Ariel Emerging Markets Value ex-China

Quarter Ended September 30, 2024

Emerging market equities delivered positive returns in the third quarter, although volatility was high. Technology related stocks sold off sharply and the Bank of Japan's interest rate hike resulted in carry trades being unwound. India outperformed on continued economic strength. South Africa also rallied on signs of greater political and economic stability post the smooth formation of the Government of National Unity. Thailand was another top performer with returns supported by currency strength and the delivery of a new government stimulus package late in quarter. By comparison, South Korea dipped 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 ex-China Composite increased +0.99% gross of fees (+0.72% net of fees) in the quarter, trailing the MSCI EM ex-China Index's +3.96% return.

Emirates NBD Bank PJSC, one of the largest financial institutions in the Middle East, outperformed in the quarter following a strong economic recovery in Dubai. The bank is capitalizing on its robust financial position to meet the rising demand for loans while maintaining healthy margins and prudent credit control. Looking ahead, we expect solid profitability to be further reflected in its share price.

Bank Negara Indonesia Persero Tbk PT, one of the largest banks in Indonesia, also traded higher over the quarter following the country's unexpected interest rate cut. Additionally, the company is laser-focused on building a healthier loan book with higher quality corporate and commercial customers. These actions are lowering provisioning costs and driving higher profits. We believe Indonesia's robust economic growth and low penetration in its lending market underpins a solid outlook for BNI's future growth.

Additionally, shares of Vietnam's leading commercial bank, **Military Commercial Joint Stock Bank** advanced following strong earnings results highlighted by robust loan growth and cost controls. We believe the company will continue to benefit from improving liquidity in Vietnam driven by both economic growth and a recovering real estate sector. We see good upside from here given the bank's double-digit top-line growth, high profitability, solid return-on-equity and current valuation of only 1.2x book.

Conversely, oil and gas producer, **Parex Resources, Inc.**, declined in the 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 during the quarter. 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, Brazilian food retailer, **Sendas Distribuidora SA**, underperformed as rising interest rates and a tougher competitive landscape weighed on shares. Nonetheless, the company's operating performance remains solid and is improving with accelerating same-store-sales and increasing profitability. We believe Sendas Distribuidora is poised to benefit from the continued maturation of its newer stores, leveraging its strengths in scale, price, and convenience. While higher interest rates remain a headwind, we believe rising free cash flow and continued debt reduction will be an underlying driver of shares regardless of the economic environment.

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 successfully exited pure-play producer and distributor of semiconductor memory products, **SK Hynix Inc** and **Reliance Industries Ltd** on valuation. We also sold out of **Nanya Technology Corporation**, the Taiwanese producer of specialty dynamic random access memory ("DRAM"), to pursue more compelling opportunities.

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.

0.9%; Military Commercial Joint Stock Bank P-Note 0.8%; Parex Resources, Inc. 0.6%; Samsung Electronics Company, Ltd. 7.1%; Sendas Distribuidora SA 1.1%; Coca-Cola Femsa SAB de CV 1.0%; DB Insurance Company, Ltd. 1.1%; LG Innotek Co Ltd. 2.3%; Nanya Technology Corporation 0.0%; Reliance Industries 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 ex-China Composite.

A glossary of financial terms provided herein may be found on our website at 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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SLOW AND STEADY WINS THE RACE