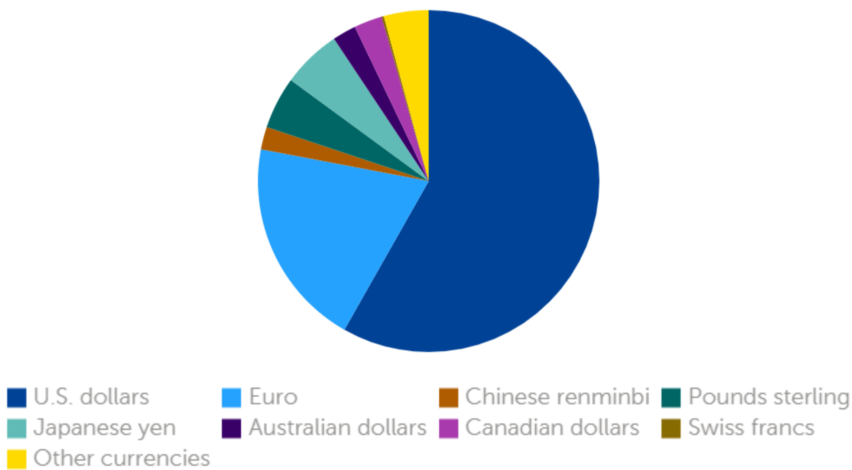
As of November 30, 2024

CHART OF THE MONTH – USD Remains King

Two of the world's largest foreign holders of US government debt offloaded a pile of Treasuries in the third quarter, as they rallied ahead of the presidential election. Data from the US Department of the Treasury showed 1) Japanese investors sold a record $61.9bn of the securities in the three months ended Sept. 30, and 2) Funds in China offloaded $51.3bn during the same period, which is the second highest sum on record. Even so, USD stands at 58% of the world's foreign exchange reserves, according to the IMF. As John Connally famously told European finance ministers in 1971: "The dollar is our currency, but it's your problem."

World – Allocated Reserves by Currency for 2Q 2024



Source: International Monetary Fund (IMF)

QUOTE OF THE MONTH – The Mental Weight of Inflation on Populations

"Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man."

- Ronald Reagan emphasizing the severe impact inflation can have on an economy in his own time. It holds to this day and explains why 2024 (the busiest election year) turned out to be one where almost all incumbents were either unseated or had their wings clipped (US, Germany, France, Italy, Holland, Japan, India).

IN SUMMARY – Trump 2.0

THE GLOBAL IMPACT:

- Against the current backdrop of rising geopolitical tensions, US elections delivered the most important thing: a decisive winner without a disputed outcome. Donald Trump/Republicans won back all three chambers of government in a decisive red wave.
- Many of President-elect Donald Trump's proposed policy measures would likely hit global trade and GDP growth, weighing especially on China but Mexico as well, which as of Q3 data continued to gain market share YoY (reaching 15.8%) of total US imports.
- Looser US fiscal policy is anticipated for 2026, but inflation effects from higher tariffs and more restrictive curbs on immigration policy could arrive beforehand to complicate this timeline.
- On the whole, the world could be impacted by a stronger dollar, less Fed easing, higher oil supply, and shifts in US foreign policy:
    - USD – Post election rally thus far mirrors 2016, on the back of expectations for a strong US economy under Trump. However, Trump has signaled an interest in driving the USD lower, in an effort to increase the attractiveness of US exports and bring manufacturing jobs back to the US. But when coupled with his other initiatives (like lower taxes, and higher government spending), such policy appears incongruent, not to mention it would drive US debt to GDP even higher (~120%).

- Fed – While Chairman Jerome Powell has kept quiet about any evaluations done by his office on the incoming administration's policy agenda…inflationary policies tend to demand higher interest rates, which could jeopardize the Fed's thus far miraculous job managing its dual mandate (taming inflation without hampering growth and therefore employment).
- Oil – Trump has repeatedly said he will bring down prices by boosting oil and gas production, increasing drilling, reducing regulation, etc. But irrevocably domestic oil prices remain highly dependent on *global oil prices*.
- Foreign Policy – Trumps pro-business tilt is expected to drive conflict resolution in both Ukraine but also the Middle East. While easier said than done, a shifted focus on rebuilding (Ukraine) and peace/stability (Middle East) would inevitably boost everything from commodity/industrial plays to travel/discretionary services. If deals are struck, all parties stand to benefit.

– It is important to note that the challenge ahead set by the current stage of the economic cycle is very different from 2016 (when equities went up strongly on a Trump victory) and the policy prescription of easing fiscal policy appears less appropriate for this late stage of the cycle. Risk assets are much more highly priced, inflation is too high (not too low), and the fiscal position is much worse (government debt to GDP was 105% in 2016 with a budget deficit of 3.1% of GDP compared to nearly 7% of GDP today on CBO numbers and debt to GDP of 120%).

TARIFFS:

– The 2018 trade war underscored how damaging the interplay of higher tariffs and business uncertainty can be to global growth. Tariffs have become a consistent topic this election cycle, as Trump continues to discuss a 60% tariff on everything shipped into the US from China, plus a 10-20% blanket levy on all other imports.

– Though Trump claims that foreign countries will bear the added costs, tariffs are actually paid by the *importer* – in this case, American companies – which usually pass through those extra expenses to the consumer via higher prices. For example, the last time Trump was in office, his 50% tariff on washing machine imports cost US consumers an estimated $1.5bn per year, according to the BBC.

– Economists widely agree, Trump's latest tariff proposals would make it more expensive to buy almost anything in America: gas prices could go up by 75 cents per gallon in the Midwest (where most fuel comes from Canada), according to GasBuddy; inflation could rise by almost 1%, per Morgan Stanley, and prices of products not mass-produced domestically would likely rise even higher; while retailers, automakers, and industrial companies would be the worst-hit sectors yet, according to UBS.

– Overall, the typical household could face an average of $2,600 in extra costs per year, according to the Peterson Institute for International Economics, or as much as $7,600, per the Yale Budget Lab. A 10% across-the-board tariff could shrink the stock market by 10%, UBS projects.

– Many view these figures as threats or even starting points to be followed by negotiations, rather than hard targets to be implemented immediately after Trump assumes office. Indeed, other countries possess their own "trump" cards, like banning rare earth metal exports in the case of China.

POSSIBLE IMPLICATIONS FOR EM:

– The first stages of Trump's first term (November 2016-March 2018) were marked by strong EM returns, driven by: 1) strong mortgage credit growth in China (22% YoY vs. 3% today); 2) the promise of personal and corporate income tax cuts in the US and a less advanced economic cycle; 3) improving European sentiment; and 4) a low starting point for global risk appetite.

– Today's setup more closely resembles the second stage of Trump's presidency (March 2018-August 2019) – a period marked by rising tariffs, moderating global growth, and rising EM risk premia. The good news: there is less foreign flow in EM today, external balances remain solid, and any large increases in US yields at current levels would be more than *exceptional*, they would be *immaculate*.

– One key lesson from 2018-2019 was that China's export engine was essentially unscathed by US tariffs. Rather, tariffs appear to have catalyzed a reorientation of Chinese exports away from the US towards the rest of the world, particularly EM. A second key takeaway was how little US inflation was impacted in 2019 post tariffs – and EM even less so. EM central banks will likely be more focused on growth risks than inflation risks (weaker FX), in general.

– As mentioned, tariffs are an equivalent to taxing domestic manufactures (a tax which is passed through to the consumer) while penalizing US exporters. It is imperative to note the low tolerance of the US public for inflation now compared to 2018 and therefore the risk to US equity prices from a meaningful trade war. Neither side will enter the latest trade war sans risks.

TRUMP ON DE-DOLLARIZATION:

– In recent weeks, Trump threatened to slap prohibitive 100% tariffs on BRICS countries unless they commit to stand with the US dollar and avoid establishing an alternative currency that would challenge the USD's dominance, in another example of Trump's willingness to leverage tariffs against other countries as a means to achieve his economic goals.

– ***What is BRICS?*** An informal coalition of emerging economies – Brazil, Russia, India, China, and South Africa – created in 2009, which has grown to include other nations such as Argentina, Iran, and the UAE.

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- Since the end of World War II, the global financial system has relied on the USD. Despite the growing economic influence of BRICS, there have yet to be any signs of a true challenger to USD emerging (per our chart of the month).
- For context on just how entrenched the dollar is in that top spot as the world's reserve currency for allies as much as enemies, 2024 BRICS Summit host, Russia, encouraged attendees to bring US dollars (or euros) because their non-Russian Mastercard or Visa cards would not work in the country.

***MONTH/YTD THROUGH 11/30/24*: MSCI EM Index -3.6%+7.7%, MSCI Emerging Markets Small Cap Index -2.2%/+5.9%, and MSCI China Index -4.4%/+16.3%.**

REGION

All regions ended the period in negative territory, weighed down broadly by uncertainty around global growth in a Trump 2.0 world and a strengthening US dollar. Specifically, threats of imposing incremental tariffs on China and the rest of the world, further dented already depressed EM investor sentiment. Emerging Europe, Middle East, and Africa (EEMEA) ended November down 1.7% (per the MSCI EEMEA Index). Turkey (MSCI Turkey Index) rebounded 7.3% on the month, driven by what has proven to be a successful return to conventional monetary and fiscal policies, through the Central Bank of Turkey and the government's collective aims for gradual rebalancing. As such, consensus expectations anticipate the first interest rate cut of the current cycle in December, before entering into a more "hawkish" cutting cycle in 2025. Latin America was the worst performing region in the period (MSCI Latin America Index -5.5%), driven mostly by Brazil (MSCI Brazil Index -7.1%) and Mexico (MSCI Mexico Index -3.1%). In Brazil, Finance Minister Haddad unveiled the broad outline of the much-anticipated fiscal package, which ultimately underwhelmed 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. For Mexico, Moody's cut the credit outlook to negative from stable highlighting that fiscal consolidation should be challenging with a worsening debt affordability and wider deficit.

SECTOR

No sectors ended the month in positive territory. Communication Services (MSCI EM Communication Services -0.9%) fared best, due to strong showings from players in South Korea as well as India, which benefited from strong earnings results (Korea) and insulation from the US election outcome to a certain extent given strong domestic dynamics (India). Materials (MSCI EM Materials Index -7.0%) 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 1.7%. The best faring EM currency versus the USD in November was the Peruvian Sol (PEN), up 0.4% on the month. Conversely, the worst performer was the Russian Ruble (RUB) down 8.6%. Brent oil closed the month down 0.3%, 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.

STYLE

The MSCI EM Small Cap Index ended the month down 2.2%, marginally outperforming MSCI EM Large Cap Index, which ended -3.8%. Year-to-date, Small Caps have underperformed Large Caps by 308 basis points. The MSCI EM Value Index fell 3.4% for the month, marginally outperforming MSCI EM Growth Index, which decreased 3.8%. Year-to-date, Value has underperformed Growth by 460 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 November 30, 2024

Sophus Emerging Markets Strategy	QTD	YTD	1 - Year	3 - Year	5 - Year	10 - Year	Since Inception (3/31/13)
Gross of Fees	-8.00	4.64	7.67	-1.62	2.77	3.90	3.63
Net of Fees	-8.11	3.87	6.81	-2.40	1.95	3.05	2.77
MSCI Emerging Markets Index (Net)	-7.88	7.65	11.86	-1.27	3.20	3.16	2.84
Differential (Gross of fees vs. Index) bps	-12	-301	-419	-35	-43	+74	+79
Sophus Emerging Markets Small Cap Strategy	**QTD**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	-5.01	3.92	9.16	5.18	9.22	7.02	7.29
Net of Fees	-5.16	2.97	8.07	4.13	8.14	5.88	6.13
MSCI Emerging Markets Small Cap Index (Net)	-6.23	5.87	10.55	3.87	10.07	5.53	5.74
Differential (Gross of fees vs. Index) bps	+122	-195	-139	+131	-85	+149	+155

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 September 30, 2024

Sophus Emerging Markets Strategy	**3Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (3/31/13)**
Gross of Fees	2.40	13.72	20.32	-0.79	5.50	3.41	4.83	4.44
Net of Fees	2.19	13.04	19.36	-1.58	4.66	2.57	3.97	3.57
MSCI Emerging Markets Index (Net)	8.72	16.86	26.05	0.40	5.74	3.65	4.02	3.61
Differential (Gross of fees vs. Index) bps	-632	-314	-573	-119	-24	-24	+81	+83
Sophus Emerging Markets Small Cap Strategy	**3Q24**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	1.06	9.39	20.43	5.60	11.07	7.41	7.48	7.93
Net of Fees	0.81	8.57	19.23	4.55	9.97	6.34	6.32	6.76
MSCI Emerging Markets Small Cap Index (Net)	5.48	12.91	23.01	5.13	12.20	7.04	5.86	6.47
Differential (Gross of fees vs. Index) bps	-442	-352	-258	+47	-113	+37	+162	+146

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 Bloomberg.

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.

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