Ariel Emerging Markets Value (NZD)

Quarter Ended September 30, 2024

Emerging market equities delivered strong gains in the third quarter, outperforming both the MSCI ACWI and S&P 500 Indices. However, volatility was high. The "yen carry trade" selloff in Japan and the "deflationary spiral" looming over China logged significant declines followed by a sharp rebound. Notably, Chinese equities received a huge boost from the People's Bank of China's (PBOC) comprehensive stimulus blitz aimed at stabilizing the economy, stock market and real estate sector. India was another key contributor as the market continues to broaden, while South Africa rallied on signs of greater political and economic stability post the smooth formation of the Government of National Unity. By comparison, mega-cap tech stocks traded lower, driving the South Korean market into negative territory as investors began questioning how the heavy spending on artificial intelligence will benefit revenue. Meanwhile, Turkey suffered from macroeconomic concerns and the Mexican market reacted negatively to judicial reform. Against this backdrop, the Ariel Emerging Markets Value Composite advanced +4.63% gross of fees (+4.38% net of fees), ahead of both the MSCI EM and MSCI EM Value Indices, which returned +4.13% and +3.55%, respectively.

China-based technology-driven E-commerce companies, **JD.com, Inc.** and **Alibaba Group Holding, Ltd.** were both top contributors in the quarter. This performance was significantly driven by the People's Bank of China's (PBOC) comprehensive stimulus measures which bolstered investor confidence in the Chinese economy.

Positive economic sentiment is driving consumer spending, benefitting **JD.com's** retail operations. Additionally, the company's strategic decision to diversify product offerings, expand its third-party marketplace business and monetize advertising streams has contributed to consecutive quarterly earnings beats. JD.com is also poised to capitalize on the home appliance trade-in program, which is one of its largest product categories. Given the favorable market environment, the company's strategic positioning and supply chain improvements, we continue to like the company's long-term growth prospects.

Meanwhile, **Alibaba** has also benefitted from incremental inflows from residents in mainland China, who can now purchase the shares via a primary listing on the Hong Kong Stock Exchange and Southbound Stock Connect. Furthermore, Alibaba's commitment to price competitiveness and the user experience has helped stabilize the company's market share and domestic gross merchandise value is now in-line with the industry. Looking ahead, management is upgrading its advertising platform and recently announced changes to its software service fees, which should enable improved monetization.

Shares of Chinese insurance and banking franchise, **Ping An Insurance (Group) Company of China, Ltd.**, also rallied following the comprehensive government stimulus in support of the consumer, property and stock markets. Meanwhile, the life insurance and property & casualty businesses delivered better-than-expected investment results further aiding the stock price. We continue to see substantial upside in the name given its improved agent productivity, growing earnings expectations, return-on-equity outpacing its cost of equity and high dividend yield.

In contrast, oil and gas producer, **Parex Resources, Inc.**, declined in quarter. Management lowered production guidance for the second time this year due to weaker-than-expected results. Although disappointed, we are maintaining our position. The share price remains attractive given the free cash flow generated by its existing oil fields. We continue to believe Parex Resources has a strong balance sheet and remain constructive on its shareholder friendly and disciplined capital allocation strategy. The company operates in the oil rich region of Colombia, where oil basins remain underexplored and ripe for improved production by modern technology implementation. Additionally, Parex's extensive acreage gives the company abundant opportunity for exploration.

Korean-based leading manufacturer of mobile phones and smartphones, **Samsung Electronics Company, Ltd.** also traded lower over the period. Investors are concerned about weakness in conventional memory demand, particularly within the personal computer and smartphone market. However, we continue to see a sustained upcycle in the server market for high-bandwidth memory (HBM) in support of artificial intelligence (AI) infrastructure with supply and demand tightening. Stronger memory pricing should drive further revenue growth and operating profit in the year ahead. We also like Samsung's diversified business model and see additional upside should the company gain share in the display market and foundry business.

Lastly, leading Korean producer of camera modules for smartphones, **LG Innotek Company Ltd.** underperformed in the period as early indications point to disappointing initial sales of the new iPhone 16. We maintain our conviction in the company because we believe LG Innotek will benefit from growth in camera module content per iPhone and increasing smartphone sales in the coming years.

We initiated three new positions in the quarter.

We added Mexico based bottler and distributor of Coca-Cola branded beverages, **Coca-Cola Femsa SAB de CV**. In our view, the company's new pricing strategy and upcoming expansion will drive a recovery in market share in Mexico as well as increasing penetration and greater consumption across less mature markets in Central and South America. Additionally, greater adoption of its digital ordering platform, Juntos should improve order frequency and size. We believe the company is well-positioned for strong volume and earnings growth as the company leverages its existing infrastructure. We also see upside from higher returns on excess cash via an acquisition with high potential synergies or returning more cash to shareholders through a higher dividend.

We also purchased **DB Insurance Co. Ltd.**, which provides providing commercial, long-term casualty and auto insurance services for both personal and commercial clients in South Korea. We believe the company is well-positioned to raise shareholder returns given its high return on equity, robust balance sheet and commitment to a progressive dividend policy. Additionally, we believe the introduction of IFRS 17 accounting offers a better reflection of Korean insurers' sources of earnings. We estimate DB Insurance is capable of meaningfully raising its dividend or increasing buybacks to reach its 35% shareholder return target earlier than the market expects.

Finally, we initiated a position in leading Korean producer of camera modules for smartphones, **LG Innotek Company Ltd.** We believe LG Innotek is set to benefit from a combination of growing camera module content in new smartphones, as well as a pickup in high-end smartphone sales as consumers replace their existing phones. We expect free cash flow generation will also increase as the company's capital expenditures decline following ample investments in recent years.

By comparison, we exited leading manufacturer of display products, **BOE Technology Group Co Ltd.**, to pursue more compelling opportunities and successfully eliminated pure-play producer and distributor of semiconductor memory products, **SK Hynix Inc.** on valuation.

We believe emerging markets equities are one of the most mispriced asset classes in the world. 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 while providing 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, a burgeoning middle class and growing urbanization should also drive 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. For the period ended 9/30/2024, 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 +19.96% and +19.88%, respectively. For the period ended 9/30/2024, 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 +19.04% and +14.51%, and +17.46% and +15.24%, respectively. Ariel Composite Net of Fees returns are calculated by deducting: (1) for the period from inception to August 31, 2024, the maximum advisory fee in effect for the respective period, applied on a monthly basis; and (2) for the period from September 1, 2024 onwards, the actual monthly advisory fee (on an asset-weighted basis) accrued for the accounts in the composite, using the fee rates in place as of the most recent calendar quarter-end. Gross returns do not reflect the deduction of advisory fees. Client returns will be reduced by advisory fees and such other expenses as may be incurred in the management of the account. Advisory fees are described in Part 2 of Ariel's Form ADV. Returns assume the reinvestment of dividends and other earnings. 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.

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 9/30/2024, JD.com, Inc. constituted 5.6% of the Ariel Emerging Markets Value Composite (representative portfolio); Alibaba Group Holding, Ltd. 6.0%; Ping An Insurance Group Company of China, Ltd. 4.5%; Parex Resources, Inc. 0.7%; Samsung Electronics Company, Ltd. 4.8%; Samsung Electronics Company, Ltd. Preferred Non-Voting 0.2%; LG Innotek Company, Ltd. 1.7%; Coca-Cola Femsa SAB de CV 0.9%; DB Insurance Co Ltd. 1.0%; BOE Technology Group Co Ltd. 0.0% and SK Hynix Inc 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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Indexes are unmanaged. Investors cannot invest directly in an index. The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,377 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Inception of this benchmark was December 29, 2001. The MSCI Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 24 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Inception of this benchmark was January 08, 1997. 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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