

# Ariel Emerging Markets Value ex-China

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; 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 ex-China Composite advanced +2.49% gross of fees (+2.23% net of fees) in the quarter, lagging the MSCI EM ex-China Index's +4.24% return.

Shares of **Power Grid Corporation of India Limited**, the country's leading power transmission company, was the top contributor to relative returns 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.

Vietnam-based conglomerate focused on technology, telecommunications and private education services, **FPT Corporation**, also 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.

Additionally, Vietnam based electronics and food retailer, **Mobile World Investment Corporation (MGW)**, increased in the quarter on strong results driven by a surge in sales volumes within Electronics and Supermarkets. The company previously stated that it will accelerate the roll out of new supermarkets once it achieves net income profitability in the

segment. With supermarkets accounting for only 11% of Vietnam's food retailing, the room for growth is tremendous in a country of 100 million people with GDP growth above 6% and rapid urbanization. At current valuation, we believe MGW's risk/reward is skewed sharply to the upside.

Alternatively, Brazilian food retailer, **Sendas Distribuidora SA**, was the largest detractor from relative returns in the quarter 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.

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 reassessment 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, the largest cement producer by sales volume and capacity in Indonesia, **Semen Indonesia Persero Tbk PT**, underperformed 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.

Although we did not initiate any new positions in the quarter, we exited **Columbia EM Core ex-China ETF** to deploy the 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.

Investments in non-U.S. securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving non-U.S. economies, markets, political systems, regulatory standards, currencies and taxes. The use of currency derivatives and ETFs may increase investment losses and expenses and create more volatility. Investments in emerging markets present additional risks, such as difficulties in selling on a timely basis and at an acceptable price. The intrinsic value of the stocks within the strategy may never be recognized by the broader market. The strategy is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

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 ex-China Composite for the 1-year and since inception on 5/31/2023 was +24.47% and

+29.08%, respectively. For the period ended 6/30/2024, the performance for the MSCI EM ex-China Net Index over the 1-year and since inception of the Ariel Emerging Markets Value ex-China Composite on 5/31/2023 was +18.46 and +20.92%, 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 U.S. dollars. Current performance may be lower or higher than the performance data quoted. The Ariel Emerging Markets Value ex-China Composite differs from its benchmark, the MSCI EM ex-China Net Index, because the Composite has fewer holdings than the benchmark.

The opinions expressed are current as of the date of this commentary but are subject to change. The information provided in this commentary does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security. There is no guarantee that any of the views expressed will come to fruition or any investment will perform as described.

As of 6/30/2024, Power Grid Corporation of India, Ltd. P-Note constituted 4.4% of the Ariel Emerging Markets Value ex-China Composite (representative portfolio); FPT Corporation P-Note 1.6%; Mobile World Investment Corporation 0.6%; Sendas Distribuidora SA 1.5%; Banco BTG Pactual SA 2.0%; Semen Indonesia Persero Tbk PT 1.5%; and Columbia EM Core ex-China 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 ex-China Composite.

A glossary of financial terms provided herein may be found on our website at [www.arielinvestments.com](http://www.arielinvestments.com).

Indexes are unmanaged. Investors cannot invest directly in an index. MSCI Emerging Markets ex-China Index captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries excluding China. Its inception date is March 9, 2017. All MSCI Index net returns reflect the reinvestment of income and other earnings, including the dividends net of the maximum withholding tax applicable to non-resident institutional investors that do not benefit from double taxation treaties. MSCI uses the maximum tax rate applicable to institutional investors, as determined by the companies' country of incorporation. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.





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