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MARKET REVIEW

Emerging markets equities rose slightly in August, with Latin America leading the gains, followed by Europe, the Middle East, and Africa (EMEA) and Asia.

Latin America gained sharply. In Brazil, expectations of solid second-quarter GDP growth along with accelerating inflation increased the odds of higher interest rates and some degree of fiscal austerity. Mexico's central bank cut interest rates by 25 bps, with policymakers warning of the downside risks to economic growth and prolonged weakness in the economy since the end of 2023. The government halted relations with US and Canadian embassies after ambassadors criticized President Andres Manuel Lopez Obrador's proposed judicial reforms.

In EMEA, South African inflation dropped more than forecast to a three-year low of 4.6% in July, firming expectations for an interest-rate cut in September.

In Asia, China's new-home prices rose at a slower pace in August as the property sector continued to struggle despite a slew of stimulus measures. Economic data was mixed, with retail sales rising above expectations in July and industrial production waning faster than forecast. A smaller increase in core inflation continued to fuel concerns about domestic demand and favored further monetary policy easing. Taiwan's government announced an ambitious goal to achieve a trillion-dollar economy by 2028 and annual economic growth of 2.8% – 3.6% for the next four years. India's GDP expanded at a slower-than-expected annual pace of 6.7% in the second quarter, but growth still outpaced other major economies.

FUND PERFORMANCE AND ATTRIBUTION

Over the month, the portfolio delivered positive absolute performance and outperformed the MSCI Emerging Market index. Seven out of eight themes delivered positive returns, led by the Social Empowerment and Digital Connectivity themes, while Environmental Consciousness detracted from total returns.

At the issuer level, our top two absolute contributors were MercadoLibre and Cia de Saneamento Basico, while our top two absolute detractors were China Longyuan Power and ENN Energy.

Shares of MercadoLibre rose after reporting second-quarter results that beat on revenue and EPS. A key driver was gross merchandise volume showing strong growth, notably in Brazil, while third party commerce revenue showed growth as well. Shares of China Longyuan Power, the largest renewable energy operator in China, fell over the period. The company reported July power generation of 6,178 GWh, falling roughly 2.3% from a year ago.

FUND POSITIONING AND OUTLOOK

In terms of positioning, our investment process, which relies on both fundamental inputs as well as proprietary quantitative models, is currently most constructive on Social Empowerment and Smart Data. Both themes are currently exhibiting positive price momentum trends, while Social Empowerment is also screening well across valuations, profitability, and earnings revisions. On the other hand, we remain underweight Automation & Robotics and Healthcare Provision where near-term fundamentals remained challenged, though some improvements have been recently observed.

Market volatility has risen in recent months as investors begin to balance the implications of a changing global monetary policy environment and the potential end of the "AI trade". Macroeconomic data continues to raise concerns of recession in the US, though, in our view, recent events do not fundamentally alter the trajectory of the global economy, as growth moves from robust to cooler conditions. With this, we are anticipating cuts to the Fed funds rate in coming months and a weakening USD (conditions which have traditionally been favourable to emerging markets risk assets). It is this transition that will be most important for emerging economies and equity markets in coming months. In addition, the slowing of the AI trade should benefit stock picking more broadly as it may lead to the end of the highly concentrated market returns we have witnessed since the beginning of 2023. We remain focused on the opportunities that we believe will benefit from the structural drivers of change.

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the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **SMALL AND MID-CAP COMPANY:** Small and mid-cap companies' valuations may be more volatile than those of large cap companies. They may also be less liquid. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

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