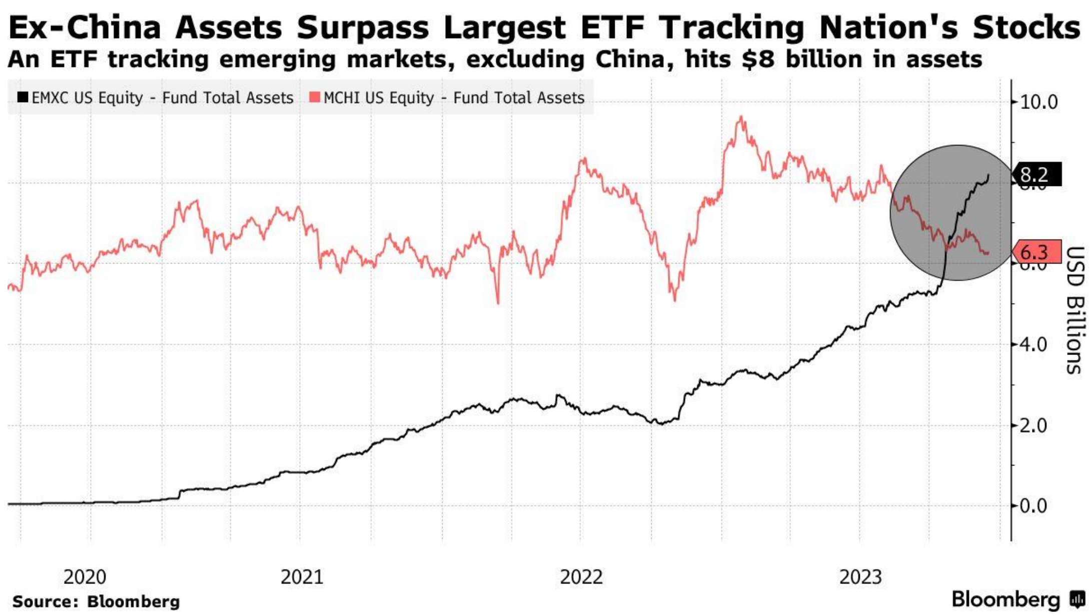
As of January 31, 2024

***CHARTS OF THE MONTH* – Turning Tables: EM ex-China and China ETF Flows**

Flows into the largest exchange-traded fund (ETF) dedicated to emerging markets excluding China have surged. In the final two months of 2023, EMXC jumped almost 50%, hitting $8bn in assets and leap-frogging the biggest equity ETF dedicated to China (MCHI), which just three years ago, was more than 50x larger than its ex-China counterpart. *Why?* Enhanced local policy and regulatory oversight, but more recently, in response to externally driven pressure as US elections draw nearer and "tough on China" rhetoric becomes more popular for both parties. In addition, weak stimulus measures, fears of fiscal stretch at the local government level, the ongoing property crisis, and high debt levels are pushing anti China sentiment.



***QUOTE OF THE MONTH* – Policy Pivots and Politics**

"The economy's strong. The labor market's strong. Inflation's coming down. There's no reason why that can't continue…Our confidence is rising. We just want some more confidence before we take that very important step of beginning to cut interest rates…We do not consider politics in our decisions. We never do. And we never will. Integrity is priceless. And at the end, that's all you have. And we plan on keeping ours."

– US Federal Reserve Chairman Jerome Powell on CBS' "60 Minutes" (2/4/2024)

***IN SUMMARY* – Divergent Paths**

IMF World Economic Outlook:

- The International Monetary Fund (IMF) revised up its global growth forecast for 2024 at the end of January to 3.1%, up 0.2 percentage points relative to its previous projection in October.
- The exceptional strength of the US economy stands as the largest contributing factor of said upgrade, as it continues to defy economists' expectations, growing 3.3% in the fourth quarter of 2023.
- The improved world economic outlook was also boosted by economic stimulus in China, which has faced deflation and a real estate crisis, among other issues.
- Other economies, including India, Brazil, and Russia, also performed better than expected, helping to support the IMF's more optimistic forecasts for the year ahead.

INDIAN BUDGET:

- The Indian central government announced its budget last week, with lower-than-anticipated fiscal deficit planned numbers for FY24 and FY25, demonstrating unexpected discipline in this regard, which should enable RBI easing.
- This marks a notable departure for India, leading up to a presidential election, at a time when the majority of state fiscal deficits are rising. It also leaves enough resources to fund critical private sector capital expenditure (capex).
- Overall, the budget signals confidence by the Modi administration that it can retain power without resorting to populist programs. Addressing Modi and lawmakers in New Delhi, Finance Minister Nirmala Sitharaman focused her speech on infrastructure spending, increasing affordable housing and improving solar energy use.
- A notable milestone: the Indian stock market overtook Hong Kong as the fourth largest stock market in the world (when only ten years ago Hong Kong's equity market stood at 3x the size of India's) and is projected to be the fastest-growing economy in the world (GDP growth est. +6.5% in 2024 and 2025).

SOUTH KOREA "VALUE-UP":

- South Korea closed out January on its best week since November 2022, boosted by automakers and holding companies amid a push by authorities for better valuations. Indeed, news has spread in recent weeks that Korean officials were collaborating on a "value-up program" designed to address the valuation discount in Korean equities.
- Another catalyst fueling the recent rapid change in sentiment was an announcement by the Korean Corporate Governance Forum (KCGF) addressing the "Korea discount" and ways for Korean corporate share prices to re-rate with better corporate governance and improved shareholder returns at the center (a la Japan).
- While prior initiatives geared towards improving Korean corporate governance have failed to deliver lasting positive impact for the past 10 years, two structural differences *this* time could prove compelling:
    1) Voting population has shifted from homeowners to stock owners; therefore, better minority shareholder protection and returns are politically more important than ever before.
    2) Japan stands as a compelling precursor which has shown methods to achieve better corporate governance and higher valuations by a *cultural shift*, without changes to legislation or regulation.
- In 2023, Korea benefited from indications of the memory sector's turnaround following supply cuts by producers, leading to faster inventory digestion and price recovery, as well as from strong AI-related demand. However, the market has gained less than in previous recovery cycles and the semiconductor profit rebound should continue into 2025.
- The Korean market remains very retail driven by nature, and as a result themes like battery names and banks in 2023 have garnered material flows in a volatile fashion on the back of local influencers (Battery-Man) and activists (Align Partners) respectively.
- Looking ahead, the growth path remains solid for South Korea and the interest rate outlook has softened considerably, implying a constructive market backdrop. Foreign positioning remains light despite 2023 inflows due to persistent prior outflows, notably in the tech sector.

CHINA AND JAPANIFICATION:

- China is often compared to Japan in the 1990s, when the bubble burst and the economy slowed. It is true a number of similarities exist:
    - Housing market development – China's housing market correction since 2021 is not only cyclical (policy-induced), it is also structural, reflecting major changes in demand vs. supply in the housing market (similar to Japan's housing market correction in the 90s).
    - Financial imbalance – the pace of increase and level of debt problem. China's total non-financial credit/GDP ratio approached 297% of GDP by end-2022, similar to Japan in the 90s. Debt is mainly domestic and domestic saving rate is high in both countries).
    - Demographics – the problem of an aging population is also similar, with the share of aged population (65 and above) 12.7% in 1991 for Japan, 12.6% in China as of 2019. However, the trend is moving faster in China than was the case in Japan. China's total population started to decline in 2022…while Japan's total population started to decline in 2008, nearly two decades after the start of the lost decade.
    - US Relations (Tense) – Japan's large trade surplus vs. the US led to trade conflict (exemplified in the Plaza Accord in 1985) as with the US-China tariff war that started in 2018. Zooming out, the rise of Japan (30 years ago) and China (at present) to challenge the status of the US as the largest economy in the world is similar…leading to the protectionist response by the US to reduce the bilateral trade imbalance.

- One less advertised issue is the absence of clear leadership in economic policy following the retirement last March of former Vice Premier Liu He and the former head of the China Banking and Insurance Regulatory Commission (CBIRC), Guo Shuqing. As such, the lack of such experienced leadership is reflected in the weak policy response to the property downturn. This is not conducive to generating confidence in a country where for years the technocrats were, rightly, celebrated for their economic management skills.
- Of the many reasons to be bearish China, one thing is clear: Chinese companies remain competitive on a global scale. Over the last couple of years, several Chinese companies have elevated to best-in-class status globally – taking market share from established giants in autos (BYD), but also ecommerce/internet (Shein, TikTok, PDD vis-à-vis Temu). MSCI China trades at 8.5x PE, well below the 10-year average of 11.4x.
- A few catalysts could potentially turn the entrenched negative expectations and sentiment surrounding China, including: a comprehensive and forceful easing package; demand-side focused stimulus; confidence boosting policy targeting the private economy; government backstop in the housing and stock markets; and improvements and predictability in US-China relations.

***MONTH/YTD THROUGH 1/31/24*: MSCI EM Index -4.6%/-4.6%, MSCI EMSC Index -1.7%/-1.7%, and MSCI China Index -10.6%/ -10.6%.**

REGION

All regions ended the period in negative territory, as risk sentiment weakened on the perception that an improving US economy signals the Fed will keep interest rates higher for longer. Emerging Europe, Middle East, and Africa (EEMEA) faired best, still down 1.0%, with Egypt (+19.8%) and Turkey (+10.3%) up most. Egypt advanced on recent news-flow suggesting that a staff-level agreement between the Egyptian authorities and IMF on a bigger loan agreement and on the required policy steps (including an FX adjustment) might be coming sooner than initial expectations. After several weeks of profit-taking, Turkey advanced on in line December inflation results as its leadership continues to move in the right direction in terms of macroeconomic policy normalization, with higher interest rates and lower credit growth restoring confidence within the international investment community. Asia was the worst performing region in the period, down 5.2%, with China (-10.6%) weighing the most as policy supports in China (easing monetary policy, reported market-stabilization fund, China Evergrande's liquidation, etc.) remained insufficient to boost markets, as economic and equity risk premia concerns persist.

SECTOR

Energy (+4.6%) was the best performing sector in the period, and the only one to end in positive territory, given elevated geopolitical tensions in the Red Sea, after the US vowed more strikes against Iran's forces and proxies in retaliation to the assault on its troops, in addition to increased drawdowns in US inventories towards the end of the month. Consumer Discretionary (-9.6%) was the worst performing sector, weighed down by Chinese companies, which in addition to long-standing concerns regarding local policy and regulation, faced incremental external pressure from rising US regulation risk in the form of news-flow coming from Trump that if elected he may propose a 60% tariff on Chinese imports.

CURRENCIES/COMMODITIES

The best performing EM currency versus the USD in January was the Indian Rupee (INR) up 0.2%. Conversely, the worst performers were the Chilean Peso (CLP) down 5.4%, and the Thai Baht (THB) down 3.8%. Brent oil closed the month up 6.1%, fueled by the continued escalation of geopolitical tensions , while US data showed that stockpiles fell more than expected towards the end of the month, along with hopes that stimulus measures coming from top importer China start to bear fruit.

STYLE

Small Caps fell on the month by 1.7%, outperforming Large Caps, which fell by 4.7%. Year-to-date, Small Caps have outperformed Large Caps by 295 basis points. Value fell 3.6% for the month, outperforming Growth, decreasing by 5.6%. Year-to-date, Value has outperformed Growth by 198 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, 7 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 January 31, 2024

Sophus Emerging Markets Strategy	**Quarter**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (3/31/13)**
Gross of Fees	-2.58	-2.58	1.39	-6.85	2.43	4.27	4.11	3.23
Net of Fees	-2.60	-2.60	0.62	-7.58	1.62	3.42	3.25	2.38
MSCI Emerging Markets Index (Net)	-4.64	-4.64	-2.94	-7.50	0.99	3.48	2.86	1.91
Sophus Emerging Markets Small Cap Strategy	**Quarter**	**YTD**	**1 - Year**	**3 - Year**	**5 - Year**	**7 - Year**	**10 - Year**	**Since Inception (1/31/14)**
Gross of Fees	-1.56	-1.56	19.77	7.29	9.95	9.24	7.34	7.34
Net of Fees	-1.62	-1.62	18.60	6.23	8.86	8.13	6.17	6.17
MSCI Emerging Markets Small Cap Index (Net)	-1.73	-1.73	14.96	5.81	8.39	7.33	5.44	5.44

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 by permission from Bloomberg Ltd.

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 advisor registered under the Investment Advisers Act of 1940 and comprises multiple investment franchises: Integrity Asset Management, Munder Capital Management, New Energy Capital, 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 Victory Capital 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 firm definition.

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®).

VictoryCapital®