Q1 2025 - Emerging Markets Quarterly Update

Portfolio Manager Rakesh Bordia provides an update on the first quarter for our Emerging Markets Value strategies.

Hello, I'm Rakesh Bordia, and I'm here to talk about Emerging Markets in the first quarter of 2025. After a weak fourth quarter, Emerging Markets were up modestly in the first quarter of 2025. Eastern Europe benefited a lot from hopes that the Russia-Ukraine war may come to an end, and Brazil and China recovered after having a very difficult last couple of years.

As always, there was wide dispersion between countries within Emerging Markets. For example, Poland was up almost 30%, while Thailand was down 13%. From a sectoral standpoint, almost all sectors were up except Information Technology, which was down 9%. Against this backdrop, the MSCI EM Value Index outperformed the MSCI Style Neutral Index, and our portfolio outperformed the MSCI EM Value Index by about 200 basis points. As is typically the case with us, most of our performance—whether up or down—is driven primarily by stock selection.

Brazil was one of the strongest countries in the quarter, and Ambev, for example, was one of the strongest performers. They reported very strong results, and in spite of very difficult volumes, revenue was strong because of premiumization, and they showed very good cost control in the quarter. Another name that was very strong was a heavy-duty truck engine manufacturer based in China. They benefited from policies driven by the stimulus in China, which pulled forward some demand, and they also reported very good results and gained tremendous share in some of their markets. Alibaba was also strong in the quarter, driven by good results in their cloud computing and e-commerce business, and increased optimism around their AI engine.

On the flip side, one of the biggest detractors was a contract manufacturer for shoes. While their results were good, they gave relatively weak guidance for 2025, driven by macroeconomic fears. We believe the long-term fundamentals of the company are intact, and we still like the stock at these levels. Another very weak name in the quarter was Natura, a Brazilian beauty products company. The stock reported very weak results—revenue was okay, but margin was much weaker than expected. There was significant working-capital buildup, which resulted in negative cash flow for the quarter, and there was no significant improvement in their restructuring efforts for the Avon international business. While these headwinds are real and the stock will likely have near-term pain, we do expect that once consultant productivity improves, both revenue and margins should inflect in the near term.

From a portfolio standpoint, we didn't add any new names in the quarter. As expected, we trimmed some of the positions that were strong and used that to finance positions that were weak in the quarter. For instance, we bought more of Beijing Oriental Yu-hong, which had been weak in the quarter, and we financed that by selling Abu Dhabi Commercial Bank.

Overall, the quarter was fairly normal and lacked significant turmoil, but that is very different from where we are today. Right now, a topical point is tariffs. We have always evaluated tariffs as part of our investment process, especially in Emerging Markets, where tariffs have been used indiscriminately well before they were made famous by the Trump administration. As a result, we assess the impact of tariffs on every investment we consider in great detail. More than that, I would say that given the uncertainty and volatility that tariffs have created, many of these stocks are trading at very cheap valuations, and the price dislocation is quite significant relative to the underlying fundamentals. We actually see this tariff uncertainty and choppy environment as an opportunity rather than a big threat to our portfolio. If this volatility continues, we believe we'll be able to find really good businesses at prices well below their long-term fundamental value.

Thank you very much.

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