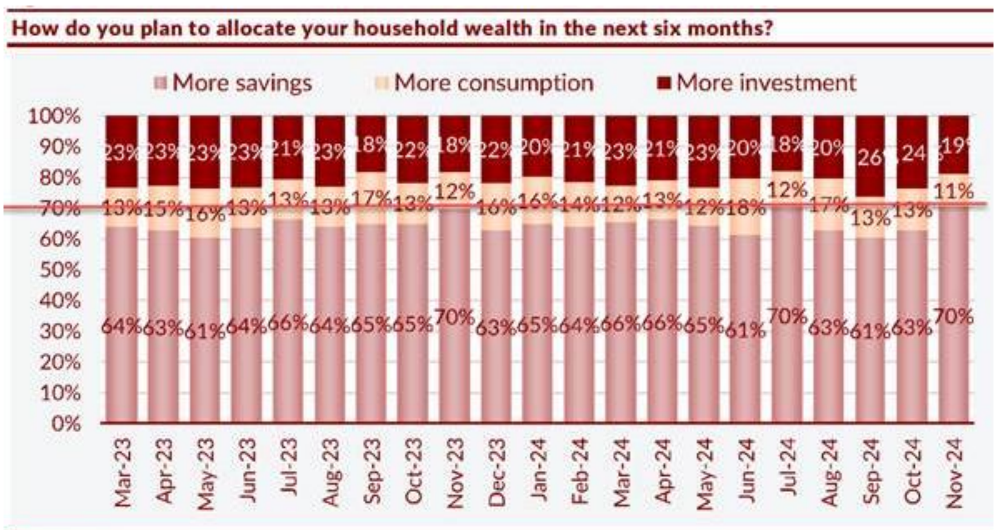
Sophus CAPITAL
A VICTORY CAPITAL℠ INVESTMENT FRANCHISE

As of December 31, 2024

***CHART OF THE MONTH* – Lack of Conviction *Within* China Extends into 2025**

While the policy pivot in China in late September appears to be taking effect, with 4Q GDP growth on track to hit the ~5% target for 2024, domestic consumer confidence remains weak. When taken as a percentage of total household wealth allocation, consumer confidence (illustrated by willingness in the next six months to allocate more towards *consumption* or *investment*) deteriorated further *after* government action was taken to support the economy, particularly the property market via debt swaps/restructuring. There is a seeming loss of confidence *within* the mainland that will be imperative to change if sentiment around investment in China is to improve in 2025.



Source: China Reality Research (CRR), CLSA 2024

***QUOTE OF THE MONTH* – The Fed Takes a Cautious Approach to the 1H25**

"When the path is more uncertain you go a little slower. It is not unlike driving on a foggy night or walking into a dark room full of furniture…some members of the committee did take a preliminary step and start to incorporate estimates of economic effects of [Trump] policy."

– Jerome Powell, US Federal Reserve Chairman at the December post-FOMC meeting press conference

***IN SUMMARY* – 2024 Wrap & A New Year Ahead**

THE FED & GLOBAL MONETARY POLICY:

- The last 15 months have been anything but smooth sailing for global financial markets and consequently, central banks. To highlight the extent of volatility: the Fed went dovish in October 2023, only to reverse course in March 2024, becoming super hawkish by June 2024, reversing again by August 2024, and turning hawkish in December 2024.
- While the December Federal Open Markets Committee (FOMC) meeting yielded another 25bp interest rate cut (as expected), the hawkish tone elected to deliver the message has driven expectations around further easing measures down once more, as markets recalibrate for more cautious moves by the Fed, at least in the near-term.
- This response is supported by data as inflation remains above the Fed's 2% target, while the job market has stayed healthy, therein prompting the Fed to adjust its rate cut path accordingly. Thus far, Powell's Fed has managed the dual mandate impeccably, but the situation remains a delicate one, where balance is imperative: lower rates too fast (inflation goes up) or lower them too slowly (unemployment goes up).

20250108-4140770

- The incoming Trump administration adds another level of difficulty to this equation for central bankers, as economists widely view his plans (re: tariffs, tax cuts, and mass deportations) as inflationary. For what it is worth, the Fed has raised its forecast for inflation in 2025.
- While the bias toward easier policy rates remains globally, domestic conditions should take over as the key cyclical driver (as opposed to the large global shocks that had subdued the expansion in recent years) which will deliver divergent policy paths.
- Central banks in Canada and Switzerland cut rates by 50bps last week – given deteriorating labor markets and easing inflation – with a rising unemployment rate for the latter. The ECB faces similarly worrying signs of weakening growth, but elevated inflation kept rate cuts more conservative this time, at 25bps.
- In contrast, Brazil faces strong growth and rising inflation pressures, leading the Brazilian central bank to raise interest rates by another 100bps in December, with expectations mounting for similar hikes still to come.

POPULIST WAVES:

- 2024 was a massive election year, with a total of 77 elections held across the globe impacting more than half of the world's population. There was an undeniable rejection of incumbent candidates (US, UK, Germany, France, Italy, Holland, Japan, India to name a few) and a rise in populist, polarization, geoeconomic fragmentation and democracy deterioration themes.
- Many countries are experiencing declines in democracy metrics (like Mexico) – with significant implications for market volatility and equity returns – as weaker governance leads to lower economic performance.
- In many cases, populist waves inherently erode these standards. At their core, populists are neither conservatives nor liberals. Instead, they are mass movements reflecting numerous, often contradictory, grievances. Indeed, the only commonalities are isolationism, anti-immigration, and conservative traditional ethics.
- Over time, such actors tend to hinder growth while aggravating inequalities. In the US, this is very relevant, as any further meaningful attack could raise the risk premia, which is currently at historically low levels, notwithstanding the countries high and rising debt to GDP ratio (~120% as of 3Q24). Should elevated tensions/inequalities prove a problem for the US in the year ahead, it could serve as the necessary catalyst to re-price all global assets, *including EM*.
- Of course, the other negative for US equities is that the liquidity situation has begun to deteriorate at a time when valuations are at historic highs…

INDIA – IF THE CENTER CAN HOLD:

- In a deglobalizing and in many cases fracturing world, it is advantageous to have a large self-contained domestic economy with limited reliance on the rest of the world, as with the US, but this has *also* been a major contributing factor behind the Indian economy's relentless climb over the past decade.
- While India should continue to benefit from limited geopolitical exposures, retaining its mostly middle-man status in the year to come, it suffers from extreme polarization. As mentioned with respect to the US, only India can destroy India, polarization volatility is one risk that could prove powerful enough to derail this success story.
- The Indian stock market has had a healthy correction of late, concentrated mostly within the small to mid-cap space (the most expensive part of the market), though not exclusively. This was driven by a 2QFY25 earnings season which bore the largest earnings downgrades seen from that market since early 2020, seemingly the result of a cyclical slowdown.
- Even so, India is expected to report GDP for FY2025 of 6.3% YoY, with F2H25 GDP averaging 6.6% despite the aforementioned weakness, thanks to gradual improvement throughout November and December. Many anticipate the Reserve Bank of India (RBI) will cut interest rates for the first time in the current cycle starting in early 2025, which could serve to provide further assistance to growth in the calendar year ahead.

CHINA – HE SAID, XI SAID:

- For the Chinese economy, 2024 will be remembered as a lackluster year, defined once more by what has become China's growth paradigm (unchanged since 2021): strong exports/manufacturing and weak consumption/property. As such, China exhibits symptoms of a *liquidity trap* – where monetary policy becomes impotent, as it is no longer about supply or cost *of* money but rather lack of demand *for* money.
- In China, protracted periods of low PPI, without passing into CPI, and a low GDP deflator sum up to deflation for this economy. History suggests that without a strong policy stimulus, it is hard to escape the ongoing deflationary spiral.
- In both 2023 and 2024, Beijing launched a stimulus program in the fall to meet the annual GDP target. As a result, the economy accelerated in both 4Q23 and 4Q24. A year ago, the policy effect carried over into 1Q24 and then faded. Without more stimulus, there is no reason to expect this time around would be different.

- The housing recovery is underway – home prices are falling less, new home sales saw the first monthly growth since 2Q23 in November, developer financing improved on the back of better home sales. But here too, sustainability is uncertain, as the investment side remains sluggish and confidence among developers is weak.
- China's Central Economic Work Conference (CEWC) concluded mid-December, with emphasis placed on stabilizing growth and boosting domestic demand, setting a more supportive macro policy tone for 2025, with more details expected at the National People's Congress meeting in March.
- Once again, the CEWC's recognition of domestic demand weakness and external uncertainties, including potential higher US tariffs, underscores the need for proactive macro policies. However, Beijing continues to demonstrate its preference for reactive rather than proactive policy measures with respect to its ailing economy.

***MONTH/YTD THROUGH 12/31/24*: MSCI EM Index -0.1%+7.5%, MSCI Emerging Markets Small Cap Index -1.0%/+4.8%, and MSCI China Index +2.7%/+19.4%.**

REGION

Emerging Europe, Middle East, and Africa (EEMEA) ended December up 0.8% (per the MSCI EEMEA Index), with UAE leading the way (MSCI UAE Index +9.3%). The IMF expects UAE real growth of 4.0% for 2024 (a full percentage point above the 10-year average, also beating their start of the year estimates of 3.5%), and an acceleration to 5.1% for 2025/26E. These growth estimates leave room for upside still, given modest expectations around OPEC+ production quotas over the coming year and central bank guidance of non-oil GDP growth of 5.3% in 2025. UAE remains a favored country in the region for investors, with strong FDI dynamics, relatively low geopolitical tensions with major superpowers, banks that have ample liquidity on hand, authorities with ambitious infrastructure spending plans, underpinned by a sharply-growing population of wealthy expatriates. Latin America was the worst performing region in the period (MSCI Latin America Index -6.1%), driven mostly by Brazil (MSCI Brazil Index -8.2%). In Brazil, Finance Minister Haddad unveiled the broad outline of the much-anticipated fiscal package, which disappointed market expectations. Indeed, higher more ambitious primary fiscal targets are warranted given: the economy has overheated (output gap is now positive); the labor market is tight; medium- and short-term inflation expectations continue to deteriorate and are increasingly unanchored from the inflation target; the BRL is under pressure due to rising fiscal risk premia; the central bank is compelled to drive the policy rate deeper into restrictive territory and public debt to GDP is rising at a fast pace.

SECTOR

Information Technology (MSCI EM Information Technology +3.7%) was the best performing sector in December, driven by a broad-based AI rally on several positive announcements: Nvidia is reportedly working with TSMC and suppliers to develop the next-generation Rubin platform six months ahead of schedule, Marvell in the US also released a strong beat and guidance boosted by AI ASIC, suggesting strong ramp for Amazon's Trainium 2. Materials (MSCI EM Materials Index -6.4%) was the worst performing sector, mostly in response to the risk-on market rotation, profit-taking, but also weakening expectations for global demand in 2025 as US President-elect Donald Trump returns to the White House in January and looks to swiftly implement an "America First" agenda.

CURRENCIES/COMMODITIES

The US Dollar ended the month up 2.6%. The best faring EM currency versus the USD in December was the Philippine Peso (PHP), up 1.4% on the month. Conversely, the worst performer was the Russian Ruble (RUB) down 6.2%. Brent oil closed the month up 2.3%, trading mostly throughout the period on tensions in the Middle East, as well as news flow on global oil demand, which remains soft, weaker than global oil supply in the market at present. Looking ahead, 2025 risks are very much in focus with expectations of ample supply likely making it harder for the OPEC+ group to increase production, as well as question marks around the policies of a Trump presidency.

STYLE

The MSCI EM Small Cap Index ended the month down 1.0%, underperforming MSCI EM Large Cap Index, which ended flat (+0.0%). Year-to-date, Small Caps have underperformed Large Caps by 421 basis points. The MSCI EM Value Index fell 0.7% for the month, underperforming MSCI EM Growth Index, which increased 0.4%. Year-to-date, Value has underperformed Growth by 579 basis points.

WHY INVEST WITH SOPHUS CAPITAL?

Experienced team with long track record – the team, investment process, and philosophy date back to 2001, when Michael Reynal took over the EM strategy. Of the 9 members who currently make up the investment team, six trace their origins back to the Victory Sophus Emerging Markets Fund's 2013 inception (with an average of 12 years on the team).

Invest across all market capitalizations – seek to exploit the inefficiencies in EM of bias, information, and access. Integrated approach allows us to capture growing companies down the cap spectrum, where inefficiencies are at their greatest, and alpha potential most significant.

Disciplined process – our process is bottom-up, with stock selection our biggest source of alpha, as the team believes that stock-picking is the most consistent alpha source in the emerging market space. Analysts combine quantitative signals with in-depth fundamental research to formulate high conviction alpha ideas. Portfolios are rigorously managed to emphasize stock selection as the key alpha driver, while controlling country, sector, factor, and other risks continuously.

Consistent results – our strategy was designed to provide a consistent return pattern over time. Our intention isn't to crush it in any one year, instead the discipline and consistency inherent to our process seeks to protect us from large swings in both directions.

Preliminary Investment Performance (%)

Average Annual Returns as of December 31, 2024

Sophus Emerging Markets Strategy	QTD	YTD	1 - Year	3 - Year	5 - Year	10 - Year	Since Inception (3/31/13)
Gross of Fees	-6.43	6.41	6.41	-1.77	1.43	4.56	3.75
Net of Fees	-6.56	5.63	5.63	-2.54	0.64	3.71	2.89
MSCI Emerging Markets Index (Net)	-8.01	7.50	7.50	-1.92	1.70	3.63	2.80
Differential (Gross of fees vs. Index) bps	+158	-109	-109	+15	-27	+93	+95
Sophus Emerging Markets Small Cap Strategy	**QTD**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	-5.55	3.32	3.32	3.80	7.63	7.34	7.18
Net of Fees	-5.70	2.38	2.38	2.80	6.57	6.20	6.02
MSCI Emerging Markets Small Cap Index (Net)	-7.19	4.79	4.79	2.10	8.55	5.72	5.59
Differential (Gross of fees vs. Index) bps	+164	-147	-147	+170	-92	+162	+159

Source: SEI
Past performance does not guarantee future results. Performance is preliminary and subject to change.
Returns greater than one year are annualized. Returns are expressed in U.S. Dollars. Returns reflect the reinvestment of dividends and other earnings.

Investment Performance (%)

Average Annual Returns as of December 31, 2024

Sophus Emerging Markets Strategy	**4Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (3/31/13)**
Gross of Fees	-6.43	6.41	6.41	-1.77	1.43	1.27	4.56	3.75
Net of Fees	-6.56	5.63	5.63	-2.54	0.64	0.47	3.71	2.89
MSCI Emerging Markets Index (Net)	-8.01	7.50	7.50	-1.92	1.70	1.38	3.63	2.80
Differential (Gross of fees vs. Index) bps	+158	-109	-109	+15	-27	-11	+93	+95
Sophus Emerging Markets Small Cap Strategy	**4Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	-5.55	3.32	3.32	3.80	7.63	5.20	7.34	7.18
Net of Fees	-5.70	2.38	2.38	2.80	6.57	4.16	6.20	6.02
MSCI Emerging Markets Small Cap Index (Net)	-7.19	4.79	4.79	2.10	8.55	4.58	5.72	5.59
Differential (Gross of fees vs. Index) bps	+164	-147	-147	+170	-92	+62	+162	+159

Source: Victory

Past performance does not guarantee future results.

Returns greater than one year are annualized. Returns are expressed in U.S. Dollars. Returns reflect the reinvestment of dividends and other earnings.

Past performance is no guarantee of future results. Composite and benchmark returns are net of transaction costs and gross of non-reclaimable withholding taxes.

Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). Net returns prior to 1/1/2017 were calculated using actual fees. The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The Sophus Emerging Markets representative account serves as the model against which each Sophus Emerging Markets strategy account is managed. The representative account is an actual portfolio and the information provided, including performance, will vary for other accounts. The representative account is being used solely as a tool to help demonstrate how performance can be attributed to the investment policies applied in the management of the Sophus Emerging Markets strategy.

The Sophus Emerging Markets Small Cap representative account serves as the model against which each Sophus Emerging Markets Small Cap strategy account is managed. The representative account is an actual portfolio and the information provided, including performance, will vary for other accounts. The representative account is being used solely as a tool to help demonstrate how performance can be attributed to the investment policies applied in the management of the Sophus Emerging Markets Small Cap strategy.

Chart of the month sourced from China Reality Research (CRR), CLSA.

This information is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report.

The Sophus Emerging Markets Composite includes all discretionary accounts invested in the Emerging Markets Strategy. The Strategy employs an integrated investment approach whereby powerful proprietary quantitative screens are melded with deep fundamental analysis to capture the growth of emerging markets companies across the market-cap spectrum. The composite creation month is April 2013.

The Sophus Emerging Markets Small Cap Composite includes all discretionary accounts invested in the Emerging Markets Small Cap Strategy. The Strategy employs an integrated investment approach whereby powerful proprietary quantitative screens are melded with deep fundamental analysis to capture the growth of emerging markets companies across the market-cap spectrum. The composite creation month is February 2013.

The MSCI Emerging Markets Index is a free-float-adjusted, market-capitalization-weighted index designed to measure equity market performance in the global emerging markets.

The MSCI Emerging Markets Small Cap Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the performance of small-cap stocks in the emerging markets.

Victory Capital Management Inc. (VCM) is a diversified global investment adviser registered under the Investment Advisers Act of 1940 and comprises multiple investment franchises: Integrity Asset Management, Munder Capital Management, New Energy Capital Partners, NewBridge Asset Management, RS Investments, Sophus Capital, Sycamore Capital, THB Asset Management, Trivalent Investments, Victory Income Investors (formerly USAA Investments, a Victory Capital Investment Franchise), and the VictoryShares & Solutions Platform. Munder Capital Management and Integrity Asset Management became part of the VCM GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; Victory Income Investors, effective July 1, 2019; THB Asset Management, effective March 1, 2021, and New Energy Capital effective November 1, 2021. Effective September 1, 2023, INCORE Capital Management is no longer part of the VCM GIPS firm.

Request a GIPS® Report from your Institutional Relationship Manager or visit www.vcm.com.Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).