

Ariel Emerging Markets Value (NZD)

Quarter Ended June 30, 2024

Emerging market equities delivered positive returns in the second quarter. Investor enthusiasm around artificial intelligence (AI) drove strong performance from the tech-heavy Taiwanese and South Korean market; China rallied following new government support measures to stabilize the real estate sector and boost the economy; and India outperformed on the expectation of political and economic policy continuity under the new ruling coalition. By comparison, Brazil remains challenged as rising long term interest rates and concerns around an expanding fiscal deficit continue to be problematic. A higher probability of constitutional and judicial reforms in Mexico also weighed on investor sentiment. We believe the market is over-reacting to these challenges and stand ready to take advantage of such regional pullbacks as they present new, compelling mispriced opportunities. Against this backdrop, the Ariel Emerging Markets Value Composite increased +2.37% gross of fees (+2.13% net of fees) in the quarter, trailing both the MSCI EM Index and MSCI EM Value Index, which returned +5.00% and +5.08%, respectively.

Chinese auto manufacturer, **Great Wall Motor Company, Ltd.**, was the top contributor to relative returns in the quarter. The company delivered a top- and bottom-line earnings beat fueled by robust growth in new vehicle sales, particularly in overseas markets as well as a notable increase in average pricing per-unit. In-line with our investment thesis, higher margin products were a greater proportion of total volumes driving operating leverage and margin expansion. Looking ahead, we think the recent national policies bolstering vehicle replacement in China's automotive sector will further support sustained demand for Great Wall's domestic brands and expect sales momentum in profitable exports to continue.

Shares of **Power Grid Corporation of India Limited**, the country's leading power transmission company, also traded higher in the quarter. Despite several years of slow growth, Power Grid secured a number of infrastructure development projects over the period signaling an acceleration of investment in power transmission lines. In our view, Power Grid is well-positioned to benefit from India's rapid economic growth, secular demand for electricity and transmission as well as shift towards renewable energy.

Additionally, Vietnam-based conglomerate focused on technology, telecommunications and private education services, **FPT Corporation**, advanced in the period. The company delivered a robust top- and bottom-line earnings

beat, highlighted by strength in overseas IT services sales and a pick-up in domestic demand. Additionally, FPT announced a comprehensive partnership with NVIDIA to cross-sell products and services which should further bolster the company's cloud and AI-related capabilities over the long-term. Meanwhile, FPT is benefitting from its highly competitive cost structure, expanding global footprint and upgrading its service offering with an enhanced focus on higher value-add digital services.

In contrast, the largest cement producer by sales volume and capacity in Indonesia, **Semen Indonesia Persero Tbk PT**, was the greatest detractor from relative returns over the period due to weaker-than-expected pricing, lower volumes and subsequent cut in the dividend. We think sales will pick up in the second half of the year and in 2025 as inflation eases and government spending returns to more normalized levels. Given significant industry consolidation over the past few years, we also expect Semen Indonesia will experience a gradual improvement in margins. Recently implemented price increases by the company and its competitors supports our thesis. Furthermore, Semen Indonesia generates strong free cash flow, has modest investment needs and solid balance sheet. Management also noted their intention to return to a high dividend payout in the near-term. We believe the recent stock performance does not reflect these prospects and in response, have added to our position in the name.

Brazilian investment bank and wealth management firm, **Banco BTG Pactual SA**, also traded lower in the quarter alongside a meaningful pullback in Brazil's stock market. The major driver for Brazilian equities has been an ongoing re-assessment of the path for domestic interest rates, as expectations for a substantial rate-cutting cycle has shifted towards a higher-for-longer scenario. Nonetheless, Banco BTG Pactual's business continues to deliver solid earnings expansion, driven by strong performance within investment banking, asset and wealth management. While shares will likely be impacted by interest rate fluctuations, we are confident the strength of the business will drive outperformance throughout the macroeconomic cycle.

Lastly, Brazilian food retailer, **Sendas Distribuidora SA**, underperformed as expectations for monetary easing shifted towards a higher-for-longer interest rate scenario. Sendas Distribuidora is exposed due to elevated debt levels from its recent expansion cycle. Nonetheless, the company's operating performance remains solid and is showing an improving



trajectory, with accelerating same-store-sales and increasing profitability. We believe Sendas Distribuidora is poised to benefit from the continued maturation of its recently opened stores, leveraging its strengths in scale, price, and convenience which make it a compelling value proposition for consumers. While the unpredictable macro and interest rate environment remain a key risk, we view believe rising free cash flow and continued debt reduction will be an underlying driver of shares regardless of the economic environment.

We initiated two new positions in the quarter.

Mediatek Inc., based in Taiwan, is one of the world's largest semiconductor design companies, specializing in the chip systems that run smartphones and connect with global cellular networks. We believe MediaTek is well-positioned to benefit from secular trends towards premium and 5G smartphones, which require more complex and higher-priced processing chips. Additionally, the company should be able to leverage its strengths in designing high-quality and power-efficient chips for smartphones to break into new and growing end-markets such as personal computers and Data Centers.

We also established a position in developer and manufacturer of electric two-wheel (E2W) vehicles, **Yadea Group Holdings Ltd.** We expect the company to benefit from recent industry consolidation, as new national standards have presented significant challenges to smaller players in the E2W market. Additionally, we believe the launch of more premium products will enhance profitability and earnings per share growth. Meanwhile, the price environment is improving and competitive intensity is declining as inventory levels normalize across the channel.

By comparison, we successfully exited Taiwanese testing and packaging solutions company for semiconductors and integrated circuits, **King Yuan Electronics Company, Ltd.** on valuation. We also sold the **Vanguard FTSE Emerging Markets ETF** to deploy cash towards more compelling investment opportunities.

We believe emerging markets equities are one of the most mispriced asset classes globally. The valuation discount relative to developed markets is wide and does not reflect our expectation that corporate earnings growth in developing economies will exceed the earnings growth outlook in advanced (and potentially slowing) economies over the near-to-medium term. Falling U.S. interest rates and a weaker dollar should further support emerging economies as well as provide greater flexibility for central banks in emerging markets to accelerate monetary easing. In our view, lower inflation and more accommodative policies will accelerate a consumption recovery by strengthening purchasing power and consumer spending. Rising productivity, demographic trends underscored by a burgeoning middle class as well as urbanization also support tailwinds for local demand. Additionally, the recipients of foreign direct investment in

developing countries are broadening, as businesses look to diversify their global supply chains beyond China. Meanwhile, investors remain underweight the asset class. Looking forward, our conviction remains high.

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Past performance does not guarantee future results. Performance results are shown net of the highest management fee charged to any client in the Composite during the performance period. Net returns reflect performance returns after the deduction of advisory fees and transaction costs and assume the reinvestment of dividends and other earnings. For the period ended 6/30/2024, the performance (net of fees) of the Ariel Emerging Markets Value Composite (NZD) for the 1-year and since inception on 4/30/2023 was +18.05 and +20.17%, respectively. For the period ended 6/30/2024, the performance for the MSCI EM Net Index and the MSCI EM Value Net Index over the 1-year and since inception of the Ariel Emerging Markets Value Composite on 4/30/2023 was +13.16% and +13.89%, and +14.75% and +15.32%, respectively. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. A complete fee schedule is available upon request and may also be found in Ariel Investments LLC's Form ADV, Part 2. Returns are expressed in New Zealand dollars. Current performance may be lower or higher than the performance data quoted. The Ariel Emerging Markets Value Composite differs from its benchmark, the MSCI EM Net Index, because the Composite has fewer holdings than the benchmark.

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As of 6/30/2024, Great Wall Motor Company, Ltd. constituted 3.1% of the Ariel Emerging Markets Value Composite (representative portfolio); Power Grid Corporation of India,



Ltd. P-Note 3.7%; FPT Corporation P-Note 2.0%; Semen Indonesia Persero Tbk PT 1.5%; Banco BTG Pactual SA 2.0%; Sendas Distribuidora SA 0.9%; MediaTek, Inc. 1.1%; Yadea Group Holdings, Ltd. 2.0%; King Yuan Electronics Co. Ltd. 0.0%; and Vanguard FTSE Emerging Markets ETF 0.0%.

Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Ariel Emerging Markets Value Composite.

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A glossary of financial terms provided herein may be found on our website at www.arielinvestments.com.

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