

Thematic Opportunities Within Emerging Markets

By Malcolm Dorson, *Senior Portfolio Manager*

October 2020

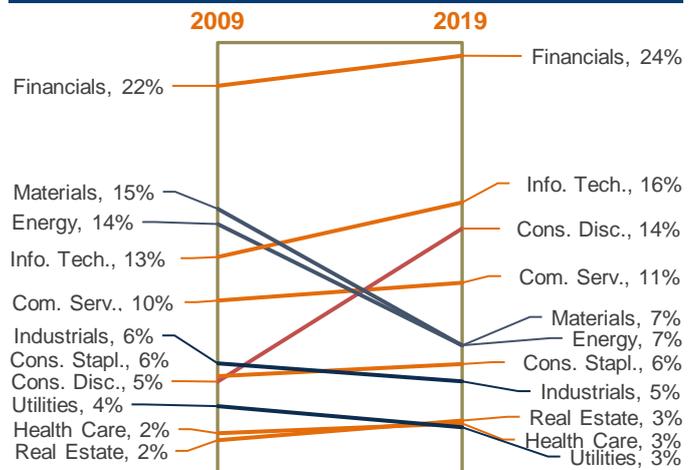
As an asset class, Emerging Markets (EM) have continued to transform and diversify away from asset-heavy export-reliant industries to innovative, high return business models. “Old EM” economies centered on manufacturing and commodities, broadly reliant on cheap exports of natural resources to developed markets. Today, opportunities for growth are arising in areas we refer to as “New EM” such as healthcare, education, financial services, discretionary spending, etc.. As these shown to be more profitable business models have created higher paying jobs, we foresee higher standards of living and rising domestic consumption, which will likely benefit service-led industries and support a self-fulfilling cycle. Within this trend, we highlight four structural themes that are shaping this “New EM” landscape.

Shrinking Old EM, Growing New EM



Source: Datastream. As of May 31, 2020. **Past performance does not guarantee future results.**

MSCI EM Index Sector Weightings



Source: Factset. As of December 31, 2009 and December 31, 2019. **Past performance does not guarantee future results.**

Online Penetration & Mobility

Mobile usage is proliferating in the emerging markets. In China, mobile devices are the primary medium for internet access, and select Chinese companies lead the way in monetizing the mobilization trend. For example, Tencent boasts over 800 million active users. The company’s ability to retain user attention via social networking and instant messaging provides an attractive backdrop to introduce other monetization verticals, such as gaming, music, financial services, and more. In Russia, we believe Yandex is the best-positioned company to take advantage of rising internet penetration, increasing online advertising spend, and geopolitical barriers to entry. The company’s dominant position in search and ride-sharing provides valuable data, which we believe will help it succeed in financial services and e-commerce.

Financial Services

Only 63% of adults in emerging countries have a bank account either at a financial institution or through a mobile money provider, compared to 94% of adults in developed markets¹. This gap represents a considerable catch-up opportunity as governments use technology to push their citizens into the formal economy. This opportunity is even more apparent in countries like Mexico, where less than 30% of the population has a bank account, and only 3.4% have a mortgage². Beyond the apparent structural opportunity, banks in EM have a substantial opportunity to improve earnings, as they replace their physical footprints with digital platforms. This digitization not only cuts costs, but helps collect data, improve decision making, reduce non-performing loans, and boost cross-sell of profitable products. In Brazil, we see opportunities for BTG Pactual to complement its investment banking platform via its digital retail bank and fast-growing online brokerage platform.

Education

The rising levels of income in EM are driving demand for more education. This trend opens opportunities for private education companies to improve margins by expanding their remote learning platforms and taking advantage of scale. There is a strong demand in after-school tutoring (AST) amid fierce competition to enter top tier schools in Asia. Rising disposable income, increasing expenditure on education, and Asian parents' strong willingness to invest in their children's education, create a robust market for EM education providers. New Oriental, a leading private education provider in China, continues to take advantage of strong tutoring demand and industry consolidation.

Healthcare

Healthcare is another structural theme that benefits from growing levels of income, improving education, and higher living standards. Companies like Apollo Hospitals in India take advantage of vertical integration and benefit from treatments, health plans, and retail. Technology is another vital driver of healthcare in EM. We see companies like Ping An Healthcare drive telemedicine across China, allowing doctors to see more patients, improving hospital supply/demand dynamics, and take pressure off public healthcare systems.

An Evolving Asset Class

Today, mobilization, financial inclusion, education and healthcare innovation stand out as significant structural themes driving earnings growth across EM. As the asset class continues to develop, we actively search for innovative sub-industries and business models that could potentially deliver long term returns for investors.

¹ World Bank Group, "The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution.

² Grupo Financiero Banorte Investor Presentation 2Q20

FOR FINANCIAL PROFESSIONAL USE ONLY

Indices are sourced from the MSCI and are shown as gross total returns.

The views and information discussed in this brochure are subject to change and may not reflect the current views of the writer(s). The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. It should not be assumed that any investment will be profitable or will equal the performance of the portfolios or any securities or any sectors mentioned herein. The subject matter contained herein has been derived from several sources believed to be reliable and accurate at the time of compilation.

Past performance is no guarantee of future results.

Market Turbulence Resulting from Covid-19 — The outbreak of Covid-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of Covid-19 is currently unknown, and it may exacerbate other risks that apply to the Fund.

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/or summary prospectus. To obtain a 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. The Mirae Asset Discovery Funds are distributed by Funds Distributor, LLC