Quarterly Commentary

Ariel Emerging Markets Value ex-China

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, Turkey, the United Arab Emirates and Kuwait underperformed on weaker oil prices and large macroeconomic imbalances, respectively. Meanwhile, much of the declines posted in 2022 by the MSCI EM ex-China 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 ex-China Composite increased +10.19% gross of fees (+9.90% net of fees) in the quarter, underperforming the MSCI EM ex-China Index's +13.03% gain. Notably, the Ariel Emerging Markets Value ex-China Composite advanced +18.03% gross of fees (+17.32% net of fees) since its inception on May 31, 2023, significantly ahead of the MSCI EM ex-China Index which returned +13.33%, over the same period.

Some holdings in the portfolio advanced considerably this 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).

Taiwanese producer of electronic connectors **Lotes Co., Ltd.**, also 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.

Additionally, leading Brazilian investment bank, **Banco BTG Pactual SA**, 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.

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.

Korea's largest financial company in terms of assets and customer base, **KB Financial Group**, also traded lower on concerns around the prospects of tighter bank regulations ahead of legislative elections in April 2024. While these risks are not new, we believe they are priced in and current valuations do not reflect the company's solid fundamentals. Meanwhile, KB Financial delivered earnings in-line with Wall Street's expectations and continues to benefit from a recovery in household loans and a sequential decline in provisioning. Management also reaffirmed the payout ratio should continue to improve and announced an authorization to increase share buybacks. At only 0.4x price-to-book, KB Financial Group is trading at a substantially lower return-on-equity than the company currently generates.

Finally, Vietnam based electronics and food retailer, **Mobile World Investment Corporation (MGW)**, declined on mixed earnings results. Gross margins came in lower than expected due to weakness in consumer spending, greater discounting and higher waste in the company's grocery chain segment. In our view, accelerating economic growth, improving labor market conditions and lower interest rates should provide tailwinds for a consumer recovery. Meanwhile, Mobile World has begun a comprehensive restructuring and is closing stores with the goal of right sizing its cost base to achieve profitability in 2024. It also aims to monetize a fraction of the business to provide capital for acceleration of growth in years to come. We view this as an opportunity to own a high-quality name with excellent growth prospects in an industry with low market penetration. At current valuation, we believe MGW's risk/reward is skewed sharply to the upside.

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 initiated a position in 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.

We also purchased **Vietnam Dairy Products Corporation (VNM)**, the leading dairy company in Vietnam. The company has 16 dairy factories and 15 farms across Vietnam, Cambodia, Laos and the US, a strong distribution network of 230,000 points of sale in Vietnam, and over 50% market share. We believe the recent decline in global milk prices will yield margin expansion for the company as it migrates from higher to lower price imported dry milk contracts. Meanwhile, we think the company will benefit from continuous growth of the dairy market and product premiumization supported by rising incomes in Vietnam.

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 three positions in the quarter.

We sold Mexican international airport operator, **Grupo Aeroportuario del Centro Norte SAB de CV Class B**, Vietnam's largest residential developer, **Vinhomes Joint Stock Company (VHM)** and the **State Bank of India** to pursue more attractive opportunities.

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 ex-China Composite since inception on 5/31/2023 was +17.32%. For the seven-month period ended 12/31/2023, the performance for the MSCI EM ex-China Net Index was +13.33%. 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 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 12/31/2023, SK Hynix, Inc. constituted 7.1% of the Ariel Emerging Markets Value ex-China Composite (representative portfolio); Lotes Company, Ltd. 1.8%; Banco BTG Pactual SA 3.1%; First Quantum Minerals, Ltd. 0.4%; KB Financial Group 4.9%; Mobile World Investment Corporation 0.5%; Mobile World Investment Corporation P-Note 1.1%; IndusInd Bank Ltd 3.0%; Semen Indonesia Persero Tbk PT 1.4%; Vietnam Dairy Products Corporation 0.6%; Wizz Air Holdings Plc 0.8%; Grupo Aeroportuario del Centro Norte S.A.B de C.V. 0.0%; State Bank of India 0.0%; and Vinhomes Joint Stock Company 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