

# Calvert Emerging Markets Equity Fund

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## Key Takeaways

- Emerging markets equities posted positive returns in the final quarter of 2023, though underperformed the MSCI World Index (the Index).
- U.S. Federal Reserve (Fed) statements from November — effectively guiding the market for rate cuts at some point — unleashed an “everything rally,” including for lower quality companies that are significantly leveraged.
- China posted negative returns, the only major market not to participate in the rally.
- Calvert Emerging Markets Equity Fund (the Fund) moderately underperformed its benchmark, the MSCI Emerging Markets Index, which returned 7.9%.
- China was the main source of underperformance due to stock selection, although the underweight position helped pare the losses.

## Performance Review

In the quarter period ending December 31, 2023, the Portfolio's A shares returned 7.09% (net of fees)<sup>1</sup>, while the benchmark returned 7.86%.

China was the main source of the Fund's underperformance due to stock selection, although the underweight position helped pare the losses. Weaker selection in India and Hungary also detracted, eclipsing modest gains from selection in Indonesia, Chile, the United Arab Emirates and Korea.

Asset allocation contributed to relative returns, notably the underweight allocation to China and associated exposure to the renminbi, which appreciated against the U.S. dollar. Avoiding Thailand and Turkey, which underperformed, and an off-benchmark allocation to the U.S. contributed to relative returns.

At the end of the fourth quarter, the Fund's largest overweighted remain information technology, financials, consumer discretionary and industrials. The Fund has zero exposure to energy and utilities, while communication services, materials and consumer staples are also materially underweight. On a country basis, the Fund retains overweight allocations to China (when including South African-listed proxy position Prosus NV), Chile, Hungary, Taiwan and Indonesia. The largest underweights are to Saudi Arabia and Thailand — where the Fund is not invested — and to Brazil and Korea.

China has been the single largest source of detraction in the year. Despite the near-term underperformance from China (including Hong Kong), the team remains constructive on China's medium/long-term prospects as the economy transitions to a higher value-added/sustainable growth model. Nevertheless, we continually review the portfolio and any underperformers, resulting in us exiting several Chinese positions. We exited Sungrow Power, the world's leader in power inverters, due to our concern there is oversupply in the solar supply chain. Outside of China, we also sold Magazine Luiza, a Brazilian omnichannel retailer which has underperformed as it continues to be negatively impacted by high interest rates in Brazil.

The team continued to add to several existing names given attractive risk-reward profiles, including Lotes, Alibaba, JD.com, Micron, HDFC Bank, Samsung, Hong Kong Exchanges, H World and Richter Gedeon.

## Market Overview

During the fourth quarter, emerging markets equities recorded their best quarter in a year, with the MSCI Emerging Markets Index returning 7.9%, garnering most of the annual gain in 2023, though underperforming developed markets for the year. Slowing U.S. inflation data supported a soft-landing scenario, sending U.S. bond yields and the U.S. dollar lower. Fed statements from November — effectively guiding the market for rate cuts at some point — unleashed an “everything rally,” including for lower quality companies that are significantly leveraged. Expectations that central banks will cut interest rates sooner in 2024 than previously expected resulted in strong returns across most asset classes.

Mounting growth concerns meant Chinese equities fell in the fourth quarter, but this was offset by strong returns elsewhere, particularly in Latin America, where the MSCI Emerging Markets Latin America Index delivered strong returns in U.S. dollar terms over the period. Crude oil prices continued to decline, with Brent falling in December as slowing demand concerns outweigh supply.

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<sup>1</sup> Source: Calvert. Data as of December 31, 2023. Performance for other share classes will vary.

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risks.

All emerging markets regions posted positive performance in the quarter, with the Latin America and Emerging Europe, Middle East and Africa regions outperforming, while Asia emerging markets underperformed, weighed down by China. The best returns were from Poland, Peru and Egypt. Poland gained from the positive market reaction to the election of Donald Tusk, a former president of the European Council, as prime minister of a coalition government, and as the European Union is expected to soon release funding earmarked for Poland. Peru outperformance was primarily due to the surge in the share price of Buenaventura, after Antofagasta announced it had acquired a stake in the mining company. Turkey was the weakest market in the Index, despite a shift to more orthodox monetary policy, as inflation remains over 60%. China, the United Arab Emirates and Kuwait also posted negative returns.

China retreated due to investor concerns over lackluster growth, notably retail growth below expectations, a consumer price index (CPI) in negative territory year-over-year, and property and local government financing vehicle risks still unfolding. China's annual Central Economic Work Conference, which took place in December, brought no major positive policy surprise, and the specter of further regulation of the gaming sector weighed on already beleaguered sentiment. Taiwan and Korea posted robust gains, helped by strong returns from some tech-related stocks, and as tech exports remained robust. India gained against moderating inflation and a strong showing for the ruling Bharatiya Janata Party in key state elections, which spurred positive sentiment and large foreign inflows.

The quarter saw all sectors in positive territory. Information technology, utilities and financials topped the tables, while real estate, communication services and consumer discretionary ended at the bottom.

### Contributors

- Samsung Electronics rose due to higher dynamic random-access memory (DRAM) and NAND flash memory exports and better selling prices. Gradual semiconductor demand recovery, rising DRAM and NAND pricing, as well as potential artificial intelligence-related chip demand, are expected to drive a meaningful earnings recovery in the fourth quarter and into 2024.
- Itaúsa, a Brazilian investment holding company, rose given that exposure to Itaú Unibanco (80% of its net asset value) has benefited from high interest rates and good asset quality. The divestment of its stake in XP Inc. helped reduce debt at a holding level, while the strategy to diversify investments into areas such as sanitation and infrastructure has been very accretive.
- Shares in Lotes, a Taiwan-listed manufacturer of cables specializing in central processing unit (CPU) connectors and sockets, moved higher on solid third quarter results — despite macro headwinds — as server demand is expected to recover in 2024, and earnings are expected to be boosted by DRAM/PC connector upgrades and content growth from greater adoption of CPU sockets.

### Detractors

- China Overseas Property Holdings Ltd., a leading property management services company, detracted the most from relative returns due to the proposed acquisition of a construction supervision consultancy business in a connected party transaction, viewed negatively as an overpriced deal.
- A lack of exposure to Pinduoduo, China's leading e-commerce discount retailer, detracted as its shares jumped 45% in the month. Its value-for-money proposition has benefited from Chinese consumers downtrading, while its international business, Temu, has secured the company a second growth driver.
- Hangzhou Tigermed, the largest contract research organization (CRO) in China, fell on lower reported revenues due to soft demand for clinical-related consulting services in overseas markets, and even weaker performance of clinical trial services due to prolonged funding pressure in the domestic market.

### Market Outlook

Several central banks in emerging markets are shifting to a dovish stance, after a long period of hawkish monetary policy and interest rate increases. Chile, Brazil, Peru and Poland have already begun the process by lowering their benchmark interest rates. China also lowered its interest rates to help its economy, which is struggling with low growth and property issues. The developed world is also likely to consider cutting interest rates as inflation is beginning to normalize.

Despite the relatively favorable macroeconomic and monetary policy outlook, emerging markets equities remain volatile, largely due to China's economic woes. That said, the team is optimistic about the future, based on several economies easing their monetary policies, India, Indonesia and Mexico benefiting from structural economic drivers, a new technology cycle boosting companies in Taiwan and Korea, and China's economic overhaul improving the prospect of the new economy and path to sustainable economic

growth.

The team continues to prioritize investments in good quality companies that have the capacity to grow structurally, have low levels of leverage and that trade at reasonable valuations. Companies with these characteristics will be best placed to outperform in a world which may see higher-for-longer and more volatile interest rates, slower growth and more geopolitical uncertainty.

## Fund Facts

|                       |                             |
|-----------------------|-----------------------------|
| Class A inception     | 10/29/2012                  |
| Class I inception     | 10/29/2012                  |
| Benchmark             | MSCI Emerging Markets Index |
| Class A expense ratio | <b>Gross 1.29 %</b>         |
|                       | <b>Net 1.24 %</b>           |
| Class I expense ratio | <b>Gross 1.04 %</b>         |
|                       | <b>Net 0.99 %</b>           |

Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors/Trustees acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus. The minimum investment is \$1,000 for A Shares and \$1,000,000 for I Shares.

## Performance (%)

| As of December 31, 2023               | MTD   | QTD  | YTD   | 1 YR  | 3 YR   | 5 YR | 10 YR |
|---------------------------------------|-------|------|-------|-------|--------|------|-------|
| Class A Shares at NAV                 | 3.22  | 7.09 | 4.48  | 4.48  | -9.34  | 2.59 | 2.97  |
| Class I Shares at NAV                 | 3.22  | 7.18 | 4.73  | 4.73  | -9.12  | 2.83 | 3.28  |
| A Shares with Max. 5.25% Sales Charge | -2.17 | 1.48 | -0.98 | -0.98 | -10.95 | 1.48 | 2.42  |
| MSCI Emerging Markets Index           | 3.91  | 7.86 | 9.83  | 9.83  | -5.08  | 3.68 | 2.66  |

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the Fund's performance as of the most recent month-end, please refer to [calvert.com](http://calvert.com). Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

## Top 10 Holdings (% of Total Net Assets)^

|   | FUND |
|---|------|
| Samsung Electronics Co Ltd                | 9.45 |
| Taiwan Semiconductor Manufacturing Co Ltd | 8.85 |
| Prosus NV                                 | 4.37 |
| Tencent Holdings Ltd                      | 3.84 |
| Alibaba Group Holding Ltd                 | 3.57 |
| Bank Rakyat Indonesia Persero Tbk PT      | 3.24 |
| AIA Group Ltd                             | 2.99 |
| Itausa SA                                 | 2.69 |
| Infosys Ltd                               | 2.65 |
| HDFC Bank Ltd                             | 2.33 |

^ Top 10 Holdings excludes cash and equivalents. Portfolio profile subject to change due to active management.

## INDEX INFORMATION

**MSCI Emerging Markets Index** is an unmanaged index of emerging markets common stocks. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Historical performance of the index illustrates market trends and does not represent the past or future performance of the fund. MSCI indexes are net of foreign withholding taxes. Source: MSCI. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

The **MSCI World Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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## RISK CONSIDERATIONS

The value of investments held by the Fund may increase or decrease in response to economic, and financial events (whether real, expected or perceived) in the U.S. and global markets. The value of equity securities is sensitive to stock market volatility. Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical, currency exchange rates or other conditions. In emerging countries, these risks may be more significant. Investing primarily in responsible investments carries the risk that, under certain market conditions, the Fund may underperform funds that do not utilize a responsible investment strategy. The Fund is exposed to liquidity risk when trading volume, lack of a market maker or trading partner, large position size, market conditions, or legal restrictions impair its ability to sell particular investments or to sell them at advantageous market prices. The impact of the coronavirus on global markets could last for an extended period and could adversely affect the Fund's performance. No fund is a complete investment program and you may lose money investing in a fund. The Fund may engage in other investment practices that may involve additional risks and you should review the Fund prospectus for a complete description.

## IMPORTANT INFORMATION

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