

Ariel Emerging Markets Value ex-China (NZD)

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 decreased -3.28% gross of fees (-3.53% net of fees) in the quarter, trailing the MSCI EM ex-China Index's -0.44% 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.

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 ex-China Composite (NZD) for the 1-year and since inception on 5/31/2023 was +17.52% and +18.27%, respectively. For the period ended 9/30/2024, 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 +20.31% and +14.86%, 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 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 9/30/2024, Emirates NBD Bank (PJSC) constituted 1.9% of the Ariel Emerging Markets Value ex-China Composite (representative portfolio); Bank Negara Indonesia



Persero Tbk PT 1.7%; Military Commercial Joint Stock Bank 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 Co 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.

Ariel Investments, LLC ("Ariel"), a Delaware limited liability company, is a federally registered investment adviser regulated by the U.S. Securities and Exchange Commission. Ariel is a money management firm headquartered in Chicago, Illinois, and has offices in New York, San Francisco and Sydney. Ariel offers investment advisory services through separately managed accounts that are only available to wholesale investors within the meaning of the Financial Markets Conduct Act of 2013. This includes: Selected institutional clients whose primary business is the investment of money; or persons who meet the prescribed investment activity criteria or who exceed certain prescribed asset and turnover thresholds; or a person who has completed a prescribed certificate attesting as to their experience in buying or selling investment products. This is not a product disclosure statement under New Zealand Law and does not constitute a regulated offer under the Financial Markets Conduct Act 2013.

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.



Ariel Investments

200 E. Randolph St., Suite 2900
Chicago, IL 60601

312.726.0140

- arielinvestments.com
- [linkedin.com/company/ariel-investments](https://www.linkedin.com/company/ariel-investments)
- [instagram.com/arielinvestments](https://www.instagram.com/arielinvestments)
- twitter.com/arielinvests

