Ariel Emerging Markets Value ex-China

Quarter Ended December 31, 2024

Markets worldwide defied expectations in 2024 led by the dominating performance of U.S. mega-cap technology companies and investor enthusiasm for artificial intelligence (AI) themed stocks. However, concerns surrounding the new U.S. administration's policies, a strengthening U.S. dollar, slower economic growth in India, political turmoil in Korea and the prospect of wider fiscal deficits in Brazil drove the MSCI Emerging Markets ex-China Index into the red. Although uncertainty and volatility are likely to remain elevated, the patient investor knows "stock prices trade on fundamentals. And when those solid fundamentals shine through, share prices rise.[1]" Against this backdrop, the Ariel Emerging Markets Value ex-China Composite decreased -8.56% gross of fees (-8.80% net of fees) in the quarter, falling short of the -8.12% return of the MSCI EM ex-China Index. Over the trailing one-year period, the Ariel Emerging Markets Value ex-China Composite advanced +4.36% gross of fees (+3.23% net of fees), outpacing the +3.56% return posted by the MSCI EM ex-China Index.

Emaar Properties PJSC, a property investment and development company in the MENA region was the top contributor over the period on strong earnings results, highlighted by record quarterly residential sales, healthy margins and robust free cash flow. The company also announced an attractive long-term dividend policy to return capital to shareholders. Looking ahead, we believe Emaar Properties will continue to benefit from the post COVID recovery in Dubai's real estate market, which has been amplified by a large number of expatriates entering the country.

Taiwanese producer of electronic connectors **Lotes Co., Ltd.**, also advanced in the quarter as robust consumer demand for new generations of CPU sockets continues to drive earnings momentum. The company's improved product mix resulted in strong pricing and margin expansion. Management also announced Lotes would enter the AI data center connector market which boosted its shares. Looking ahead, we think the CPU socket market will continue to grow, as new generations of these electrical components require more complex and expensive sockets. We believe Lotes will benefit from future rollouts given its leading market position and strong historical relationship with CPU designers Intel and AMD. Lastly, we continue to appreciate the company's commitment to return capital to shareholders.

Additionally, Mexico-based cement producer, **GCC SAB de CV** traded higher during the quarter. Although volumes continue to reflect a challenging economic environment, favorable pricing and solid cost containment drove gross margin expansion and a bottom-line beat. Meanwhile, the U.S. election outcome further aided share price appreciation on the potential for lower U.S. corporate taxes and greater construction activity. In our view, GCC continues to trade at a meaningful valuation discount to its U.S. building material peers given its pricing power in a tight cement market, robust balance sheet and strong cash flow generation.

Conversely, banking services provider, **IndusInd Bank Ltd.** headquartered in India, which specializes in microfinance as well as personal and commercial vehicle loans, traded lower in the quarter. The company's quarterly earnings results deteriorated on weaker asset quality in the microfinance segment. However, this segment makes up a small portion of its total loan book. We expect to see improvements over the next few quarters given the short duration of the loans and the company's reduction in new lending. With shares trading just above book value despite the company's strong growth potential, solid capitalization ratios and expectations for healthy mid-cycle profitability, we see attractive upside.

Leading Korean producer of camera modules for smartphones, **LG Innotek Company Ltd.** also underperformed following mixed quarterly earnings results. While revenues came in better-than-expected, margins were meaningfully lower due to FX headwinds and intensifying competition in key customer camera module markets. Meanwhile, the company's primary customer, Apple, saw muted initial sales of its newest-generation iPhone 16 model further weighing on shares. Despite these developments, we remain enthusiastic LG Innotek will continue to benefit from a combination of growing camera content in new smartphones, as well as a pickup in high-end smartphone sales as consumers replace their existing phones. In addition, free cash flow generation should increase as the company's capital expenditures decline

[1] Hobson, Mellody and John W. Rogers Jr. "What the Stock market Taught Us This Year: Don't Fall for These Investing Traps." *Wall Street Journal*, 5 December 2023.

following ample investments in recent years. LG Innotek's deep valuation discount versus comparable companies adds to our excitement about the upside potential for the stock.

Lastly, leading Brazilian health insurance company, **Hapvida Participacoes e Investimentos SA**, declined over the period. The increasing trend of lawsuits against healthcare providers in Brazil weighed on shares, as much higher expenses for provisioning hurt profitability. Meanwhile, a weakening macroeconomic outlook for Brazil, underscored by worries around the government's fiscal policies also sparked investor concerns. As a result, we exited the name to pursue more compelling opportunities.

We initiated five new positions in the quarter.

We purchased **Bank of Georgia Group PLC** which offers banking and financial services. The company presents an attractive investment opportunity given its robust profitability and strong loan growth outlook. Meanwhile, Georgia's economy is benefitting from growing tourism and exports, as well as from foreign direct investment. The firm's recent accretive acquisition of Ameriabank in Armenia should further support asset and earnings growth over time.

We added **Indofood CBP Sukses Makmur Tbk PT**, which is the leading packaged foods producer in Indonesia with a growing market presence in the Middle East, Africa and parts of Eastern Europe. Indofood's product categories include noodles, dairy, snacks, seasonings, nutrition and special foods, beverages and packaging. The company enjoys high margins due to its strong brands and superior distribution network. Looking ahead, we expect supportive government policies, an improving economic outlook for low-income segments of the population and the company's rapid growth in international markets will serve as tailwinds for robust future earnings growth.

We bought Peruvian bank specializing in retail loans, **Intercorp Financial Services Inc. (IFS)**. We expect a recovery in asset quality driven by an improving macroeconomic backdrop as well as the company's own self-help efforts to clean its books following a challenging period over the prior two years. Despite an operating environment that supports robust cyclical profitability over time, the stock is currently trading at a substantial discount to our internal estimates.

We purchased Brazilian apparel company, **Lojas Renner** which designs, develops and sells apparel, footwear and accessories. We believe the company is poised for higher earnings growth given recent investments to capture cost efficiencies and improve its competitive positioning. Notably, we expect the ramp up of its new distribution center to drive greater store productivity, lower markdowns via better inventory management, reduced logistics costs and higher margins. Our favorable outlook is further underpinned by an improving credit book and a less competitive operating environment given recent changes to import taxes.

Finally, we re-initiated a position in leading pure-play producer of memory semiconductor products, **SK Hynix Inc.** Shares traded meaningfully lower following our exit from the name earlier in the year, presenting us with an attractive re-entry point. In our view, SK Hynix is well-positioned to benefit from increased deployment of its leading-edge High Bandwidth Memory (HBM) products, which are experiencing rapid demand growth to power Artificial Intelligence (AI).

Meanwhile, we exited leading Brazilian health insurance company, **Hapvida Participacoes e Investimentos SA**; Korean-based leading manufacturer of mobile phones and smartphones, **Samsung Electronics Company, Ltd.**; Brazilian food retailer, **Sendas Distribuidora SA**; and global semiconductor foundry, **United Microelectronics Corp.** to pursue more compelling opportunities.

Uncertainty surrounding the potential impact of the new U.S. administration's policies on Emerging Market equities presents an attractive entry point to one of the most mispriced asset classes in the world. We believe concerns over stagnation in developing economies due to U.S. tariffs are overstated. We see the path to replace imports with U.S. production given the country's unemployment rate of 4.1% and its citizens' strong propensity to consume particularly challenging. In our view, a significant reduction in U.S. imports would require a large economic slowdown or materially higher U.S. savings rate. Notably, EM's valuation discount relative to the developed markets remains wide and does not reflect our expectation that corporate earnings growth in developing economies will exceed the earnings growth outlook in advanced economies over the near-to-medium term. Rising productivity, a burgeoning middle class and growing urbanization should drive local demand and superior economic growth. Additionally, many EM companies across markets are becoming more diligent in their capital allocation policies. They are focusing on investments to capture efficiencies and increase returns as well as returning capital to shareholders through dividends and buybacks. Meanwhile, the U.S. Dollar is nearing a 20-year high despite an increasingly challenged U.S. fiscal position. Hence, we think there could be upside from a weaker U.S. Dollar over the medium term. Against this backdrop, we strongly believe our emerging market value portfolios are well-positioned to deliver superior returns over the long run.

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 12/31/2024, 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 +3.23% and +12.82%, respectively. For the period ended 12/31/2024, 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 +3.56% and +10.61%, respectively. Ariel Composite Net of Fees returns are calculated by deducting the actual monthly advisory fee (on an asset-weighted basis) applicable to all 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 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 12/31/2024, Emaar Properties PJSC constituted 2.4% of the Ariel Emerging Markets Value ex-China Composite (representative portfolio); Lotes Company, Ltd. 1.9%; GCC SAB de CV 1.8%; IndusInd Bank Limited 1.7%; LG Innotek Company, Ltd. 1.7%; Hapvida Participacoes e Investimentos SA 0.0%; Bank of Georgia Group PLC 0.7%; Indofood CBP Sukses Makmur Tbk PT 0.8%; Intercorp Financial Services Inc. 1.2%; Lojas Renner SA 1.4%; SK Hynix Inc. 3.6%; Samsung Electronics Co Ltd. 0.0%; Sendas Distribuidora S/A 0.0% and United Microelectronics Corporation 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