

# 2024 Annual Emerging Markets Equity Review

JANUARY 2025

**Matt:** Hello and welcome to the 2024 Dodge & Cox Emerging Markets Equity Investment Review. My name is Matt Beck. I'm a Client Portfolio Manager here at Dodge & Cox, and I'm thrilled to be joined by my colleague Robert Turley. Robert is a member of our Emerging Markets Equity Investment Committee, as well as the head of our Portfolio Strategy Group. Robert, always great to see you. I so appreciate discussing emerging markets equity with you and thank you for being here today.

**Robert:** You're welcome, Matt. It's great to be here.

**Matt:** We're going to talk about the emerging markets environment and the environment in which our team was operating in 2024. We're going to take a look at the performance of our main vehicle in this area, which is the Emerging Markets Stock Fund. Then, we're going to take a look at where the team and Robert are finding opportunities on a go-forward basis as we look at the Fund as of year end and talk about what we were doing during 2024 and going forward. Robert, let me start off by just asking you: any key takeaways that you might cite for our listeners today in terms of 2024 and how things felt within emerging markets?

**Robert:** Sure. I think one thing that will always be true in emerging markets is that there'll be a variety of risks and opportunities. In 2024, maybe three of the most salient would be with the U.S. election, you have trade policy that's being realigned, especially with the United States, but also around the world. We might see new trade relationships. Secondly, there is political instability in South Korea that even after the end of 2024 continues and that also has some consequences in their economic markets. And then thirdly, Brazilian fiscal challenges. I think Latin America broadly, but Brazil in particular, really struggled toward the end of the year.

**Matt:** So, let's continue on that theme actually on slide five where we take a look at the emerging markets environment and market during 2024. You mentioned these three very disparate themes during the year, and you and I have discussed for many years now, the fact that we see emerging markets not as a monolith by any means as an asset class, but really a series of idiosyncratic opportunities. I think that 2024 really kind of underscored what we've been saying for a long time. Can you expand a little bit on that notion?

**Robert:** Of course. When you look across all these opportunities in emerging markets and risks you face, in some senses there's not a

lot in common across countries. You can look and see what is the storyline behind what's happening in the economy in Poland; it's very different than what you'd look at in South Korea or Brazil. In this sense, you've got a diverse set of markets, and as an investor, a diverse set of companies in which you can invest. So, this plays out in terms of the ways that you need to be thoughtful about how you diversify your exposures, how you control your risks, and also when you look at performance, looking backwards, to be aware that one headline number might actually cover up a lot of really interesting storylines that could be moving in opposite directions.

**Matt:** Sure, and you know, one of the things that you mentioned right off the top in your key takeaways was the U.S. election. Let's not ignore the elephant in the room. Despite the fact that emerging markets were positive, roughly 7.5% up for the Index during the year, [there was] negative performance really that we saw in the fourth quarter, and a lot of that on the heels of the U.S. election. What would you say to those in the audience that might be seeing the results of the U.S. election, [and] a red sweep in Washington, and thinking that this might not be a great time for emerging markets, that policies coming from Washington could negatively affect them? Has this curbed our interest or our enthusiasm about the asset class in any way? What are your thoughts on that?

**Robert:** I mean, not at all. We are still very enthusiastic about emerging markets. When you look at the valuations there, they're very attractive, especially when compared with the other opportunities out there. Secondly, I think the consequences of the U.S. election are still playing out, and we will likely see some winners and some losers. During the first Trump presidency, we saw that there were substantial actions with respect to negotiating trade agreements with Mexico. But after that renegotiation and the replacement of NAFTA (North American Free Trade Agreement) with the USMCA (United States Mexico-Canada Agreement), I think the relationship between the United States and Mexico with respect to trade is stronger than it ever was. On the other hand, you can see that both in that first Trump presidency, and as a preview of what we expect in the next one, we could see that there could be substantial tariffs and possibly a reduction in the trade relationship with China and some other Asian countries. We can see winners and losers. I think the impact itself has not yet played out in terms of the returns. In fact, if you look at the top of the slide where you see the diversity of returns both at the regional level on the right or at the sector level on the left, you don't see a big jump in November 2024. You do see some big jumps, but they tend to be driven by some of

*Returns represent past performance and do not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Fund performance changes over time and currently may be significantly lower than stated above. Performance is updated and published monthly. Current month-end performance can be obtained at [dodgeandcox.com](http://dodgeandcox.com) or call 800-621-3973.*

the very specific impacts that were happening within those countries, within those sectors.

**Matt:** Sure, and you mentioned China. We note at the top right of slide five that China was the top-performing region in 2024. We also have been thinking about U.S. policy towards China. One of the things that you and I also have discussed is the fact that China, you really can't avoid it in emerging markets investing, can you? It makes up almost 30% of the benchmark. If you take this concept of Greater China, which would include countries like Taiwan as well as some other smaller countries, it can come to close to 50% of the benchmark. So, it's really an important part of the pond that you're fishing in. How are we thinking about going about managing risks, geopolitical risks, and others as you maneuver through the China and Greater China landscape within the Fund?

**Robert:** I like to think about this in concentric circles. First, talking about mainland China in particular, you'll notice on that performance chart, that large jump you see in September 2024 and that was their stimulus package. Chinese leadership was seeing some of the economic challenges they've had, especially within their Financials and Real Estate sectors. They made some substantial changes both in terms of their tone and rhetoric, but also specific policy changes that caused that large positive market reaction. Up to that point, you would see that China's performance was somewhat middling through 2024. Then you see now it was one of the strongest returning parts of the emerging markets. So that's critical. But the underlying challenges there within Real Estate and Financials still exist. So, if you were to look at some of the holdings we have, we actually have relatively few holdings in those areas because we continue to have concerns. There are also concerns about what this could mean for currencies. And so, one of the things that we did during 2024 was to increase the amount of protection we had with respect to what could happen if we saw depreciation in the Chinese renminbi or in the next concentric circle, when you look at greater China and the Taiwanese dollar. Certainly Taiwan could be affected by the political relationship, so we need to protect ourselves through hedging and also through diversification. In some sense, like you said, it's going to be a large part of our opportunity set. We want to make sure that we don't have disproportionate impact from some of these external factors. What we really want is for our returns to be driven by great company research and finding these great opportunities.

**Matt:** Well, thank you for that market backdrop. Let's go ahead and take a look at the performance of the Fund in 2024. The Emerging Markets Stock Fund—this is shown on slide six. These are periods ended December 31, 2024. As we've already noted, it was a negative period of performance for the fourth quarter, down in excess of 8%.<sup>1</sup> The year-to-date 2024 was right on top of the Index, 7.5% for our Fund, 7.5% for the [MSCI] Emerging Markets Index. We're thrilled to now be able to show a three-year number as we're three and a half years into this public Fund availability, 1.2% on the positive side for three years. Not bad in an environment where the Index is down 1.9% per year for that period. Maybe honing in on 2024 and taking a look at the next slide, slide seven, and some of the attribution for the year: what stands out to you, Robert, in terms of the return for the Fund this year? What worked, what didn't, and just general observations?

**Robert:** Yes. When you think about the one-year return being 7.5% for both the Fund and the benchmark, you can't help but have your eyes look at that sector contribution—Financials. We will start there on what went wrong in Financials. I'll say that was really about security selection and not just the company level, but the countries in which we're operating, especially in Brazil. In my earlier comments, I mentioned fiscal challenges that Brazil is facing. That has really impacted the financial firms. Two of our largest holdings in the Fund are Itau [Unibanco], a large bank in Brazil, as well as XP, a brokerage firm.<sup>2</sup> Both of those firms struggled during the fourth quarter. Then additionally, if you look at the performance over the full year, you have to also see towards the beginning of the year we have a holding in an insurance company, Prudential, that operates within Asia, primarily Hong Kong, Malaysia, and has also some Indonesia and mainland China exposure. While Prudential, during the latter part of the year, had relatively flat to positive performance, it also really struggled during the first part of the year. So that stock selection—what was going on underneath the hood in Financials—detracted from the Fund. That said, we had a lot of positive stories; there was great performance by [some] positions. You saw big contributions within Energy and you can see on this chart also the contribution from Industrials and Utilities. So, in 2024, we've been talking a lot in this conversation about the diversity of performance we've had here. I think those are good to highlight. I'll highlight one more thing, which doesn't show up on this chart. I think is important to recognize [that] the currency hedging actually contributed significantly to the Fund's returns. More than a percent of the Fund's 7.5% return came from the protection that we put in the Fund to currency depreciation. During 2024, the [U.S.] dollar appreciated against most currencies if we look at a basket, but especially the two currencies that we're hedging against—the Chinese renminbi and the Taiwanese dollar—depreciated substantially in 2024. That protection really benefited the Fund.

**Matt:** I've got two follow-ups on what you've said around performance on slide seven. The first is with respect to Itau and XP, the two Brazilian financial companies that were down during the year. What is our bottom-up work telling us about these companies? Do we still hold them in the Fund? Have we increased their weighting and added to them during the year? How do we feel about companies like this in a year that wasn't necessarily their best year from a performance standpoint?

**Robert:** Sure. When we see challenging performance in any of our holdings, including these two—Itau and XP—we always need to make sure that there has not been deterioration in the underlying thesis that drove us to want to invest in these companies. And so, over the next three to five years, over our investment horizon, do we still consider these to be attractive companies? The answer in these cases is a resounding yes. The decline in performance was not driven by any change in our belief about the quality of these companies or the market's belief in the quality of these companies. It was really by external factors in the Brazilian macro[economic] economy. Sadly, as a financial firm, sometimes despite their best efforts and excellent operational results, the impact of what's going on within the economy—with the currency and interest rates that are happening in Brazil right now, and also with the debt the country of Brazil is trying to finance—is having negative impacts on these stocks and on Brazilian

stocks in general. So, we've reviewed these. We always review stocks after they've had large changes in price and continue to believe that they are attractive holdings over a long-term investment horizon.

**Matt:** Thank you. My second follow-up: you mentioned some of the positive performance that we've seen in Energy and Industrials. There's one company that you and I have discussed, I think past times on this call actually, and that's National Energy Services Reunited, a company that we own at roughly 2%. It's not in the Index, and it was up close to 50% this year. What can you say about that contributor to performance?

**Robert:** Yeah, this is a great example of our process. We often refer to this firm by its initials, NESR. We invested in this company initially as a small position, and as our analyst dug deeper, it was pretty clear why this company was inexpensive. It had been delisted because it wasn't able to file its financial statements. So, there was a big question on why it couldn't file the statements. Is there maybe some underlying issue going on? I think that's why many investors decided to step away and the price went down. We put substantial research—both at the analyst level and also hiring some third parties—to do due diligence on the financial side, on the people who are involved, to understand the management of the company, and those who prepare its financial statements. [We] came away with the conviction that these problems would be resolved. And they were. So, this came to fruition throughout 2024. You see that strong appreciation. I think also as we got more conviction behind the position, we built it from that small position to a larger one so that we could benefit as we entered into 2024 from the stock price appreciation. This has been a great investment. Although it's labeled as Energy, often when you think of Energy returns, you think about a commodity-driven company. But really, the returns from NESR were driven by what was going on with the company, the situation that was unfolding there, and not by where the price of oil was moving month to month. In fact, it's an oilfield services company operating in the Middle East. And so, in some sense, you might think it would be sensitive to Middle Eastern oil operations that would drive the returns, but that was not the case this year.

**Matt:** Great. Well, we've talked about the macro environment in 2024. We've talked about how our portfolio did in 2024. I want to imagine that there may be listeners that would like to know where we're going. Let's take a look at the positioning of the Fund on slide eight, as of December 31, 2024. At the top of the page, you can see the Dodge & Cox Emerging Markets Stock Fund in the brown bars and the MSCI Emerging Markets Index as the lighter blue. You can see for the most part that we are fairly close to the Index weights with the couple exceptions: that is a modest overweight in Consumer Discretionary [and] a modest underweight in Information Technology.<sup>3</sup> At the left side of this page, one thing I always like to talk to clients about is the fact that we have price discipline and a value discipline here at Dodge & Cox. So, you should expect to see a less expensive portfolio than the market, than the benchmark. Indeed, those portfolio statistics at the left side of [slide] eight do play that out—that we look less expensive and have that price discipline implemented as a part of this process in this portfolio. We've talked a little bit about countries. At the center of page eight, center bottom, you can see China and Taiwan, the two large allocations or parts of the Index that I mentioned a little bit earlier. We

are modestly underweight those areas. At the right side of slide eight, you can see our 10 largest holdings. Robert has already described one of them in Itau Unibanco. So, Robert, with slide eight as the backdrop, talk to me about where the team was finding opportunities during the year. Where have you added or taken from, and what are you really excited about in the portfolio as we go forward into 2025?

**Robert:** Asian markets in general had a very good 2024. South Korea underperformed and this was a place where we saw a lot of opportunity. So, if you look to see some of the new holdings that we brought into the Fund in 2024, a number of them were companies in South Korea. I'll highlight a few of them. NICE Group, so NICE is a credit agency that does credit scoring. We had S1, which is a security company in Korea. We had Samsung Card, which is the number two credit card company. [We had] Hanwha Aerospace, which is the leading defense contractor. So, a number of these small companies where the opportunities to buy them at very attractive prices arose and we took advantage of it. And also, one larger position. Within Korea, there's a company called Coupang, people call it the Amazon of Korea. This is also a position we put in the Fund during 2024. We continue to find, across emerging markets, opportunities both for some of these small positions as well as very large ones. When you look at the portfolio itself, this page highlights that we have 239 holdings. Of those, roughly 30 or so you might think of as more concentrated positions, which Coupang, the newer holding I mentioned, is one of them. Then we have about 200 positions that are smaller, half a percent or less. So, these positions are ones that we look at and where we find great opportunities. When you look at 2024, we had a handful of new names that might be in that larger bucket and then quite a few of these smaller names.

**Matt:** Maybe continuing on that theme, we're at roughly 240 holdings, 239 to be exact, at the left side of page eight. As you contemplated and really were one of the architects of this Fund several years ago, is this about the ballpark that you imagined the Fund being in? Do you think we might go higher? Is it really hard to tell? Where do you think we are in terms of the number of holdings since we built the Fund up?

**Robert:** I think this is exactly what we were hoping for. The particular number of holdings in the Fund is really driven by bottom-up advocacy. So, it's important to recognize that we didn't go into this and say that we need to have 239 names in this Fund. No, what we said is we'd like to have a Fund that can both have some large, concentrated holdings, but also get all of our analysts' best ideas. If there's a company that they're researching that they think belongs in the Fund and it may be growing rapidly, but currently too small to take a large position, or for other reasons maybe the sizing might be more appropriate to be smaller, terrific. Please bring us all of your best ideas. We'll include them in the Fund. We need to do that because this is a benchmark that has a long tail. There's one benchmark constituent that's more than 10% of the weight, but then there are hundreds that are very small companies within the benchmark. Of those, we think a number of them may be really attractive opportunities for investors in the Fund. We want to include those as well. You may see, going forward, that the number gets a bit higher, gets a bit lower, but this is the ballpark where we'd like to be. The actual number is going to be driven by the advocacies and the companies that our analysts find.

**Matt:** You mentioned just a moment ago, this is ballpark where we wanted to be. You know, we're three and a half years into the public Fund we launched in May of 2021. We're thrilled to be where we are three and a half years in. In terms of lessons learned, observations, as one of the architects of this strategy, what surprised you, if anything? What observations do you have? What lessons learned are there a few years into this now?

**Robert:** In terms of surprises, we went into this knowing that the markets would give us enough surprises. We needed to make sure that our operations would not surprise us. Well, I think we could not have foreseen maybe some of the events that transpired in markets over this time period. At the same time, I think anyone who invests in emerging markets realizes this is a place where you should expect to be surprised. That happens. So, in particular, when we launched this Fund, that was right at the beginning of some of the new Chinese regulations that led to things like a crisis in property markets. Some of you may remember, there was also an issue with the regulations they put on video gaming, regulations they put on tutoring. So, some of these things I think were surprising to us, and a few of them even hurt the Fund's performance at a very specific level. I would say at a big picture level, we know in this Fund that we need to be diversified and manage our risks well because these surprises will continue. Maybe that's what I'd put in the surprise category. On the things that have worked really well at Dodge & Cox, most of our Funds have a smaller number of holdings. So, one of the things that we take a lot of pride in is being able to build and manage a portfolio with this large number of investment ideas. So, we have to give a lot of credit to the research team we have who spent many years building up this body of research of names that we can put in the Fund when we launched, and certainly to the Investment Committee, and the operations teams, and all the larger background people that make it possible to offer a Fund that has this breadth.

**Matt:** You mentioned the operations teams. Now let's not forget the trading around these names, and really in the smaller positions, we count on our excellent traders to really move around where there's liquidity.

**Robert:** That's exactly right. Someday, I hope in an audiocast like this, you can talk to people who are involved in things like trading, because actually executing trades in emerging markets is complex. So, we spent quite a bit of time making sure that we could minimize transaction costs and be opportunistic and make sure that we are able to give the best total return to our clients and not being beholden to the vagaries and the inconsistencies of when liquidity becomes available.

**Matt:** Great. Well, Robert, this has been enlightening, both just talking about the emerging market equity environment, speaking about the Fund, and then some of the intricacies of managing a Fund like this. Thanks so much for your time and for being here again this quarter. Thanks to everyone that listened in today. We appreciate your ongoing confidence in Dodge & Cox.

Dodge & Cox Emerging Markets Stock Fund SEC Standardized Average Annual Total Returns as of December 31, 2024: 1 Year 7.50%, 3 Year 1.22%, Since Inception (May 2021) -1.82%. Fund and Index standardized performance is available on our [website](#).

Emerging Markets Stock Fund's Ten Largest Positions (as of December 31, 2024): Taiwan Semiconductor Manufacturing Co., Ltd. (8.7% of the Fund), Alibaba Group Holding, Ltd. (4.1%), HDFC Bank, Ltd. (3.2%), Tencent Holdings, Ltd. (2.6%), Itau Unibanco Holding SA (2.3%), Credicorp, Ltd. (2.1%), Axis Bank, Ltd. (2.0%), National Energy Services Reunited Corp. (1.7%), XP, Inc. (1.5%), and Glencore PLC (1.5%).

1. All Fund performance results are for the Emerging Markets Stock Fund's Class I shares.
2. The use of specific examples does not imply that they are more or less attractive investments than the Fund's other holdings.
3. Unless otherwise specified, all weightings and characteristics are as of December 31, 2024.

See [Disclosures](#) for a full list of financial terms and Index definitions.

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