Q4 2024 - International Value Quarterly Update

Portfolio Manager Rakesh Bordia provides an update on the fourth quarter for our International Value strategies.

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Hello, I'm Rakesh Bordia. I'm one of the portfolio managers on our International products. I'm here to talk about the performance of the strategy in the fourth quarter of 2024. Markets were really concerned about weakening macro conditions in Europe and China. The market was extremely weak after a significant rally at the end of the third quarter, without a significant follow-up by the Chinese government. Almost all countries were fairly weak in the fourth quarter, but the emerging markets countries were especially weak, including Brazil and Indonesia, which were down almost 20%. Almost all sectors were down in the quarter as well, with healthcare and materials being the weakest.

Our portfolio underperformed the style-neutral index by around 0.5% in the quarter, and as is the case with us always, most of our performance—whether up or down—is driven by stock selection. This quarter was no exception. The strongest performers for us were Fresenius, Standard Chartered, and HSBC. Fresenius is the leading provider of dialysis products globally, and it performed well after showing good sequential improvements in its revenue as well as profits. HSBC and Standard Chartered were both strong as they reported good results in their wealth management business, and the market was optimistic about rates staying higher for longer. They also committed to their ROTE (return on tangible equity) targets, as well as capital return to shareholders. They reiterated their guidance for return on tangible equity and their commitment to returning cash to shareholders.

Our biggest individual detractors in the quarter were Bayer, as well as the Chinese names of Alibaba and China Overseas Land & Investment. Bayer is a German healthcare and crop products company, which has been particularly weak throughout the year because of uncertainty in its ongoing litigation on PCB and glyphosate. This quarter was particularly weak because the company announced a negative statement on the approval of its herbicide Dicamba. A delay in that herbicide's approval will result in significant profit and revenue decline for the 2025 cropping cycle, and that's why the stock reacted very negatively. Even if that happens, we believe it's a temporary setback in the company's improvement in profitability over time, and we continue to hold the stock.

Chinese stocks Alibaba and China Overseas Land & Investment were weak along with the Chinese market, as the government did not follow through with anything substantial after a big-bang splash at the end of the third quarter. Both companies are still executing really well. Alibaba is trying to improve its market share loss over time, and China Overseas is very well positioned in a weakening property market, with its strong balance sheet and very good capital management.

During the quarter, we added two new names to the portfolio: Samsung Electronics and Continental. Samsung is a Korean semiconductor leader, which has been weak because of a weak memory cycle, as well as not getting qualified for the high-density memory used in AI chips in the last cycle. We do believe they will get qualified going forward, and in the interim, they have been doing excellent capital management by returning cash to shareholders, so we continue to like the stock at this price. Continental is a German tire manufacturer with a significant automotive segment, and we expect the company's profitability to improve going forward as they restructure their automotive business.

Overall, the trims and adds in the quarter were in line with valuation. We continue to add to the weaker names like Danske Bank and Sainsbury (which is a UK grocer), and we financed these buys through the sale of SES, which was very strong, and Tesco (a UK grocer), which has outperformed in this time period. Last quarter was a very volatile quarter. These volatile quarters, when stock prices get hit quite dramatically, are great opportunities for us at Pzena Investment Management, because we can find great businesses trading at excellent valuations. We find these weak markets a fairly exciting time for us to find great investment opportunities.

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