CI EMERGING MARKETS FUND

Q4-2024 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Emerging Markets Fund, Series F*	13.2%	1.2%	5.2%	6.2%	5.7%
Benchmark: MSCI Emerging Markets Total Return Index (C$)	17.9%	2.9%	4.2%	6.3%	6.6%

* Inception date: August 8, 2000. Formerly Signature Emerging Markets Fund, renamed effective July 29, 2021.
Source: CI Global Asset Management, as at December 31, 2024.

PERFORMANCE SUMMARY

- During the fourth quarter of 2024, CI Emerging Market Fund, Series F (the Fund) returned -2.9% compared with its benchmark, the MSCI Emerging Market Index, which returned -1.9%.
- The Fund underperformed the benchmark primarily due to stock selection, especially in the financial and consumer staples sectors.
- Overweights in the consumer discretionary and materials sectors also detracted from performance, although stock selection in both sectors contributed.
- Cash contributed to performance as emerging market equites declined following the U.S. presidential election.

CONTRIBUTORS TO PERFORMANCE

Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) was up 12% during the quarter on the back of robust third quarter results and better-than-expected sales guidance. We remain bullish on TSMC's N3/N5 chip demand, supported by AI and edge-AI developments. For N2 chips, we expect installation to begin in Q1 2025 and volume production to follow by mid-2025, which we expect to support robust growth throughout 2025 and 2026.

Industrial and Commercial Bank of China (ICBC) also contributed to performance through a healthy product mix and decent growth that supported resilient net interest rate margins (NIMs) and healthy net interest income. Asset quality concerns related to the real estate market improved, alleviating credit unease. The spread between the company’s dividend yield and the 10-year government bond yield also makes ICBC an attractive defensive equity investment.

DETRACTORS FROM PERFORMANCE

The sharp depreciation of the Indonesian rupiah during the fourth quarter pushed foreign investors out of the Indonesian equity market, leading to the biggest net-sell quarter in history. Additionally, Bank Indonesia, the country’s central bank, defended the rupiah by absorbing liquidity, which tightened liquidity throughout the financial system. Political uncertainty added to these challenges, as the handover of administrations in Indonesia has not proceeded as smoothly as hoped. We remain positive about the country over the medium to long term and the bank’s valuation looks reasonable with favourable risk reward.

MercadoLibre Inc., Latin America’s largest e-commerce marketplace, also detracted, as the company’s 2.5-year rally eased in in the fourth quarter. Investors became concerned about the rise and quality of the company’s credit, including a more aggressive approach to growing its credit card portfolio.

PORTFOLIO ACTIVITY

A trio of Argentinian companies, Banco Macro S.A., Grupo Financiero Galicia S.A. and Vista Energy S.A.B. de C.V., were added to the Fund to increase exposure to the country. Argentina is in the early stages of addressing many of the structural problems in its economy, including hyper-inflation. We believe banks and investment-heavy resource companies should benefit from these economic improvements.

Conversely, several Mexican and Brazilian companies were eliminated from the portfolio to adjust country weights and replace them with more compelling investments in these countries. We exited Mexican holdings Fomento Económico Mexicano, S.A.B. de C.V., and Gruma, S.A.B. de C.V., and Brazilian companies Banco do Brasil SA and Localiza, adding Walmart de México y Centroamérica (Mexico) and Raia Drogasil (Brazil).

MARKET OVERVIEW

Despite compelling valuations and decent earnings growth expectations, emerging market investors will have to navigate U.S. tariffs, immigration policy changes, a slowing Chinese economy, a strong U.S. dollar and lingering higher U.S. interest rates. Mexico and China are particularly vulnerable to the policy shifts of the Trump administration. These factors make an overweight allocation to emerging markets challenging at the beginning of 2025, although the second half of the year could look more promising should current uncertainties be resolved.

China and Brazil are two markets where equity returns will be particularly dependent on government policies in 2025. Pro-growth policies are needed in China, while fiscal austerity measures in Brazil are essential. Without more forceful policies, both markets will continue to struggle. Despite stronger than average economic growth within emerging markets, both the Indian and Indonesian economies showed signs of moderating late in 2024, a development we will closely monitor as the Fund is overweight both countries. Argentina is emerging as a special situation economy where the radical policies of Argentinian President Javier Milei are gaining traction, helping steer the country away from hyper-inflation and pending economic collapse towards a more sustainable, and therefore investable economy. While encouraging, these developments should be viewed as green shoots and more needs to be done.

For more information, please visit ci.com.

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