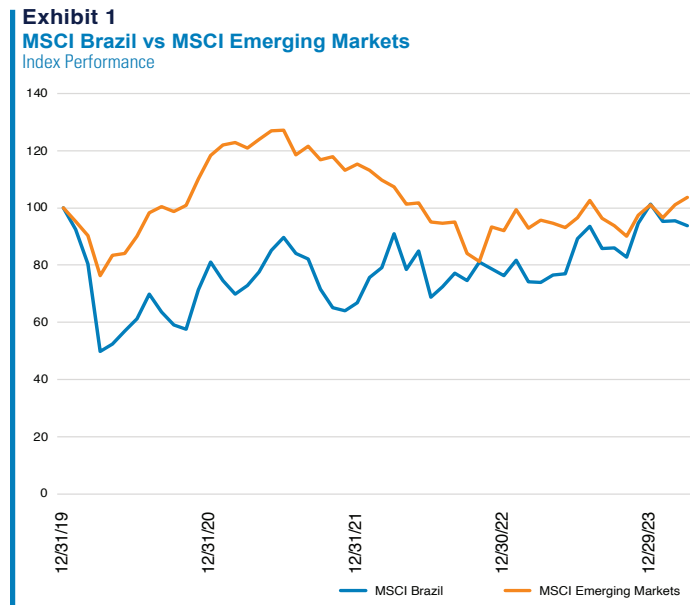


## Brazilian Equities: Unveiling Undervalued Opportunities

Brazilian equities performed well in 2022 and 2023, posting annual returns of 14% and 33%, respectively (Exhibit 1). Despite two years of strong performance, the MSCI Brazil Index continues to trade below its pre-COVID level.

Despite the benign economic environment, Brazilian equities appear priced for a gloomy outlook. Against this backdrop, we are invested in companies whose valuations we believe have been unduly punished because of macro and political fears, as well as company-specific controversies.



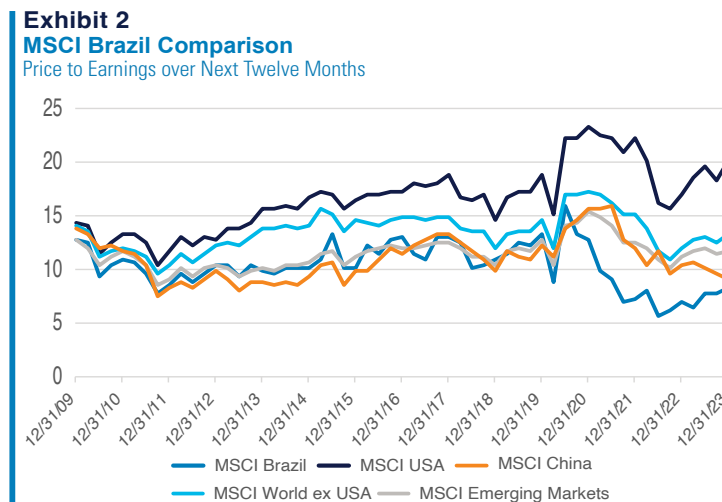
Source: MSCI  
Cumulative performance of the MSCI Brazil Index and MSCI Emerging Markets Index, in USD, base value of 100, from 12/31/2019 - 3/31/2024.

On a forward earnings basis, Brazilian equities are cheaper than they were during the early months of the COVID-19 pandemic, as well as the previous recession of 2014-2016 (Exhibit 2). Meanwhile, the macroeconomic backdrop is more encouraging than in the past. Unemployment is at its lowest level since 2015, and inflation is down to 4% from double-digit percentage points in 2021 and 2022.

We added **Ambev**, the largest brewer in Latin America and Canada, to the portfolio in 2020. At the time, the company faced beer volume declines amid COVID-19 restrictions. Although volumes have bounced back to record highs, Ambev has faced several macroeconomic challenges, including higher input costs due to a weak Brazilian real and commodity cost inflation. More recently, shares fell due to earnings impacted by the devaluation of the Argentine peso, as well as uncertainty surrounding Brazil's new tax regime. Despite potential future tax burdens, we believe the current share price more than discounts any forthcoming changes. Looking ahead, we are optimistic about Ambev's underlying business. We believe the company's premiumization strategy will contribute to further margin expansion, as macroeconomic headwinds abate.

Cosmetics and personal care company **Natura & Co.** is currently executing the integration of its 2020 acquisition of Avon. In 2023, Natura de-levered its balance sheet by first selling the Aesop brand to L'Oréal at an attractive valuation and subsequently selling its UK-based personal care retailer, The Body Shop. Since we added Natura in 2023, the company has begun to integrate Avon's Latin America business with Natura's existing unit. A key focus of management has been better incentivizing Avon agents to sell product rather than recruit other agents, which led to margin compression in the past. The integration has thus far translated to margin expansion driven by increased productivity and cross-selling.

When we added **Banco do Brasil** to the portfolio in 2023, the share price reflected fears that potential intervention by the newly elected government could hinder the company's profitability, as seen during the presidency of Dilma Rousseff. The company currently offers the highest return on equity among Brazil's largest banks. Asset quality has remained strong, and we view the current valuation as compelling.



Source: FactSet, MSCI  
Chart depicts price to earnings (next twelve months).

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