Emerging Markets Fund

Market Review
After a challenging first quarter, emerging market (EM) equities rallied 18.08% in the second quarter of 2020. The strong performance came from a combination of factors. China, Taiwan, and South Korea, which account for roughly 65% of EM market capitalization, made significant progress fighting Covid-19 and are now on the path to economic normalization. Oil prices, up more than 90% for the quarter, provided another tailwind as OPEC+ agreed to production cuts and global demand began to improve. EM equities further received support from a weakening US dollar, as the US dollar index (DXY) fell due to unprecedented monetary and fiscal stimulus by the United States. A weaker US dollar is a strong tailwind for EM as countries and companies levered in US dollar debt receive relief on their balance sheets and interest expenses.

Asia ex-Japan equities were up 16.71% for the quarter. All emerging Asian countries rebounded strongly, led by Indonesia and Thailand. In China, we continued to see a V-shaped recovery, characterized by a quick and sustained recovery after a sharp economic decline, with stronger than expected figures in manufacturing and non-manufacturing PMI. China’s GDP rebounded and grew 3.2% in the second quarter. However, US-China tensions continued to rise. The US Senate passed the Holding Foreign Companies Accountable Act, requiring companies to follow US standards for audits and other financial regulations. The bill is intended to protect American investors from companies that do not comply with US standards.

In India, labor markets and economic activity have rebounded since bottoming in April, but are still 30% lower than a year ago. Indian equities posted strong performance in the second quarter despite a rise in new Covid-19 cases, geopolitical tension with China, and a credit downgrade. The Indian government relaxed lockdown measures and removed restrictions on the movement of goods and people even as Covid-19 cases continued to spike. Near the end of the quarter, a border dispute escalated between India and China, leading to the death of 20 Indian soldiers. India’s credit rating was also downgraded by Moody’s, a bond credit rating provider, to the lowest investment grade (Baa3). The central bank stated that it will maintain an accommodative easing stance and rolled out measures to help boost liquidity and encourage lending. In the ASEAN region, governments announced additional stimulus packages and central banks continued to cut rates as financial conditions have tightened. Governments in the region have eased lockdown restrictions, allowing most businesses to open and domestic flights to resume.

The Latin American and EEMEA (Eastern Europe, Middle East & Africa) regions both rallied around 19% in the second quarter. Argentina, Brazil, South Africa, and Russia were the best-performing countries in these regions. Argentina rebounded due to a combination of lower rates, a weaker US dollar, and the possibility of a sovereign debt renegotiation. Both Brazil and Russia gained on dovish monetary policy and rising commodity prices. Brazil also benefitted from the government making important strides towards its ambitious fiscal reform program. South Africa rallied with commodity prices and an improving current account balance. Qatar and Egypt lagged, but they were two of the three best-performing countries in the first quarter and had a higher base for marginal returns. In regards to Covid-19, Latin America and EEMEA have shown an alarming rate of new case growth across its largest countries (Brazil, Russia, South Africa, Mexico, and Saudi Arabia). That said, contagion rates remain below that of the US. Economically, the countries have begun lifting lock-down measures and we see an economic rebound coming from a very low base.

Fund Review
Mirae Asset’s Emerging Markets Fund (MILGX) gained 20.69% whereas the MSCI Emerging Markets Index was up 18.08% for the quarter ending June 30, 2020.
Key Contributors to Performance

On a sector basis, Consumer Discretionary contributed the most to the Fund’s relative performance due to both allocation effects and stock selection. Stock selection in Communication Services also had a positive impact.

With regards to geography, the top contributors to relative performance were China and Argentina due to both stock selection and allocation effects. However, it is instructive to keep in mind that the portfolio’s country weightings are a function of bottom-up stock selection rather than targeted allocations to particular countries.

On the stock level, the top contributors to the Fund’s relative performance during the quarter were Meituan Dianping, MercadoLibre and Tonghua Dongbao Pharmaceuticals.

Key Detractors from Performance

On a sector basis, the largest detractor from relative performance was Healthcare due to stock selection. An underweight to Materials also had a negative impact.

Relating to geography, Brazil detracted the most from performance due to stock selection. Allocation effects and stock selection in South Korea also had a negative impact.

On the stock level, the biggest detractors were China Petroleum & Chemical Corporation, ICICI Bank Limited and China Overseas Land & Investments Limited.

Outlook

With China, South Korea, and Taiwan seemingly turning the corner, we believe EM may show one of the largest market rebounds from the Covid-19 crisis. From an economic standpoint, most countries in EM cannot afford an extended lock-down period and are opening their economies, allowing citizens and companies to work, spend, and borrow again. Expectations for marginal increases in 2020 unemployment are far lower in EM than in the US, and this should be a key driver for EM earnings. A weaker US dollar should also provide a tailwind for EM equities. The combination of low US interest rates, a growing US fiscal deficit, an opaque presidential election period, national social unrest, and a potential reversal of the Covid-19 flight-to-quality trade could put significant pressure on the US dollar and buoy EM assets.

We continue to point to the long term structural opportunities across EM as these countries should benefit from low penetration rates, significant catch-up opportunities, leaps in technology, and tangible political and economic reforms. Though EM had a robust second quarter, the asset class remains under-owned relative to global benchmarks and undervalued compared to its historical averages. We believe that prices have dislocated from fundamentals and that EM equities are positioned for a rally in the second half of the year.

Mirae Asset’s Emerging Markets Fund continues to focus on predictable and enduring investment drivers, such as domestic structural stories, proven business models, and strong management teams. Our Emerging Markets investment strategy continues to be driven by fundamental, bottom-up stock selection. We look to invest in high-quality companies with structural advantages that benefit from broad growth across emerging markets. We maintain the view that over the long-run, share prices reflect company earnings and aim to take advantage of market dislocations.

Portfolio Managers

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All index returns are shown in US dollar terms.

Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed income securities. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes. Emerging market investing may be subject to additional legal, economic, political, liquidity, and currency risks not associated with more developed countries.

Geographic concentration risk: A small number of companies and industries may represent a large proportion of the market in a particular country or region, and these companies and industries can be sensitive to adverse social, political, economic or regulatory developments in that country or region.

Credit quality ratings are sourced from Standard & Poor’s (the “S&P”), Moody’s and Fitch’s. Ratings values are based on the higher of either S&P, Moody’s or Fitch’s. If none of the rating agencies have assigned a rating the Fund will assign a rating of NR (non-rated security). The ratings represent their (S&P, Moody’s, Fitch’s) opinions as to the quality of the securities they rate. The ratings from AAA (S&P, Fitch’s) or Aaa (Moody’s) (extremely strong capacity to meet its financial commitment) to D (S&P, Fitch’s) or C (Moody’s) (in default). Ratings are relative and subjective and are not absolute standards of quality. The ratings provided relate to the underlying securities within the fund and not the fund itself.

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 please call 1-888-335-3417. Please read the prospectus carefully before investing.