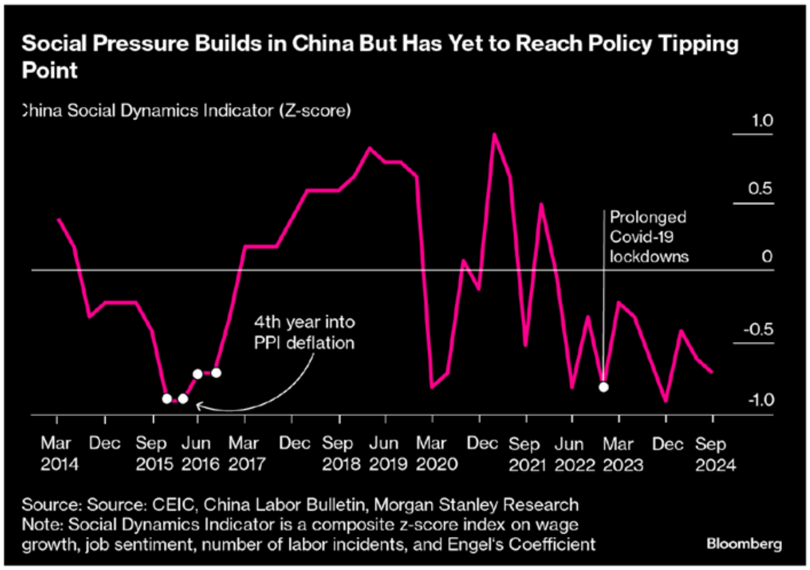
Sophus CAPITAL
A VICTORY CAPITAL INVESTMENT FRANCHISE

As of October 31, 2024

CHART OF THE MONTH – Managers Searching for Visibility on China Policy Trends

A growing number of money managers are looking at data documenting protests in China as they try to predict what Beijing may do next to boost the economy. The idea is to create a composite score using data such as wage growth, job sentiment, and labor protests to gauge the social impact of economic performance and tease out correlations with real-world policy tipping points.



QUOTE OF THE MONTH – Statistics & Theory

"The positivist's claim that it is always statistics that test the theory, rather than the other way around, suggests that the positivist always has more confidence in the data than he has in his own theory. There is the temptation to agree that his lack of confidence in positivist theory is justified. But it could be argued instead that positivist theory tested with statistical aggregates is a case of the blind leading the blind."

– Roger Garrison, Introduction to Oscar Morgenstern, **National Income Statistics**, Cato Press, 1979

IN SUMMARY – Retreat to Safe Havens?

US DOLLAR:

- After a volatile 2024 YTD through September (USD -0.6% over that stretch), the US Dollar appreciated 3.2% in the month of October, driven by elevated uncertainty in the run up to US elections in early November.
- The USD remains overvalued, both on an absolute and relative basis, trading on what has been an exceptionally strong US market. Any number of concerns could serve as catalysts to USD (and subsequently US market) weakness after this historic run such as weaker US profit margins, the potential of hyperscalers overinvesting, and/or the US fiscal deficit.
- **Flows:** In October, EM ex-China saw the largest net foreign outflow in more than two years ($16bn). India was the main source ($10bn). However, most other EM's (excluding Taiwan) have also seen outflows, with ~$3bn leaving Korea and ~0.8bn each from Indonesia, Thailand, and South Africa.
- If the dollar resumes its downtrend post-US elections, then money flows into EM may gather pace as relative economic growth prospects become attractive to investors. Given the inverse correlation between the USD and the MSCI EM Index, USD weakness can be an extremely powerful driver of EM equity outperformance.

IMF OCTOBER UPDATE:

- The International Monetary Fund (IMF) released its October World Economic Outlook update:
    - Global growth is expected to remain broadly flat and largely unchanged from forecasts in July and April.
    - As inflation recedes, policy rates are expected to follow suit, preventing undue increases in real interest rates.
    - The delta between developed and emerging market GDP growth is expected to extend into 2024 and 2025 at 2.4% (4.2% for EM and 1.8% for DM).
- Uncertainty around the outcome of the US elections, heightened geopolitical risks, and competitive industrial policy as the new normal were dominant themes discussed this cycle.
- Coming away from the IMF-World Bank meetings, the gap separating investors' views and policymakers'/analysts' views was quite significant on four key topics:
    1) Investors seem to believe that Trump will win, while analysts are much more uncertain
    2) Markets are worried about a large UST sell-off on fiscal grounds, policymakers hold a more benign view
    3) Markets do not price much Middle East risk, but policymakers are more concerned on this front
    4) Investors are relatively openminded on whether China stimulus will work, though analysts are downbeat.
- All of this to say…there is still a lot left to be decided in the fourth quarter of 2024, some of which may be priced by markets, but any changes in expectations will undoubtedly bring about volatile swings in an effort to quickly recalibrate.

JAPANIFICATION OF CHINA:

- The Chinese economy appears to be accelerating into the fourth quarter. The official manufacturing PMI rose above 50 in October on the announcement effect and more policy support. The housing market also improved meaningfully with sales revenue by the top 100 developers up 7% YoY in October (September: -38% YoY).
- Nevertheless, consumer and homebuyer confidence remains low, casting doubt on the sustainability of the housing recovery. The stimulus measures announced so far are likely sufficient to achieve 5% GDP growth this year, but unlikely to be enough to reflate the economy.
- Many continue to compare China's steady drip of policy measures to that of the Japanese government in the 1990s (the "lost decade") in an effort to dislodge the imbedded disinflationary mentality and force savings rates down, vs. the bazooka methods rolled-out by the US in 2008-09 (where the combination of TARP and ARRA had a theoretical equivalent of ~10% of GDP) and ironically enough the expansionary waves unleashed by China itself post GFC (~12% of GDP).
    - Similarly to Japan, while current measures introduced have stabilized the economy, in that they seem to have placed the floor under growth erosion, alone they are unlikely capable of reversing disinflation.
    - For Japan, which in the early 90s was already a rich country with egalitarian distribution, stability proved to be an acceptable answer domestically. This is not the same for China, a middle-income economy with extreme inequality, especially in today's more constrained global environment.
- The National People's Congress (NPC) Standing Committee meeting will be held the first week of November, where the focus is expected to be on incremental stimulus measures. The Standing Committee is not expected to approve the fresh fiscal package until the final day of the meeting (Nov. 8), theoretically providing time to digest both the outcome of the US election and the November policy decision by the Fed before making their own announcement.

***MONTH/YTD THROUGH 10/31/24*: MSCI EM Index -4.5%+11.7%, MSCI Emerging Markets Small Cap Index -4.1%/+8.3%, and MSCI China Index -5.9%/+21.7%.**

REGION

The past month saw a number of important global developments, including stimulus announcements in China, surprisingly strong US economic data, broad-based central bank rate cuts, and amplified geopolitical pressures in the Middle East. All regions ended the period in negative territory, as investors took profits and sought safe-havens ahead of US elections and the US Federal Reserve's November policy decision. Emerging Europe, Middle East, and Africa (EEMEA) ended October down 3.2% (per the MSCI EEMEA Index), with no countries in positive territory. Latin America was the worst performing region in the period (MSCI Latin America Index -5.1%). Overall, this broadly regional performance was driven by profit-taking ahead of key central bank and political events, as investors grappled with uncertainties stemming from the US presidential election, and its implications on the Fed policy, as well as the weeklong NPC standing committee meeting in China, where details of fiscal stimulus are expected. In Latin America particularly, Mexico (MSCI Mexico Index -5.0%) appears the most exposed country to the US election outcome, given key policy implications driven by USMCA, tariffs, immigration, and remittances. Most notably, if US tariffs to Mexico are lower than to other countries, then Mexico should continue to benefit from regionalization. In past US election cycles, Mexico has displayed ~~a~~ short-term volatility in both currency and equities. In Brazil (MSCI Brazil Index -5.5%), cooling off the economy seems to be more of a necessity, as inflation expectations are edging higher in tandem with the labor market overheating. The Copom decision was hawkish, as was rhetoric coming from the central bank, pointing to strong economic activity, tight labor force, a positive output gap, and inflation projections and expectations away from the 3% target as justifications for the hike. For Brazilian equities, the materialization of the easing cycle in the US should be positive for EM generally, and lead to a stronger BRL.

SECTOR

Information Technology (MSCI EM Information Technology Index +2.1%) was the best performing sector, due to a broad-based sentiment recovery in AI names from recent profit taking supported by strong earnings results across the supply-chain. This was the only sector to end October in positive territory. Energy (MSCI EM Energy Index -10.4%) was the worst performing sector, driven by the geopolitical risk premium, which though constantly developing, seems to have been cut significantly after recent events in the Middle East, in addition to expectations for a global demand slowdown to outpace any supply concerns.

CURRENCIES/COMMODITIES

The US Dollar ended the month up 3.2%. The best faring EM currency versus the USD in October was the Hong Kong Dollar (HKD), which was roughly flat (-0.0%) on the month. Conversely, the worst performers were the Chilean Peso (CLP) down 6.6% and the Brazilian Real (BRL) and Malaysian Ringgit (MYR) down 5.8% each. Brent oil closed the month down 1.9%, 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 4.1%, marginally outperforming MSCI EM Large Cap Index, which ended -4.2%. Year-to-date, Small Caps have underperformed Large Caps by 495 basis points. The MSCI EM Value Index fell 5.3% for the month, underperforming MSCI EM Growth Index, which decreased 3.7%. Year-to-date, Value has underperformed Growth by 520 basis points.

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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 October 31, 2024

Sophus Emerging Markets Strategy	**QTD**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**10 - Year**	**Since Inception (3/31/13)**
Gross of Fees	-4.94	8.10	20.19	-2.51	3.42	4.18	3.95
Net of Fees	-5.01	7.38	19.23	-3.28	2.60	3.32	3.08
MSCI Emerging Markets Index (Net)	-4.45	11.66	25.32	-1.43	3.93	3.43	3.18
Differential (Gross of fees vs. Index) bps	-49	-356	-513	-108	-51	+75	+77
Sophus Emerging Markets Small Cap Strategy	**QTD**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	-3.42	5.65	22.13	4.41	9.34	7.08	7.51
Net of Fees	-3.50	4.77	20.91	3.37	8.26	5.94	6.35
MSCI Emerging Markets Small Cap Index (Net)	-4.11	8.28	23.96	3.62	10.44	5.60	6.00
Differential (Gross of fees vs. Index) bps	+69	-263	-183	+79	-110	+148	+151

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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