# ATTRIBUTION REPORT – EMERGING MARKETS EQUITY

as of September 30, 2024

Following a strong 7.8% year-on-year expansion in real GDP during Q1, India's economy advanced by 6.7% in the second quarter. This marked the slowest rate of growth in five quarters. However, the deceleration in headline growth reflected a significant slowdown in government spending (-0.2%), a usual occurrence during India's two month-long general election.

India's leading indicators confirm the country's outlook remains positive. The HSBC India Services PMI came in at 58.9 in September, signalling healthy growth in service sector activity. In the same period, the HSBC India Manufacturing PMI extended a run of uninterrupted factory output growth that dates back to 2021. The IMF forecasts India's real GDP to advance by 6.5% in 2025, the highest growth rate among major economies.

Outlooks are generally constructive in other large emerging markets. In Brazil, the central bank cut the benchmark interest rate by a cumulative 325 basis points between August last year and May 2024, bolstering the economy's prospects. According to the IMF, real GDP in Brazil is on track to expand by 2.4% in annual terms in 2025. In Mexico, where there has been considerably less monetary easing to-date, growth is expected to decelerate in the year ahead. The IMF predicts real GDP will slow to 1.6% in 2025, in-line with Mexico's long-term average growth rate of around 1.5%.

Emerging market activity has remained resilient despite a period of tight global financial conditions, weaker developed market demand and currency pressures. Looking ahead, the region is set to benefit from additional central bank rate cuts. While situations vary on a country-by-country basis, in aggregate terms, emerging market growth is forecast to remain stable. The IMF anticipates real GDP growth of 4.3% in 2025.

# THIRD QUARTER

| From 01-JUL-2024 to 30-SEP-2024 | Total Return (%) | | | Ending Weight (%) | | | Selection Effect (%) | Allocation Effect (%)* | Total Attribution (%) |
|---|---|---|---|---|---|---|---|---|---|
| | Port | Bmk | Diff | Port | Bmk | Diff | | | |
| Information Technology | -16.0 | -2.6 | -13.4 | 3.3 | 22.2 | -18.9 | -0.6 | 2.6 | 1.9 |
| Utilities | 12.9 | 9.3 | 3.7 | 23.1 | 2.9 | 20.2 | 0.9 | 0.1 | 1.0 |
| Consumer Staples | 25.1 | 11.1 | 14.0 | 5.8 | 5.2 | 0.6 | 0.7 | 0.0 | 0.7 |
| Materials | 11.5 | 5.5 | 5.9 | 5.6 | 6.6 | -1.0 | 0.3 | 0.0 | 0.4 |
| Health Care | 18.1 | 22.9 | -4.8 | 8.0 | 3.6 | 4.4 | -0.3 | 0.6 | 0.3 |
| Consumer Discretionary | 31.5 | 25.0 | 6.5 | 9.2 | 14.0 | -4.8 | 0.5 | -0.4 | 0.1 |
| Energy | -5.8 | -0.4 | -5.4 | 4.0 | 4.8 | -0.7 | -0.3 | 0.1 | -0.2 |
| Industrials | 7.4 | 7.0 | 0.4 | 20.9 | 6.8 | 14.2 | 0.1 | -0.3 | -0.2 |
| Real Estate | 4.6 | 14.8 | -10.2 | 4.5 | 1.6 | 3.0 | -0.4 | 0.2 | -0.3 |
| Communication Services | 19.5 | 15.6 | 3.9 | 2.2 | 9.4 | -7.2 | 0.1 | -0.4 | -0.4 |
| Financials | -0.3 | 10.4 | -10.8 | 13.1 | 22.8 | -9.7 | -1.5 | -0.1 | -1.6 |
| | **10.5** | **8.7** | **1.8** | **100.0** | **100.0** | | **-0.5** | **2.3** | **1.8** |

* Includes interaction: a mathematical consequence of the allocation and selection effects rather than an actively made investment decision.

The performance of the Letko Brosseau Emerging Markets Equity Fund (the "Fund") in the third quarter was 10.5%, while the MSCI Emerging Markets Total Return Net Index returned 8.7%. Our performance last quarter benefited primarily from two key areas. First, our underexposure to the Information Technology sector and strong security selection within our Utilities allocation. In contrast, our positions within the Financials sector were the primary detractors from performance throughout the quarter.

**Information Technology**

The Information Technology (IT) sector faced a challenging quarter, with the benchmark returning -2.6%. Our portfolio lagged this return by -13.4%, resulting in a total return of -16.0%. Through our bottom-up investment process, focused on price discipline and capital preservation the IT sector is one we are very prudent while investing. Technology stocks generally exhibit higher volatility and valuations, which can introduce additional risk in the often-unpredictable economic environments of emerging markets. As a result, we maintain a large underweight allocation, just over 18% lower than that of the benchmark. We actively avoid companies that trade at expensive valuations, recognizing the potential for a modest correction that has occurred this past quarter.

**Utilities**

Utilities, our second largest sector allocation, have reemerged as an outperforming sector this quarter, providing an outperformance versus the benchmark by 3.7%. During the quarter there were two noteworthy contributors to this outperformance including Gujarat State Petronet (GSPL), which returned 41.3%, and Companhia de Saneamento Basico (Sabesp), with a return of 23.0%. GSPL is India's second-largest natural gas operator, serving a state that uses 40% of the country's natural gas. The company owns 54% of Gujarat Gas and 50% of a joint venture with two pipelines outside the state. Currently, natural gas makes up only 6% of India's energy consumption, well below the global average of 24%. India aims to grow its utilization of natural gas to 15% by 2030. We believe GSPL will play a key role in delivering this growth, and benefiting accordingly. Secondly, Sabesp, a Brazilian company and one of the largest sanitation firms globally by revenue, services nearly 70% of São Paulo State's urban population. The company is currently trading at an attractive 7.3x price-to-earnings ratio and offers a dividend yield of 3.4%. With a solid track record, Sabesp is well-positioned for revenue growth, supported by increasing demand for sanitation services across the country.

**Financials**

As noted earlier, our financial holdings had a difficult quarter, underperforming the benchmark by 10.8%. Grupo Financiero Banorte, a leading Mexican bank offering a wide range of services posted a -8.9% return during the quarter. This negative performance was driven by political uncertainty under Mexico's new administration, which created volatility in financial markets. Despite this, Banorte reported strong earnings, with profits growing in the high single digits. We remain confident in the bank's potential for accelerated growth, driven by Mexico's under-penetrated banking sector, favorable demographics, and economic ties to the U.S.

## LAST TWELVE MONTHS

| From 01-OCT-2023 to 30-SEP-2024 | Total Return (%) | | | Ending Weight (%) | | | Selection Effect (%) | Allocation Effect (%)* | Total Attribution (%) |
|---|---|---|---|---|---|---|---|---|---|
| | Port | Bmk | Diff | Port | Bmk | Diff | | | |
| Utilities | 37.2 | 35.5 | 1.6 | 23.1 | 2.9 | 20.2 | 0.4 | 1.6 | 2.0 |
| Consumer Staples | 42.5 | 9.5 | 32.9 | 5.8 | 5.2 | 0.6 | 1.8 | 0.1 | 1.8 |
| Energy | 27.8 | 17.4 | 10.4 | 4.0 | 4.8 | -0.7 | 0.3 | 0.1 | 0.4 |
| Industrials | 23.5 | 19.9 | 3.6 | 20.9 | 6.8 | 14.2 | 0.8 | -1.0 | -0.2 |
| Materials | -7.1 | 5.5 | -12.6 | 5.6 | 6.6 | -1.0 | -1.0 | 0.3 | -0.7 |
| Financials | 21.9 | 26.5 | -4.6 | 13.1 | 22.8 | -9.7 | -0.9 | 0.0 | -0.9 |
| Communication Services | -16.0 | 26.2 | -42.2 | 2.2 | 9.4 | -7.2 | -1.3 | 0.1 | -1.1 |
| Real Estate | -2.1 | 10.8 | -12.8 | 4.5 | 1.6 | 3.0 | -0.5 | -0.7 | -1.3 |
| Consumer Discretionary | 11.4 | 31.9 | -20.5 | 9.2 | 14.0 | -4.8 | -1.7 | 0.1 | -1.6 |
| Health Care | -3.5 | 20.4 | -23.9 | 8.0 | 3.6 | 4.4 | -1.9 | -0.3 | -2.3 |
| Information Technology | 9.4 | 40.3 | -30.9 | 3.3 | 22.2 | -18.9 | -1.3 | -1.9 | -3.2 |
| | **19.0** | **26.1** | **-7.1** | **100.0** | **100.0** | | **-5.4** | **-1.7** | **-7.1** |

* Includes interaction: a mathematical consequence of the allocation and selection effects rather than an actively made investment decision.

Since the start of the fourth quarter in 2023, our emerging markets fund posted a one-year return of 19.0%, trailing the MSCI Emerging Markets Total Return Net Index, which had a 26.1% return. Our performance over the past twelve months was boosted by strong results in the Utilities sector, but the Health Care and Information Technology sectors in our portfolio have underperformed compared to the benchmark.

**Utilities**

The Utilities sector, the largest allocation weight in the fund at 23.1%, delivered a strong absolute performance of 37.2% during the period. Notably, the fund's performance in this sector was driven by strong returns from two companies, with Power Grid Corporation of India yielding an impressive 81.9%, and Manila Water Company providing a substantial return of 53.3%. Power Grid, India's largest electric power transmission company, oversees about 90% of the country's inter-state networks and transmits over 40% of its generated power. Beyond its core operations, it has expanded into telecom and consultancy, while exploring opportunities in power distribution, smart grids, and renewables. India's low per capita electricity consumption highlights the vast growth potential. Manila Water provides clean water and sewage services in the East Zone of Manila, in the Philippines. The company serves a total estimated population of over six million people in 23 cities. Demand for clean water and sanitation services remains high, with a population of 25 million lacking basic facilities. We believe the company will continue to benefit from the long-term demand for these services.

**Health Care**

The Health Care sector underperformed over the past twelve months, lagging the benchmark by -23.9%. Our focus on price discipline has allowed us to identify and steer clear of companies in the sector benchmark that we view as overly expensive, allowing us to focus on more promising opportunities. In fact, the healthcare securities in our portfolio trade at a 2025E P/E ratio of ~8.5x, against ~26.9x for the benchmark. The primary contributor to the fund's underperformance was Shandong Weigao, a manufacturer of single-use medical consumables and orthopedics products, which posted a return of -14.8%. Centralized government purchasing has pressured its prices and margins, impacting short-term profitability. However, we believe this pressure is diminishing, and profitability is expected to rebound with increased volume, driven by growing demand for health care products in China. The aging and wealthier population will further fuel this demand for quality medical equipment, supported by Shandong Weigao's strong brand and extensive distribution network, which serves over 5,000 customers, including more than 3,000 hospitals nationwide.

**Information Technology**

Information Technology was the largest detractor during the period, underperforming the benchmark by -30.9%. This was mainly because we chose not to be exposed to expensive companies within the sector, such as Taiwan Semiconductor Manufacturing Company, and seek more interesting opportunities from a valuation standpoint. Samsung also negatively impacted results, returning -6.3% over the past year. The company is known for its consumer electronics, semiconductors, and display panels. Samsung is active in the Dynamic Random Access Memory (DRAM) and Not AND (NAND) industries, respectively providing quick temporary data storage in computers and servers and long-term storage in smartphones, tablets, and solid-state drives (SSDs). These technologies are vital for modern electronic devices but their prices are currently at a low cyclical point. However, we anticipate growth to resume, driven by strong secular trends, including the rise of artificial intelligence and the ongoing shift from traditional hard disk drives to faster SSDs. We anticipate this growth to be supported by a cyclical recovery as well.