Equity Market Surprise In 2016?

Thomas S. White, Jr., President and Chief Investment Officer

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Hello, I'm Thomas White and my focus over the last thirty years has been on managing global portfolios. I would like to share with you our firm's 2016 predictions for the top performing Developed and Emerging Market Regions. We think they will surprise most investors.

The Great Recession was nature's way of eliminating unsustainable business activities. Conditions since 2008 have forced investment managers to assess how well countries are adapting. In this environment, country outlooks vary more than in the past. Accordingly, getting regional portfolio weights correct is more important than ever.

The current regional weights in the Thomas White international portfolios reflect our conclusions in the following four areas:

1) Past quantitative easing programs show that a country's equity markets remain strong over the entire length of their QE program. It typically takes from 3 to 5 years of progressively larger bond purchases to produce a mild, but sustained economic recovery. Assuming this pattern continues, **we feel that among developed markets, Continental Europe and Japan will be the top performing regions in 2016.**

2) **Within the Emerging Markets in 2016, we believe that China and India will be the top performing countries**.

Given China's growth outlook, it amazes our team that many of its attractive blue chip companies sell at single digit PEs. It is no wonder our Emerging Market portfolios currently have a significant overweight in the world's second largest economy.

The bargain-prices partially reflect a very visible Chinese misstep earlier this year. The country's 2014 effort to speed up its citizens stock ownership produced a public relations nightmare. It was one of the Chinese policymaker's few missteps in their 30-year transformation of the country into the world's second largest economy. That said, it left many foreign investors with a negative impression of China. We believe the truth is very different.

Policymakers are busy transforming China from its past export-orientation to a more balanced economy with a goal of having over 60% of its GDP growth coming from domestic services and consumption. Export-oriented heavy industries are being consolidated (adding near zero growth) while private business owners are doing well. Retail sales grew 11% in November. Consumption seen as a percent of GDP growth rose to over 50% for the first time in the third quarter.

3) Given India imports 80% of its energy needs, it is a major beneficiary of lower energy prices. Soon to have the world's largest population, India's potential has long been restrained by powerful local politicians behaving as if they were royalty in a medieval feudal system. They consistently block progress as it would cause them to lose control over their realms.

"Within the Emerging Markets in 2016, we believe that China and India will be the top performing countries.

We also feel that industrial metals are likely to decline another 50% from their current prices."

India's starting wages are now far lower than China's. And India's over 600,000 farmers are seeking job opportunities. So India has the resources to repeat China's 25-year growth miracle. Premier Modi's "Made in India" campaign desperately needs to expand the country's manufacturing exports to offset its vulnerability to rising energy prices. **If he succeeds, India could become the world's dominant investment theme over the next several decades.** Our Emerging Market portfolios are moderately overweight India.

4) Lastly, we believe that industrial metals are likely to decline another 50% from their current prices. China's transformation to a consumer-driven economy means that it will no longer require the amount of industrial commodities needed in its post-2008 export-driven model. **As such, our portfolios are currently underweight countries that have significant commodity exports, including Australia, Canada, Brazil, Russia, Norway, most of South America and Indonesia.**

Are You Positioned for a World of Opportunities?

THE THOMAS WHITE DIFFERENCE

Thomas White International manages $2.0 billion in assets across multiple global, international and domestic equity mandates. The diverse client base spans public, corporate, endowment, Taft-Hartley, and separately managed account platforms.

Research is the heart of our company. At Thomas White, we believe that original research is the surest path to superior portfolio performance. That is why our disciplined investment process is supported solely by our in-house research.

Our investment process differs from the crowd. Our labor-intensive approach to valuing common stocks combines the patient collection of data, and the execution of thorough historical studies, with the application of fundamental securities analysis. These guidelines provide an investment framework, which is used in the process of determining a company's current business worth. Valuing global stocks in nearly 50 countries, this industry-based stock selection process employs tailor-made valuation frameworks refined and tested over the 40-year history of the Thomas White organization and its predecessors.

Our veteran analysts, most with PhDs, on average have more than fourteen years of experience working together as a team. Our proprietary research is generated by our professionals, both in Chicago and in our Asia office in Bangalore, India, who have spent their entire careers at Thomas White.

Our investment approach seeks to benefit from buying undervalued stocks and selling them when they return to fair value. Our analysts find that investors tend to overvalue a company against its industry peers when the intermediate business environment is favorable, producing strong earnings growth and then undervalue a company when the environment depresses its business outlook. This pattern is a reflection of human behavior - it occurs in every industry and country around the world. It is this phenomenon that explains a stock's wide price swings above and below its intrinsic value as a business.

"Our strategy is to seek smoother, more consistent returns by stressing excellent local stock selection as opposed to betting on major country and sector moves.

To succeed in this approach, we have built an exceptional global research team that uses our proprietary techniques to identify the most attractive stocks in each of the major regions of the world. This in effect is our trump card."

— Thomas S. White, Jr., Portfolio Manager

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