Q1 2024 - Emerging Markets Quarterly Update

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Hello, I'm Rakesh Bordia. I'm one of the co-portfolio managers on our Emerging Markets-focused value strategies. For Emerging Markets, the first quarter of 2024 was up modestly, still trailing developed markets, which were up high single digits. If you really go into the quarter, it was more of a China relief rally than anything else. The market continued to be relatively volatile for the whole quarter. To put things in context, in January, China was down 10%, and the rest of Emerging Markets was down about 2.5%. It completely flipped in February when China was up around 9%, and the rest of Emerging Markets was up low single digits. The third month, March, was basically flattish for both those parts of the world. All in all, that resulted in Emerging Markets equities being up modestly for the quarter, driven partially by the China relief rally but also some other economies doing alright.

As is always the case, there was a very wide dispersion among countries in Emerging Markets. For example, Peru was up 15%, Egypt was down 30%, and those are generally how you see very wide variations in terms of performance in Emerging Markets.

In terms of our portfolio, the strongest contributors were driven by the global AI boom, particularly in the information technology sector. The two strongest contributors were both names in Taiwan focused on technology: Han High and United Integrated Services. Han High benefited from being the sole supplier of the rack assembly for NVIDIA GPU modules, so that stock did really well. United Integrated Services is the largest clean room manufacturer for semiconductor manufacturing. Whenever TSMC (Taiwan Semiconductor Manufacturing Company) wants to open a factory, the clean room is most of the time manufactured by UIS. They benefited from increased optimism about rising capital expenditures in the semiconductor space due to AI growth.

On the negative side, the biggest detractor was China Overseas Land Investment, which is one of the Chinese real estate names. The company did quite well, but the industry backdrop continued to be really rough. The company's volumes were stronger than the industry's, so they gained market share, and their margins were fairly good as well. However, the industry headwinds were too much for them to manage, and the stock was down.

Putting all the positives and negatives together, our portfolio slightly outperformed by about 1-2% both the MSCI EM Index and the MSCI EM Value Index. We also added a couple of new names to the portfolio in the quarter. We added one of the Chinese express delivery leaders, ZTO. It's the largest express delivery player in China and boasts a much superior margin versus its competition for two reasons: number one, they have the largest scale, so their cost structure is much better than their competition, and number two, the entire industry operates on a franchise model where the first and last mile are handled by franchises. ZTO's franchise network is much better managed, resulting in lower churn and a lower cost structure. All in all, it's a very superior player in the express delivery market, and it became very attractive given the weakness in the China market.

We also added a Korean auto parts supplier, Hyundai Mobis. They have two core businesses: one is OEM auto part supplier to Hyundai and Kia, but their core profitable part of the business is after-sales genuine parts for those two companies and their customers. It’s a good business with very attractive cash flow and is trading at a very good valuation.

At Pzena Investment Management, we focus on company-specific research, company-specific risk assessment, company-specific valuation, and fundamental research. Whenever there’s significant volatility in the markets, as we’ve seen for some time, it’s a great opportunity for us to find excellent investments because prices get dislocated from the fundamentals. Given this recent volatility and these choppy waters, it has been a very exciting time for us to find great investment opportunities in our portfolios.

Thank you.

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