are under pressure from having Swiss franc loans, and the government will look to consolidate fiscal policy further, economic growth is still likely in Poland.

SIGNIFICANT PORTION OF EXPORTS ARE TO EURO ZONE COUNTRIES



Source: IMF, Bank of America Merrill Lynch

Portfolio Strategy

Despite the relative attractiveness of Poland within the region, much of the available market cap in Poland is either in banks or state-owned companies. The banking sector continues to see unimpressive loan growth, and some banks are saddled with a large amount of Swiss franc mortgages. Many of the state-owned companies have weak management, high costs and unattractive earnings growth profiles. Therefore, we find value in the few stocks where management is strong, profitability is high and earnings are sustainable.

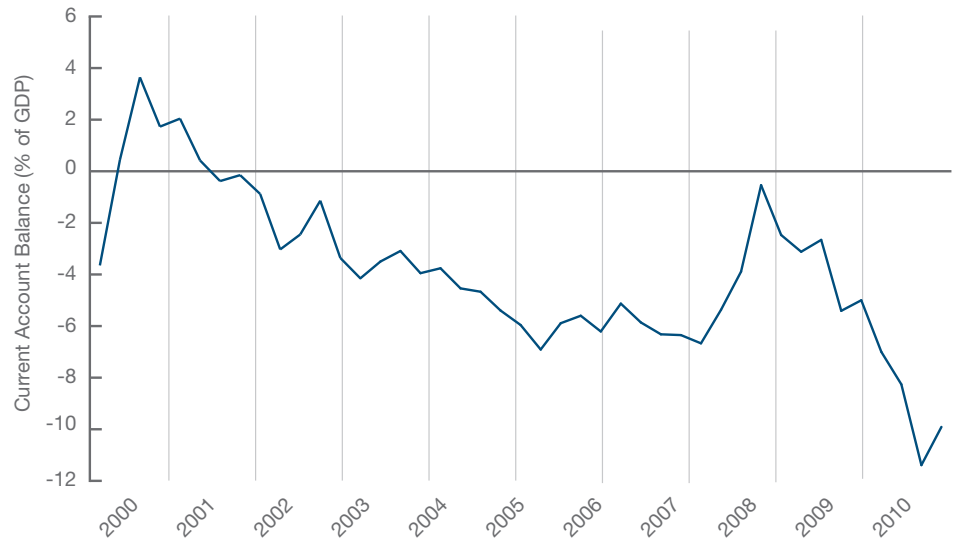
EMEA (continued)

Turkey

Unconventional monetary policies

While Turkey has the best demographics and long-term economic growth potential of any major market in EMEA, the short-term outlook is uncertain. Turkey finds itself in an awkward position of trying to moderate the economy, while at the same time keeping the lira and inflation stable. The Turkish Central Bank's unorthodox monetary policy was able to slow down an economy close to overheating in 2011, but it had the unintended consequence of depreciating the lira by over 20% and increasing inflation. Now the central bank is reversing course and tightening monetary policy. Turkey is vulnerable because it has a large current account deficit mainly financed by short-term portfolio flows. Investors are wary about the central bank's balancing act and, thus, if inflation does not come under control, or if there is further negative news flow coming from Europe or elsewhere, investors could be quick to exit Turkey. In such a scenario, the lira could weaken further and the central bank would have to raise rates even more. Such a scenario could cause the economy not just to slow considerably, but possibly to go into recession.

TURKEY REMAINS VULNERABLE IN LIGHT OF ITS LARGE CURRENT ACCOUNT DEFICIT



Source: Thomson Reuters Datastream

Portfolio Strategy

Given the uncertainty over the central bank's ability to cool economic growth while keeping inflation under control, we are cautious on the financial sector and the equity market overall. Monetary policy tightening has a direct negative impact on earnings of the banks, which comprise over 50% of the MSCI Turkey Index.

Turkey is vulnerable because it has a large current account deficit mainly financed by short-term portfolio flows.

EMEA (continued)

South Africa

Structural reforms needed

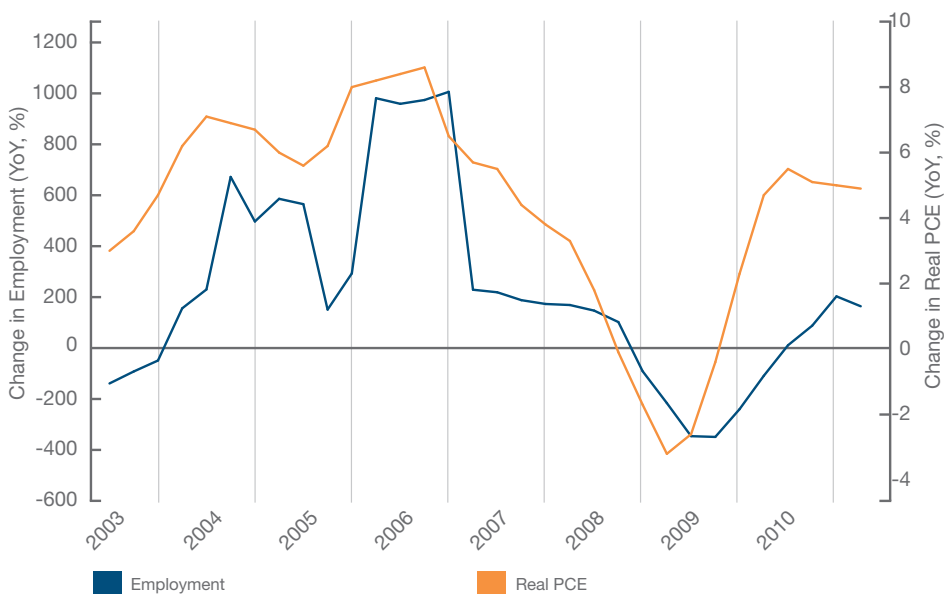
South Africa stands out as a more stable economy within the EMEA region. While significant structural issues hold the country's potential economic growth back, prudent fiscal and monetary policy has allowed the country generally to avoid disruptive shocks to the economy. Inflation has remained within the Reserve Bank's targeted rate, and while economic growth is slowing, we do not foresee a recession. Nominal interest rates remain at record lows, and the Reserve Bank has indicated it will keep monetary policy on hold for now. The lack of employment growth continues to plague the economy, but the latest employment figures finally show some job creation. While heated

political rhetoric continues to make headlines, government policy has remained sound. The biggest issue is lack of service delivery at the local level, where funds are either misused or not used at all for their intended purposes. The biggest unknown to the macro outlook is the highly volatile currency, the South African rand. After strengthening for two consecutive years, it has depreciated against the US dollar by 15% in recent months. If risk aversion in global markets remains high, the rand could be under further pressure, which could in turn lead to higher inflation and a potential rising of interest rates.

Portfolio Strategy

South Africa stands out for having companies that are highly profitable with strong balance sheets, as well as with good corporate governance, particularly in the consumer sector. As a result, the market offers a lower beta than other EMEA markets. There is an opportunity to capitalize on the middle market consumer, who has benefited from real wage growth for several years in a row, as well as record-low nominal interest rates. We remain cautious on the industrials and materials sectors given the continued weakness in fixed capital investment, as well as production and political issues in the mining sector. We also do not see a compelling investment case in banks given anemic loan growth (outside unsecured loans) and cost pressures.

ELEVATED UNEMPLOYMENT LEVELS HAMPER ECONOMIC GROWTH PROSPECTS



Source: Thomson Reuters Datastream

IMPORTANT INFORMATION

Credit ratings, expressed in Standard & Poor's nomenclature, range from AAA (extremely strong capacity to meet its financial commitment) to D (in default). The ratings represent the rating agencies' opinions of the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality.

Index Definitions

The KOSPI Index is the index of all common stocks traded on the Stock Market Division of the Korea Exchange.

The MSCI All Country Asia Pacific ex Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan.

The MSCI AC World Index (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

The MSCI China Index is a free float-adjusted market capitalization-weighted index of Chinese equities that include China-affiliated corporations and H shares listed on the Hong Kong exchange, and B shares listed on the Shanghai and Shenzhen exchanges.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

The MSCI India Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the India market.

The MSCI Latin America Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets in Latin America.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

Glossary Of Terms

Alpha is the abnormal rate of return on a security or portfolio in excess of what would be predicted by an equilibrium model.

Aggregate demand is the total amount of goods and services demanded in the economy at a given price level and in a given time period.

The Association of Southeast Asian Nations (ASEAN) is the organization of countries in Southeast Asia set up to promote cultural, economic and political development in the region.

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Capital expenditures are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

Currency appreciation is an increase in the value of one currency relative to another currency.

Commodities are basic goods used in commerce that are interchangeable with other commodities of the same type.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

The Chicago Board Options Exchange (CBOE) Volatility Index, often referred to as the VIX, shows the market's expectation of 30-day volatility. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

Developed markets are those countries that are thought to be the most developed and therefore less risky.

EMEA is the region abbreviation for Europe, the Middle East and Africa.

Emerging markets are nations with social or business activity in the process of rapid growth and industrialization, and may be subject to additional economic, political, liquidity and currency risks not associated with more developed countries.

Food and Agriculture Organization (FAO) Food Price Index is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices.

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.

Industrial Production Index (IPI) is an economic indicator that measures the amount of output from the manufacturing, mining, electric and gas industries.

Price-to-Book Ratio (P/B) is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

Price-to-Earnings Ratio (P/E) is the valuation ratio of a company's current share price compared to its per-share earnings.

The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output.

The Reserve Requirement Ratio (RRR) is a central bank regulation that sets the minimum reserves each commercial bank must hold (rather than lend out) of customer deposits and notes.

US Treasury bonds are marketable, fixed-interest US government debt securities with a maturity of more than 10 years.

