

Quarterly Manager Views

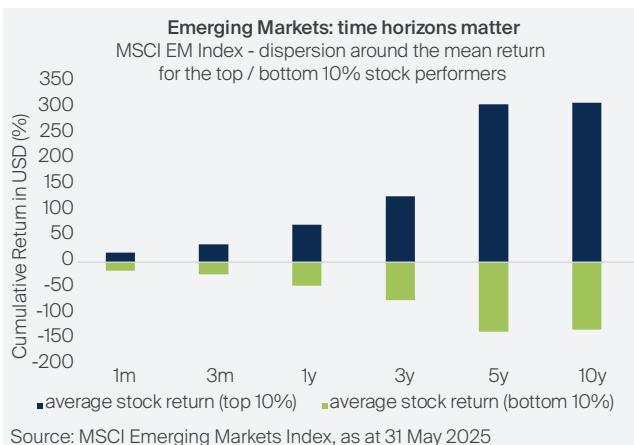
FSSA Global Emerging Markets Equities Focus

June 2025

The biggest competitive advantage an investor can have is time

In *War and Peace*, Leo Tolstoy reflects on the nature of endurance and struggle – not just in battle, but in life. The epic novel, written more than 150 years ago, is widely considered ahead of its time for its psychological depth, philosophical scope and realism. Writing against the backdrop of the Napoleonic wars, Tolstoy focused less on military heroics and more on the quiet forces that ultimately determine outcomes: patience and time. In investing, as in life, the most enduring victories are rarely won quickly. Yet paradoxically, in an era of algorithmic trading and weekly data-point obsessions, time has become one of the scarcest commodities.

Over the past few decades, average holding periods for stocks have fallen from over eight years in the 1960s to less than six months today.¹ Yet this shift has come at a cost: it reduces investors' ability to generate outsized returns that are materially different from the broader market. The reason is simple – as investment horizons shrink, so does the return dispersion between the best- and worst-performing companies. With less time in the market, investors end up tracking the index, not beating it.



In a world where markets rise consistently, that might seem like an acceptable outcome. But markets don't move in straight lines; and in addition to the higher costs and transaction fees that come with frantic trading activity, the bigger issue is that investors miss out on what is far more important – the future value creation that the best companies tend to generate. This is often poorly understood by the market, with many investors simply focusing on the next quarter or year ahead. Yet the real drivers of returns lie in the cash flows that come well beyond that timeframe.

That is why our investment philosophy focuses on finding high-quality companies that can deliver attractive returns for much longer than the market expects – and extending our investment time horizon to capture that advantage. When you own quality businesses, time isn't a risk – it's an asset.

While we aim to hold investments forever, our actual turnover provides a useful indication of our typical time horizon. Over the past three years, portfolio turnover for the FSSA GEM Focus strategy has averaged 23% (name turnover has been lower, at 17%) – implying a typical holding period of four to five years. That said, turnover has risen modestly in recent quarters, reaching close to 30% at the end of Q1 – driven by a deliberate reallocation of capital into what we see as more compelling long-term opportunities. This reflects healthy competition for capital within the portfolio, not a change in philosophy. We remain focused on owning high-quality businesses that can compound returns over time – and are willing to exit even solid franchises when we believe better risk-reward emerges elsewhere. As such, we took advantage of recent share price weakness to initiate new positions in NuBank and Trip.com, while exiting Despegar, Commercial International Bank and Yum China.

¹ Source: NYSE, as at June 2020

NuBank is a digital-first financial services platform operating at scale across Brazil, Mexico and Colombia – markets where traditional banking remains expensive, underpenetrated and inefficient. The company benefits from strong unit economics driven by a low-cost structure, intuitive product design and high customer engagement. This has allowed it to grow its customer base at a rapid pace in recent years. Since its founding in 2013, it has managed to grow its client base to 114 million at the end of 2024 and is now the second largest credit card issuer in Brazil with a transaction volume market share of 13%. We believe it is well positioned to benefit from the continued structural tailwind of rising financial inclusion in Latin America, with a long runway for growth as millions of people transition from cash to digital banking. We met the company several times over the past few years and conducted extensive work on the business. While we had high regard for the franchise, we remained disciplined and waited for a more attractive entry point – one that offered a better margin of safety. That opportunity arose earlier this year. In that sense, NuBank reflects the kind of investment we aim to make: we did the work early and waited patiently for an opportunity to invest; and when that materialised we took advantage of it.

Similarly, we added Trip.com to the portfolio, another company that fits well with our preference for dominant local platforms in underpenetrated markets. The company operates China's leading online travel agency through its Ctrip brand, which is now benefiting from a more rational competitive environment after years of intense pricing pressure. Industry consolidation has improved the economics of the domestic travel market and strengthened the company's position. Meanwhile, the international Trip.com platform – still in the early growth stages – has established a strong presence across Asia and is well placed to benefit from the long-term recovery in outbound Chinese tourism, a structural and underappreciated trend, in our opinion. Although we had followed the business for many years, we stayed on the sidelines – initially due to concerns around competition, but also due to questions on its corporate governance. Both of these aspects have started to improve. Competitive dynamics have stabilised, and while governance is not yet best-in-class, we have engaged directly with senior management on several issues over the past few years (including disclosure practices, board composition and incentive alignment). We have seen tangible signs of progress, which convinced us that the direction of travel is positive. With that backdrop, we took advantage of the sell-off earlier this year to initiate a position at what we believe are attractive valuations relative to the company's long-term potential.

To fund these new purchases, we exited a few holdings where the return potential had diminished, or macro risks became harder to underwrite. Starting with Despegar, the Latin American online travel agency, which we had held on to through the depths of the pandemic. At the time, the business faced a near-complete collapse in travel activity, alongside broader macro and political uncertainty in the

region. Despite the challenges, we were comfortable maintaining – and in fact, increasing – our position, underpinned by confidence in the company's capital-light model, disciplined cost control and a management team that navigated the crisis with prudence and clarity. Over time, travel demand recovered, market share consolidated, and the business returned to profitability. The recent buyout by a strategic investor (Prosus, another portfolio company) has brought our journey with Despegar to a close, but we view the outcome as a positive one – both in terms of financial return and as validation of our long-term approach during a highly uncertain period.

By contrast, we chose to exit Commercial International Bank in Egypt earlier this year. The decision was not a reflection of the company itself – which remains a well-capitalised, conservatively-managed franchise with strong governance and a leading position in the local market. However, the broader macroeconomic environment had deteriorated to the point where we felt the risks were no longer being adequately priced. Persistent currency pressure, an increasingly fragile external balance and limited policy transparency made it difficult to assess the downside with confidence. In situations like this, even a fundamentally sound business can become difficult to own. We view the exit as a reminder that in emerging markets, maintaining discipline around macro risk is as important as bottom-up conviction; and that sometimes, the right decision is to step aside when the path forward becomes too opaque.

Exiting Yum China was yet another different kind of decision. The company remains well managed, with strong execution, a robust operating model and a long track record of delivering free cash flow growth in a competitive market. Operationally, it continues to perform. However, we began to see signs that the pace of growth was moderating, and a more mature store base and rising cost pressures were weighing on margins. At the same time, the stock had performed well, and the valuation reflected a fair degree of optimism. In that context, we thought the risk-reward had become less compelling and made the decision to reallocate capital to new ideas with more attractive long-term return potential. This is consistent with our approach: owning strong businesses for as long as they continue to compound at healthy rates – but being prepared to move on when the outlook changes, even if execution remains solid.

In summary, portfolio decisions like these reflect a broader principle that guides our process. As a team, we always think about how to prevent the portfolio from becoming stale or backward-looking. As quality investors, it is easy to fall in love with past winners and become complacent. We have found it important to stay disciplined around valuation and maintain a strong bench of high-quality but undervalued alternatives. This is essentially what the above changes are about. While turnover ticked up temporarily, it is expected to come back down in the coming quarters, and we have already seen it decline since its peak in Q1 2025.

Tariffs and “Liberation Day”

One of the more prominent topics in recent months has been the renewed focus on tariffs – most notably the White House announcements in early April about so-called “Liberation Day.” While these generated plenty of attention, our view at the time (and still is, today) is that the measures were primarily intended as a negotiation tool – an attempt to encourage more manufacturing to be brought back into the US. They might also be designed to raise additional revenue to patch the US administration’s increasingly stretched public finances, though needless to say, not to the extent that they risk derailing the economy – especially with a midterm election looming in 2026.

While the situation remains fluid and it is hard to say anything too definitive, our broad view – based on how things stand today – is that Latin America, and particularly Mexico, looks relatively well positioned within an emerging market context. The United States-Mexico-Canada Agreement (USMCA) continues to hold, and reciprocal tariffs have been avoided. Since the beginning of this year, we have seen further evidence of increased nearshoring activity into Mexico, especially in autos and electronics, with foreign direct investment flows staying strong. A US slowdown remains a potential headwind, given the trade linkage, but recent data suggest demand has held up better than feared. Overall, the region still looks like it should be a relative beneficiary in the current environment.

China also appears more resilient than the headlines suggest. Its direct exports to the US, as a share of gross domestic product (GDP), have continued to decline, and many of the more exposed, low-margin categories have already shifted to Southeast Asia. Importantly, China has so far held back from large-scale domestic stimulus – likely in anticipation of escalating trade frictions. That gives policymakers room to support consumption more meaningfully going forward, which should benefit our more domestically-oriented holdings.

India remains largely insulated from trade tensions, given its limited export exposure to the US and a growth model that is mostly driven by domestic demand. The main exception is IT services, which continue to face structural pressure from AI-related disruption and softer global tech spending. We have no exposure to Indian IT services in the portfolio.

Trip reports from India and Mexico

On India more broadly, we completed a productive two-week trip to the country in Q1, meeting with a wide range of companies and management teams. If there is one thing that stands out on every trip to India, it’s that this is a true stock-picker’s market. Nowhere else in emerging markets do we see such a concentration of high-quality companies with ambitious management teams and dominant

franchises. Whether it was consumer companies talking about premiumisation, insurers discussing growing levels of formalisation, or non-bank finance companies (NBFCs) focused on financial inclusion, the long-term optimism was palpable – and in many cases, backed by strong execution on the ground.

But while India shines at the company level, the macro picture is more nuanced. Growth has been strong, but the benefits are unevenly distributed, and the structural drivers behind the country’s long-term per capita GDP expansion are still evolving. Our view is that meaningful, broad-based development will require a clearer industrial strategy – one that enables India to move beyond services-led growth and create productive jobs at scale.

There are signs of progress – increased formalisation, better digital infrastructure and strong capex intentions in certain sectors – but there are also headwinds. In our meetings, we heard about the challenges Indian manufacturers face in scaling up and competing on cost, even in sectors where global supply chains are shifting in their favour. A good example is the textile industry, which in theory should be gaining share as Bangladesh faces ongoing disruption. Yet Indian textile companies have struggled to capitalise on this in any meaningful way, as their production costs are much higher. This raises a broader question: if cost pressures limit competitiveness in a low value-added industry like textiles, what challenges might Indian firms face in moving up the manufacturing value chain?

As we assess the road ahead, there are a few indicators we will be watching closely: regulatory clarity and consistency; the openness to foreign expertise and capital (including from China); and whether economic opportunity continues to broaden or remains concentrated in a handful of conglomerates. Progress in these areas would mark an important step towards a higher quality and sustainable growth model.

That said, many of the best companies in India aren’t waiting for policy to catch up – they are adapting and growing, and in some cases, setting the benchmark for the rest of the region. From a bottom-up perspective – always the highlight of any India trip – we came away feeling encouraged. We continue to see India as a core part of the portfolio, and we believe patient, company-led investing should continue to uncover attractive opportunities over time. However, with valuations having moved up meaningfully in recent years, we have been disciplined in translating that optimism into portfolio action. While the underlying quality of many businesses remains high, expectations in several areas of the market means that there is very limited margin for error. As a result, we have been more selective in adding new companies – but we did come back with a handful of new ideas that have entered our watchlist.

During March, we also travelled to Mexico – one of our favourite emerging-market countries to visit. Mexico City in particular stands out, not just for its energy and scale, but for its extraordinary cultural heritage. Few regions in the world can claim such a diverse and layered history, spanning ancient civilisations like the Teotihuacanos, and centuries later, the Aztecs, through to modern-day Mexico – a country defined by contrasts and resilience.

That contrast is central to understanding the opportunity. Mexico is a country of two halves. One part – largely in the south – remains informal, underdeveloped and weighed down by poor governance and organised crime. But the other side – centred around industrial hubs like Monterrey and Mexico City – is home to one of the most successful economies in emerging markets. With its proximity to the US, as well as its competitive labour base and growing manufacturing ecosystem, Mexico is uniquely positioned to benefit from nearshoring and regional supply chain shifts. In that context, aggregate GDP growth is a poor guide to the underlying opportunity set – the real story lies in the formal economy, where the best companies continue to grow well ahead of the aggregate economy.

That point was reinforced in many of our meetings. Across the portfolio, our holdings – Regional, Walmex, Alsea and Qualitas – are all executing well, with steady growth, strong governance and increasing capital discipline.

Regional, in particular, stood out. We visited the bank at its headquarters in Monterrey and came away encouraged. The bank has carved out a niche in lending to small and medium-sized businesses by combining deep local relationships with strong credit controls. Its approach is thoughtful, measured and focused on sectors the bank understands well, which includes manufacturing, real estate, agriculture and tourism. Regional's digital offering, Heybanco, is scaling gradually and profitably. This isn't a bank chasing growth at any cost; it's a well-run franchise compounding value in a steady, risk-aware way.

Another holding that continues to impress us is Walmex. It appears to us that management is executing well on a clear strategy to reinforce price leadership while expanding into higher margin adjacent services. Gross margins are expected to improve modestly, but operating margins will remain flat as investments in e-commerce, financial services (Cashi), telecom (Bait) and advertising (Connect) scale up. These newer businesses already contribute meaningfully to the frequency of purchases and average ticket sizes – particularly among cash-based customers – and provide long-term optionality. The plan to open 1,500 new *bodega* stores by 2028, alongside greater private-label penetration (from 16% to mid-20s), is another way to broaden its addressable market. We were particularly encouraged by management's operational discipline, low tolerance for pricing gaps and thoughtful ecosystem

development. While not optically cheap, we believe the valuation is attractive given the company's long-term reinvestment opportunity and earnings growth potential.

Qualitas, meanwhile, in our view remains a high-quality franchise with strong insurance underwriting, dominant market share and growing professionalism on the investment side. We came away reassured by our meeting with the new Chief Investment Officer (CIO), who brings a disciplined, long-term approach to managing the balance sheet. He has been focused on formalising the investment framework, improving risk controls and building a more durable return profile – steps that, while not headline-grabbing, should meaningfully improve resilience over time. Premium growth is likely to normalise after a strong period, but we believe it should remain healthy given ongoing vehicle financing trends and the rising adoption of formal insurance. The core franchise remains solid, and the valuation – particularly with capital returns – continues to look reasonable.

Politically, the mood among corporates was more relaxed than expected. Mexico's newly-elected president, Claudia Sheinbaum, has so far struck a more pragmatic tone than AMLO (Andrés Manuel López Obrador, the former Mexican president, often known by his initials), and early signs point to more constructive engagement with business. Concerns around judicial reform remain, particularly for regulated sectors, but overall, the tone was one of cautious optimism – not panic.

In summary, while Mexico faces structural challenges in one half of the country, we focus on the other half and continue to see strong bottom-up opportunities in a number of well-managed companies that are growing well ahead of the economy and returning capital at attractive valuations.

Outlook

Overall, we think the picture for emerging markets looks supportive from both an absolute and relative basis. Valuations are attractive, currencies are cheap, and unlike the US – which may face a few lean years that could weigh on the dollar and prompt global investors to seek alternatives – emerging markets appear poised for a stronger growth outlook after what has been a few pedestrian years. Moreover, we believe that the possibility of a “deal” between China and the US could lead to a reassessment of the notion of China being “uninvestable” in some parts of the world, potentially driving renewed interest in emerging markets. After all, China remains the largest market in a global emerging market context.

From a bottom-up perspective, we expect the portfolio's aggregate earnings and free cash flow to grow by around 14% annually over the next two years. We're currently paying a 6% free cash flow yield for that growth – that is a discount to long-term average valuations and is not building in any rerating assumptions. This makes us optimistic about the return potential from here. We believe

the combination of reasonable valuations, improving fundamentals and strong underlying businesses provides a solid foundation for attractive long-term returns.

As always, we appreciate your continued support. If you have any questions about the strategy, our approach, or specific holdings, we would be happy to discuss them further.

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