

BEYOND BORDERS INVESTMENT STRATEGIES, LLC
 Q3 2016: GOOD QUARTER OR REVENGE OF THE LAGGARDS
 NOVEMBER 1, 2016

Q3 2016: GOOD QUARTER OR REVENGE OF THE LAGGARDS

BOSTON, MA – 11/01/16 – Beyond Borders Investment Strategies, LLC (BBIS) announced today that the value of its international equity portfolio increased by 5.58% during the third quarter of 2016. The firm’s portfolio underperformed its benchmark, MSCI All Country World (ACWI) ex USA Value Weighted Index, during the quarter as the benchmark’s value increased by 8.82%. Since the beginning of 2016, the portfolio has outperformed the index by 9.78%. In absolute terms, the value of BBIS’ portfolio increased by 17.05% during the period. See *Table 1 for monthly, quarterly, and year-to-date (YTD) performance numbers.*

Table 1. Returns of Beyond Borders Investment Strategies’ Portfolio vs. Index, 2016

Returns (Gross of Fees)	Q1 2016	Q2 2016	Jul-16	Aug-16	Sep-16	Q3 2016	2016 YTD
BBIS Portfolio	8.32%	2.34%	4.81%	-0.91%	1.67%	5.58%	17.05%
MSCI ACWI ex USA Value Weighted Index	0.06%	-1.48%	5.59%	1.92%	1.12%	8.82%	7.26%
Alpha	8.26%	3.83%	-0.78%	-2.83%	0.55%	-3.24%	9.78%

Sources: *Beyond Borders Investment Strategies. Datastream,*

REASONS FOR RELATIVE UNDERPERFORMANCE

The third quarter of 2016 was an excellent quarter for most major markets around the world. The single-country equity exchange traded funds (ETFs) of 41 out of 49 countries that BBIS follows had positive returns. As a result of this broad rally, BBIS underperformed the index despite posting respectable total returns of 5.6%. We would have gladly accepted this return every quarter as it would have resulted in an annualized return of 24.3%. Below are several reasons that led to the benchmark’s outperformance.

- **Outperformance by the Laggards:** Some of the markets that underperformed during the first two quarters of the year rallied during Q3. We did not invest in these markets. For example, total returns of iShares MSCI China ETF increased by 14.4% during Q3, ranking second out of all 49 single-country ETFs that we followed.¹ This happened after China posted total returns of negative 4.3% from the beginning of the year until the end of Q2, making it the 38th best performer after the first two quarters. Germany and Japan were the 8th and 9th

¹ Datastream.

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best performers during Q3 accumulating total returns of 9.2% and 9.1%, respectively. However, during the first half of the year their returns were lackluster with Japan in 39th place with a loss of 4.4% and Germany in 40th place with a loss of 5.9%.

We believe that the combination of three factors contributed to the broad rally in the equity markets of the world: low or decreasing interest rates, accelerating earnings growth in most countries, and appreciated currency. Since we did not have investment positions in some of the countries that did well on these measures, we underperformed the benchmark.

- Low or Decreasing Interest Rates:** Interest rates stayed low and did not increase in the world’s largest economies. Usually, low or decreasing interest rates, which make capital less expensive for companies, are positive for stock prices. The interest rates stayed low in all four economies that represent more than 5% of the global GDP: US, Eurozone, China, and Japan. We call these economies the “four engines of the global economic growth”. Acceleration in only one of these economies can have a significant, positive impact on global economic growth. In the US, the interest rate stayed at 0.5%, in the Eurozone it remained at 0.0%, in China it was 4.35% (the lowest level over the last 10 years), and in Japan it was negative 0.1%.² The rates also have not increased, or even decreased, in seven out of the world’s eight remaining Top 15 economies (see *Table 2 for the world’s largest economies with constant or declining interest rates*).³

Table 2. World’s Largest Economies with Constant or Declining Interest Rates, Q3 2016.

Country	Rate,%	Comments
US	0.50	The Federal Reserve left the target range for its federal funds rate unchanged at 0.25%-0.50% during Q3. In September, the Fed indicated that the case for a rate hike has strengthened.
Eurozone	0.00	In line with expectations, the European Central Bank left its benchmark refinancing rate unchanged at 0% for the fifth straight time in September.

² TradingEconomics.com, Global Interest Rates. Retrieved on November 1, 2016. We used arguably the “main” interest rates that the countries’ policy makers discuss during their meetings. Changes in these interest rates impact other rates in their respective economies (e.g. lending rates, mortgage rates).

³ Ibid.

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China	4.35	The Monetary Policy Committee of the People's Bank of China decided to cut its benchmark one-year lending rate by 0.25% to 4.35%, a record low rate, in October 2015. The rate has not changed since then.
Japan	-0.10	In line with expectations, The Bank of Japan left the interest rate unchanged at negative 0.1% at its October 2016 meeting.
UK	0.25	The Bank of England has cut its Bank Rate by 0.25% to 0.25% on August 4 as a part of a new stimulus package aimed at mitigation of potential damage by the Brexit vote.
India	6.25	On October 4, The Reserve Bank of India lowered its repurchase rate by 0.25% to 6.25%, the lowest level over the last 5 years.
Brazil	14.00	The Central Bank of Brazil lowered its benchmark SELIC rate by 0.25% to 14% on October 19. It is the first rate cut in four years amid a severe contraction and signs of slowing inflation.
Canada	0.50	The rate has not changed during Q3.
South Korea	1.25	During Q3, the South Korean Monetary Policy Committee maintained the base rate at 1.25% after unexpectedly cutting it by 0.25% on June 9 to support domestic demand and exports.
Australia	1.50	The Reserve Bank of Australia lowered the cash rate by 0.25% to a record low of 1.50% on August 2. The move was prompted by weak inflation numbers.
Russia	10.00	The Central Bank of Russia lowered its benchmark one-week repo rate by 0.5% to 10% on September 16 and signaled the rate will be maintained until the end of 2016.

The only country that raised its rate during Q3 was Mexico. In line with expectations, the Central Bank of Mexico raised its benchmark interest rate by 0.5% to 4.75% on September 29, citing currency depreciation and higher inflation expectations.⁴

The fact that we were not in every single country where stock markets benefitted from low or decreasing interest rates contributed to the underperformance of our portfolio versus the benchmark during Q3.

- **Accelerating Earnings Growth in Most Countries:** Forecasted earnings over the next 12 months were higher at the end of Q3 than those at the end of Q2 in 33 out of 46 countries,

⁴ Ibid.

or 72%, that we followed.⁵ ETFs in our portfolio benefitted from exposure to countries with accelerating earnings. For example, we had positions in all top five countries with the highest earnings growth, and six out of the top ten. However, we all also had exposure to countries that have still been going through difficult economic times. Specifically, we had positions in five out of the bottom ten countries with contracting earnings. In our opinion, the fact that in the top ten countries' forecasted earnings expanded by more than they contracted in the bottom ten countries contributed to our positive performance. For example, in Colombia (1st place) earnings expanded by staggering 64.7% over the Q2 level, in Austria (2nd place) – by 10.8%, and in Russia (3rd place) – by 10.4%. In contrast, in Singapore (3rd place from the bottom) earnings contracted by 2.8%, in Israel (4th from the bottom) – by 2.2%, and Greece (7th place from the bottom) earnings contracted by just 0.7%.⁶

The fact that we did not have positions in some countries, which had high weights in the benchmark and also benefitted from expanding earnings, led to our portfolio's underperformance versus the benchmark. For example, South Korea's weight in the MSCI ACWI ex US Value Weighted Index was 5.2% (6th largest in the index). In our opinion, South Korea's expanding earnings, which grew by 6.5% in Q3 versus Q2 2016 (9th best), contributed to South Korea's ETF (iShares South Korea Capped ETF, Ticker: EWY) having the 6th best investment performance of 11.6% during Q3.⁷

- **Appreciated Currencies:** Currencies of 29 out of 48 countries, or 60%, that we followed outperformed the US dollar during Q3. Twelve of these countries, the Eurozone's members, were represented by Euro. The fact that the US Federal Reserve Bank did not raise interest rates during Q3, as was widely expected, contributed to the depreciation of the US dollar versus other currencies. Our portfolio benefitted from this currency appreciation as currencies of 10 out of 17 countries in it experienced appreciation against the US Dollar.

But, once again, due to the fact that we had positions in 17 countries versus 45 in the index, we did not benefit from some currencies' movements. For example, Euro appreciated in

⁵ MSCI IBES single-country indices. Out of 49 countries that BBIS covers, the firm did not have earnings estimates for Nigeria, Saudi Arabia, and Vietnam.

⁶ Calculations are based on MSCI IBES numbers.

⁷ Datastream.

relation to the US dollar. In Q3, we had positions in only four out of twelve countries that were in the benchmark and had single-country ETFs. Lower weight of Eurozone countries with their appreciated currency in our portfolio versus the benchmark contributed to our underperformance.

THE BEST PERFORMER: AUSTRIA

In our Q2 letter titled *Q2 2016: Another Strong Quarter*, we said that iShares MSCI Austria Capped ETF (Ticker: EWO) was the biggest detractor from our portfolio's performance.⁸ We commented that despite this fact, we would not sell the ETF at the time. It was the right decision. During Q3, the Austrian ETF experienced a complete turnaround in its performance and became the best performer out of the 49 countries that BBIS follows with the total return of 15.2%.⁹ The country's ETF benefitted from all four trends described above: low valuations, low interest rate, accelerating earnings growth, and appreciated currency.

- **Low Interest Rates:** The European Central Bank left interest rates at zero on September 9, 2016.¹⁰ See *Chart 1 for the 5-year history of the main refinancing rate*. Low interest rates are usually a positive factor for equity prices.

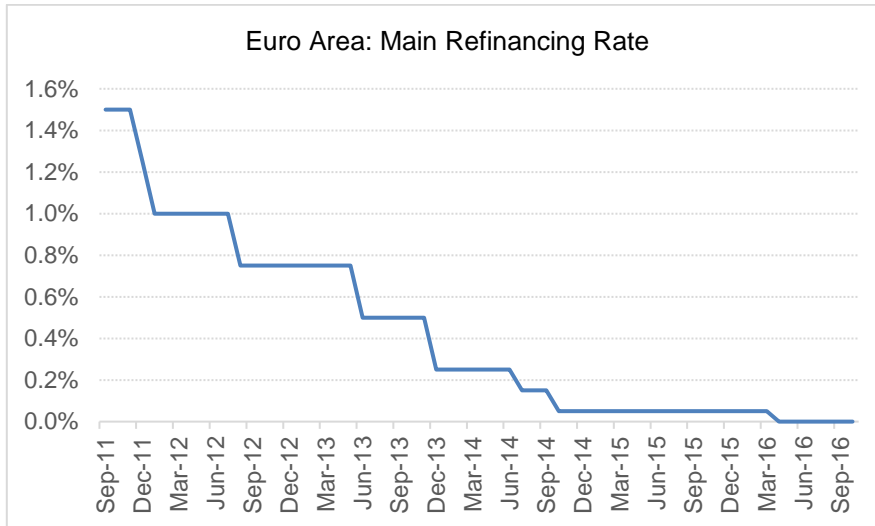
⁸ Beyond Borders Investment Strategies, *Q2 2016: Another Strong Quarter*, July 15, 2016.

<http://bbistrategies.com/our-publications--events/q2-2016-another-strong-quarter>

⁹ Datastream, single-country ETF total returns for 49 countries. Retrieved and sorted on November 1, 2016.

¹⁰ TradingEconomics.com, Euro Area Interest Rate. Retrieved on November 1, 2016.

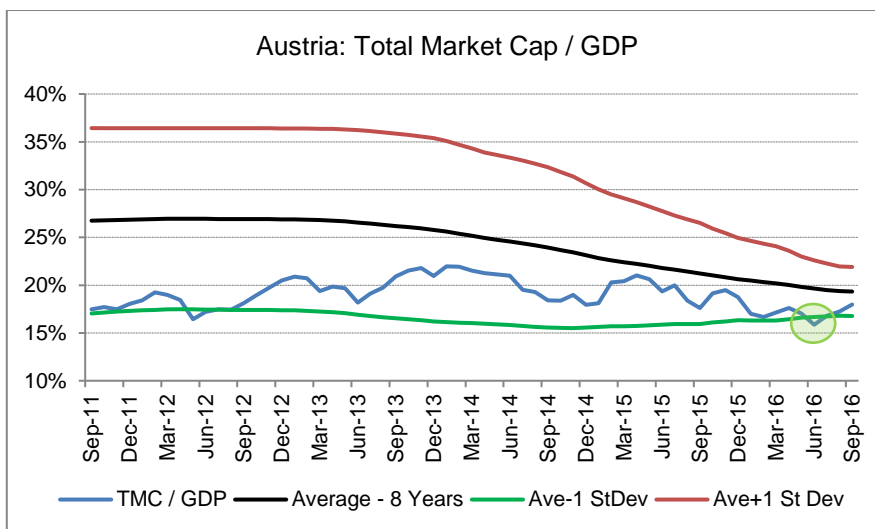
Chart 1. European Central Bank's Main Refinancing Rate, Sep 30 2011 – Sep 30 2016



Source: European Central Bank. The time series retrieved via Datastream.

- Low Valuations:** As of the end of Q2, Austria's Total Market Capitalization / GDP valuation dropped below the country's "8-Year Average minus One Standard Deviation" level (see Chart 2). It meant that 84% of the time the market was trading at higher valuations.

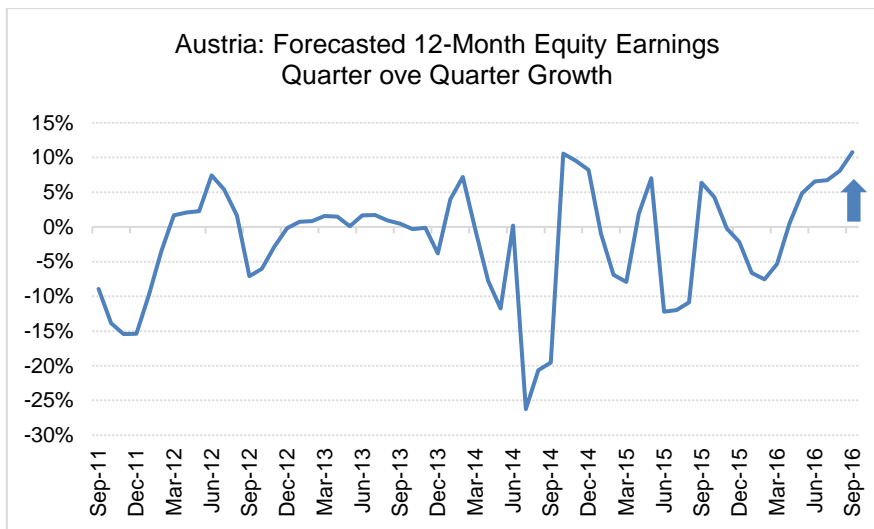
Chart 2. Total Market Capitalization / GDP, Austrian Stock Market, Sep 30 2011 – Sep 30 2016



Sources: Wiener Bourse for Total Market Capitalization of the ATX – Austrian Traded Index. OECD for GDP, Current Prices. Both time series retrieved via Datastream

- **High Forecasted 12-Month Earnings Growth:** Austria had the second highest 12-month forecasted stock markets earnings growth (10.8%) out of 46 countries for which we have data during Q3 (see the acceleration of earnings forecast depicted in Chart 3). Accelerating earnings growth is a positive factor for stocks.

Chart 3. Austria's Forward 12-Month Quarterly Earnings Growth, Sep 30 2011 – Sep 30 2016



Sources: MSCI IBES. Retrieved via Datastream.

- **Presidential Election Saga Continues:** Even the absolutely unexpected developments in the Austrian presidential election saga have not prevented EWO from posting the best results out of all 49 countries in Q3. The re-vote of a failed presidential election runoff was postponed to December 4th due to a unique reason: the faulty glue. Envelopes for the absentee voting were getting unglued. Please read our *Q2 2016: Another Strong Quarter* report published about the beginning of the saga.¹¹ As a short reminder, on June 8, Austria's far-right Freedom Party lodged a legal challenge to the result of the runoff presidential election on May 22, in which it lost by the tiny margin of 0.69% (49.65% vs. 50.35%), or by less than 31,000 votes.¹² On July 1, the Constitutional Court of Austria announced that the results of the presidential

¹¹ Beyond Borders Investment Strategies, *Q2 2016: Another Strong Quarter*, July 15, 2016. <http://bbistrategies.com/our-publications--events/q2-2016-another-strong-quarter>

¹² Wikipedia, Austrian Presidential Election 2016. Data retrieved on July 11, 2016.

elections were annulled after it found that electoral rules had been disregarded resulting in over 77,900 absentee votes being improperly counted.¹³

As a proverb says, “Once bitten, twice shy.” One can understand that after the initial failure of the presidential elections, the election officials were careful not to repeat the failure in just several months. In the meantime, the Freedom Party Chairman, Heinz-Christian Strache, stated that he thought that the decision to move the date of new elections from October 2 to December 4 was “a tactical move” by political opponents because Norbert Hofer, his party’s presidential hopeful, was ahead in the polls.¹⁴

In our opinion, successful presidential elections on December 4th, no matter who is elected, would be positive for EWO’s price, since investors do not like uncertainty. In the absence of new significant information, we are not planning to sell EWO before December 4th.

THE BIGGEST DETRACTOR: MALAYSIA

iShares MSCI Malaysia ETF (Ticker: EWM) was the largest detractor during Q3. Its total returns were negative 2.2%. While the total returns of the country’s FTSE Kuala Lumpur Composite Index (KLCI) increased by 0.8% in local currency terms, this currency, Ringgit, dropped in value by 2.5% versus the US Dollar.¹⁵

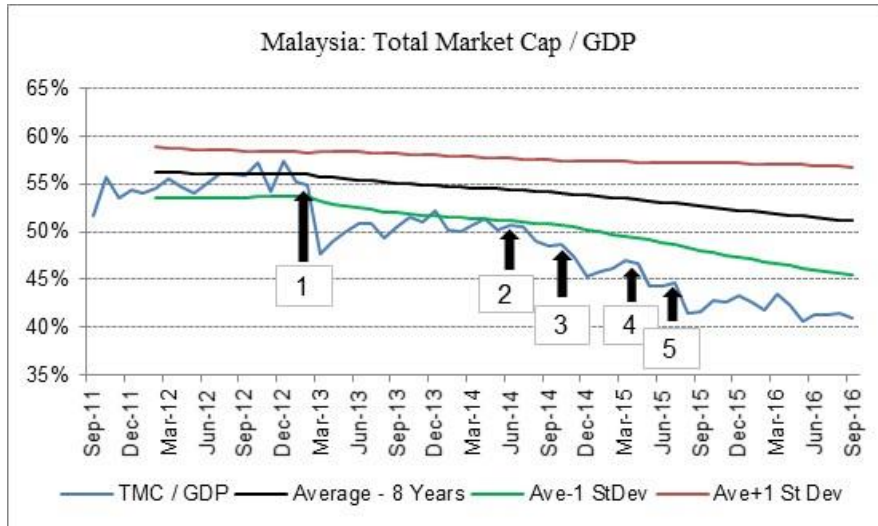
EWM’s total returns during Q3 were negative despite its valuation on the Total Market Capitalization / GDP basis being extremely low, or below the “8-Year Average minus One Standard Deviation” level. In our calculations, EWM’s long-term expected returns were 12.6% as of the end of Q3. Therefore, we decided to keep the ETF in our portfolio.

¹³ Philip Oltermann, The Guardian, Austrian Far-Right Party’s Triumph in Presidential Poll Could Spell Turmoil, April 25, 2016.

¹⁴ Kate Conolly, The Guardian, Austrian Presidential Election Postponed to Faulty Glue, September 12, 2016.

¹⁵ Due to ETF’s fees and trading costs, EWM’s total returns are slightly lower than the ones that would have been calculated as Index Returns in USD=(1+Index Returns in Ringgit)*(1+Ringgit Appreciation vs. USD)-1.

Chart 4. Total Market Capitalization / GDP for Malaysian Stock Market, Sep 30 2011 – Sep 30 2016



Sources: FTSE for FTSE Bursa Malaysia KLCI Index. Oxford Economics for GDP, Current Prices. Both time series retrieved via Datastream.

To understand the reasons for EWM's underperformance during Q3 2016, we would like to look at important influences that affected the Malaysian market over the last 5 years. During the last four out of five years, valuations were relatively low after initially declining amid uncertainty before the general election of 2013 (see Chart 4 for massive decline in the valuations in March 2013). Since early 2013, the valuations of the market were trending down, caused by a combination of domestic and international crises: uncertainty due to the closely contested general election of 2013, a dramatic drop in the price of oil, the introduction of a new goods and services tax (GST), and a corruption scandal involving Prime Minister Najib Razak.

- **Uncertainty due to Contentious Elections:** the Malaysian stock market dropped dramatically in March 2013 (see a sharp drop in valuation multiples as the result of Event 1 in Chart 4). In March 2013 it became clear that Prime Minister Najib Razak would have to disband the parliament and call for an election soon. According to Malaysian laws, he could have done this anytime during his 5-year term since he won the general elections in 2008. The last possible day for this call was April 28, 2013.¹⁶ Prime Minister Najib called it on April 3, less than a month before the deadline.¹⁷ The fact that he did not call for an election earlier

¹⁶ Jan Senkyr, Konrad-Adenauer-Stiftung, Political Awakening in Malaysia, June 4, 2013.

¹⁷ VOA, Malaysia PM Dissolves Parliament; Elections Expected Within Weeks, April 3, 2013.

indicated that he was not confident in his victory. As we mentioned before, investors do not like uncertainty, and the markets dropped in March 2013 in an anticipation of the decision to hold elections.

Mr. Najib's party was barely victorious during the 2013 elections, actually losing the popular vote. His coalition, Barisan Nasional (BN) or National Front, managed to win while getting only 47% of the popular vote.¹⁸ It was the closest-fought victory since Malaysia's independence in 1957 in an election that inspired a very high turnout of 85% of the country's 13.3 million voters.¹⁹ The election demonstrated the country's deep division along ethnic lines. Many Malaysian citizens of Chinese descent, around a quarter of the country's population, moved away from the BN and voted for the three-party opposition bloc led by a former Prime Minister Anwar Ibrahim.²⁰ These citizens felt that they were treated as second-class citizens. As one of the voters said, "It's not a fair education system - it's no good, our deputy Prime Minister says education is for Malays first - he says publicly that there is no building quota for Chinese schools."²¹ Many ethnic Malays, who constitute around 50% of the population, are beneficiaries of affirmative action programs in education, business, and civil service.²² After winning the election, Mr. Najib blamed the BN's losses on a "Chinese tsunami".²³ He also encouraged anti-Chinese headlines in the Malay-language press.²⁴ These anti-Chinese undertones of the BN's election campaign were among major factors that affected the stock market in the country, where Chinese minority holds economic power through ownership of many companies.²⁵

- **Significant Drop in the Price of Oil:** The valuation of the Malaysian stock market was affected by the dramatic drop in the price of oil due to the price war between OPEC, Russian companies, and US shale producers in 2014. During the period from the end of June 2014 to the end of January 2015, the average price of oil dropped by staggering 56% (see *Chart 5*

¹⁸ The Economist, Malaysia's Election: A Dangerous Result, May 11, 2013.

¹⁹ Ibid.

²⁰ The Economist, Malaysia's General Election: Tawdry Victory, May 11, 2013.

²¹ Rob O'Brien, Independent, Malaysian Corruption: 'There's Big Corruption, A Lot of State Abuse', May 3, 2013.

²² Wikipedia, Malaysian New Economic Policy. Retrieved on November 1, 2016.

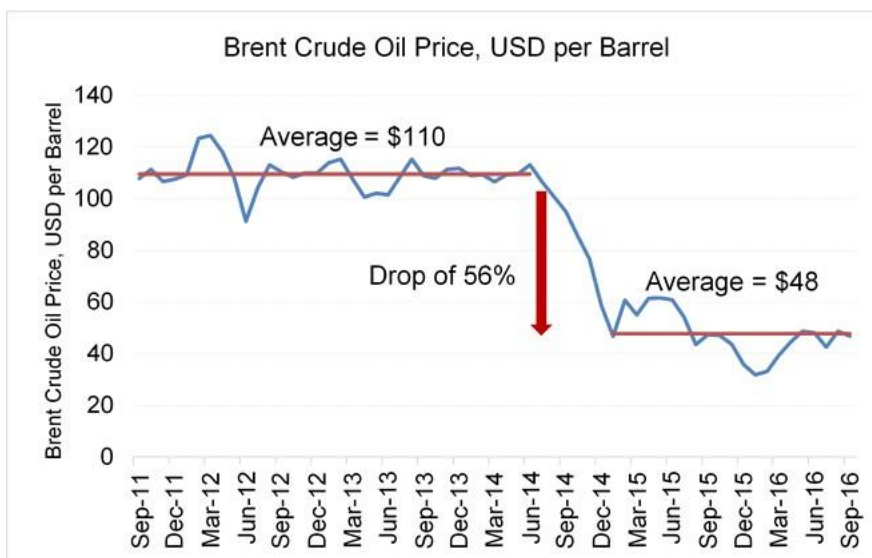
²³ The Economist, Malaysia's Election: A Dangerous Result, May 11, 2013

²⁴ Ibid.

²⁵ BBC News, Malaysia Country Profile, January 27, 2016.

for Brent crude oil price and Event 2 on Chart 4 for the impact of the oil price decrease on the valuation of Malaysia's stock market). We wrote about reasons of this price war in a report titled *The Price of Oil is Likely to Rebound by the End of 2015*.²⁶ Malaysia's stock market was negatively affected by the drop in the price of crude oil as around 22% of Malaysia's exports are crude oil and related products.²⁷

Chart 5. Brent Crude Oil Price, Sep 30, 2011 – Sep 30, 2016).



Source: Datastream, Beyond Borders Investment Strategies.

- Goods and Services Tax (GST) Introduction:** On April 1 2015, Malaysia introduced a new Goods and Services Tax (GST). The idea behind the tax was to increase the number of taxpayers and the amount of tax revenues. The announcement was made on September 15, 2014, and had a negative effect on stock market valuations (*see declining valuation multiples as the result of Event 3 in Chart 4 for the impact of the GST introduction on Malaysian stock market valuations*).²⁸ Before the tax, only 107,043 out of 508,150 registered tax-paying businesses, or 21%, actually paid taxes.²⁹ In terms of individual tax payers, only 1.8 out of

²⁶ Beyond Borders Investment Strategies, *The Price of Oil is Likely to Rebound by the End of 2015*, January 12, 2005. (<http://bbstrategies.com/our-publications--events/the-price-of-oil-is-likely-to-rebound-by-the-end-of-2015>).

²⁷ MIT Observatory of Economic Complexity, *Malaysia Exports*, 2014.

²⁸ ASEAN Briefing, *Malaysia to Introduce a Goods and Services Tax (GST) of Six Percent*, September 15, 2015.

²⁹ Rebecca Shamasundari, *iMoney.my Learning Center, What is GST? – Malaysia 2015*, September 30, 2014.

6.4 million registered tax payers, or 28%, actually paid taxes. Actual taxpayers (1.8 million) constituted an even lower percentage, 15%, of the country's total labor force of 12 million, which included 5.6 million of people who were not even registered with the tax authorities. The GST rate was fixed at 6% and replaced the Sales Tax (6%) and Service Tax (10%).³⁰ According to Deputy Finance Minister Ahmad Maslan, the GST could contribute 0.3% to annual gross domestic product and 0.5% to exports.³¹

Despite its positive forecasted impact on the economy of Malaysia, new taxes are rarely good for industry and stock markets. This rule was true in the case of GST in Malaysia as companies faced implementation problems when the tax went in effect in April 2015 (see *declining valuation multiples as the result of Event 4 in Chart 4 for the impact of implementation problems associated with initial GST implementation on Malaysian stock market valuations*). For example, business productivity was negatively impacted as businesses faced cash flow issues due to slow tax refunds. While businesses were told that the refunds on their input taxes would come within 14 business days if they submitted them online and 28 days if they sent them by mail, many of the refunds were not made during the allotted time.³² Additionally, a survey conducted by JobStreet.com in 2015 indicated that 90% of its respondents did not think they could cope with their daily expenses after the implementation of the GST.³³ Most Malaysians had to become more frugal. These GST implementation problems resulted not only in lower productivity and consumer sentiment, but also in lower stock market valuations.

- **Damaging Scandal Involving Prime Minister Najib Razak:** On July 2, 2015, The Wall Street Journal reported on payments of \$681 million that Prime Minister Najib received a little more than a month before Malaysia's general election on May 5, 2013, which we described earlier.³⁴ The money was suspected to belong to 1 Malaysia Development Berhad (1MDB), a strategic development company fully owned by the state of Malaysia. If proven to be true,

³⁰ NBC.com.my, Malaysian Goods and Services Tax (GST): How GST Affects You? Retrieved on November 30, 2016.

³¹ Garima Chitkara, Nikkei Asian Review, Malaysia, India gear up for GST, March 26, 2015.

³² Pauline Ng, Asia One Business, Malaysian businesses complain of delay in getting GST Refunds, July 15, 2015.

³³ Jobstreet.com.my, GST Poses Problems for 90% of Malaysians, June 24, 2015.

³⁴ Tom Wright and Simon Clark, The Wall Street Journal, Investigators Believe Money Flowed to Malaysian Leader Najib's Accounts Amid 1MDB Probe, July 2, 2015.

the transfer between the state-owned company and Prime Minister's personal account would have been illegal. However, in January 2016, Mr. Najib was cleared by Malaysia's Attorney General (AG) Ali Apandi of any wrongdoing. The Attorney General determined that Prime Minister Najib Razak received a "personal contribution" of \$681 million from the unnamed member of Saudi Arabian royal family.³⁵ Mr. Najib returned an unused amount of \$620 million in August 2013 without specifying what the money was used for.³⁶

It has to be noted that the AG Ali Apandi was brought in instead of AG Abdul Gani Patail, who according to an Australian television program, ABC's The Four Corners, was planning to bring criminal charges of misappropriation against Mr. Najib during the cabinet meeting on July 29, 2015.³⁷ Deputy Prime Minister Muhyiddin Yassin, who would have replaced Najib, was sacked at the same time after making critical remarks against Najib's handling of corruption allegations related to the 1MDB investigation.³⁸ These firings were very damaging to Prime Minister Najib in the minds of both the country's citizens and investors alike (*see declining investment valuation multiples as the result of Event 5 in Chart 4 for the impact of firing of the AG and Deputy Prime Minister*).

While Mr. Najib was acquitted by the Attorney General of Malaysia, foreign authorities started investigations of the 1MDB and related affairs. The investigative agencies of at least seven countries started investigations trying to locate the money that Mr. Najib and his associates were accused of channeling to their accounts. These countries include Switzerland (which is investigating the origin and current location of up to \$4 billion), Hong Kong (\$250 million), US (\$1 billion), Singapore (\$240 million), Luxembourg (several hundred million), United Arab Emirates (unspecified amount), and Seychelles (unspecified amount).³⁹

We do not expect the perception of corruption that surrounds Prime Minister Najib to disappear in the financial markets of the world anytime soon. It is likely to impact Malaysia until at least the next general election that is scheduled for August 24, 2018, but may take

³⁵ Manirajan Ramasamy, Bloomberg, Malaysia Probe Clears Najib of Graft Over Big Saudi Donation, January 25, 2016.

³⁶ Ibid.

³⁷ Oliver Holmes, The Guardian, Former Attorney General Planned Charges against PM, March 28, 2016.

³⁸ Ibid.

³⁹ Wikipedia, 1 Malaysia Development Berhad Scandal. Retrieved on November 1, 2016.

place earlier.⁴⁰ As a result of this scandal, the Malaysian Ringgit depreciated 27% relative to the US dollar since the end of 2012 from 3.08 to 4.14 Ringgits per USD.⁴¹ As of September 30, Ringgit was the cheapest since 1999, when its exchange rate was very low in the aftermath of the Asian Financial Crisis.

We are not selling our EWM position because the current investment valuations of the Malaysian stock market are very low. As we mentioned before, our calculated long-term expected returns for EWM are 12.6%. Many initial problems of introducing GST in Malaysia have already passed. GST has simply become a part of life for both businesses and individuals in Malaysia. Both the Business Conditions Index and Consumer Sentiment Index's levels started to rise after they reached lows in Q3 and Q4 of 2015 in part due to the GST introduction.⁴² We think that the corruption investigations of Prime Minister Najib and his associates would continue to be a damper on the Malaysian stock markets' valuations. However, we do not think that the valuations would be significantly affected in a negative way by the upcoming general election, which is to take place in 2017 or 2018, as they did before the election of 2013. The opposition to Prime Minister Najib seems to be fractured and weak after the collapse of the Pakatan Rakyat (People's Alliance), the three-party opposition bloc that challenged Mr. Najib in 2013.⁴³ Potential increase in the price of oil and other commodities would be a catalyst for both earnings growth and valuations of the Malaysian stock market.

Please let us know if you have questions about this report or Beyond Borders Investment Strategies. Thank you!

Best regards,

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⁴⁰ Wikipedia, Next Malaysian general election. Retrieved on November 1, 2016.

⁴¹ Datastream.

⁴² Both surveys provided by the Malaysian Institute of Economic Research, www.mier.org.my

⁴³ Asrul Hadi Abdullah Sani, The Straits Times, Break up of Malaysia's Opposition Bloc Pakatan Rakyat: What Happened and What's Next?, June 18, 2015.