Ariel Emerging Markets Value ex-China (NZD)

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, Brazil was a headwind on rising long term interest rates and concerns regarding greater government interference in some of the country's bellwether companies. Supply constraints in South Africa as well as port congestion, inflation and ongoing uncertainty around domestic policy also weighed on investor sentiment there. 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 ex-China Composite jumped +16.71% gross of fees (+16.40% net of fees) in the quarter, significantly outperforming the MSCI EM ex-China Index's +10.10% return.

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, leading Brazilian health insurance company, **Hapvida Participacoes e Investimentos SA**, declined 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.

Brazilian investment bank and wealth management firm, **Banco BTG Pactual SA**, also traded slightly lower in the period alongside Brazilian equities as the market re-assessed the degree to which the Central Bank's can cut policy rates. Nonetheless, Banco BTG Pactual's business continues to deliver solid earnings expansion, driven in part by steady market share gains in the high-return wealth management segment. While shares will likely be impacted by interest rate fluctuations, we are confident the strength of the business will drive outperformance across the macroeconomic cycle.

Finally, oil and gas producer, Parex Resources, Inc., declined in quarter. Management lowered production guidance and booked a modest reserve replacement. Although these results are disappointing, we were not surprised by the reserve since a successful exploration well was drilled late in the year without sufficient time for assessment. Parex Resources is a low-cost oil producer with a pristine balance sheet, operating in an oil rich region, Colombia. The country is underexplored and ripe for improved production by modern technology implementation. Additionally, Parex's extensive acreage gives the company abundant opportunity for exploration.

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

We initiated a position in 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 also 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 purchased 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 bought Columbia EM Core ex-China ETF as a cash alternative during the month.

By comparison, we exited Korea based manufacturer and distributor of automobiles, **Kia Corp** to take profits after a period of strong performance.

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 ex-China Composite (NZD) since inception on 5/31/2023 was +29.27%. For the ten-month period ended 3/31/2024, the performance for the

MSCI EM ex-China Net Index was +18.11%. 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 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.

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As of 3/31/2024, Hana Financial Group, Inc. constituted 5.1% of the Ariel Emerging Markets Value ex-China Composite (representative portfolio); KB Financial Group, Inc. 5.5%; SK Hynix, Inc. 3.7%; Hapvida Participacoes e Investimentos SA 1.6%; Banco BTG Pactual SA 2.7%; Parex Resources, Inc. 1.2%; Columbia EM Core ex-China ETF 1.1%; Petroleo Brasileiro SA 1.0%; Samsung Electronics Co Ltd 4.3%; Shriram Finance Ltd 0.9%; Universal Robina Corp 0.9%; and Kia Corp 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.

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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