VICTORY SOPHUS EMERGING MARKETS FUND QUARTERLY COMMENTARY

Sophus CAPITAL
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2024

EXECUTIVE SUMMARY

Sophus Capital employs a disciplined, bottom-up approach utilizing both quantitative and fundamental processes to invest in companies that we believe have the potential for strong and sustainable earnings growth at attractive valuations, with revisions as the catalyst. By investing in companies with these characteristics, coupled with our risk-managed approach, we seek to provide consistent excess returns over time.

- The Victory Sophus Emerging Markets Fund (A-Share, without sales charge) fell 6.2% for the quarter, outperforming its benchmark by 180 basis points on a net basis. The Fund underperformed by 230 basis points for the year.
- In its final meeting of the year, the US Federal Reserve (the Fed) delivered another 25bp interest rate cut, but this time it was accompanied by a hawkish tone deployed to drive expectations of further easing measures down in 2025 (perhaps in preparation for the incoming Trump administration), with strong and stable growth, a healthy job market, and inflation still above the 2% target.
- 2024 was the year of interest rate cuts. Looking ahead to 2025, fiscal dynamics are poor and globally the inflation outlook has become more divergent, driven more by domestic conditions rather than large global shocks.
- While further easing is warranted in most EM economies – as there remains substantial slack given an abundance of caution from policymakers slow to respond to disinflation – financial market pressures linked to rising global bond yields and the USD may limit central bank action in the year ahead.
- While AI is expected to be a significant growth driver for global equities in the year ahead, uncertainty remains around the Chinese economy and the impact of Donald Trump's second term as president of the United States. Despite these headwinds, the global economy continues to expand.

PERFORMANCE RECAP

The Victory Sophus Emerging Markets Fund (A-Share, without sales charge) fell 6.2% for the quarter, compared to the MSCI Emerging Markets Index benchmark, down 8.0%. For the full year, the fund advanced 5.2%, compared to the benchmark, up 7.5%.

Stock selection in India served as the largest contributor to performance in the quarter, driven by a combination of poor performers we did not own, like Reliance Industries (Ticker: RIL IN), in addition to strong performers like ICICI Bank (Ticker: IBN US), Oberoi Realty (Ticker: OBER IN), and Infosys (Ticker: INFY US), which were held. The Indian market had a correction in 4Q (with MSCI India Index -11.3%), driven by a weak 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 finish its financial year with GDP growth of 6.4% YoY, with 2H GDP averaging 6.5% despite the aforementioned weakness. 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 boost growth in the calendar year ahead. We ended 2024 virtually neutral India. While valuation remains a concern for us with respect to investment in India, in a deglobalizing and in many cases fracturing world, it is highly advantageous to have a large self-contained domestic economy with limited trade reliance on the rest of the world.

Taiwan also contributed to performance due to positive stock selection, thanks to IT holdings Elite Material (Ticker: 2383 TT), Lotes (Ticker: 3533 TT), Wiwynn (Ticker: 6669 TT), and Taiwan Semiconductor Manufacturing Co. (Ticker: 2330 TT), among others, which benefited materially given their exposure to the AI supply chain. AI remains a key growth driver for IT overall, and therefore Taiwan. Moreover, Nvidia's GB200 rack delivery is a key catalyst we anticipate will sustain the upcycle into 2025, further driving US major hyperscalers' capex higher as supply chain issues are largely resolved.

Real Estate was another contributor to performance, primarily as a result of two holdings, Emaar Properties (Ticker: EMAAR UH) and Oberoi Realty. During the period, Emaar formalized its dividend policy, committing to AED 1.0/share payout for FY24-27, more than double the Bloomberg consensus estimate of AED 0.47. A key driver of growth for Emaar is the property cycle in the Emirates (Dubai in particular). The market troughed in 2020 but has recovered sharply on 1) recovery from the pandemic and 2) the cyclical turn in the market amidst a sustainable upswing for the next 4-5 years. Oberoi is a mid- to high-end residential and commercial developer in India. The company reported very strong 2Q earnings results for FY25 in October, beating consensus expectations across the board. Indian developers overall continue to benefit from still-strong macroeconomic environment, robust demand for housing, and higher wealth. Infrastructure spending, relatively easy financing conditions by historic standards, and a growing middle class have led to a boom in property post-Covid, which we anticipate will continue into 2025.

* (basis point(s) "bp(s)" are 1/100th of a percentage point)

Not FDIC Insured • May Lose Value • No Bank Guarantee

20250117-4167030

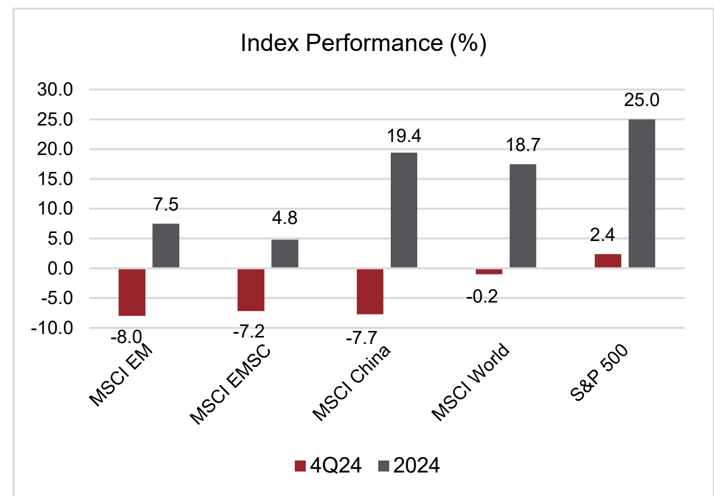
The Financials sector detracted from performance due to negative stock selection, given a combination of strong performers we did not own, like Industrial & Commercial Bank of China (Ticker: 1398 HK), Al Rajhi Bank (Ticker: RJHI AB), and HDFC Bank (Ticker: HDFCB IN), as well as poor performers like Itaú Unibanco (Ticker: ITUB US), which we did hold during the period. Stock selection in Thailand also moderately detracted from performance this quarter, with holdings CP All Public (Ticker: CPALL-R TB) and Bangkok Dusit Medical Services (Ticker: BDMS-R TB) weighing the most heavily, in conjunction with a weak overall Thai market (-10.1%) that struggled in response to higher external uncertainty and pressures on the baht.

From an individual stock perspective, the two largest contributors to performance were Emaar Properties (as mentioned previously) and Elite Material, the only player that offers best-in-class technology, scale, and cost efficiency in the copper clad laminates (CCL) industry. The main growth driver for Elite Material remains strong AI demand as GPU/accelerator servers require higher printed circuit board (PCB) layer count and ultra-low-loss CCL with higher answer set programming (ASP). The company is well positioned to take advantage of this trend, with over 60% market share in the AI server CCL market and ~90% share in Nvidia's current CCL usage for AI-related PCB/HDIs (high-density interconnect).

The main detractors from performance were Hero Motocorp (Ticker: HMCL IN) and LG Innotek (Ticker: 011070 KS). Hero Motocorp manufactures two-wheelers, dominating the lower-end motorcycle market in India with 76% market share, particularly in rural India. While the company beat 2QFY25 earnings expectations, volumes came under pressure in 4Q, falling off materially in November and December against what appeared to be a weaker consumption backdrop for discretionary spend. LG Innotek reported weaker 3Q24 earnings results intra-period, impacted by unfavorable FX, sluggish demand for front-end industries such as EV and displays, and intensifying competition in optics solutions. Investors grew worried about market share loss and tepid iPhone demand, as the public release of Apple Intelligence failed to drive improving replacement demand.

MARKET OVERVIEW

Emerging Markets (EM) underperformed Developed Markets (DM) during the fourth quarter. The MSCI Emerging Markets Index fell 8.0% vs. returns of -0.2% and +2.4% for the MSCI World Index and the S&P 500® Index, respectively. For the full year, the MSCI EM Index advanced 7.5%, versus the MSCI World Index (+18.7%) and the S&P 500® Index (+25.0%).



Source: MSCI, Sophus Capital

All regions ended the fourth quarter in negative territory, weighed down broadly by uncertainty around global growth in a Trump 2.0 world and a strengthening US dollar.

Eastern Europe, Middle East, and Africa (EEMEA) ended the period down 3.9%. United Arab Emirates (UAE) proved a bright spot for EEMEA in 4Q (+9.5%), which extends a 2024 trend of UAE leading the way (+21.0%). Notably, OPEC+ announced at its December 5 meeting that it would delay plans to increase oil supply and reduce the size of future increases until April. The news was a positive surprise for UAE and other OPEC+ peers, given such guidance was slightly tighter than investor expectations.

The International Monetary Fund (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 estimate of 3.5%), and an acceleration to 5.1% for 2025/26E. UAE remains a favored country in the region for investors, with strong foreign direct investment (FDI) dynamics, relatively low geopolitical tensions with major superpowers, banks that have ample liquidity on hand, and authorities with ambitious infrastructure spending plans, underpinned by a sharply growing population of wealthy expatriates.

South Africa (-11.9%) and Poland (-11.5%) were the two countries down the most in the region for 4Q. The impressive rally in South African assets cooled in 4Q following the US elections, as headwinds like the weaker ZAR and rising bond yields intensified. The National Bank of Poland (NBP) surprised markets in December, pushing back hopes for interest rate cuts further into 2026 on fears that the government's removal of energy price caps would spark inflation. On January 1, Poland assumed the presidency of the EU for 1H25 – a key diplomatic role given the incoming Trump presidency, the ongoing Russia/Ukraine war, and the weakened governments of traditional EU powers (France and Germany).

Turkey faced pressure in the fourth quarter (-3.2%). This bout of profit-taking comes on the back of strong YTD performance for the country (+17.7%), which continues to demonstrate a renewed commitment to monetary policy normalization as it grapples to bring inflation back to target. Headline inflation is expected to continue its decline toward 38% YoY by March, which (along with a continued tight monetary stance) leaves the CBT well positioned to continue with another 250bps in late January.

Asia declined 7.9% in 4Q, as weakness from South Korea (-19.2%) offset strength from the sole positive performer in the region, Taiwan (+3.3%). The gap between these two major markets in the region was an astonishing 57.6% in 2024.

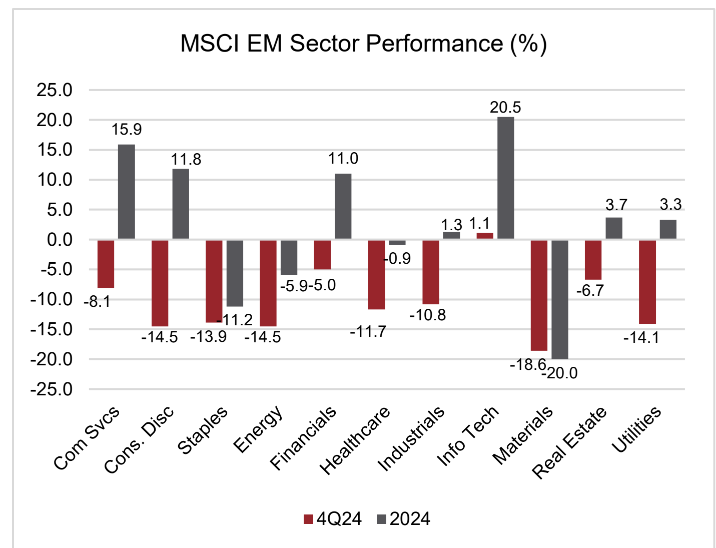
In Korea, Tech served as the primary drag, as expectations of a recovery in the memory space extended out once again into 2H25, and broad-based profit taking following a Trump victory in November brought tariff threats into focus, while pressuring global growth expectations. Korean politics also drove underperformance for the quarter when President Yoon Suk Yeol tried and failed to impose martial law and was subsequently impeached by the National Assembly (pending Constitutional Court approval now) in December. The Korean government began 2024 with the announcement of the value-up program, aimed at addressing the "Korean Discount" by encouraging firms to enhance corporate governance and increase shareholder returns. Ultimately, the formal launch of this highly anticipated Value-Up Index and the details provided mostly underwhelmed investors, which contributed to the market's full-year weakness in 2024 (-23.3%).

In addition to outperforming all other Asian markets, Taiwan also outpaced the US in 4Q, as the most direct beneficiary of AI upside. Over the course of the year, this region ushered in three major drawdowns and three subsequent rallies, with China at the center of most. Early in the year, Chinese equities faced substantial volatility before "national team" buying helped turn the market around, with foreign buying crowding the trade by March, and momentum building further from there.

Brief but potent "higher-for-longer" concerns in April gave way to a second leg of the rally sustained through July. US macro conditions then rose to the forefront as a sudden "Goldilocks" rotation drove an unwind of crowded positions across AI, Momentum, carry trades, etc., followed by a recession scare in early August. But once again, markets quickly recovered from the bout of hysteria. In mid-September, the third major rally played out as a policy turn in China sharply raised stimulus expectations, leading to the biggest one-month rally in MSCI China since 2008. That rally too has reversed for the most part, as markets braced for a second Trump presidency.

Latin America was the worst performing region in the fourth quarter, down 15.8%, driven mostly by Brazil (-19.4%) and Mexico (-10.6%). 2024 overall followed a similar pattern in Latin America (-26.3%), with Brazil down 29.7% and Mexico down 27.0%. In Brazil, a challenging year of fiscal reform came to a close when Finance Minister Haddad unveiled a broad outline of the much-anticipated fiscal package in December, which disappointed versus market expectations. The central bank will be compelled to drive the policy rate deeper into restrictive territory, and public debt to GDP is rising at a fast pace.

Mexican markets faced volatility throughout 2024 as a result of uncertainties surrounding the new government, a concerning judicial reform, and fears that weak investment and fiscal restraint might lead to weak growth and an increased likelihood of a technical recession in Mexico. As such, the MXN depreciated ~18% in 2024. The performance of Mexican assets remained volatile in 4Q amid policy uncertainty as Andrés Manuel López Obrador (AMLO) exited office and Claudia Sheinbaum assumed leadership of the country in October, but also due to broader-based rebalancing ahead of Trump's inauguration later in January.



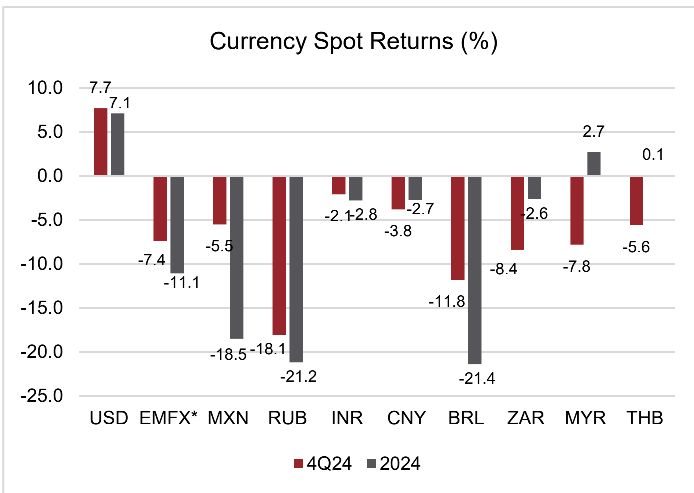
Source: MSCI, Sophus Capital

Powell's Fed has managed its dual mandate impeccably, but the situation remains a delicate one, where balance is imperative: lower rates too fast and inflation goes up, or lower them too slowly and unemployment rises. 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 monetary policy 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 100bps in December, with expectations mounting for similar hikes ahead.

20250117-4167030

After a volatile start to 2024, the USD troughed in late September (-0.9% over that period), only to surge 7.7% in the final quarter on a potent combination of resilient US growth and potential inflationary policies following Trump's victory. Conversely, EM FX has broadly depreciated over the same period against the USD, evidenced most notably this quarter by the Russian Ruble (RUB) down 18.1%, the Brazilian Real (BRL) down 11.8%, South Korean Won (KRW) down 10.7%, and Hungarian Forint (HUF) down 10.3% – with the best-performing currency, the pegged Hong Kong Dollar (HKD), ending the period flat (+0.1%).



Source: Bloomberg, Sophus Capital
*EMFX: J.P. Morgan Emerging Market Currency Index (EMCI) Live Spot

Commodities pulled back in the fourth quarter of 2024, as illustrated by the Bloomberg Commodity Index falling by 0.5%, but advanced in 2024 overall, up 5.4%. Brent oil finished the quarter up 4.0%, though still down 3.1% on the year, as concerns of oversupply weighed heavily for most of the period despite elevated geopolitical tensions, with still active conflicts in Ukraine and the Middle East. Other commodities faced broad-based pressure in 4Q, with industrial metals down 7.7%, precious metals down 2.1%, and agricultural commodities down 1.2%.

Focusing on raw factor returns within the global Axioma risk model, Medium-Term Momentum and Growth were the best-performing risk style factors in the fourth quarter, while Size and Leverage lagged. Risk style factors overall were a marginal detractor to the MSCI EM Index, mainly due to negative returns for India, the Global Market, and currency factors (like CNY, KRW, and TWD), whereas Industry factors (Banks, Internet Software & Services, and Technology) had a positive impact.

OUTLOOK

American Exceptionalism

One predominant takeaway from our travels and conversations with investors and market commentators in 2024 was a general hesitancy for Americans to invest outside the US, so absolute was their conviction in the domestic story. And to be fair, performance supported this view. The US stock market once again extended its dominant run in 2024 (S&P 500 +25%), capping the year with a final bullish surge driven by anticipation for a second Trump presidency promoting policies that drive deregulation and extended tax cuts.

However, this position ignores the fact that the US accounts for only 15% of world GDP on a purchasing power parity (PPP) basis and 14% of world GDP growth. In addition, this preference comes with an exceptional degree of concentration risk – both in terms of single market/country but also derived from the very small group of stocks (i.e., the "Magnificent Seven") accounting for over 30% of the S&P 500's total market capitalization – at a time when any number of challenges could serve as catalysts to US market weakness, such as weaker US profit margins with valuations at historical levels, the potential of hyperscalers overinvesting, and/or the US fiscal deficit.

Whether you look at price to current earnings or price to sales, most metrics tell a similar story: the US stock market is richly valued today on a historical basis, with most valuation metrics approximately double their historic levels. One statistic of note: the S&P 500 has returned more than 20% in each of the last two calendar years, something the index last did during the dot-com bubble in 1998. However, after peaking in March 2000, the S&P 500 corrected nearly 50% as investors turned skeptical about the ability of corporates to *ever* monetize the internet (to effectively offset their unprecedented infrastructure spending), accentuated by the backdrop of historical valuations.

In many ways AI remains a truly bright spot for global markets, but even this thematic has faced bouts of pushback regarding monetization (or lack thereof) given the massive investment required by hyperscalers for machine learning capacity. For AI investment to be sustainable, it will require a bridge between the eventual capabilities imagined and practical uses today that are powerful enough to fuel those longer-term visions for years to come.

Three components alone account for over 60% of the US federal budget: social security, healthcare programs (including Medicare and Medicaid, among others), and defense. Thus far, Washington has maintained the bipartisan (self-interested) stance that all three are protected from any funding cut measures. But with the Congressional Budget Office (CBO) projecting net interest payments to double from $870bn (3.1% of GDP) in 2024 to $1.6tn (3.9% of GDP) in 2034 – the highest level in American history – it leaves little room for maneuvering in the event of an economic downturn. Indeed, in this instance, the Fed would be left with few options other than to resume purchases of Treasury bonds.

Such fiscal stresses certainly set the stage for Donald Trump's November announcement that Elon Musk and biotech entrepreneur Vivek Ramaswamy will co-head a new advisory body called the Department of Government Efficiency (DOGE) with the task of cutting $2tn from the federal budget by July 4, 2026. . If successful, a reduction of that magnitude would relieve funding pressures, with a likely market impact of a major rally in both Treasury bonds and the USD.

20250117-4167030

But it would come at a cost to the real economy in the form of a deflationary shock (negative for equities), which would undoubtedly lead Trump to question the efficacy of such policies.

Each of these challenges create a potential opportunity for emerging markets to outperform on a relative basis, especially if the Fed is left with yield curve control as the measure of last resort to manage the fiscal problem, as renewed Fed balance sheet expansion would inherently weigh on the USD. Today, the USD remains overvalued, both on an absolute and relative basis, trading on what has proven an exceptionally strong US market. Given the inverse correlation between the USD and the MSCI EM Index, USD weakness could be an extremely powerful driver of EM equity outperformance.

Why Maintain Exposure to Emerging Markets in 2025

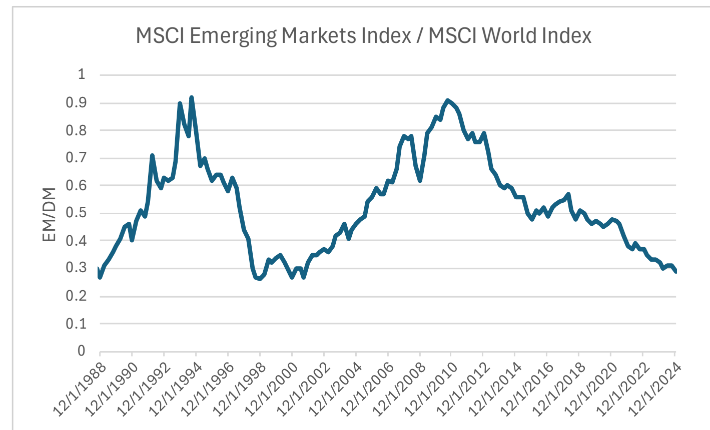
The EM GDP growth premium over DM rose to approximately 2.3% in 2024, and should expand to 2.5% in 2025, driven by population and productivity growth. These trends are structural and will continue to widen. EM is forecasted to maintain its earnings growth differential edge to DM in 2025 (+1% vs. -2%) and 2026 (+13% vs. 9%).

DM is cutting interest rates on slowing growth and rising unemployment trends, with little concern for inflation, whereas EM economies are broadly well positioned on this front with the obvious exception of China. On the whole, inflation expectations remain remarkably well-anchored, which underscores the high degree of central-bank credibility in this cycle.

Current EM valuations are attractive vs. their own cyclically adjusted 10-year historical average price to earnings (CAPE) and on a relative basis vs. DM valuations at present, made more compelling by light investor positioning in EM as a percent of total portfolio allocations. As opposed to traditional price to earnings ratios (P/E), which are based on earnings from the previous 12 months, CAPE ratios are based on the average inflation-adjusted earnings from the past decade, which serves to smooth out the cyclicality of earnings.

To this extent, MSCI EM currently has a CAPE ratio of 11X, which is in line with the 10-year average, justified by relatively positive earnings growth expectations ahead. However, the S&P 500 currently has a CAPE ratio of 28X, a value reached previously in only two prior periods: 1) the dot-com bubble in the 1990s and 2) the pandemic in 2021. As with the S&P 500, the MSCI All Country World Index also remains extremely stretched by comparison, with a CAPE ratio of 20X (more than 1 standard deviation above the 10-year average CAPE ratio of 17X).

The chart below further illustrates how emerging markets (represented by the MSCI EM Index) have rallied during prior inflationary cycles – notably in 1994 and more recently in 2010. In keeping with those periods, emerging markets are currently very inexpensive relative to developed markets (represented by the MSCI World Index). Indeed, the last time the EM/DM ratio was so stretched was in the 2000 tech bubble.



Source: Bloomberg, Sophus Capital as of December 31, 2024.

Populist Waves & Trump 2.0 – The Global Impact

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, Netherlands, Japan, and India, to name a few) and a rise in populism, polarization (both internal and external), geopolitical fragmentation and counter-democracy themes.

Many countries are experiencing an erosion of democratic characteristics (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 diminish these standards. At their core, populists are neither conservatives nor liberals. Instead, they are mass movements reflecting numerous, often contradictory, grievances. Indeed, the only consistently identifiable traits are isolationism, anti-immigration, and conservative traditional ethics.

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 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.

USD – The 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.

VictoryCapital®

20250117-4167030

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 – Trump's pro-business tilt is expected to drive conflict resolution in both Ukraine and 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.

The current 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%).

Trump's Tariffs: Threats or Promises?

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 that 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.

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 tolerable for the EM space, but would still result in a stronger USD, possibly heighten fears of US debt sustainability, and likely raise global risk premia.

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 toward the rest of the world. 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.

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.

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. 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. Indeed, 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 will be different.

The housing recovery is underway – home prices are falling less, new home sales saw the first monthly growth since 2Q23 in November, and 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 and consumers is weak.

China's Central Economic Work Conference (CEWC) concluded mid-December, with emphasis 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.

VictoryCapital®

20250117-4167030

The stimulus measures announced so far are likely sufficient to achieve 5% GDP growth in 2024, 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 embedded 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).

Ultimately, two themes will affect China's growth outlook the most in 2025: 1) trade tensions with the US, and 2) China's continued policy responses into 2025 following the "pivot" in late September. Naturally, the two are not independent of one another. There will be natural spillover from both, as tariff risk will inherently affect China's policy responses, including fiscal, monetary, exchange rate, etc., with additional implications for the restructuring of global supply chain and trade structure overall. Perhaps the most promising near-term catalyst for China would be a *trade shock* powerful enough to spur a profound policy shift toward consumption, private sector confidence revitalization, and accelerated structural reforms to stabilize the housing market. A boost of that magnitude might just raise all boats.

As always, we continue our search for sustainable, attractive earnings growth *purely within the emerging market universe*, while monitoring geopolitical risk. We continue to note the higher need to factor in sovereign risk to investment opportunities at the country and sector levels of our selection process.

We thank you for your continued support.

Sincerely,

The Sophus Emerging Markets Team

VictoryCapital®

Region Allocation	% Fund
Asia	79.69
EEMEA	10.74
Latin America	8.22

Top Ten Holdings	% Fund
Taiwan Semiconductor Manufacturing Co., Ltd.	11.47
Tencent Holdings Ltd.	6.06
ICICI Bank Limited	3.04
Infosys Limited	2.68
Alibaba Group Holding Limited	2.39
SK hynix Inc.	2.19
Meituan Class B	1.94
China Construction Bank Corporation Class H	1.74
Xiaomi Corp. Class B	1.46
Sun Pharmaceutical Industries Limited	1.37

Top 5 Contributors (%)	Contribution to Relative Return
Emaar Properties Pjsc	0.45
Elite Material Co., Ltd.	0.35
Range Intelligent Computing Technology Group Co., Ltd. A Share	0.26
Reliance Industries Ltd.	0.26
Pdd Holdings, Inc.	0.23

Top 5 Detractors (%)	Contribution to Relative Return
Hero Motocorp Limited	-0.24
LG Innotek Co., Ltd	-0.20
Mediatek, Inc.	-0.16
Tim Sa (Brazil)	-0.14
Cp All Public Co. Ltd.	-0.13

Investment Performance (%)
Average Annual Returns as of December 31, 2024

Victory Sophus Emerging Markets Fund (Class A – GBEMX)	Q4 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (5/1/97)	Expense Ratio	
								Gross	Net
A Shares, without sales charge	-6.15%	5.18%	5.18%	-3.25%	0.22%	3.24%	5.88%	1.67	1.34
A Shares, with sales charge (max. 5.75%)	-11.55%	-0.86%	-0.86%	-5.13%	-0.95%	2.63%	5.65%	1.67	1.34
MSCI Emerging Markets Index (Net)	-8.01%	7.50%	7.50%	-1.92%	1.70%	3.64	–	–	–

Source: Victory Capital data analyzed through Zephyr

Past performance does not guarantee future results. The performance quoted represents past performance and current performance may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit www.vcm.com. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which, fund performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through April 30, 2025.

VictoryCapital®

20250117-4167030

Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit www.vcm.com/prospectus. Read it carefully before investing.

Not all share classes are available to all investors.

All investing involves risk, including the potential loss of principal. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Investments concentrated in a single country, a small number of countries or a specific region typically exhibit higher volatility. Investments in small-and-mid-cap companies typically exhibit higher volatility. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. Information technology companies are particularly vulnerable to rapid changes in technological product cycles, severe competition and government regulation. The Fund may frequently change its holdings, resulting in higher fees, lower returns, and more capital gains. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

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.

Distributed by Victory Capital Services, Inc., an affiliate of Victory Capital Management Inc., the Fund's investment adviser.

©2025 Victory Capital Management Inc.

V17.095 // 4Q 2024 SOP EM Fund COM