

Future Quality Insights

Halgos and three steps for navigating the road ahead

Investment Insights from the Global Equity Team: A rougher, more variable road lies ahead of us

August 2022

By Will Low

The experience of investing in risk assets over the last six months has been a rather miserable affair for everyone involved—particularly in some corners of the market where we have seen an utter collapse in share prices. We wonder, however, why this should be such a surprise for so many investors.

The evidence would suggest that many investors have become conditioned by the environment that had prevailed for over a decade, with a smooth and clear road to higher prices for equities and indeed most financial assets. The world's key central banks have had a specific goal of lower yields on financial assets since the great experiment of quantitative easing commenced. We have been in an era that has been less about investing capital and more about deploying capital in the beneficiaries of the great inflation in financial assets.



Source: Shutterstock

This era even had its own language: SPAC, FAANG, meme, NFT, crypto, FOMO¹ and so on. We live in a world where artificial intelligence is developing rapidly and is able to join the dots within larger data sets much better than humans can, and we will no doubt underestimate the degree of future advances in this area. However, we have just had a good reminder of the power of human thinking, as joining the dots on the wide array of evidence from different sources has been giving us valuable insights for some time.

As a team we are always discussing and debating these observations and the insights they provide as they are very instrumental in both directing our research towards the best new ideas and a correct appraisal of our current investments. The valuation of companies has been a key area of focus, particularly when the last COVID-related round on monetary creation pushed valuation disparities within the market to exceptional levels. Exactly a year ago we wrote “These balloons...will not stay high in the sky...and the only debate will be the speed of descent”. In January we wrote “Make no mistake, there are many aspects of this that have the trappings of a bubble”. This is the human algo (or “Halgo²” for short) in action, and a good reminder to ourselves of the value of staying disciplined and bringing experience to the table.

Whether the current outcome is surprising or not, all investors are now faced with a new and ongoing challenge. Policy makers no longer have our back and inflation rather than the price of risk assets is now their number one priority. The road ahead is not going to be so easy.

Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in the strategy's portfolio, nor constitute a recommendation to buy or sell.

¹ SPAC (special purpose acquisition company), FAANG (Facebook, Amazon, Apple, Netflix and Google), NFT (non-fungible tokens), FOMO (fear of missing out)

² Halgo (Human Algorithm)

Three steps for the new road ahead

It may be easy to become gloomy after the drawdown of the last few months. But we believe that there are plenty of reasons to be optimistic about the prospects for compounding your future capital from today's levels, if you take into account the following three steps.

1. Recognise that that we have shifted to a different road type, and it is rougher and more variable

As investors in individual companies or markets more broadly, we are constantly being asked to differentiate between volatility that is just short term angst and a signal of change. This is our suggested approach: always be open minded to new information that could undermine a thesis. The thesis, however, is that we are seeing a regime change.

More specifically, inflationary trends are now greater than they were in the past given the scale on monetary creation over the last decade. In the shorter term there will likely be a period of easing pressures as the pending rate-induced recession commences and supply chain pressures ease somewhat. However, on balance structural energy undersupply, labour market constraints and military expenditures will all contribute to sticky inflation at rates likely to be above the 2-3% ideal for central banks. Risk free rates will therefore remain at higher levels.

Secondly, geopolitics will likely remain problematic as the battles for technology hegemony between China and the US and the struggle for military supremacy in Ukraine are likely to be prolonged. The free flow of capital across borders should no longer to be assumed, the cost of borrowing in the world's reserve currency will likely stay high and we need to be prepared for an increasing shift from actors, such as China, moving away from the US dollar as the currency of external trade in the years ahead.

In short, we believe that growth in the broader economy will be less certain and more cyclical, and as a result the cost of capital will not return to the low levels we saw in 2020–2021.



Source: Shutterstock

2. Realise that this new road may be best travelled with different vehicles

Those of a certain vintage (myself included) remember the cartoon series "Wacky Races", courtesy of Hanna-Barbera. With the adoption of a multitude of new and sometimes esoteric ETFs and other thematic vehicles in recent years, it has felt like we have been competing in Wacky Races!

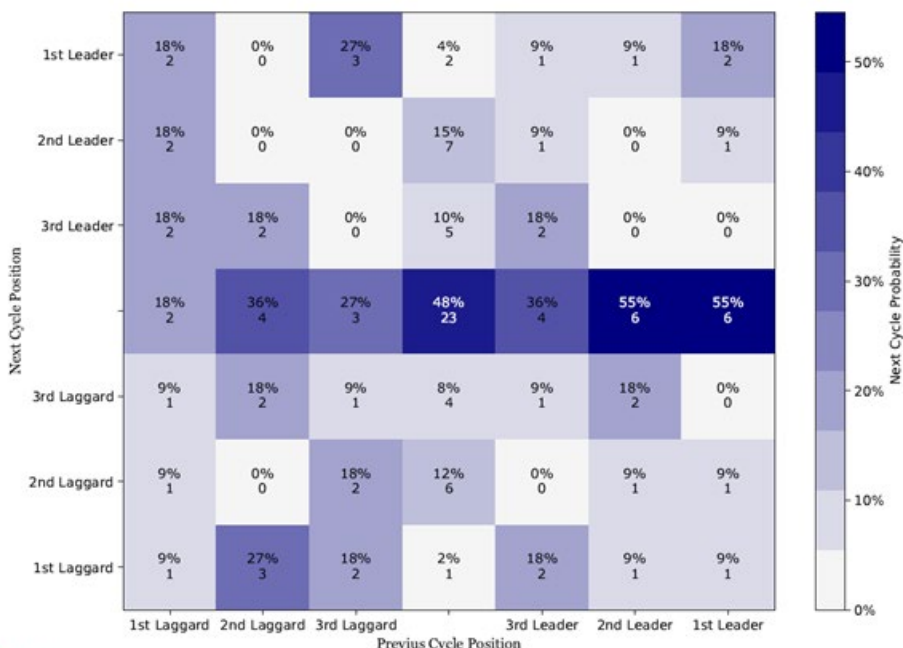


Source: Shutterstock

The good, albeit challenging, news for investors is that when there is a regime change, as the significant market correction seems to flag, there is a high probability that there will be new leaders in the race ahead. We have done some work on prior periods of significant market corrections and what the probabilities are, with a clear caveat that the number of reference data points is modest in total. As a reminder, the leaders over the last cycle were information technology, consumer discretionary and energy; assuming they will automatically return as market leaders is a brave call based on this work. Our personal intuition is also that new leadership is likely to emerge this time given the scale of surplus of capital that has just been allocated to the winners.

Leadership in a historical context

Probability of maintaining leadership after market drawdowns >20% (1957-2022)



Source: RENMAC

The above table looks at the probability of a sector in the equity market leading in the next market cycle having led in the previous one. We are all familiar with the outsized returns from the technology sector in recent years but after the recent 20% drawdown in markets, what are the chances that the prior leader can repeat the performance in the next market advance?

This study ranks sectors back to 1957 for the US market. It counts the bull cycle as the point of the price low after a 20% bear market to the subsequent price high before the next 20% drawdown. There are 11 such cycles in the last 65 years. The results may surprise you with the answer to the question “what is the probability of tech leading the market over the next five years or so” answered in the top right of the table. The answer seems to be lower than you might think with just a 27% chance of tech being in the top two sectors for forward returns from here. It is possible therefore but maybe less likely than expected. In fact, the top left shows that there is a somewhat higher probability that the next cycle may be led by those that have lagged the most. This is food for thought as it were and it underlines the need for investors to keep an open mind as to where market leadership will emerge.

3. Improve your probabilities by sticking to a few enduring principles

Invest in price makers versus price takers

It is not just the price for assets that has had favourable tail winds over the last decade, but also profitability. Profit shares as a percentage of GDP have been at record levels in most economies, and this has conditioned investor behaviour, with recency bias leading many to assume that this will remain the norm. Work by empirical research previously highlighted that in the decade prior to 2021, about half of the improvement in profit margins for US manufacturers was down due to lower interest costs and taxes. Whilst lengthening of debt duration may dilute the impact of rising rates, there is now a clear headwind for interest costs and taxes similarly are heading upwards in many economies.

Gross margins are similarly being challenged by rising labour inflation (and availability), a shift to more local and higher cost supply chains, rising raw material input prices and (particularly for those sectors previously benefitting from COVID-related revenue boosts) negative operating leverage as sales decline. On average, times are getting tougher for businesses, and franchise strength is being tested more fully. Where products and business models are unique, dominant or gaining share, the scope for passing on costs to customers and sustaining volume growth is greater.

Ensure capital funding is sustainable

It is now patently clear to all that the cost of debt is going up notably, and as is always the case, the availability of debt could become more irregular. The degree of change in debt costs in US dollars is much greater than in other currencies, and given its reserve currency status it raises the global cost of capital for many businesses. Self-funding growth (high free cash flow) and balance sheets with appropriate and long duration debt, in our view, will be better placed to keep investing through the pending down cycle. Cash-burning, profitless business models likely won't pass the test.

Focus on justifiable valuations

We have learned, sometimes through bitter experience, that the penalty for investing at inflated prices and a lack of future cashflows is quite onerous. Compounding of capital from levels that can be politely described as "frothy" is really difficult. When the music stops, falls of 80-90% are common for the frothy crowd, and more often than not they stay down as profitability remains a dream rather than reality.

Where we find Future Quality winners

If you are a more seasoned investor none of the above should be particularly surprising. The next key question will likely be: where are you investing your capital within global equities? Companies on a unique journey of improvement that can attain and sustain high returns on invested capital over the next five years or more have always been the best starting point, in our view. These Future Quality ideas are what excite us and have been the foundation of our alpha delivery for over a decade.

For simplicity, though, there are often some common traits for these stock picks and we highlight the following:

Energy transition

Last quarter we highlighted in greater detail the energy transition theme. We very much retain our optimism that an enduring cycle of rising investment is now upon us as societies need to address the challenge of sustaining the still needed fossil fuel production, increasing supply from more trusted regimes, improving energy efficiencies, reducing emissions and further develop alternative energy sources. The latter is key from a climate perspective, but also energy intensive in its own right, creating a circular requirement for the other drivers. In short, the addressable market will grow and surprise investors, and profitability for many suppliers of the "picks and shovels" of the energy transition is on an improving trend. This is an increasing rarity in the current environment.

This quarter we have added **Worley**, a provider of engineering consultancy and design services, and **Linde**, a leading industrial gas provider, over the last quarter. Both are expected to be price makers in their respective markets.

Enduring growth

Given the backdrop of rising rates and pressures on household consumption, we are increasingly cautious on the growth outlook for many consumer-facing companies. We believe that falling propensity to consume (due to greater spending on mortgage and utility costs) and prior COVID-led pulling forward of demand will be difficult and enduring problems to overcome.

Sustainable growth that is less impacted by consumer cyclicity is therefore preferred. Our long standing overweight in the healthcare sector highlights the fact that we see the demand backdrop for better and more cost effective solutions across ageing societies as being very much enduring in nature. In other sectors we have also added new holdings with similar attributes, such as **O'Reilly Automotive** and beverage maker **Diageo**. The need to repair autos

Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in the strategy's portfolio, nor constitute a recommendation to buy or sell.

given the significant ageing of the fleet in the US will remain strong, and premium spirits will remain an affordable luxury with long life inventory less impacted by the current rise in input costs.

Other recent additions include leading franchises in areas such as travel, where prior consumption has been constrained significantly by COVID and as a result we added **Amadeus IT**, the world's largest provider of travel booking systems, to our portfolios.

The final key comment on the area of enduring growth is that we are increasingly concerned about the prospects for digital advertising. Business start-ups and the funding for newer business models have ballooned over 2020–2021, as conducive capital markets have enabled IPOs, SPACs and a flurry of activity in private equity funding. Many of these have been technology-related firms with limited customers and cashflow, and they have been focused on finding new customers. This startup funding in 2021 is estimated at about USD 650 billion in the US (Source: Crunchbase), roughly double the level of prior years.

We assume that about 40% of this will end up in customer acquisition/digital marketing with the majority going to key players such as Meta and Google. This level of spending may now normalise to more sustainable levels as we see new fundings dry up and many existing customers burn through cash reserves. This source of advertising spending will likely see a large drawdown, in turn prompting investors to reappraise their growth assumptions for the leading digital media players. Notable downgrades are not really a key attribute for enduring growth and we have no exposure in this area.

Welcome and thank you

Our team of Future Quality investors was formed over 11 years ago in early 2011 and we have now just passed our eighth anniversary at Nikko AM. Over this time, we have welcomed several new clients and in recent years have proactively invested in the future development of our investment team. This quarter we welcome Finn Stewart to the fold and now the team of portfolio managers/analysts numbers eight in total. We have also further expanded our supporting ESG resource and we welcome Amisha Patel to a new role supporting our UK-based investment teams.

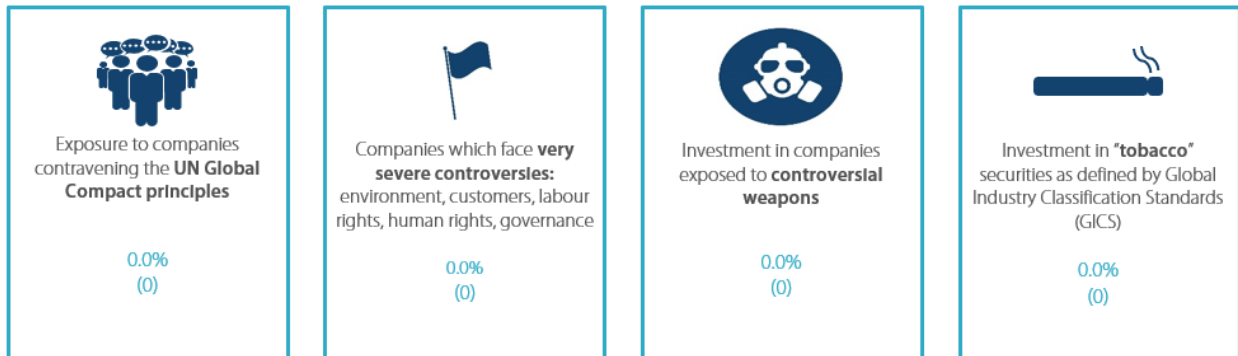
We also want to express a big thank you to the clients who have already joined us on our journey and to everyone within the team and across the firm who has helped developed our franchise to where it is today. Most importantly we always try and make sure that being Future Quality investors is a fun and enjoyable experience—an ingredient of success that is less talked about but more rewarding for all involved.

Strong ESG credentials

	Strategy	Benchmark
Carbon footprint (T CO ₂ E/\$M Sales)	62.4	169.1

Social safeguard screen

Fund exposure to companies flagged for certain frequently used social safeguard screens



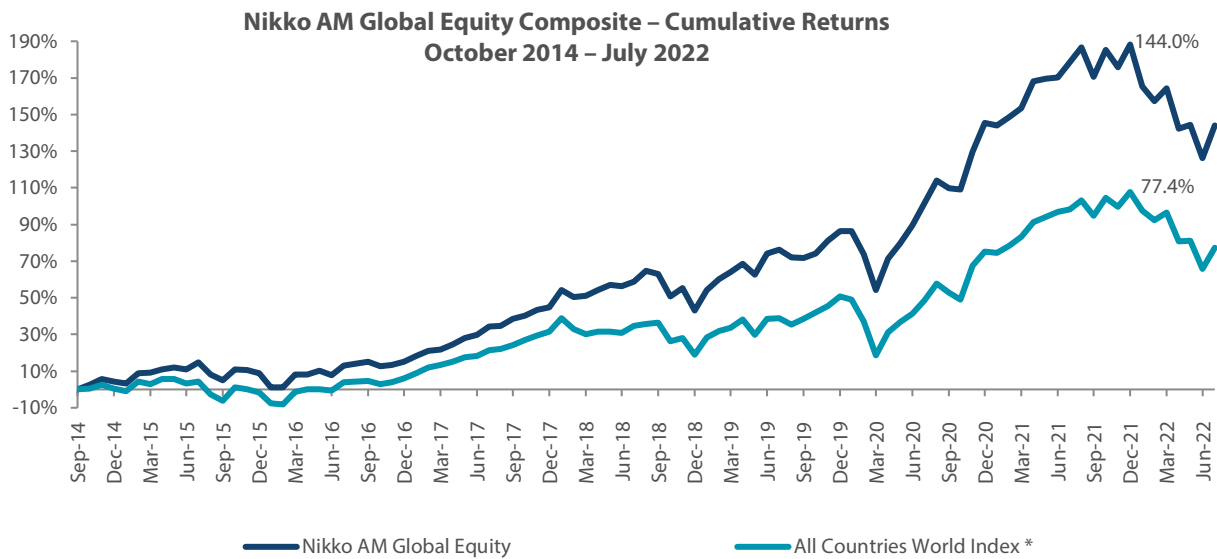
Investing in Future Quality

Source: MSCI ESG Research, June 2022

Fund is a representative account of the Nikko AM Global Equity Strategy. Benchmark is the MSCI ACWI. Data supplied as per the MSCI definitions

* Underlying score is the MSCI ESG Quality Score, Carbon Footprint is Weighted Average Carbon Intensity Data supplied as per the MSCI definitions and are subject to change without notice. Fund is a representative account of the Nikko AM Global Equity Strategy. Any comparison to a reference index or benchmark may have material inherent limitations and therefore should not be relied upon. Benchmark is the MSCI ACWI.

Global Equity Strategy Composite Performance to July 2022



Nikko AM Gross Annualised Returns (USD) %	1 year	2 years	3 years	5 years	Since Inception
Global Equity Strategy Composite	-12.39	9.96	11.45	12.71	12.06
All Countries World Index*	-10.48	9.19	8.52	7.86	7.59
Excess Return	-1.91	0.77	2.93	4.85	4.47









*The benchmark for this composite is MSCI All Countries World Index. The benchmark was the MSCI All Countries World Index ex AU since inception of the composite to 31 March 2016. Inception date for the composite is 01 October 2014. Returns are based on Nikko AM's (hereafter referred to as the "Firm") Global Equity Strategy Composite returns. Returns for periods in excess of 1 year are annualised. The Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Returns are US Dollar based and are calculated gross of advisory and management fees, custodial fees and withholding taxes, but are net of transaction costs and include reinvestment of dividends and interest. Copyright © MSCI Inc. The copyright and intellectual rights to the index displayed above are the sole property of the index provider. Any comparison to reference index or benchmark may have material inherent limitations and therefore should not be relied upon. To obtain a GIPS Composite Report, please contact GIPS_inquiry@nikkoam.com. Data as of 31 July 2022.

Nikko AM Global Equity: Capability profile and available funds (as of July 2022)

Available strategies	Global ACWI, Global EAFE, Global Developed, Global ex specific country, Sharia, Dividend	
Available vehicles	UCITS-SICAV, Country domiciled mutual funds, unit trusts, investment trusts and segregated accounts	
Key Features of Global ACWI	Current Positioning	Guidelines
Investment Objective	+3% vs MSCI AC World	
No. of holdings	44	40-50
Active share	91.6%	90-95%
Cash	1.47%	0-3%

Target return is an expected level of return based on certain assumptions and/or simulations taking into account the strategy's risk components. There can be no assurance that any stated investment objective, including target return, will be achieved and therefore should not be relied upon. Any comparison to a reference index or benchmark may have material inherent limitations and therefore should not be relied upon. Past performance is not indicative of future performance. This is provided as supplementary information to the performance reports prepared and presented in compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. Nikko AM Representative Global Equity account. Source: Nikko AM, FactSet.

Nikko AM Global Equity Team

Greig Bryson	Iain Fulton	James Kinghorn	William Low	Johnny Russell	Michael Chen	Ellie Stephenson	Finn Stewart
							
Portfolio Manager	Portfolio Manager	Portfolio Manager	Portfolio Manager	Portfolio Manager	Portfolio Analyst	Portfolio Analyst	Portfolio Analyst

This Edinburgh based team provides solutions for clients seeking global exposure. Their unique approach, a combination of Experience, Future Quality and Execution, means they are continually “joining the dots” across geographies, sectors and companies, to find the opportunities that others simply don’t see.

Experience

Our five portfolio managers have an average of 25 years’ industry experience and have worked together as a Global Equity team for eight years. In 2019, two portfolio analysts, Michael Chen and Ellie Stephenson joined the team followed by Finn Stewart in 2022, they are the first in a new generation of talent on the path to becoming portfolio managers. The team’s deliberate flat structure fosters individual accountability and collective responsibility. It is designed to take advantage of the diversity of backgrounds and areas of specialisation to ensure the team can find the investment opportunities others don’t.

Future Quality

The team’s philosophy is based on the belief that investing in a portfolio of Future Quality companies will lead to outperformance over the long term. They define Future Quality as a business that can generate sustained growth in cash flow and improving returns on investment. They believe the rewards are greatest where these qualities are sustainable and the valuation is attractive. This concept underpins everything the team does.

Execution

Effective execution is essential to fully harness Future Quality ideas in portfolios. We combine a differentiated process with a highly collaborative culture to achieve our goal: high conviction portfolios delivering the best outcome for clients. It is this combination of extensive experience, Future Quality style and effective execution that offers a compelling and differentiated outcome for our clients.

About Nikko Asset Management

With USD 206.1 billion* under management, Nikko Asset Management is one of Asia’s largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income, Multi-Asset and Alternative strategies. In addition, its complementary range of passive strategies covers more than 20 indices and includes some of Asia’s largest exchange-traded funds (ETFs).

*Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of 30 June 2022.

Risks

Emerging markets risk - the risk arising from political and institutional factors which make investments in emerging markets less liquid and subject to potential difficulties in dealing, settlement, accounting and custody.

Currency risk - this exists when the strategy invests in assets denominated in a different currency. A devaluation of the asset's currency relative to the currency of the Sub-Fund will lead to a reduction in the value of the strategy.

Operational risk - due to issues such as natural disasters, technical problems and fraud.

Liquidity risk - investments that could have a lower level of liquidity due to (extreme) market conditions or issuer-specific factors and or large redemptions of shareholders. Liquidity risk is the risk that a position in the portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame as required to meet liabilities of the Strategy.

Important Information: This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell. Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements. All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

United Kingdom and rest of Europe: This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

MSCI: The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).