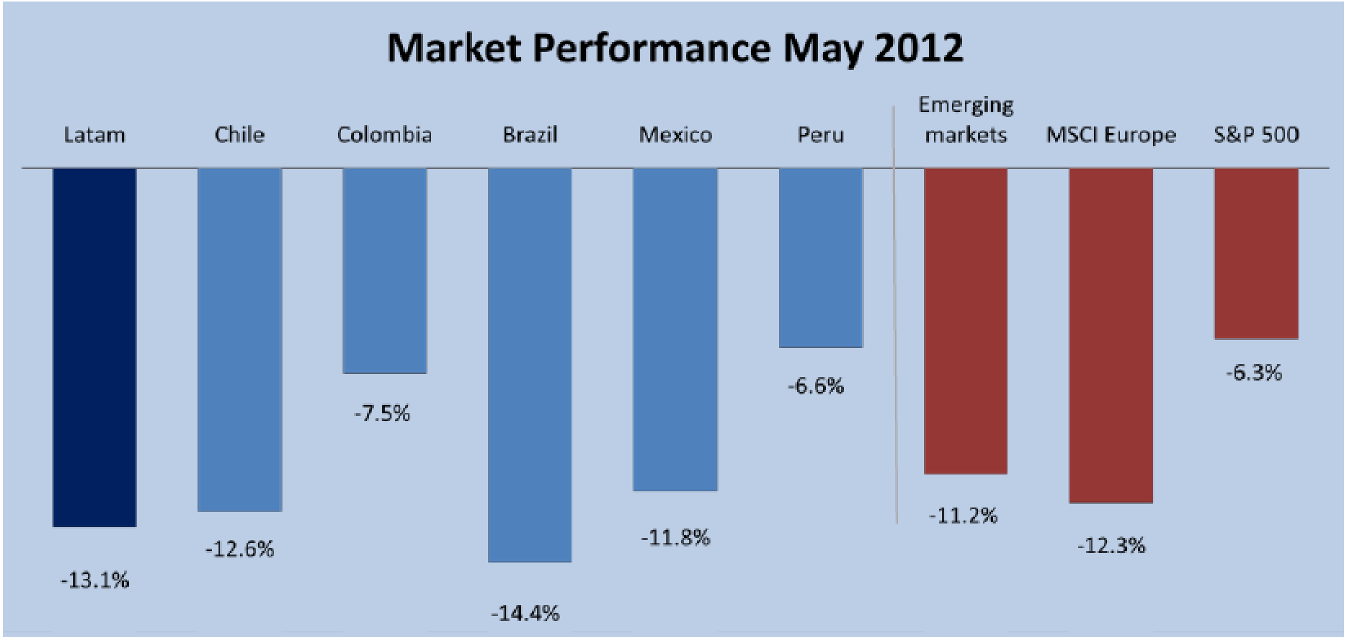
GLOBAL ECONOMIC ENVIRONMENT AFFECTING LATIN AMERICAN MARKETS

INCA Investments, LLC

(May 2012)



Latin American markets as represented by the MSCI Latin American index came crashing down a harrowing 13.1% during the month of May. As we have experienced in the last few years, during periods of investor concern with the global economic environment, the Latin American markets declined more than those of the developed world and most of the other emerging markets. In the case of the May downturn, the fall in Latin American markets outdistanced those of the S&P 500 at -6.3%, the EAFE Index at -11.5%, and the Asian emerging markets at -9.5%.

During the first two months of 2012, as investor fears over the state of the global economy began to fade, the Latin American markets appreciated 18.4%. As investor nervousness returned, largely as a result that the Greek crisis could have repercussions beyond the country, the Latin American markets went down a cumulative 6.9% during the months of March and April. As investor fears strengthened in May, the 13.1% fall in the Latin American markets brought the region's performance into negative territory and ended with a year-to-date decline of 4.2%. Although, we do not know the direction of global investor sentiment, we are confident that when the environment eventually returns to a less frantic one, Latin American markets will outpace those of most other markets due to their more favorable economic fundamentals, largely as a result of having relatively modest amounts of government and private debt.

On a Latin American country basis, as of the end of May, the Brazilian market has led the decline in the Latin American markets by falling 8.7% on a year to date basis. The vast majority of Brazil's fall was caused by the 8.3% depreciation of the Brazilian Real during this same period. We believe the depreciation of Brazil's currency to be attributable to the lowering of its GDP growth prospects for 2012 and the decline of Brazil's interest rates, which have reduced the support for the value of the currency. On a year to date basis, most of the other major Latin American markets remain in positive territory and we continue to believe that their economies are in relatively good shape.

CEMEX, HYPERMARCAS AND DASA IN FOCUS

In May, Mexican cement company Cemex (a 3.5% holding in the WIOF Latin American Performance Fund's portfolio) depreciated 22.4%. We believe the stock has suffered due to the increased risk aversion we saw during the month, especially for companies that are exposed to US dollar debts or obligations since Latin American currencies experienced a significant depreciation versus the US dollar in May. The depreciation of the Mexican Peso of 9.9% during the month negatively affected the perception about Cemex's ability to service its debt since about 80% of its debt is in US Dollars. However, since approximately 20% of the Cemex's revenues are derived from the US in dollars, we feel comfortable that the company will be able to continue servicing its debt. In addition, Cemex does not have any big maturities in the next year, making the impact from foreign exchange volatility more of an accounting loss than and actual economic one. While the higher cost of debt will hurt margins in the short term, we believe that the turnaround story at Cemex is going well as the company has shown improvements in cash generation. Its main markets are strong (Mexico, Colombia) and we believe that cement demand in the important US market is in the beginning stages of improvement.

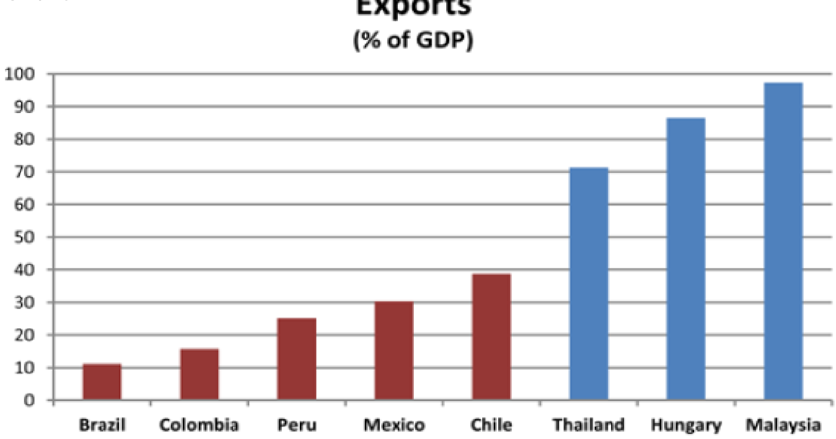
Meanwhile, Brazilian consumer products company Hypermarcas (6.0% of the portfolio) depreciated 15.3%. Hypermarcas fell in line with the Brazilian market which declined 14.4%, partly as a result of the 6.0% depreciation of the Brazilian Real versus the US Dollar. We believe the market has overreacted to the fact that the company has exposure to US Dollars since part of its debt and costs are in Dollars while 100% of revenues are in Brazilian Reals. We are confident that the company will be able to manage the short term foreign currency volatility since cost exposure is relatively low. In addition US Dollar denominated bond maturities do not begin until 2021 and its US Dollar coupon payments are hedged for the next 12 – 18 months. We believe that in its 1Q2012 earnings release, the company began to demonstrate a recovery from its difficult 2011 year and we do not think that recent global events or the weakening of the Brazilian Real will jeopardize its recovery.

In contrast, the Brazilian healthcare company Dasa (2.5% of the portfolio), did better, depreciating a relatively minor 3.3%. From January to the end of April, Dasa's stock price suffered due to concerns that profitability was declining due to the company's increased investment in new lab space. We believe the market has begun to view these investments as good uses of capital from which the company will benefit in the long term. As the largest private medical diagnostics company in Brazil, we believe that Dasa will continue to benefit from increased healthcare spending by consumers, favorable demographics and the consolidation of a very fragmented market.

LATIN AMERICA: "BETTER POSITIONED DUE TO LOW DEBT LEVEL"

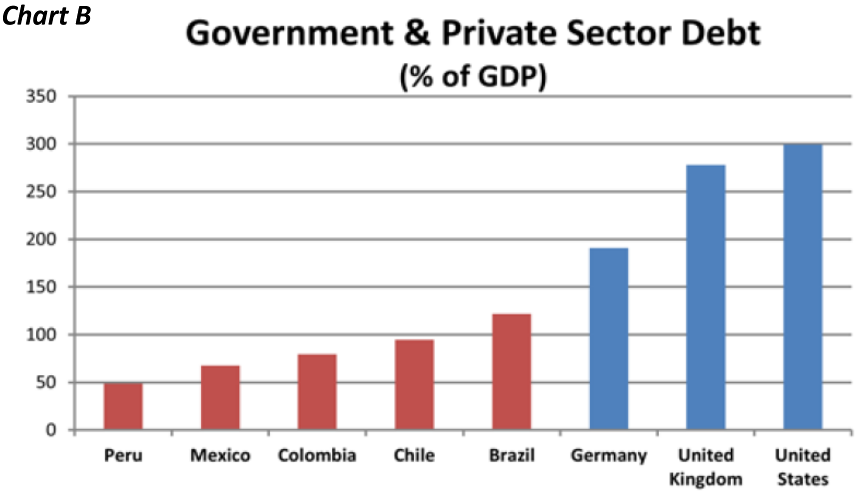
Global economic fears are once again driving Latin American markets. In the past we have argued that these economic concerns, which are external to Latin America and are currently focused on highly indebted countries such as Greece and some of its highly levered neighbors, are not the main drivers for Latin American economies. For one, Latin American economies tend to be less inter-connected to the global economy than most of the emerging market countries. While the exporting of commodities is an important factor for some Latin American countries, the major countries have a small percentage of exports in relation to the overall size of their economies (see Chart A). In general, Latin American countries are driven more by what they consume internally than what they export externally.

Chart A



Source: Bloomberg

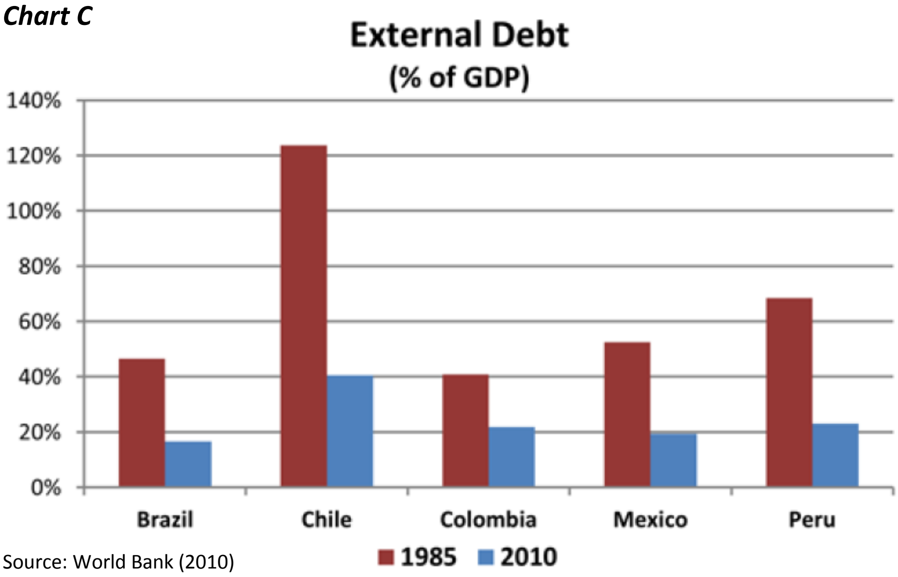
Chart B



Source: World Bank (2010), IMF (2010)

The second reason that we remain sanguine about Latin American prospects is that the concern of global equity investors is principally focused on those countries which are highly levered and Latin American economies have relatively low levels of government and private debt (see Chart B). When concern about the highly indebted countries and their collateral effect on other countries peaks, global investors sell out of equity assets en masse and do not pay particular attention to making a discerning analysis on which particular countries, and companies, are the most vulnerable to the negative ramifications of over leverage. Instead they sell their equity holdings indiscriminately and drive down the price of those equity classes that are considered to contain the highest risk. However, in the case of Latin America, they fail to consider that the major countries of Latin America have long ago shed their profligate spending ways and now have relatively modest debt loads in relation to their economic size.

Chart C



Source: World Bank (2010)

To many observers, the statement that Latin American countries generally have low debt levels may be surprising, if not shocking. However, the reason for Latin America's current fiscal discipline is quite simple. Latin America experienced its own debt bubble in the late 1970's when an excess of petrodollars was lent to the governments of the region, largely by the largest banks in the US (see Chart C).

Latin American politicians were all too happy to take in US Dollar loans to provide their economies with short term boosts without regard to the potential negative ramifications of over leveraging. When the global economy began to slow in the early 1980's, Latin American countries experienced a large drop in the price of their commodity exports. Unable to earn sufficient US Dollars to service their debt, country after country in Latin America began to default on its debt. The deleveraging process which followed was long and painful and manifested itself by a decade of negative real growth. This period of economic hardship during the 1980's came to be known as Latin America's Lost Decade. This dismal period left an economic scar on the citizenry of Latin America, and more importantly on its political leaders, that serves to remind them of the dangers of levering an economy beyond its means. Latin Americans know the pain that is in store for the economy and the citizenry of Greece and those other countries which will not be able to pay off their debt in its current form. The only consolation they can offer is that it was the resultant crisis that forced Latin American countries to transition to the less levered, more open economic model which is serving them so well in the current environment.

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