

China's economy started 2025 on a strong note, with Q1 GDP rising 5.4% year-on-year, driven by solid industrial output and service sector growth. However, a sharp decline in trade—especially a 34.5% drop in exports to the U.S. in May due to high tariffs—now threatens this momentum. U.S. tariff reductions from 145% to 30% still leave overall rates above 50%, weighing heavily on Chinese manufacturing. Industrial output slowed to 5.8% in May, down from March's 7.7%. Retail sales rose 6.4%, buoyed by government consumer subsidies, with notable gains in electronics and appliances. In contrast, real estate investment continued to decline, falling 10.7% in May. Still, growth in infrastructure and manufacturing investment helped offset housing sector weakness. While stimulus measures are supporting demand, lingering trade tensions and a depressed property market point to the need for further policy action. The People's Bank of China's recent liquidity injection signals continued efforts to meet Beijing's 5% growth target, despite IMF forecasts of a slowdown to 4% in 2025.

In India, real GDP rose 7.4% in Q1 versus the prior year, an improvement from growth of 6.4% in the fourth quarter. Household spending, up 6% year-on-year, fared well on the back of lower food and energy inflation. Meanwhile, investment surged 9.4% in the same period as lower borrowing costs filtered into real activity. India is well positioned to maintain a rapid rate of growth through year end. Domestic demand should continue to receive a boost from easier financial conditions. In May, the Reserve Bank of India lowered its benchmark interest rate by 50 basis points and has now delivered a full percentage point of rate cuts over three consecutive meetings. On the external front, India faces relatively low tariff barriers from the U.S. and has a minor dependence on U.S. trade – goods exports to the U.S. are just 2.3% of GDP. The Indian economy is projected to grow by 6.2% in real annual terms in 2025, per IMF estimates.

The Mexican economy grew just 0.8% in real annual terms in the first quarter. While consumer and employment trends are relatively constructive, a marked deterioration in external conditions looms over Mexico's near-term prospects. Given Mexico sends over 80% of its exports to the U.S., it is particularly vulnerable to tariffs. Indeed, the IMF recently downgraded its forecast for Mexico citing the impact of tariffs and now anticipates real GDP will contract 0.3% in 2025.

Brazil saw robust growth in Q1 as real GDP expanded 2.9% against a year ago. Despite higher interest rates, household spending and private investment remained strong. While more recent indicators continue to show a healthy level of activity, restrictive monetary policy is expected to weigh on the economy in the second half of the year. The IMF projects real GDP growth for Brazil will moderate to 2.0% in 2025.

Slowdowns are anticipated in the largest emerging market economies and after a period of steady performance at the regional level, aggregate growth is projected to decelerate. The IMF anticipates emerging market real GDP growth to slide from 4.3% in 2024 to 3.7% in 2025.

## SECOND QUARTER

From 01-APR-2025 to 30-JUN-2025

	Total Return (%)			Ending Weight (%)			Selection Effect (%)	Allocation Effect (%)*	Total Attribution (%)
	Port	Bmk	Diff	Port	Bmk	Diff			
Utilities	22.5	7.1	15.4	20.2	2.6	17.6	3.2	-0.9	2.2
Financials	22.5	13.4	9.0	16.3	24.5	-8.2	1.4	-0.1	1.2
Industrials	19.7	21.8	-2.1	19.9	6.9	13.0	-0.4	1.2	0.8
Real Estate	23.2	6.2	17.0	5.2	1.6	3.6	0.9	-0.2	0.6
Consumer Staples	16.8	5.7	11.1	5.4	4.5	0.9	0.6	0.0	0.6
Energy	19.2	6.3	12.8	4.2	4.3	-0.1	0.5	0.1	0.5
Materials	5.3	7.4	-2.1	3.5	5.8	-2.2	-0.1	0.1	0.0
Communication Services	-5.6	9.1	-14.8	2.3	9.8	-7.6	-0.4	0.2	-0.2
Consumer Discretionary	-8.8	-2.7	-6.1	10.3	12.7	-2.5	-0.8	0.6	-0.2
Health Care	7.3	7.9	-0.6	9.1	3.2	5.8	-0.1	-0.3	-0.3
Information Technology	11.2	24.3	-13.1	3.7	24.1	-20.4	-0.5	-2.2	-2.6
	14.7	12.0	2.7	100.0	100.0		4.3	-1.6	2.7

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

The Letko Brosseau Emerging Markets Equity Fund (the "Fund") returned 14.7% in the second quarter, while the MSCI Emerging Markets Total Return Net Index returned 12.0%, resulting in a difference of 2.7%. The Fund's performance was driven by strong stock selection in the Utilities and Financials sectors, while an underweight to the Information Technology sector detracted from returns.

### Utilities

During the second quarter, stock selection within the Utilities sector was a key driver of outperformance relative to the index. Our positioning has focused on companies that address essential, everyday needs and support the development of emerging markets as they work to close the gap in living standards with developed economies. We believe that utilities offer a fertile ground for finding value aligned with that objective. Companies in this space often benefit from robust business models, strong demand-driven growth, and greater visibility into medium-term cash flows. This combination helps reduce investment risk while enhancing our ability to identify high-potential opportunities, in line with LetkoBrosseau's price discipline strategy.

Notably, two of our holdings were major contributors to the sector's outperformance this quarter: Sanepar (Companhia de Saneamento do Paraná), which returned 48.2%, and COPEL (Companhia Paranaense de Energia), which gained 28.9%, over the period. Both companies are significant positions in the Fund, each now accounting for over 3% of the portfolio. Additionally, both provide generous dividend yields of 5.2% and 7.0%, enhancing their total return profiles.

Sanepar is Brazil's third-largest sanitation company, majority-owned by the State of Paraná. It serves 346 cities, with 100% water and sewage treatment coverage—well above national averages. Most of its revenue comes from residential customers, with Curitiba as its largest market. COPEL is a leading Brazilian utility, majority-owned by the State of Paraná. It provides electricity generation, transmission, and distribution services to over 10 million people across the state. The company operates a balanced energy portfolio, with a strong focus on renewable sources—primarily hydroelectric. COPEL is known for high service reliability and plays a key role in the region's energy infrastructure.



## **Financials**

The Financials sector delivered strong stock selection this quarter, outperforming the benchmark's financial sector by 9.0% and generating a gross total return of 22.5%. Although we maintained a modest underweight position during the quarter, we remain confident in our holdings as they are grounded in robust theses that continue to unfold as expected.

Bolsa Mexicana de Valores is Mexico's leading securities exchange, with ~84% share in equity trading and full control of post-trade services. Despite its dominant position, Mexico's capital markets remain shallow, with a market cap-to-GDP ratio of just 37%. Structural tailwinds—including rising retail investor participation, fintech expansion, and anticipated regulatory reforms to simplify listings and deepen market access—are set to drive growth. Supported by a strong balance sheet, solid free cash flow, and a dividend yield of 5%, the company is well-positioned to benefit from Mexico's market development. The company returned over 43% this quarter.

Another strong performer in the second quarter was Grupo Financiero Banorte, delivering a total return of 38.5%. As one of Mexico's leading and most diversified financial institutions, Banorte is well-positioned to benefit from the country's underpenetrated banking sector and growing economy supported by nearshoring from the U.S. Serving around 20 million customers through an extensive branch and ATM network, Banorte offers a full range of financial services and is the only major locally owned bank among Mexico's top six. With strong digital growth, experienced management, and a 7% dividend yield, Banorte offers quality and value in Mexico's financial sector.

Both companies exemplify our approach of investing in strong businesses that benefit from long-term secular trends. We focus on identifying opportunities in emerging markets with the greatest exposure to these growth drivers, evaluating their market positioning while maintaining discipline on valuation to ensure a margin of safety. For instance, Bolsa Mexicana and Banorte currently trade at attractive 2025E P/E ratios of 14.0x and 8.4x, respectively.

## **Information Technology**

The Fund's Information Technology holdings delivered a solid 11.2% gross return during the second quarter, trailing the benchmark's strong 24.3% performance. The Fund's underweight position—over 20% below the benchmark—reflects our selective investment approach, resulting in a negative allocation effect.

Generally, our caution regarding the Information Technology sector stems from its long-dated and assumption-sensitive cash flows, which make the valuations more volatile. For example, despite an early-quarter stock price decline of over 15%, Taiwan Semiconductor Manufacturing Company (TSMC) ended the second quarter up more than 15% from where it started, contributing meaningfully to the sector due to its ~10% index weight. Consequently, not owning the stock created a relative drag. In addition, while TSMC is the world's most critical semiconductor manufacturer and a key supplier to firms like Apple and Nvidia, its strategic importance also brings heightened geopolitical risk. Given these factors, we see better risk-adjusted opportunities elsewhere.

Namely, the Fund's largest IT holding, Samsung Electronics, returned more than 13% over the quarter. The company is a global leader in memory chips and advanced semiconductors, supported by AI-driven demand and a cyclical rebound in DRAM and NAND pricing. Its expanding foundry business and strong net cash position (~30% of market cap) further reinforce its long-term growth outlook. In line with our strategy, we view Samsung as a more attractive investment than TSMC, particularly on valuation—Samsung trades at ~13x 2025E P/E, compared to ~20x for TSMC.



## LAST TWELVE MONTHS

From 01-JUL-2024 to 30-JUN-2025

	Total Return (%)			Ending Weight (%)			Selection Effect (%)	Allocation Effect (%)*	Total Attribution (%)
	Port	Bmk	Diff	Port	Bmk	Diff			
Utilities	46.7	1.8	44.9	20.2	2.6	17.6	9.3	-2.8	6.4
Industrials	32.5	16.4	16.1	19.9	6.9	13.0	3.3	0.0	3.3
Consumer Staples	54.6	3.1	51.5	5.4	4.5	0.9	2.8	-0.1	2.7
Consumer Discretionary	26.0	17.6	8.4	10.3	12.7	-2.5	0.7	0.0	0.7
Real Estate	22.0	15.0	7.0	5.2	1.6	3.6	0.5	-0.1	0.4
Materials	-3.3	0.0	-3.3	3.5	5.8	-2.2	0.0	0.3	0.3
Information Technology	-11.8	11.6	-23.4	3.7	24.1	-20.4	-1.2	1.4	0.3
Energy	-5.3	-7.2	1.9	4.2	4.3	-0.1	0.0	0.2	0.2
Health Care	15.6	18.2	-2.6	9.1	3.2	5.8	-0.1	-0.1	-0.2
Financials	21.1	25.8	-4.7	16.3	24.5	-8.2	-0.5	-0.9	-1.3
Communication Services	-2.4	30.7	-33.1	2.3	9.8	-7.6	-0.9	-1.0	-1.9
	<b>26.2</b>	<b>15.3</b>	<b>10.9</b>	<b>100.0</b>	<b>100.0</b>		<b>13.9</b>	<b>-3.0</b>	<b>10.9</b>

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

Over the last twelve months, the Fund posted a 26.2% return, outperforming the MSCI Emerging Markets Total Return Net Index, which delivered a 15.3% return. The Fund's performance was driven by strong stock selection in the Utilities and Industrials sectors, while the Communications Services sector detracted from returns.

### Utilities

Over the past twelve months, the Fund's Utilities holdings returned 46.7%, significantly outperforming the benchmark's 1.8% gain. This strong result has been a major driver of positive stock selection in what remains the Fund's largest sector exposure. Several holdings contributed meaningfully, including previously discussed Sanepar (+48.4%) and COPEL (+44.6%). However, the standout performer was Manila Water Company, which delivered a 57.8% return and holds a substantial 5% weight in the portfolio.

Manila Water Company is the largest water utility in the Philippines, serving over six million people across Metro Manila's East Zone. With industry-leading efficiency—evidenced by a low water loss ratio of just 11%—the company operates under a long-term concession model that ensures cost recovery and regulated returns through tariff adjustments. A 61% approved tariff increase for 2023–2027, along with annual inflation-linked adjustments, provides strong visibility on earnings growth, which our strategy prioritizes. Manila Water is also expanding steadily beyond its core franchise, both in other Philippine provinces and across Southeast Asia, supporting long-term growth. Backed by a stable, regulated business model and rising demand for water infrastructure, the company is well-positioned to deliver double-digit EPS growth and a steady 4.3% dividend yield.

### Industrials

The Fund's Industrials holdings, which represent its second-largest sector exposure, returned 32.5% over the past twelve months, outperforming the benchmark's 16.4%. This outperformance contributed positively to overall returns, driven entirely by stock selection. Just three high-conviction Industrials holdings drove over 80% of the sector's net gains and delivered more than 18% of the Fund's total net gains for the period, underscoring the strength of our stock selection in Industrials.

First, Grupo Aeroportuario del Centro Norte (OMA), with a beginning weight of 3.2% in the Fund, delivered a 62.0% return over the period. The company operates 13 airports in central and northern Mexico, serving over 23 million



passengers, with Monterrey (its largest and most strategic asset) accounting for 50% of total traffic. OMA is well-positioned to benefit from Mexico's low air travel penetration and structural passenger growth as GDP per capita rises. Nearshoring trends are boosting industrial activity and business travel, especially in Monterrey. With high margins, resilient growth, and a strong balance sheet, OMA remains a compelling long-term investment.

Second, Air Arabia, starting at 1.8% weight in the Fund, returned 61.3% over the period. Based in Sharjah, UAE, it's the largest low-cost airline in the growing MENA region, operating 80 aircraft with 120 more on order. Its fuel-efficient fleet and strong net cash position—rare in the airline industry—support high EBIT margins (~20%). Expansion into longer routes across Asia and Europe is expected to boost passenger growth and market share.

Third, Ferreycorp, with a beginning weight of 3.0% in the Fund, returned 40.9% over the period. As the leading Caterpillar equipment distributor in Peru and parts of Latin America, it benefits from mining and infrastructure demand. Over half its profits come from high-margin aftermarket parts and services. With strong market share, efficient logistics, a solid balance sheet, and a 9% dividend yield, Ferreycorp is well-positioned for steady growth.

## **Communication Services**

Over the past twelve months, the Communication Services sector was a negative contributor to returns from both the selection and allocation effects. The Fund has underperformed the benchmark by -33.1% in the sector while remaining underexposed to it by almost 8%.

Among the Fund's holdings, Baidu with a starting weight of 1.7% and IMAX China at 0.5% returned -2.6% and -2.0%, respectively. Baidu remains a high-conviction name due to its leadership in China's search, AI, and cloud markets. Despite recent weakness, we see strong upside supported by attractive valuation, growing cloud revenues, and improving margins. IMAX China, the exclusive distributor of IMAX-format films in Greater China, also remains a long-term opportunity. With an asset-light model and strong positioning in a steadily maturing cinema market, the company is well placed to benefit from rising screen density and improving local content.

Tencent, which we do not own, is the benchmark's largest holding in the Communication Services sector, representing nearly 5% of the index. As a dominant force in China's tech landscape—leading in social media, gaming, and digital payments, and positioned in growth areas like AI and cloud—Tencent's strong return of around 35% over the past year helped drive the benchmark's outperformance. However, consistent with Letko Brosseau's disciplined approach, we find Baidu and IMAX China offer more attractive risk-reward profiles, trading at significantly lower 2025E P/E multiples of 9x and 11x, compared to nearly 18x for Tencent.

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