Ariel Emerging Markets Value

Quarter Ended December 31, 2023

Developed markets defied expectations in 2023 as the dominating performance of the "magnificent seven[1]," improving inflation data and expectations for declining rates drove a fourth quarter rally across regional indices–reclaiming most of the ground lost in 2022. Emerging market equities also delivered positive returns in the quarter to finish the year, albeit behind its advanced counterparts. Taiwan and South Korea benefitted from strength across the technology value chain. India rallied on solid domestic growth as well as an improved election outlook for its current pro-business government regime; and Brazil outperformed as the central bank began its easing cycle on signs of disinflation. By comparison, China continues to be a material headwind as its lackluster economic outlook and ongoing property market problems remain a concern. Meanwhile, much of the declines posted in 2022 by the MSCI EM Index are yet to be recovered, presenting investors with an attractive opportunity at a significant valuation discount relative to its advanced counterparts. Against this backdrop, the Ariel Emerging Markets Value Composite increased +5.20% gross of fees (+4.95% net of fees) in the quarter, trailing both the MSCI EM Index and MSCI EM Value Index, which returned +7.86% and +8.05%, respectively. Notably, the Ariel Emerging Markets Value Composite traded +10.81% gross of fees (+10.12% net of fees) higher since its inception on April 30, 2023, outperforming the +6.86% return posted by the MSCI EM Index and the +9.48% gain of the MSCI EM Value Index, over the same period.

Several stocks in the portfolio had strong returns in the quarter. Shares of leading pure-play producer and distributor of semiconductor memory products, **SK Hynix Inc.**, were driven higher by improving demand for memory and continued supply restraint by producers. Although prices for memory reached trough levels resulting in the industry reducing its production output, we are beginning to see signs of a recovery. We expect prices to rebound as market conditions continue to improve in 2024. We believe SK Hynix is well positioned to benefit from increased deployment and monetization of its high-capacity memory products, which are utilized in high-end servers to power Artificial Intelligence (AI).

Leading Brazilian investment bank, **Banco BTG Pactual SA**, also traded higher over the period despite a challenging macro environment. Solid earnings results highlighted by outperformance in the asset and wealth management, investment banking as well as corporate lending segments drove shares. In addition, the recent decline in Brazilian interest rates has fueled expectations for further improvements in the company's capital markets businesses. Looking ahead, we expect ongoing financial benefits from the company's successful expansion into investment management and think market share gains as well as increased stability, lower capital-intensity, and synergies with the capital-markets businesses will yield higher valuation multiples.

Additionally, Taiwanese producer of electronic connectors **Lotes Co., Ltd.**, advanced in the quarter, as earnings results were highlighted by an improved product mix, strong sales momentum and solid cost discipline. Shares also benefitted from early signs of a cyclical recovery in the personal computer and server market. 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 should benefit from future rollouts given its leading market position and strong historical relationship with CPU designers Intel and AMD. We also appreciate the company's commitment to return capital to shareholders.

By comparison, shares of global copper company, **First Quantum Minerals, Ltd. (FM)** sharply declined, following an order by the Panamanian government to shut down the Cobre-Panama mine, which generates a significant portion of the company's profits. While this appears dire, we believe the market overreacted with the stock discounting an 80% risk of permanent shut down without any compensation to the company. In our view, the closure will have a severe economic impact on Panama, including a mid-single digit loss of gross domestic product directly attributable to the mine and related tax revenues as well as a large increase in unemployment levels. In the event of a permanent closure, we think FM would proceed with international arbitration proceedings and receive billions in compensation from the government – likely triggering a downgrade of Panama's debt

[1] The "Magnificent Seven" are the largest stocks in the S&P 500 Index driving market performance: Apple Inc. (AAPL), Amazon.com, Inc. (AMZN), Alphabet Inc. (GOOGL), Meta Platforms Inc. (META), Microsoft Corp. (MSFT), NVIDIA Corp. (NVDA) and Tesla, Inc. (TSLA).

to junk level. Although this unprecedented action will likely not see a potential resolution until after the Panamanian federal election in May 2024, we expect FM and the government to negotiate a solution that will have meaningful value accretion to the company.

Additionally, the largest offshore oilfield service company in China, **China Oilfield Services, Ltd (COSL)**, underperformed this quarter in sympathy alongside lower oil prices. Nonetheless, we believe current oil prices are–and expect them to remain–high enough to support strong earnings growth. In our view, the global offshore oil services industry has experienced a decade of extensive underinvestment and capacity attrition. At the same time global oil producers have turned their focus to offshore drilling as shale growth in the U.S. appears to be maturing. This has resulted in strong demand for offshore equipment and services in an under supplied market. Additionally, rates for jack up rigs, the core company business, have nearly doubled over the past two years. Given the contractual nature of the rig market, COSL is just beginning to pass price increases on to its customers, which we expect will yield strong profitability growth over the next few years. We also think China Oilfield Services will benefit from the sale of its high margin value-add services, as the company continues to gain share from its global competitors across the world.

Finally, shares of Chinese insurance and banking franchise, **Ping An Insurance (Group) Company of China, Ltd.**, sold off during the period. This underperformance was primarily driven by weakness in the property & casualty segment and speculation Chinese authorities may compel Ping An to acquire a stake in a troubled private property real estate developer. We think the sell-off runs counter to the company's solid business fundamentals, particularly since the government is instituting alternative financial support mechanisms for the real estate sector and real estate development represents 7-8% of the company's total assets. We believe the Ping An's stock price should trade at a higher valuation as it continues to deliver on its growth expectations for earnings, return-on-equity in the mid-teens and offers a high dividend yield.

We initiated four new positions in the quarter.

We added banking services provider, **IndusInd Bank Ltd**, headquartered in India, which specializes in microfinance as well as personal and commercial vehicle loans. We view this company as a strong beneficiary of the current economic growth trends in India, and with its robust capital profile, solid branch network and lending expertise in less penetrated segments of the credit market, we believe this name offers attractive upside.

We purchased a China-based technology-driven E-commerce company, **JD.com, Inc.** in the quarter. The brand has long been known across the region as a superior online shopping channel due to its unique first-party model and unparalleled fulfillment service underpinned by JD Logistics. Yet, a challenging macro environment drove shares lower as shoppers began seeking bargains. In response, the company made significant investments in elevating its third-party merchant platform to enhance its variety of product offerings and price competitiveness for consumers. We believe these actions will yield an improved product mix, stronger top-line growth and margin expansion on a go-forward basis.

We also added the largest cement producer by sales volume and capacity in Indonesia, **Semen Indonesia Persero Tbk PT**. The company is the only producer in the market with diverse operations across the three main islands allowing it to meet the demand across the country faster than competitors. Shares came under pressure during the pandemic and were negatively impacted by industry oversupply, rising coal prices and margin contraction. However, in our view, recent industry consolidation, supply cuts by existing players and a recovery in domestic demand driven by the property sector and other infrastructure projects have Semen Indonesia Persero well-positioned to capitalize on improving market conditions. Moreover, the stock is currently trading at a relative discount to its regional peers as well as our internal estimates.

Lastly, we established a position in Hungarian, ultra-low cost airline provider, **Wizz Air Holdings plc**. An investigation into the Pratt & Whitney (P&W) Geared Turbofan (GTF) engine, which powers the airlines A320 NEO family aircrafts, has grounded ~22% of the fleet for 18 months presenting us with an attractive entry point. Although this issue will reduce flight capacity over the near to medium-term, WIZZ has agreed to a cash compensation package with P&W. We anticipate the overall impact on earnings will be further mitigated by the delivery of new planes, lease extensions and more optimal fly routes and schedules at better pricing. We also believe WIZZ remains well positioned to execute its expansion strategy across Western Europe and the Middle East. At current levels, WIZZ is trading at a significant discount to our estimate of its intrinsic value as well as peer earnings multiples.

By comparison, we exited six positions in the quarter. We sold designer and operator of wind farms, **China Longyuan Power Group Corporation Ltd.**, Mexican international airport operator, **Grupo Aeroportuario del Centro Norte SAB de CV Class B**, Polish mining company, **KGHM Polska Miedz S.A.**, the **State Bank of India** and Vietnam's largest residential developer, **Vinhomes Joint Stock Company (VHM)** to pursue more attractive opportunities.

We also exited **iShares Core MSCI Emerging Markets ETF** and deployed the cash towards a more compelling idea.

We believe emerging markets are one of the most mispriced asset classes globally. The valuation discount relative to developed markets is wide. We are cautiously optimistic corporate earnings growth in developing countries will exceed the outlook for companies 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 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, weaknesses in global trade exposed by the pandemic have broadened the recipients of foreign direct investment in EM countries, as businesses look to nearshore operations as well as realign their global supply chains away from China. Meanwhile, investors remain underweight the asset class. Looking forward, our confidence in our current positioning 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 12/31/2023, the performance (net of fees) of the Ariel Emerging Markets Value Composite since inception on 4/30/2023 was +10.12%. For the period ended 12/31/2023, the performance for the MSCI EM Net Index and the MSCI EM Value Net Index over the eight-month and since inception of the Ariel Emerging Markets Value Composite on 4/30/2023 was +6.86% and +9.48%, 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 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 12/31/2023, SK Hynix, Inc. constituted 7.8% of the Ariel Emerging Markets Value Composite (representative portfolio); Banco BTG Pactual SA 3.0%; Lotes Company, Ltd. 1.9%; First Quantum Minerals, Ltd. 0.4%; China Oilfield Services, Ltd. 2.4%; Ping An Insurance Group Company of China, Ltd. 2.0%; IndusInd Bank Ltd 2.6%; JD.com, Inc. 1.7%; Semen Indonesia Persero Tbk PT 1.4%; Wizz Air Holdings Plc 0.8%; China Longyuan Power Group Corp Ltd 0.0%; Grupo Aeroportuario del Centro Norte S.A.B de C.V. 0.0%; KGHM Polska Miedz SA 0.0%; State Bank of India 0.0%; Vinhomes Joint Stock Company 0.0%; and iShares Core MSCI Emerging Markets 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 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. 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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SLOW AND STEADY WINS THE RACE