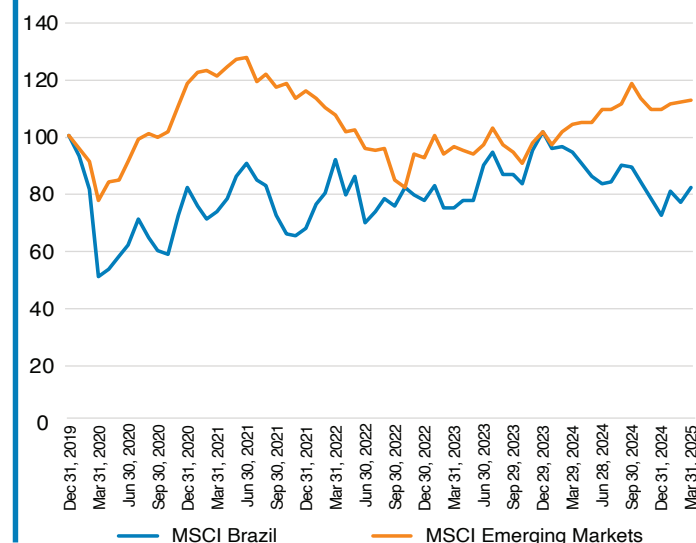


Brazilian Equities: Unveiling Undervalued Opportunities

Brazilian equities have staged a modest rebound in 2025, following a volatile 2024. The MSCI Brazil Index declined by 30% in 2024 after rising 14% and 33% in 2022 and 2023, respectively (Exhibit 1). Despite recent gains, Brazilian equities remain well below pre-COVID levels, trading at valuations that imply deep structural pessimism.

Exhibit 1

MSCI Brazil vs MSCI Emerging Markets Index Performance



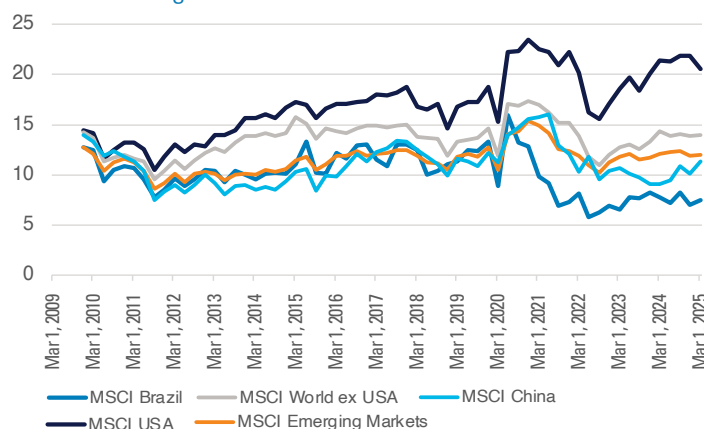
Source: MSCI
Cumulative performance of the MSCI Brazil Index and MSCI Emerging Markets Index, in USD, base value of 100, from 12/31/2019 - 3/31/2025.

While the Brazilian equity market has been under pressure in recent years, some key macroeconomic indicators present a more constructive picture than market sentiment suggests. The unemployment rate is at a 10-year low, and inflation, currently at 5%, remains materially below the double-digit percentages of 2021 and 2022.

Despite this relatively benign economic backdrop, the pricing of Brazilian equities appears to reflect a negative outlook, with the drawdown in Brazilian equities largely driven by political concerns. Fears that President Lula could enact populist fiscal measures to counter declining approval ratings have weighed on valuations. As a result, Brazilian equities are cheaper now than they were during the early months of the COVID-19 pandemic, as well as the 2014-2016 recession. (Exhibit 2). The forward price-to-earnings ratio for Brazilian equities has fluctuated between 6x and 8x for the past three years, which is roughly one standard deviation below their long-term average.

Exhibit 2

MSCI Brazil Comparison Price to Earnings NTM



Source: FactSet, MSCI
Chart depicts price to earnings (next twelve months).

We added Ambev, the largest brewer in Latin America and Canada, to our portfolio in 2020. At the time, the company faced beer volume declines amid COVID-19 restrictions. Although volumes have rebounded to record levels, Ambev has faced several macroeconomic challenges, including higher input costs due to a weak Brazilian real and commodity cost inflation. More recently, shares fell due to the earnings impact of the devaluation of the Argentine peso, as well as uncertainty surrounding Brazil's new tax regime. Despite potential tax burdens, we believe the current share price more than discounts forthcoming changes, and we are optimistic about Ambev's underlying business. We expect the company's premiumization strategy will contribute to further margin expansion, as macroeconomic headwinds abate. We believe that Ambev's earnings recovery implies it is trading at roughly 12x our estimate of its normal earnings power.

When we added Banco do Brasil to the portfolio in 2023, the share price reflected deep fears of government intervention under President Lula's administration, reminiscent of the policies during Dilma Rousseff's presidency. However, using Banco do Brasil as a vehicle for fiscal stimulus would generate negative political headlines for an administration already facing pressure; we therefore view the likelihood as low. At a company-specific level, asset quality is expected to improve, and non-performing loan (NPL) formation within the bank's agricultural lending portfolio is expected to decline following

BRAZILIAN EQUITIES CONT.

the 2024/2025 soybean harvesting season, given strong volumes and improving market prices. Additionally, the company offers one of the highest returns on equity among Brazil's largest banks and we view the current valuation of 7x our normal earnings estimate to be compelling.

We continue to find leading Brazilian companies that we believe are particularly cheap, and over time, we have steadily increased our exposure as a result (Exhibit 3).

Exhibit 3

Pzena Emerging Markets Focused Value-Brazil Relative Weight



Source: FactSet, MSCI

Pzena Emerging Markets Focused Value Composite estimate; relative Brazil weight versus MSCI EM Index.

We remain focused on investing in companies whose valuations we believe have been unduly punished because of macro concerns, political fears, and company-specific controversies. ■

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