Ariel Emerging Markets Value ex-China

Quarter Ended March 31, 2025

Given the significant downturn since the quarter ended, we are closely monitoring the turn of events and assessing the situation daily. As we write, the commentary below reflects our current thinking in this ever-changing landscape.

Global markets diverged in the first quarter of 2025. All major U.S. indices ended in the red, with investors fleeing to safety on tariff fears and policy uncertainty. The Magnificent Seven[1], which drove most of the U.S. market gains over the last three years, led the decline, falling nearly 15% as America's leadership in Artificial Intelligence (AI) came into question. International equity markets, led by Europe and China, surged delivering their strongest quarterly outperformance versus the U.S. in 15 years. Meanwhile, the MSCI Emerging Markets ex-China Index pulled back over the period, with Taiwan, India and countries of Southeast Asia contributing to the underperformance. Taiwan's tech-heavy market suffered sharp declines amid investor fears over tariffs on semiconductor exports to the U.S. and concerns over a potential slowdown in AI investments by large U.S. companies. India traded lower on slowing GDP and earnings growth, while policy uncertainty in Indonesia and the impact of U.S. tariffs on Thailand weighed on future economic growth. Against this backdrop, the Ariel Emerging Markets Value ex-China Composite declined -2.30% gross of fees (-2.56% net of fees), trailing the MSCI EM ex-China Index's -1.72% return.

Brazilian investment bank and wealth management firm, **Banco BTG Pactual SA**, outperformed during the quarter. Shares traded higher alongside Brazil's stock market, as investors anticipate positive near-term political changes. Additionally, the company's quarterly earnings results showcased continued operating momentum, with steady growth in its asset and wealth management segments. Trading at 9x forward earnings with mid-teens earnings growth over the coming years, we see continued return potential ahead.

One of the largest retail and corporate banks in Central and Eastern Europe, **OTP Bank Nyrt** also advanced following the delivery of solid quarterly earnings results and a healthy outlook for 2025. The company reported strong loan growth, expanding net interest margins and higher cost of risk. Going forward, we believe OTP is poised to continue to generate mid-to-high teens return on equity, while also returning capital to shareholders or accelerating growth via mergers and acquisitions where the company has a strong track record.

Additionally, Brazilian-based power utility company, **Centrais Eletricas Brasileiras SA** outperformed alongside Brazil's stock market, as investors anticipate positive near-term political changes. Additionally, the company moved closer to resolving a longstanding dispute with the federal government over the terms of its 2022 privatization, paving the way to start raising its dividend payout ratio. At 6x EBITDA, we believe the company has substantial upside versus the valuations of its peers.

Conversely, Indian banking services provider, **IndusInd Bank Limited**, which specializes in microfinance as well as personal and commercial vehicle loans, traded lower in the quarter. Management disappointed the market by announcing accounting discrepancies necessitating an estimated 2% reduction in book value. In tandem, the Reserve Bank of India disclosed that it approved IndusInd's CEO Sumant Kathpalia, for an additional one-year term (as opposed to the standard three-year term), further pressuring shares. While these developments give us near-term pause, we believe the company's current valuation at 0.8x price-to-book presents attractive upside given IndusInd's strong growth potential, solid capitalization ratios and expectations for healthy mid-cycle profitability.

Shares of Taiwanese producer of electronic connectors, **Lotes Company, Ltd.**, began to pullback from recent highs. Although earnings expectations are stabilizing, we continue to view the company as well-positioned to deliver solid results over time. Looking ahead, we think the central processing unit (CPU) socket market will keep growing 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

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[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).

relationship with CPU designers Intel and AMD. We also continue to appreciate the company's commitment to return capital to shareholders. At 17x forward earnings, we see attractive upside.

Lastly, **FPT Corporation**, a Vietnam-based conglomerate focused on technology, telecommunications and private education services, declined on weakening sentiment for global information technology stocks amidst a potential macroeconomic slowdown. In our view, the company is well-positioned for continued earnings momentum due to its highly competitive cost structure and expanding global footprint. The company is also upgrading its service offerings with an enhanced focus on higher value-add digital services. Meanwhile, we believe its comprehensive partnership with NVIDIA and its ability to source top engineering talent from FPT University are competitive advantages. At 15x next year's earnings, the company trades at a significant discount to its global peers.

We initiated three new positions in the quarter.

We bought Greece-based financial services and asset management company, **Eurobank Ergasias Services and Holdings SA**. We believe the company is poised to significantly benefit from Greece's economic recovery. In our view, Eurobank should continue to expand its loan book over the next 5-7 years supported by sustained credit growth and macroeconomic tailwinds. Its focus on wealth management and recent acquisitions in Cyprus and Bulgaria also strengthens our conviction. Meanwhile, we expect the country's stronger-than-expected absorption of European funds and faster catch-up on private credit penetration to present further upside for shares. From our perspective, the company's diversified approach, sturdy capital position and competitive return on equity underscores our confidence in its long-term value.

We also purchased Indonesian pulp and paper producer, **Indah Kiat Pulp & Paper Tbk PT** during the period. The company is expanding its paper production capacity by building a new factory in Karawang, West Java. This factory will be constructed in two stages, with the first stage anticipated to begin in 2025. This new capacity should materially boost earnings once completed in 2026. The company is a low-cost producer, and at 4x earnings with a robust outlook, we believe this name offers significant upside potential.

Finally, we initiated a position in Thailand-based commercial and investment banking services provider, **Kasikornbank Public Company, Ltd.** during the quarter. After a major balance sheet cleanup over the last few years, we believe the bank is now in a position to reduce its provisioning costs and boost its return on equity. We also expect its strong tier 1 equity ratio, moderate loan growth and improved profitability to increase its return of capital to shareholders via dividends.

By comparison, we exited Taiwanese testing and packaging solutions company for semiconductors and integrated circuits, **King Yuan Electronics Company, Ltd.** on valuation. We also sold out of oil and gas producer, **Parex Resources, Inc.** and one of the largest mall operators in Vietnam, **Vincom Retail JSC** to pursue more compelling investment opportunities.

The announced U.S. reciprocal tariffs unleashed a wave of uncertainty across global markets, with the impact of retaliation or negotiation on real investments remaining questionable. These actions will undeniably create economic headwinds for EM exporters, and yet supply chains are difficult to reallocate across continents. Even after adjusting for the proposed tariffs, we do not think many industries in North America would be challenged by production cost differences but would continue to see the benefits of EM labor availability given the current U.S. 4.2% unemployment rate. With high tariffs applied universally across all key Asian manufacturing economies, we see little room to arbitrage production among manufacturing countries for the benefit of the U.S. consumer. As a result, we expect the U.S. consumer will ultimately bear the burden of higher costs. EM manufacturers will be hurt by lower volumes due to price elasticity but are likely to remain key suppliers to U.S. consumers for years to come. Furthermore, developing economies can utilize monetary policy to stimulate growth during the adjustment period.

EM's valuation discount relative to the developed markets is 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 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 remains strong by historic standards 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 markets 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 3/31/2025, 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 -8.51% and +9.45%, respectively. For the period ended 3/31/2025, 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 -2.14% and +8.09%, 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 3/31/2025, Banco BTG Pactual SA constituted 2.6% of the Ariel Emerging Markets Value ex-China Composite (representative portfolio); OTP Bank Nyrt. 3.4%; Centrais Eletricas Brasileiras S.A. 1.8%; IndusInd Bank, Ltd. P-Note 1.2%; Lotes Co., Ltd. 0.7%; FPT Corporation P-Note 1.7%; Eurobank Ergasias Services and Holdings SA 1.1%; Indah Kiat Pulp & Paper Tbk PT 1.0%; Kasikornbank PCL 1.1%; King Yuan Electronics Co Ltd 0.0%; Parex Resources, Inc. 0.0% and Vincom Retail JSC 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.