Ariel Emerging Markets Value (AUD)

Quarter Ended March 31, 2024

Emerging market equities delivered positive returns in the first quarter as prospects for the global economy improved. Investor enthusiasm around artificial intelligence (AI) lifted the technology-heavy Taiwanese and South Korean markets; and India rallied on strong domestic growth driven by robust manufacturing activity and infrastructure spend as well as expectations for political and economic policy continuity following the Spring elections. By comparison, China remains challenged as mixed economic data, ongoing pressures in the real estate market and piecemeal stimulus measures continue to be problematic. Rising long term interest rates in Brazil and concerns regarding greater government interference in some of the country's bellwether companies also weighed on investor sentiment. We believe the market is over-reacting to these challenges and stand ready to take advantage of such regional pullbacks as they present new, compelling mispriced opportunities. Against this backdrop, the Ariel Emerging Markets Value Composite increased +14.00% gross of fees (+13.74% net of fees) in the quarter, significantly outperforming both the MSCI EM Index and MSCI EM Value Index, which returned +7.07% and +5.97%, respectively.

Hana Financial Group, Inc., a large Korean banking franchise, outperformed in the quarter, following the government's announcement of a highly anticipated "Value Up" program, intended to increase the country's undervalued stock prices. This initiative aims to enhance corporate governance as well as provide financial and tax incentives for companies returning capital to shareholders via increased dividend payouts, stock repurchases and share cancellations. Hana Financial Group, like its larger peer KB Financial, enjoys a robust capital adequacy ratio and has a management team committed to enhancing shareholder returns. Despite one-time costs, the company continues to show earnings momentum in both its banking and non-banking businesses. In our view, the resilience of Hana Financial Group's net interest margin, combined with our constructive outlook for the sector underpins its upside potential, particularly with the stock trading at just 0.4x price-to-book.

Korea's largest financial company in terms of assets and customer base, **KB Financial Group**, also traded higher on the announcement of the "Value Up" program. Given the company's profitability, capital structure and solid provisioning practices, we believe it is well-positioned to increase capital returns. KB Financial generates strong fee income, prudently manages operating expenses and expects to deliver solid net interest margins this year. Despite the recent outperformance, we still see significant upside in the name as it is trading at 0.5x price-to-book and generates return-on-equity in line with its cost-of-equity.

Additionally, shares of leading pure-play producer and distributor of semiconductor memory products, **SK Hynix Inc.**, were driven higher by improving demand for memory as well as continued supply restraint by producers. Notably, pricing for memory and margins have begun to normalize and we expect a strong recovery in 2024. In our view, SK Hynix is well positioned to benefit from increased deployment and monetization of its leading-edge High Bandwidth Memory (HBM) products, which are experiencing rapid demand growth to power Artificial Intelligence (AI).

In contrast, although **Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC)**, traded sharply higher in the quarter, it still was the largest detractor from relative performance because its position size within our portfolio was smaller than its benchmark weight. The stock is benefiting from rising expectations for a recovery across the semiconductor industry as well as for its' leading-edge chip manufacturing ability. The boom in AI investment is driving significant demand for the semiconductor hardware that enables it, and TSMC currently has a near-monopoly on relevant chip manufacturing and packaging. We do not think its forward price-to-earnings ratio fully reflects the high-quality nature of TSMC's scale, technology, business model, customer service and execution.

Additionally, Chinese auto manufacturer, **Great Wall Motor Company, Ltd.**, declined in the quarter, in-line with the broader pull-back in the MSCI China Auto Index. Investors are concerned with the increasingly competitive landscape and potential for price wars during a time when domestic auto capacity exceeds current demand. At today's trading levels, we believe the market does not fully appreciate Great Wall Motor Company's mix shift towards higher margin domestic brands as well as profitable exports which should support longer-term outperformance.

Finally, shares of Brazilian health insurance company**, Hapvida Participacoes e Investimentos SA**, fell following reports the company is being investigated for failing to properly comply with court injunctions mandating it cover health treatments for beneficiaries in coverage disputes. Proceedings classified as probable risk of loss have been fully provisioned by the company and thereby suggest a market overreaction. Meanwhile, Hapvida recently announced a share buyback program aimed at maximizing shareholder value and managing its capital structure. This decision supports our view that shares are undervalued at current levels.

This quarter we took profits in names that have strongly outperformed, and redeployed proceeds towards six new opportunities we believe present greater upside potential.

We initiated a position in **Aluminum Corporation of China Ltd. (Chalco)**. While demand for aluminum continues to be supported by global electrification, we believe supply will be constrained going forward as China, the leading global producer, has capped its capacity at 45 million tons. As a result, we expect new quantities to be added in higher cost regions resulting in higher aluminum prices. Given Chalco's existing capacity and stable cost structure, the company should benefit from rising aluminum prices.

We also purchased Brazil-based integrated oil producer, **Petroleo Brasileiro (Petrobras)**, which operates large oilfields with low decline rates and reduced costs. The company continues to grow its production and maintains large exploration optionality. Despite having better return-on-equity and growth prospects than its peers, its shares trade at an abnormally large discount. As one of the leading state-owned enterprises in Brazil, we recognize government interference is a potential risk, but also believe that risk is priced-in at current trading levels. Notably, recent changes in the law make government intervention more challenging as the company's management is now personally liable for policies that could hurt the company. With strong free cash flow, rising production and exploration upside, we think Petroleo Brasileiro will outperform the markets very low expectations.

We added Korean-based leading manufacturer of mobile phones and smartphones, **Samsung Electronic Company, Ltd.** We see signs of the memory market bottoming driven by supply cuts during a time when demand is near trough levels. We expect the company will benefit from a cyclical recovery in memory as well as rising prices as supply/demand stabilizes throughout this year. We also think replacement demand for smartphones will improve. Longer term, we believe there is upside optionality in Samsung's foundry and display businesses that better transparency and more detailed financial segment reporting would unlock.

We bought India-based financial company **Shriram Finance Ltd.**, which specializes in lending for used commercial vehicles (CVs). We think Shriram is well-positioned for strong and profitable growth, benefiting from rising penetration of used CVs, as well as cross-selling opportunities in the aftermath of a recent merger. Shriram trades at a meaningful valuation discount relative to peers, which we believe is unjustified given the company's strong track record and outlook.

We also added **Universal Robina Corporation**, a leading food producer in the Philippines with a presence across the Association of Southeast Asian Nations (ASEAN). The company has a strong presence in packaged snacks, biscuits, noodles, coffee and ready to drink beverages. It also has a rapidly growing pet food business and presence in sugar and flour milling. Universal Robina has significantly invested in operational efficiencies and we are beginning to see early signs of progress show up in the bottom-line. Moreover, we believe Universal Robina Corporation is poised to benefit from structural growth in the Philippines as the rising middle class continues to show a strong preference for packaged foods. Our investment case also has a cyclical component to it, as we expect disposable incomes to rise as inflation declines and the economy reaccelerates to a steady growth rate of 6%.

And finally, we purchased **Vanguard FTSE Emerging Markets ETF** as a cash alternative during the month.

By comparison, we exited **Agricultural Bank of China Ltd**. and **China Construction Bank Corp.**; Korea based manufacturer and distributor of automobiles, **Kia Corp.**; global semiconductor foundry, **United Microelectronics Corp.**; and Philippian electric distribution utility company, **Manilla Electric Co.** to take profits after a period of strong performance.

We eliminated Chinese automotive company, **Guangzhou Automobile Group Co. Ltd. (GAC)** and Hong-Kong-based auto distributor, **Zhongsheng Group Holdings Ltd.** to pursue more compelling 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 developing countries, as businesses look to nearshore operations as well as diversify their global supply chains beyond China. Meanwhile, investors remain underweight the asset class. Looking forward, our conviction remains high.

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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 3/31/2024, the performance (net of fees) of the Ariel Emerging Markets Value Composite since inception on 4/30/2023 was +21.30%. For the period ended 3/31/2024, the performance for the MSCI EM Net Index and the MSCI EM Value Net Index over the eleven-month and since inception of the Ariel Emerging Markets Value Composite on 4/30/2023 was +10.81% and +12.35%, 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 Australian 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.

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As of 3/31/2024, Hana Financial Group, Inc. constituted 5.0% of the Ariel Emerging Markets Value Composite (representative portfolio); KB Financial Group, Inc. 5.9%; SK Hynix, Inc. 3.3%; Taiwan Semiconductor Manufacturing Company, Ltd. 5.9%; Great Wall Motor Company, Ltd. 1.9%; Hapvida Participacoes e Investimentos SA 1.2%; Aluminum Corporation of China, Ltd. 1.2%; Petroleo Brasileiro SA 1.0%; Samsung Electronics Company, Ltd. 0.3%; Shriram Finance, Ltd. 0.9%; Universal Robina Corporation 0.9%; Vanguard FTSE Emerging Markets ETF 2.9%; Agricultural Bank of China Ltd 0.0%; China Construction Bank Corp 0.0%; Guangzhou Automobile Group Co Ltd 0.0%; Kia Corp. 0.0%; Manila Electric Co. 0.0%; United Microelectronics Corp 0.0%; and Zhongsheng Group Holdings Ltd. 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.

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SLOW AND STEADY WINS THE RACE