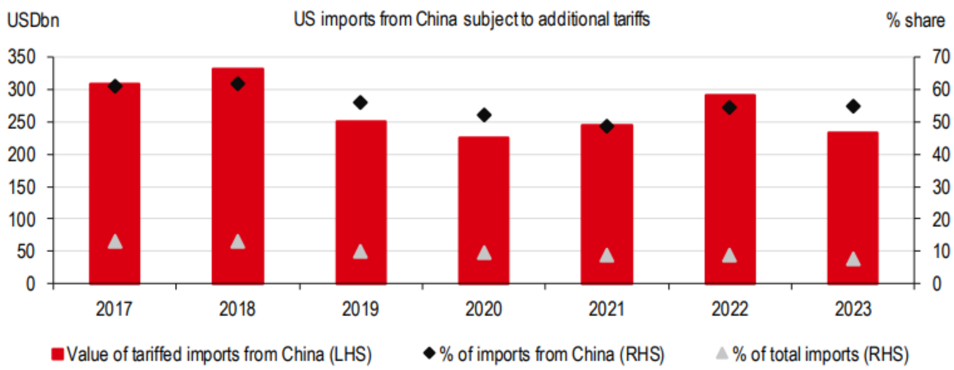
As of June 30, 2024

CHART OF THE MONTH – US/China Tariffs & Trade Flows

In 2018, the US government announced bilateral tariff increases on a number of Chinese goods under Section 301 of the Trade Act of 1974 which aims to tackle “unfair” trade practices. We have not seen these tariffs recede or subside (as many initially expected), but rather extend through additional restraints imposed on US trade with China in specific industries. Though the higher tariffs are unlikely to have a significant impact on overall US-China trade flows (as illustrated in the chart below), if more widespread restrictions are implemented, further bilateral decoupling could follow.



Source: USA Trade Online, USITC, HSBC
Left Hand Side Axis (LHS): Value of tariffed imports from China
Right Hand Side Axis (RHS): % of imports from China and % of total imports

QUOTE OF THE MONTH – Postmortem of the 2018 Tariffs

“We find that the US tariffs were almost completely passed through into U.S. domestic prices, so that the entire incidence of the tariffs fell on domestic consumers and importers up to now, with no impact so far on the prices received by foreign exporters. We also find that U.S. producers responded to reduced import competition by raising their prices."

- Mary Amiti *et al*., “The Impact of the 2018 Trade War on US Prices and Welfare,” a study by economists at the New York Fed, Colombia and Princeton Universities published in the National Bureau of Economic Research in March 2019.

IN SUMMARY – Politics, Market Movements & the Path Ahead

KEY ELECTION OUTCOMES:

- In recent weeks, three key emerging markets – India, Mexico, and South Africa – concluded their general elections. Political outcomes were widely different vs. expectations across the board, which drove knee-jerk selloffs for each market:
- MEXICO: A large majority for the incumbent Morena party in Mexico
  - Mexico elected Claudia Sheinbaum, a climate scientist and the former mayor of Mexico City, as its first female president in a landslide victory on June 2. Sheinbaum will look to expand on the social welfare policies of her mentor, outgoing President Andrés Manuel López Obrador (AMLO), while tackling the surging problem of organized crime.
  - Their ruling party, Morena, will have a qualified majority in both the lower house and senate, creating a viable path for AMLO’s proposals to change the constitution, this led markets to recalibrate, with a weaker MXN (the peso depreciated 3.9% the week following these results, -7.1% for June overall) and a steeper yield curve.
  - On one hand, current policies are expected to support higher wages, extend social programs and increase infrastructure. However, the elevated risk of AMLO’s proposed constitutional changes could impact checks and balances in Mexico more broadly, which could in turn impact investments.
  - While Sheinbaum argued that the majority of the so-called Plan C package on constitutional reform changes would be postponed until her presidency, she also argued in favor of a fast-tracked process for the judicial reform in September 2024, which is the key tail risk for most market participants.

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- Sheinbaum also notably opened the door for reform moderation and debate prior to the September window for passing the reform, which could serve as a welcome opportunity to potentially water down the reform.
- Other challenges for the new administration include fiscal balance, decelerating GDP, infrastructure, Pemex problem, the "Super Peso" and competitiveness.

– INDIA: A coalition NDA government with a reduced majority in India
  - Indian stocks surged to all-time highs in the final days of its six-week long election process, as exit polls predicted a sweeping victory for Prime Minister Narendra Modi in the general election, with final results out on June 4th. Modi's BJP party itself was expected to win more than 310 seats (out of 543 seats).
  - However, this quickly reversed to outflows of US$1.2bn after election results showed a narrower margin of victory for the BJP party, forced to strike up an NDA alliance, which even then amounted to less than initial exit polls had indicated for BJP alone.
  - Although the alliance represents a reduced majority vs. the prior two terms, markets took comfort and bought the dip, pushing Indian stocks to rally after steep losses on June 4, on expectations for broader policy continuity, macro-economic resilience, and strong growth fundamentals to keep the relative appeal for Indian equities intact.
  - As the near-term rally plays out, the Indian market could enter a phase of consolidation heading into the budget announcement in July, given expectations that capital gains taxations could be revised. The other focus will be the government's "100 Day Agenda," outlining key economic goals over the next five years, including manufacturing, creating new urban centers, reducing bankruptcy delays, and low-cost housing, among others.

– SOUTH AFRICA: A below-expected performance by the ANC in South Africa with the prospect of a broad coalition or minority government secured
  - In South Africa, the African National Congress (ANC), Nelson Mandela's party, has won every national election since 1994, but the combination of corruption scandals and economic turmoil in the last decade have weighed negatively on sentiment.
  - As such, the ANC received a little more than 40% of the vote, marking this cycle as the first time since apartheid ended (30 years ago) that the party did not obtain a majority.
  - This outcome forced very concentrated negotiations among parties to form a broad coalition government before Parliament's first scheduled sitting on Tuesday, June 14 (where both the Speaker and President are traditionally elected). Broadly, this political uncertainty weighed on the South African market, particularly in the first half of June.
  - In the final days leading up to this pending deadline, the ANC reached an agreement with the Democratic Alliance (DA) and Inkatha Freedom Party (IFP) on the formation of a government of national unity, with parliament electing President Ramaphosa for a second term and Speaker (ANC) and Deputy Speaker (DA) positions on Friday, June 14.
  - Assets rallied considerably on this constructive outcome which re-enforces stability in the executive and parliament while protecting advancements in logistics and energy alike, with room for further upside as the market gradually re-rates on expectations for a stronger fiscal and growth outlook from here.

– Even as these initial shocks (combination of political uncertainty and renewed fiscal concerns) have calmed to different degrees, the risk remains that political events in developed markets keep volatility elevated. In addition to the highly anticipated US presidential election, elections in France and the UK are up next.

TARIFFS ON THE RISE:

– Protectionism remains a key risk to globalization broadly. This reality was emphasized by the Biden administration's announcement on May 14 that it will increase tariffs on USD18bn worth of strategic goods from China, including EVs, solar cells, and lithium-ion batteries.

– On June 12, the EU announced an increase in tariffs on Battery Electric Vehicles imported from China effective July 4. As the most exposed among Western automakers to these tariffs, Volvo announced it has started to shift manufacturing of Chinese-made EVs to Belgium.

– EU-China trade tensions escalated towards the end of the month on the back of the bloc's various trade investigations into Chinese imports, with possible implications extending beyond autos to cognac, medical devices, and other clean tech sectors. Risk of further targeted bilateral trade restrictions are expected amid EU "overcapacity" concerns, which many fear will instigate a possible Chinese retaliation.

– Such countermeasures from China could center on Agriculture – such as tariffs targeting French brandy or Spanish pork – which would effectively serve to punish the EV probe's two biggest champions. Farmers remain a highly influential bloc in EU politics, giving Beijing leverage to crank up the political pressure with targeted responses.

– Donald Trump has reiterated his preference for tariffs as a revenue source, as well as his intentions to expand tariffs further if elected in November, to offset some income tax cuts stated as a clear priority for the administration.

***MONTH/YTD THROUGH 6/30/24*: MSCI EM Index +3.9%+7.5%, MSCI EMSC Index +3.2%/+7.0%, and MSCI China Index -1.9%/+4.7%.**

REGION

Performances were more mixed by region in June, as the macro-outlook remains uncertain with a challenging combination of persistently high inflation and profit margin pressures. Asia was the best performing region in the period, up 5.0%, led by Taiwan (+11.9%) as a continued rally of the broader Taiwanese market was sustained by Tech driven strong sales and Apple/AI expectations, amid strong foreign and domestic flows with Apple's suppliers in focus. Export orders picked up in May, driven by strong demand in the US and a high appetite for electronic chips around the world. Latin America (-6.1%) was the worst performing region in the period, with Mexico (-10.6%) weighing most heavily as markets recalibrated following Claudia Sheinbaum's presidential victory with a super majority across houses for the ruling Morena party. On one hand, current policies are expected to support higher wages, extend social programs and increase infrastructure. However, the elevated risk of AMLO's proposed constitutional changes could impact checks and balances in Mexico more broadly, which could in turn impact investments. One point of note: the Mexican fiscal deficit has exploded this year to the highest level since the 1980s, from 3% last year, to 6-7% this year. For context, Brazil's nominal deficit has actually been going down from 9% to 7%. Mexico's rising deficit is something to monitor, though somewhat to be expected in an election year.

SECTOR

Information Technology (+12.8%) was the best performing sector in the period driven by bullish sentiment across the AI supply chain following first the Computex tech trade show in Taiwan at the start of the month, where Nvidia presented, then Apple's annual Worldwide Developers Conference (WWDC). CEO Tim Cook unveiled Apple Intelligence, a host of AI-powered features that will debut on iPhones, iPads, and Macs this fall, which have boosted early expectations of a replacement cycle for devices. Materials (-1.7%) was the worst performing sector, with Mexican players weighing given political uncertainty for investments following elections and subsequent profit-taking exacerbated by a weak MXN.

CURRENCIES/COMMODITIES

The US Dollar ended the month up 1.1%. The best performing EM currency versus the USD in June was the Russian Ruble (RUB) up 5.4%. Conversely, the worst performer was the Mexican Peso (MXN) down 7.1%. Brent oil closed the month up 5.9%, on an upbeat global demand outlook from the EIA and OPEC+ monthly reports. The EIA raised its 2024 world oil demand growth forecast to 1.10mn barrels per day from a previous estimate of 900,000 bpd; while OPEC+ maintained its 2024 forecast for relatively strong growth in global oil demand, citing expectations for travel and tourism in the second half. Additionally, rising geopolitical risk continues to put a floor under prices, despite rising US supplies and a sluggish Chinese economy both weighing.

STYLE

Small Caps advanced on the month (+3.2%), underperforming Large Caps, which advanced by 4.4%. Year-to-date, Small Caps have underperformed Large Caps by 173 basis points. Value rose 3.3% for the month, underperforming Growth, increasing by 4.5%. Year-to-date, Value has underperformed Growth by 199 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 10 members who currently make up the investment team, seven trace their origins back to the Victory Sophus Emerging Markets Fund's 2013 inception (with an average of 10 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 June 30, 2024

Sophus Emerging Markets Strategy	QTD	YTD	1 - Year	3 - Year	5 - Year	10 - Year	Since Inception (3/31/13)
Gross of Fees	5.81	11.06	15.60	-4.84	4.49	4.32	4.32
Net of Fees	5.67	10.69	14.75	-5.57	3.67	3.47	3.46
MSCI Emerging Markets Index (Net)	5.00	7.49	12.55	-5.06	3.09	2.79	2.93
Differential (Gross of fees vs. Index) bps	+81	+357	+305	+22	+140	+153	+139
Sophus Emerging Markets Small Cap Strategy	**QTD**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	7.42	8.24	22.40	3.04	10.35	7.25	8.02
Net of Fees	7.24	7.79	21.29	2.04	9.27	6.10	6.85
MSCI Emerging Markets Small Cap Index (Net)	5.93	7.04	20.04	2.54	9.98	5.15	6.09
Differential (Gross of fees vs. Index) bps	+149	+120	+236	+50	+37	+210	+193

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.

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Investment Performance (%)

Average Annual Returns as of March 31, 2024

Sophus Emerging Markets Strategy	**1Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (3/31/13)**
Gross of Fees	4.96%	4.96%	12.91%	-4.82%	3.58%	4.53%	4.42%	3.88%
Net of Fees	4.75%	4.75%	12.01%	-5.58%	2.76%	3.66%	3.56%	3.02%
MSCI Emerging Markets Index (Net)	2.37%	2.37%	8.15%	-5.05%	2.22%	3.71%	2.94%	2.54%
Differential (Gross of fees vs. Index) bps	+259	+259	+476	+23	+136	+82	+148	+134
Sophus Emerging Markets Small Cap Strategy	**1Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	0.76%	0.76%	22.16%	5.31%	9.21%	8.37%	7.05%	7.46%
Net of Fees	0.51%	0.51%	20.95%	4.27%	8.13%	7.26%	5.89%	6.29%
MSCI Emerging Markets Small Cap Index (Net)	1.05%	1.05%	20.56%	4.22%	8.51%	6.58%	5.08%	5.64%
Differential (Gross of fees vs. Index) bps	-29	-29	+160	+109	+70	+179	+197	+182

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.

Past performance is no guarantee of future results. Composite and benchmark returns are net of transaction costs and gross 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). 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 reprinted with consent of HSBC Global Research.

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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.

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