

Russia's Invasion of Ukraine and Potential Investment Implications

Key Takeaways

- Our thoughts are with the individuals and families impacted by Russia's invasion of Ukraine and its consequences.
- The Dodge & Cox Worldwide Funds are broadly diversified. The Global Stock Fund, Emerging Markets Stock Fund, and Global Bond Fund have minimal direct holdings in Russia.^a
- We are actively monitoring developments and taking appropriate actions given the evolving risks. We will continue to take investment decisions to protect our clients' interests and will comply with sanctions that apply to the Funds.
- The temporary closure of the Moscow Stock Exchange and restrictions imposed by the Russian Central Bank on trading by non-Russian investors have impacted the liquidity for these holdings.
- We are evaluating investment considerations that might arise from the geopolitical volatility.

As a consequence of Russia's invasion of Ukraine and the resulting wide-sweeping sanctions imposed on Russia by governments around the world, Dodge & Cox does not intend to invest in any new Russian securities for the foreseeable future. These securities are currently priced at negligible values, so there is limited valuation downside from here.

The Dodge & Cox Worldwide Funds Have Minimal Exposure to Russia

Each Fund's sector, industry, region, and country positioning is a result of our bottom-up, research-driven investment approach that evaluates each company's long-term fundamental outlook in relation to its current valuation. We consider macroeconomic factors among many inputs into our individual company investment analysis.

The Dodge & Cox Worldwide Funds are broadly diversified with limited direct holdings in Russia. In line with industry consensus, we have marked down the fair value of the Funds' Russian equity holdings to essentially zero (see Figure 1). Overall, the Funds also have little indirect exposure to Russia when the small contributions of individual holdings are aggregated across the portfolios. We continue to monitor the situation and work with industry counterparties to analyse potential indirect impacts.

^(a) Unless otherwise specified, all weightings and holdings are as of 31 March 2022.

Figure 1: The Funds' Direct Holdings in Russia

Dodge & Cox Worldwide Funds	Holdings Incorporated in Russia (% of the Fund's Total Net Assets)	
	31 December 2021	31 March 2022
Global Stock Fund	0.44%	0.00%
Emerging Markets Stock Fund	3.96%	0.00%
U.S. Stock Fund	None	None
Global Bond Fund	1.68%	0.09%

- **Global Stock Fund:** Magnit, the Fund's only holding in Russia, is one of the largest retailers in Russia. Despite current market conditions, we believe the company has good long-term growth prospects. We don't expect sanctions will be applied to the company as Magnit operates only in Russia. The current conflict and sanctions will impact consumer sentiment and spending, food inflation, and the company's ability to import food. It may also affect the company's access to funding. On the other hand, Magnit has an extensive supply chain to deliver food and supplies to the Russian people. We continue to assess the situation and have been talking with Magnit's management team. In addition, our equity, fixed income, and macroeconomic teams are working closely together to evaluate the company's risk-reward prospects.
- **Emerging Markets Stock Fund:** In addition to Magnit, the Fund had five other holdings directly incorporated in Russia: Alrosa, Detsky Mir, Lukoil, Novatek, and Severstal. Furthermore, three holdings are incorporated outside of Russia—Globaltrans Investment (Cyprus), TCS Group Holding (Cyprus), and X5 Retail Group (the Netherlands)—but trade on Russian exchanges and are issued in Russian ruble.
- **Global Bond Fund:** On 31 March, the Fund had 0.09% in Russian ruble-denominated government bonds.

Russia Sanctions and the Impact on Our Trading

Securities held by the Funds continue to be impacted by the actions of governments, stock exchanges, and counterparties, leading to severe valuation and liquidity issues. Our ability to execute trades is impacted by the same industry-wide issues that are affecting other market participants. These range from disruptions caused by the temporary closure of the Moscow Stock Exchange to restrictions imposed by the Russian Central Bank on local brokers that prevent non-Russian investors from trading in Russian securities and receiving related dividend or interest payments. The situation remains fluid and changes daily. We are actively monitoring developments and taking appropriate actions given the evolving risks.

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Implications for Global Markets

We believe spillover from the Russia/Ukraine crisis is likely to have the most material impact on energy prices. This is due to potential disruptions to Russian energy supply and measures by Western governments to limit Russian oil and gas imports. Russia is also a key global producer of a number of other commodities. For example, Russia has large market shares in the global production of palladium, platinum, nickel, copper, and aluminium. Russia and Ukraine are estimated to contribute 15-20% of global output of major grains (including wheat and corn). Upward pressure on global oil and commodity prices could add further risk to already high inflation in many countries.

Due to its higher trade activity with Russia and higher reliance on Russian energy imports, Europe is more economically exposed than other regions. Outside of Europe, Russia's trade and financial exposure to the rest of the world is relatively small. However, broader risks centre on global supply chain disruptions fuelling stagflation and the potential for cyberattacks.

Going Forward

We acknowledge the extreme downside scenario with respect to our Russia-domiciled exposures has materialised, and we are analysing the evolving risks, market valuations, and liquidity conditions. The distribution of risks appears to be mostly negative for the global economy, especially in the short to medium term. However, we are carefully assessing other potential implications over our long-term investment horizon (e.g., further strengthening of Western alliances and increased economic integration amongst their economies). We are also exploring potential dislocations in other parts of the market due to the geopolitical volatility.