Emerging market equities declined significantly during the period as the fastest global inflation in decades and investor concern about the possibility of an economic recession hurt financial markets around the world. Russia’s invasion of Ukraine in February heightened geopolitical tensions and sent oil prices significantly higher, and pandemic-related lockdowns in China further strained supply chains, fueling a continued decline in the country’s equity markets, which are the largest in emerging markets. Technology-heavy markets like South Korea and Taiwan were the worst-performing major emerging markets. The best-performing emerging markets were in the Middle East given high oil prices. Latin American markets also performed relatively well as some countries have exposure to rising commodity prices.

Emerging markets outperformed developed markets on expectations that economic growth in emerging markets would exceed developed markets in the coming quarters, and that faster emerging-market growth would prompt emerging-market central banks to tighten monetary policy sooner than their developed-market counterparts.

Asset weighting and stock selection were positive for the Fund’s performance during the period. Overweight exposure to the Consumer Staples and Financials sectors aided relative returns. A complete lack of holdings in the Energy sector also boosted relative performance since many state-controlled emerging-market energy producers did not benefit from higher oil prices, and Russian oil companies were marked to zero after the invasion of Ukraine. Stock selection in the Financials sector was particularly strong, though partially offset by weaker stock selection in Consumer Discretionary and Information Technology. At the country level, stock selection in Chile and Argentina held back returns, while zero exposure to Russia and Eastern European markets were a positive.

The individual stocks that contributed the most to relative performance during the period were Mahindra & Mahindra, China Resources Land, AIA Group, Midea Group and Brasil Bolsa Balcao. Stocks that limited relative returns were SK Hynix, Taiwan Semiconductor, MercadoLibre, MediaTek and Tencent.

The sub-advisor believes that stock and sector selection will remain vital in a macroeconomic environment affected by rising commodity prices, higher U.S. interest rates and increased geopolitical risks. The sub-advisor’s goal is to invest in stocks with the potential for above-average long-term profit growth amid short-term macroeconomic turbulence.
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