Quarter 2, 2024

Emerging Markets Investment Outlook

Transacting around divergent market and stock moves

The second quarter was notable for a significant amount of trading activity within the portfolio. Repositioning took place as we took profits from several strongly performing IT stocks that benefited from the AI theme; while we reinvested the proceeds in areas that have materially underperformed this year thereby enhancing the attractive value characteristics of the portfolio. We thought it would be worthwhile to detail and explain some of the key moves as they have altered the shape of the portfolio's over and underweight positions somewhat.

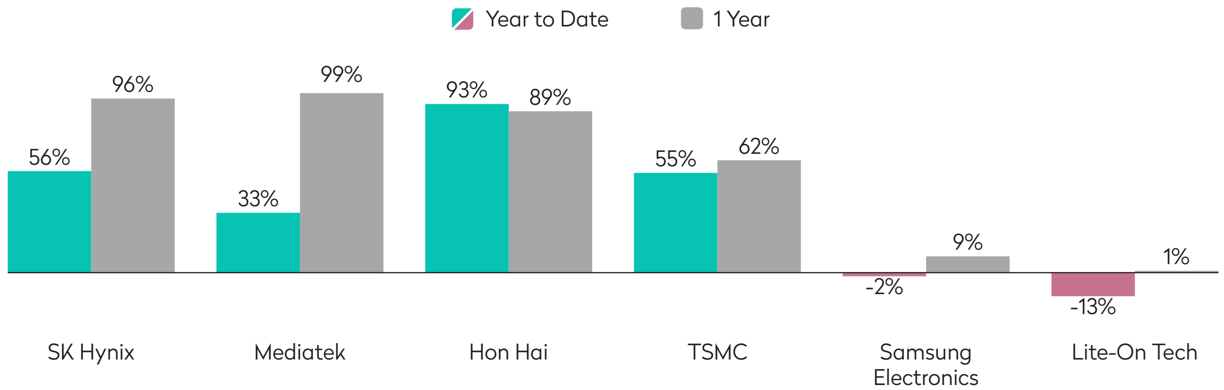
Reducing AI related outperformers in Asia

The over-riding theme dominating global market moves this year has been the expectation surrounding the current and future monetisation of Artificial Intelligence. The key beneficiary has of course been Nvidia which is up 150% year to date, and almost 200% over the year to end June.

Interestingly, it was exactly a year ago in our Q2 2023 piece, that we wrote about the impact of AI and how we were fortunate in EM to have several IT stocks which would have to be at the heart of its development. Furthermore, and more importantly as it pertains to Mondrian, we explained how we felt they traded at deep discounts to their future potential value, which placed us overweight to many of the key beneficiaries as we saw it. While the names we held haven't risen as much as Nvidia, they have produced excellent returns for the portfolio (see below). While we still see value in many IT names being appreciative of the profound impact AI will have on IT spending, we took considerable profits from our Taiwanese tech stocks – TSMC, Hon Hai and MediaTek, while selling out of SK Hynix completely.

In total we took out over 6% from the 4 outperformers above, significantly reducing exposure, as we estimate that the skew of returns is not what it was when we wrote a year ago. We reinvested some of those proceeds into still attractively valued Samsung Electronics and Lite-On Technology in the IT sector, both of which haven't participated yet in the AI fueled rally, despite both likely being future beneficiaries in our estimation. We see the above as logical and disciplined trades for value investors such as Mondrian. These trades, as well as reductions we made to outperforming Taiwanese bank CTBC, result in us ending the quarter c.5% underweight Taiwan. Taiwan is up 41% over 1 year and has outperformed MSCI EM by 27% per annum over the last 3 years. Yes, Taiwan is a key cog in the AI supply chain, but political risks as they relate to China have not disappeared, and therefore we feel based on risk adjusted returns, it is sensible to have moved lower in Taiwan (as well as AI related stocks) this quarter, and reinvest the profits in stocks where much lower expectations are now priced in.

USD Total Returns (net) to end June 2024



Source: MSCI, FactSet
Six largest holdings by revenue from the AI supply chain in a representative Emerging Markets Account.
Past Performance is not a guarantee of future results. Refer to the Composite Disclosure and Important Information in the Appendix.

Increasing exposure to underperforming areas with attractive valuations

Indonesia

Indonesia's equity market has turned from one of the best performing in EM to one of the worst YTD. Indonesia's currency and equity market is notoriously sensitive to USD movement given their dual deficit; therefore, part of the pain has been macro driven as US rate cuts have been pushed out. The Rupiah is down 6% YTD as a result. Additional sensitivity has arisen from the hollow transition period between Prabowo Subianto winning the Presidential election in February, but only taking office on 20th October meaning a lack of clarity on the policy agenda post a highly successful 10-year period under Joko Widodo. Indonesia is down 11% this year and valuations are very cheap versus history, even accounting for the above concerns. We added 1.5% equally across existing holdings Bank Rakyat and Telkom Indonesia which are both down c.25% this year (given slight earnings revisions for this year), as our long-term fair values for the companies are largely unchanged. We increased our overweight to the country which should continue to enjoy structural growth driven by urbanisation, positive demographics, productivity gains and financial inclusion, coupled with a structurally improved trade balance outlook as it transitions from a raw commodities exporter towards a more vertically integrated, value-added manufacturing exporter.

Latin America

The results of the Mexican election primarily caused surprise given the 'super majority' won by President elect Claudia Sheinbaum of the incumbent Morena party. This suggests a broad level of satisfaction amongst the electorate, however, the markets are concerned at potential judicial and other radical reforms that could ensue, given the perceived left-wing populist platform of her predecessor AMLO. Candidly, it is too early to make bold predictions, and Sheinbaum herself has attempted to distance herself from any radical thinking more associated with AMLO. Portfolio bank holding Banorte sold down heavily, as did the peso, and we added on material undervaluation. We will monitor the transition from Amlo to Sheinbaum closely, looking for opportunities to buy high quality companies at lower than typical valuations.

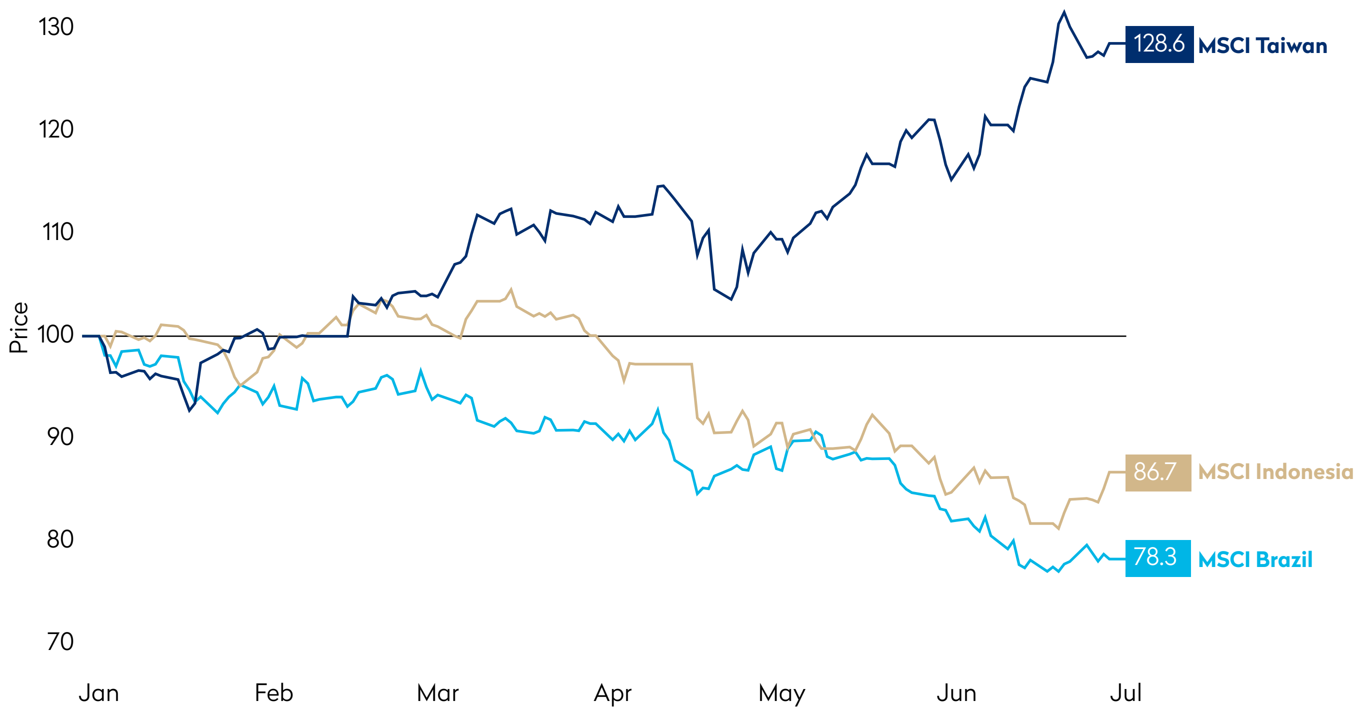
Separately, Brazil's financial markets have sold off sharply this year as investors have grown increasingly anxious about the spending plans of left-wing President Luiz Inácio Lula da Silva's government. Market participants have concerns over the viability of Brazil's plan to balance the public finances through extra tax collection, while also increasing spending. The Brazilian real is the worst performing emerging market currency against the US dollar so far this year, losing 13%, meaning MSCI Brazil is the weakest market this year, down 19%. Portfolio holdings in Brazil - pharma company Hypera and miner Vale are both off c.30% this year, while Itausa and Petrobras have pulled back too. We are cognizant of the fiscal challenges but feel the stock falls this year more than price these concerns in, and Brazil once again looks fertile ground for value managers such as Mondrian. We added to all four names given highly attractive risk adjusted returns post these falls.

Saudi Arabia and the Middle East

The GCC countries have lagged MSCI EM this year given political tensions, despite companies generally releasing solid results and guidance. Our middle eastern holdings have fallen approximately 5-10% and we added to all our names in Saudi and the UAE given even cheaper valuations. We further enhanced our total exposure by initiating a position in Saudi Aramco during their $12bn share placement in June. Aramco is the world's largest Oil company with the lowest cost of production globally by some margin. The shares have lagged this year and the placement priced the company on a dividend yield of over 5%* which the company is committed to growing annually. We believe this placement, timed when the shares were close to an all-time low, offered a good opportunity to buy into this attractively valued world leader.

*Dividend yield is not guaranteed and is subject to change.

Divergent market moves this year



Source: MSCI, FactSet

Conclusion

As can be seen in the above chart showing a selection of areas discussed, there has been a pronounced divergence in returns across certain segments of the asset class this quarter. As disciplined value managers, we took advantage of rapidly rising stock prices, realised profits, and lowered exposures where appropriate. We reinvested where we feel pessimism has become too great in share prices which now offer particularly attractive risk adjusted returns. Our main country relative differences to the benchmark are shown below.

	Mondrian EM Representative Account	Benchmark	Relative to Benchmark
India	10%	19%	-9%
Taiwan	14%	19%	-5%
South Africa	0%	3%	-3%
South Korea	15%	12%	3%
China	29%	26%	3%
Brazil	7%	4%	3%
Indonesia	4%	2%	3%

Benchmark: MSCI EM Index
Source: Mondrian Investment Partners and MSCI

Disclosures

1. This marketing communication is for Professional Investors only.

2. This Investment Outlook may include forward-looking statements. All statements other than statements of historical facts are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those reflected in such forward-looking statements.

3. Views expressed were current as of the date indicated, are subject to change, and may not reflect current views. Views should not be considered a recommendation to buy, hold or sell any security and should not be relied on as research or investment advice.

4. Calculations for characteristics such as P/E, P/B, dividend yield, sector country allocations and market caps are based on generally accepted industry standards. Any characteristics referenced are based on a representative account from the Emerging Markets Equity composite and derived by first calculating the characteristics for each security, and then calculating the weighted-average of these values. The details of exact calculations can be provided upon request.

5. Characteristics including the likes of those listed in the above point are not reliable indicators of future results.

6. All characteristic data provided is produced using Mondrian’s accounting system data.

7. The information was obtained from sources we believe to be reliable, but its accuracy is not guaranteed and it may be incomplete or condensed.

8. It should not be assumed that investments made in the future will be profitable or will equal the performance of any security referenced in this outlook. Examples of securities will represent only small part of the overall portfolio and are used to illustrate our investment approach. Any holdings are subject to change and may not feature in any future portfolio. More information on holdings is available on request.Past performance is not indicative of future results. An investment involves the risk of loss. The investment return and value of investments will fluctuate, and you may not get back the amount you originally invested.

9. Unless otherwise stated, all returns are in USD.

10. All references to index returns assume the reinvestment of dividends after the deduction of withholding tax and approximate the minimum possible re-investment, unless the index is specifically described as a “Gross” index

11. Mondrian Investment Partners Limited is authorized and regulated by the Financial Conduct Authority (Firm Reference Number: 149507). Mondrian Investment Partners Limited is also registered as an Investment Adviser with the Securities and Exchange Commission (registration does not imply any level of skills or training).

Annual Performance

Year	Total Gross USD Return	Total Net of Fees USD Return	Benchmark USD Return	Composite Standard Deviation	Benchmark Standard Deviation	No. of Portfolios	Composite Dispersion	Total Composite Assets (USD mn)	% of Firm Assets	Total Firm Assets (USD mn)	Total Firm Assets and Advisory Assets (USD mn)
2014	0.86%	-0.14%	-2.19%	15.22%	15.00%	9	0.25%	4,859.8	7.58	64,102	69,429
2015	-15.68%	-16.52%	-14.92%	13.59%	14.06%	10	0.14%	4,729.5	8.32	56,857	62,158
2016	9.67%	8.59%	11.19%	14.31%	16.07%	12	0.59%	6,114.2	10.36	59,033	64,257
2017	28.07%	26.81%	37.28%	13.07%	15.35%	10	0.53%	7,630.1	12.16	62,751	69,504
2018	-13.10%	-13.96%	-14.57%	12.41%	14.60%	8	0.23%	5,240.9	10.97	47,789	53,740
2019	19.07%	17.90%	18.42%	12.57%	14.17%	8	0.37%	5,880.3	10.81	54,401	61,316
2020	16.01%	14.86%	18.31%	19.93%	19.60%	10	1.28%	6,106.0	11.12	54,894	58,974
2021	-3.91%	-4.86%	-2.54%	19.53%	18.33%	10	0.36%	5,199.6	9.27	56,088	60,479
2022	-15.10%	-15.94%	-20.09%	22.06%	20.26%	11	0.25%	4,054.9	9.36	43,300	47,087
2023	14.40%	13.27%	9.83%	18.27%	17.14%	7	0.40%	3,991.5	8.80	45,344	49,058
2024 (to Jun 30)	4.91%	4.39%	7.49%	18.48%	17.55%	7	0.59%	4,000.5	9.19	43,534	46,662

1 Year	10.24%	9.14%	12.55%
5 Years (Ann.)	4.14%	3.11%	3.10%
10 Years (Ann.)	2.49%	1.48%	2.79%
Since Inception (Ann.)	7.87%	6.80%	5.54%

- This composite was created and incepted in August 1996.
- Past performance is not a guarantee of future results.
- A list of composite descriptions, pooled fund descriptions for limited and broad distribution pooled funds and the policies for valuing investment, calculating performance and preparing GIPS reports are available on request.

Accompanying Notes Concerning Performance Calculation and GIPS® Compliance

Mondrian Investment Partners Limited ('Mondrian') claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Mondrian has been independently verified for the period 1 January 1993 to 31 December 2023. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Firm is defined as all discretionary and non-discretionary portfolios managed by Mondrian. Mondrian is a value-oriented defensive manager seeking to achieve high real returns for its clients. Mondrian invests mainly in securities where rigorous dividend discount analysis identifies value in terms of the long-term flows of income. Mondrian's methodology is applied consistently to markets and individual securities, both bonds and equities.

The Emerging Markets Equity Composite includes U.S. dollar based discretionary portfolios, measured against the Morgan Stanley Capital International EM or equivalent Index net of withholding taxes. The portfolios are invested primarily in publicly traded companies based in an Emerging Market, or deriving a majority of revenue within Emerging economies. Shares may, however, be listed on more developed exchanges.

Total Firm Assets are assets for which the firm has investment management responsibility. Composite assets are assets for composite qualifying portfolios for which the firm has investment management responsibility. Firm advisory assets are assets for all strategies within the firm for which Mondrian provides investment recommendations only; trading and implementation of the investment decisions is independent.

Portfolios are valued on a trade date basis using accrual accounting. Returns are calculated using the modified Dietz method and then weighted by using beginning-of-period market values to calculate the monthly composite returns. Portfolio returns are calculated net of irrecoverable withholding tax on dividend income. New portfolios are included in the first full month of investment in the composite's strategy. Terminated portfolios remain in the composite through the last full month of investment.

Composite and benchmark standard deviation are measured as the rolling 3 year annualised standard deviation of gross monthly returns. The dispersion of annual returns of portfolios within the composite (Composite Dispersion), is measured by the standard deviation of the equal-weighted returns of portfolios represented within the composite for the full year. When the composite consists of four or fewer portfolios for the full year, no dispersion measure is presented.

Performance results marked "Gross" do not reflect deduction of investment advisory fees. Investment returns will be reduced accordingly. For example, if a 1.00% advisory fee were deducted quarterly (0.25% each quarter) and the three year gross annual returns were 10.00%, 3.00% and -2.00%, giving an annualized return of 3.55% before deduction of advisory fees, then the deduction of advisory fees would result in three year net annual returns of 8.91%, 1.98% and -2.97% giving an annualized net return of 2.52%.

Performance returns marked "Net" reflect deduction of investment advisory fees and are calculated by deducting a monthly indicative fee from the monthly composite return. The indicative fee is defined as being the effective fee rate for a segregated account at the composite's minimum segregated account size as set out below. Actual net composite performance would be higher than the indicative performance shown because some accounts have sliding fee scales and accordingly lower effective fee rates.

Representative fee schedules and expense ratios as at 31st December 2023 for segregated accounts and pooled vehicles are provided below, although it is expected that from time to time the fees charged will differ from the below schedule depending on the country in which the client is located and the nature, circumstances and requirements of individual clients. The fees for segregated accounts will be charged as follows: the first USD50 million at 0.90%; thereafter at 0.70%. Minimum segregated account size is USD50 million. For Limited Partnerships, the following fees will be charged: the first USD25 million at 1.00%; the next USD25 million at 0.75%; thereafter at 0.60%. Minimum Limited Partnership account size is USD1 million. The total expense ratio is 0.70%. For Mutual Funds, 0.75% will be charged on all assets. Minimum Mutual Fund account size is USD50,000. The total expense ratio is 0.92%.