



Eastern European Equities: Close to a Re-Risking Catalyst

The onset of the conflict in Ukraine in March 2022 heightened uncertainties about the economic and financial prospects of Eastern Europe. This instability, exacerbated by fears of regional escalation, precipitated a retreat by international investors, leading to the dislocation of the equity markets, higher cost of capital and the closure of numerous regional investment funds.

Despite these challenges, Eastern European markets rebounded post-COVID with higher real GDP growth, lower debt-to-GDP levels and stronger corporate earnings performance, surpassing that of Western Europe.

However, this resurgence has not yet prompted a revaluation to levels seen prior to the conflict. Although the war remained contained to Eastern Ukraine, risk premiums in the wider region remained elevated as diplomacy between NATO, Ukraine and Russia reached a stalemate.

Nevertheless, the election of Donald Trump has reintroduced optimism in the region given his previous administration’s global peace initiatives and campaign promises suggesting a significant shift in U.S. foreign policy and global diplomatic relations. Since the election campaign, we have seen this improved sentiment in action with Ukrainian-based companies listed outside of the country seeing strong upward share price moves.

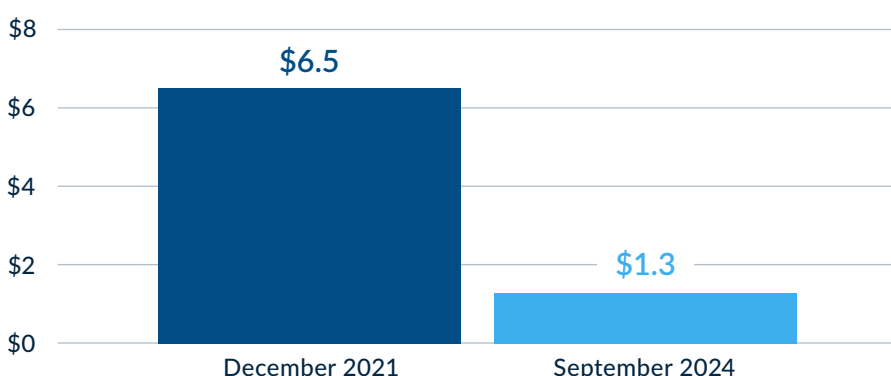
The Emerging Markets team at Fiera Capital have been investors in Eastern Europe for over 30 years and we believe that peace could be the last piece of the puzzle for the region. As risk premiums normalise to pre-war levels following a combination of domestic reforms, superior GDP growth to the Eurozone and higher corporate earnings growth, we anticipate seeing foreign investors returning to the region.

Post-War Market and Portfolio Adjustments

The Exodus of International Investors

The immediate consequences of Russia’s invasion of Ukraine were severe. Locally listed stocks and global depository receipts experienced a sharp decline in value and were frozen in international custodian accounts, significantly transforming the investment landscape. As a result, numerous investment

Chart 1: AUMs of Eastern Europe Strategies (USDbn)



Source: Bloomberg

managers were compelled to freeze their net asset values (NAVs) and faced substantial redemptions. This turmoil ultimately led to the shutdown of 27 out of 34 Eastern European-focused UCITS strategies, which collectively managed nearly USD 6.5 billion.

By September 2024, only seven of the original managers were still active, joined by seven new managers who collectively oversee USD 1.3 billion, amounting to only 20.5% of the capital invested prior to the war, as shown in Chart 1. Fiera Capital, having proactively divested from its Russian holdings early on, succeeded in maintaining daily liquidity for its investors. At the same time, the firm strategically redirected capital towards segments of the market that were less impacted by the conflict, thereby seizing exceptional investment opportunities.

A Reshaped Investable Universe

Following the outbreak of the war, Russia was excluded from global and regional benchmarks which led to many investors fearing a significant shrinkage in market opportunities as 69% of passive exposure had been removed. However, the Eastern European markets

have adapted organically in response. The number of Eastern European stocks in benchmarks excluding Russia grew from 54 in December 2021 to 91 by September 2024, with the total market capitalisation rising from USD 308 billion to USD 483 billion.

The total opportunity set we consider for active management has followed suit; the total number of stocks covered in the region increased from 5,517 to 6,065, with more stocks now trading over USD 1 million on average each day. This evolution indicates not only a resilience but also a significant expansion in the investment landscape of Eastern Europe, despite initial apprehensions.

Exploiting Inefficiencies from the Lack of International Coverage

In spite of the growing number of companies in the region, expectations that this would lead to increased research coverage were not met. As of September 2024, international research coverage by major investment banks has barely shifted, covering only 28% of the market, up from 27% before the war, and only 40% of the stocks in the indices. In contrast, local brokers provide coverage for 100% of the stocks.

Despite our benchmark-agnostic approach, this shows a persistent shortfall in coverage, which perpetuates market inefficiencies that active managers are well-positioned to exploit.

Fiera Capital's Eastern Europe Strategy

At Fiera Capital, our proactive approach in Eastern Europe has delivered an annualised gross return of 18.5% in USD since the war began. Initially, our strategy targeted markets beyond Russia's direct influence, like Greece, where a new pro-business government catalysed economic revival and banking sector reforms, yielding 34% annualised USD returns. We then pivoted our strategy, targeting Slovenia and Romania, where strong returns were achieved in the energy sector during the transition from Russian imports by European economies. However, the heightened risk premiums resulting from the ongoing conflict have adversely affected valuations, especially in Poland and Kazakhstan, where markets are significantly undervalued relative to their earnings and profitability.

“We are optimistic that a potential peace agreement under the Trump administration could greatly reduce the cost of capital in these countries and facilitate a widespread market revaluation.”

Strong Domestic Economic Drivers and Corporate Earnings in Eastern Europe have not Re-Rated the Market

In Western Europe, risk premiums have normalised since the start of the conflict, as evidenced by the Eurostoxx 50, which, with on-going earnings growth since the onset of the conflict, has reverted

to its 10-year historical average on a forward-looking basis.

This contrasts sharply with the markets in Poland and Kazakhstan. In Poland, despite increased economic activity and improved corporate earnings, the market continues to trade at a significant discount to its historical averages. Conversely, Kazakhstan's market is trading at its historical average levels, even though it has seen a doubling in earnings growth, driven by high-quality companies and strong domestic economic drivers.

Case Study: Poland

Earnings Impact and Valuation Dislocation

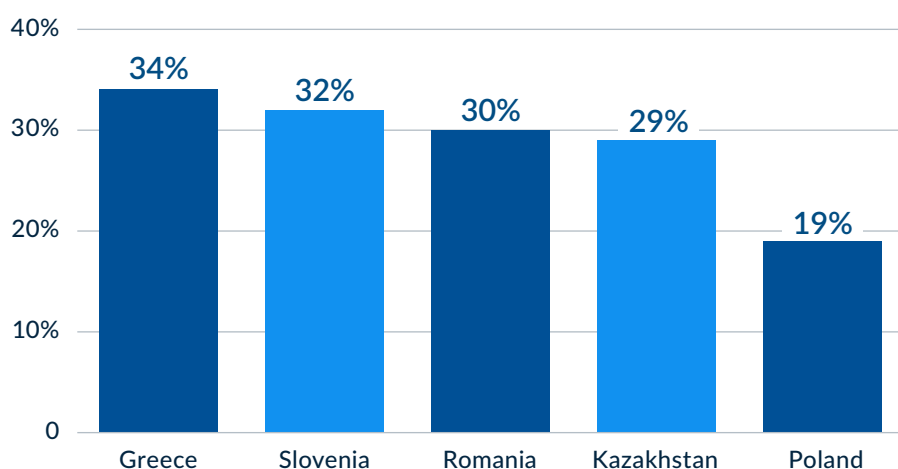
Poland was one of the most impacted countries in terms of de-rating in the region and is still trading around 1 standard deviation to its 10-year mean while growing its USD earnings-per-share by 27% since the conflict.

The initial shock of the conflict coupled with increased inflation backdrop and a subsequent hiking in policy rates did lead to pressure on cost of debt for most corporates, but since late 2022 we have seen consistent earnings upgrades compared to Western Europe.

Financial Sector in Focus

In the banking sector, upward EPS revisions were supported by robust loan growth and stronger-than-anticipated portfolio quality. Although consumers remain cautious, Poland has experienced strong real wage growth over the past six years, which is expected to benefit the consumer sector and provide an additional boost to EPS growth.

Chart 2: Fiera Magna Eastern Europe Strategy - Annualised Regional Portfolio Returns (USD)



Source: Fiera Capital. Past performance is not a guarantee of future results. Inherent in any investment is the risk of loss. There is no guarantee that expected returns will be achieved. Data as at 31 October 2024.



As economic activity recovered in Poland, Polish banks are currently generating 2-3x higher returns on equity (ROE) compared to 2021. Nonetheless, despite strong ROE growth, Polish banks are still trading at close to the same market valuation levels as before the war, indicating a possible undervaluation by the market or external economic concerns weighing on investor sentiment.

Case Study: Kazakhstan

Diplomatic Position

Kazakhstan has maintained a neutral stance on the Ukraine-Russia conflict, emphasising diplomatic neutrality and calls for peaceful resolution, while carefully balancing its relations due to its significant economic and political ties and geographical proximity to Russia. President Tokayev and other officials have advocated for respecting national sovereignty and territorial integrity, reflecting Kazakhstan’s own geopolitical concerns.

Despite Kazakhstan’s efforts to distance itself from the conflict and strong corporate earnings growth, the international investment community reacted negatively, leading to a severe punishment of the country’s equity market, reflecting the heightened perceived risks and economic uncertainties associated with its close ties to Russia.

Economic Development

Kazakhstan has emerged as one of the fastest-growing economies in our investment universe, with domestic and global leaders across sectors such as financials, technology, and mineral extraction. A key example of how Kazakhstan’s elevated risk premium is impacting valuations of high-quality growth companies is Kaspi.kz.

Kaspi.kz is a leading fintech company in Kazakhstan, primarily operating through its mobile app and offering a broad range of services including e-commerce, mobile payments and financial services. The company has successfully leveraged

Kazakhstan’s expanding digital economy and rising smartphone penetration. As a dominant player in Central Asia’s fintech space, Kaspi.kz benefits from favourable demographic trends, including a young, tech-savvy population increasingly drawn to digital solutions for shopping, banking and personal finance.

Despite doubling its earnings in USD terms, Kaspi.kz’s stock valuation has declined from 16x forward price-to-earnings in December 2021 to 8x in October 2024, as its stock price has only recently approached pre-war levels. Earlier this year, Kaspi.kz re-listed on NASDAQ with the aim of closing its valuation gap with global fintech peers, who trade at approximately 16x forward earnings.

We see a strong opportunity for a re-rating if the Trump administration follows through on its promise to end the conflict in Ukraine, which could significantly reduce the risk premium on Kazakhstan and unlock value in its high-growth companies.

Trump’s Stance and Proposed Resolutions

Investor Anticipation

The election of Donald Trump has infused optimism into financial markets, notably reflected in the substantial rise of Ukrainian stocks around the time of his victory. For instance, Ferrexpo, a Ukrainian mining company listed in London, saw its stock surge by 75% as the elections approached. This positive market reaction is largely attributed to Trump’s earlier statements and policies, which suggested an isolationist approach to U.S. foreign policy. Investors are hopeful that this stance might lead to a reduction in international conflicts, including the ongoing tensions in Ukraine.

Campaign Promises

In his latest presidential campaign, Donald Trump expressed strong views on the conflict in Ukraine, indicating a significant shift in U.S. foreign policy.

Trump has criticised Ukrainian President Volodymyr Zelensky for not making concessions to Russia, suggesting that Ukraine should have made “any deal, even the worst deal” to avoid conflict. He believes that the conflict, which has escalated significantly since Russia’s full-scale invasion in 2022, could have been avoided under his presidency and has stated he will swiftly “cut U.S. aid to Ukraine”.

Should Trump’s proposed methods of direct negotiation and American non-interventionism materialise, the impact on Eastern European markets could be extremely positive. This as a result would lead to a reduction of the region’s elevated risk premium and re-rate the markets as these continue to be undervalued as we will see below.

Portfolio Positioning and Re-Rating Upside Potential

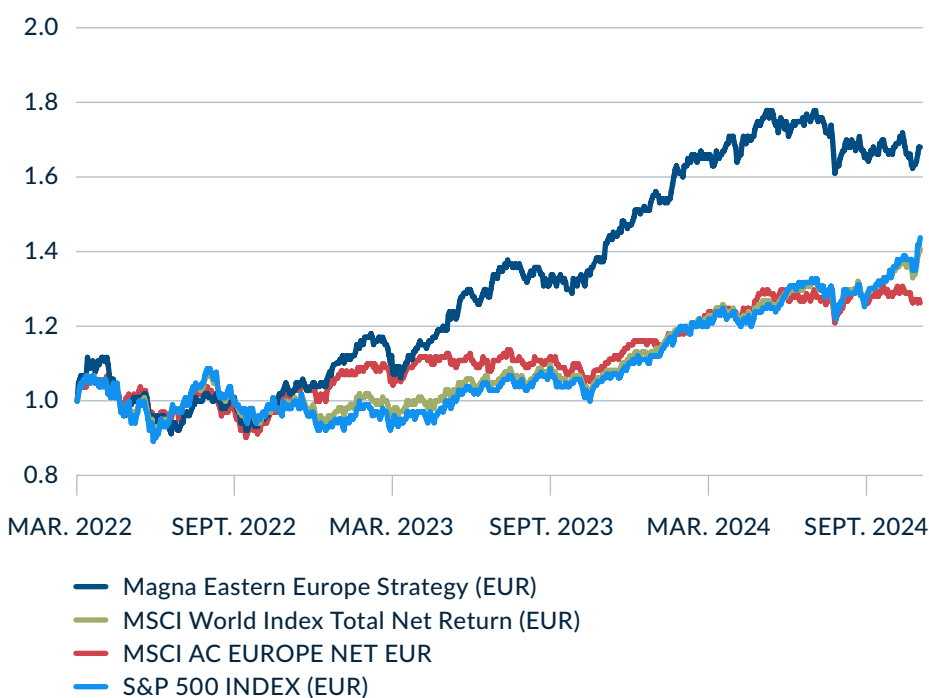
The Fiera Magna Eastern European Strategy has adeptly navigated the post-war period while positioning itself advantageously for a potential re-rating should a peace agreement

be signed between Ukraine and Russia. With the largest exposure in Poland (31%) and significant investments in Kazakhstan (15%), the Strategy is poised to benefit markedly from a reduction in risk premiums in these regions, on top its currently strong macroeconomics and corporate earnings growth.

Performance within the Eastern European Strategy (Chart 3) has been significantly driven by robust earnings growth, where constituent companies have consistently

reported strong quarterly results. This financial success is partly attributed to the favourable impact of political reforms, which have started to permeate through to the corporate level, enhancing operational efficiencies and profitability. As these reforms translate into tangible earnings improvements, the strategy stands well-positioned to capitalise on the upward revaluation of its holdings, reflecting a deep integration of strategic foresight and regional expertise in navigating complex market dynamics.

Chart 3: Fiera Magna Eastern Europe Strategy vs Global Indices



Past performance is not a guarantee of future results. Inherent in any investment is the risk of loss. There is no guarantee that expected returns will be achieved. Source: Fiera Capital, MSCI as at 30 October 2024.



Mathieu Bortot
Portfolio Manager

fieracapital.com

Fiera Capital Corporation (“**Fiera Capital**”) is a global independent asset management firm that delivers customized multi-asset solutions across public and private classes to institutional, financial intermediary and private wealth clients across North America, Europe and key markets in Asia and the Middle East. Fiera Capital trades under the ticker FSZ on the Toronto Stock Exchange. Fiera Capital does not provide investment advice to U.S. clients or offer investment advisory services in the US. In the US, asset management services are provided by Fiera Capital’s affiliates who are investment advisers that are registered with the U.S. Securities and Exchange Commission (the “SEC”) or exempt from registration. Registration with the SEC does not imply a certain level of skill or training. Each affiliated entity (each an “**Affiliate**”) of Fiera Capital only provides investment advisory or investment management services or offers investment funds in the jurisdictions where the Affiliate and/or the relevant product is registered or authorized to provide services pursuant to an exemption from registration.

This document is strictly confidential and for discussion purposes only. Its contents must not be disclosed or redistributed directly or indirectly, to any party other than the person to whom it has been delivered and that person’s professional advisers.

The information presented in this document, in whole or in part, is not investment, tax, legal or other advice, nor does it consider the investment objectives or financial circumstances of any investor. The source of all information is Fiera Capital unless otherwise stated.

Fiera Capital and its Affiliates reasonably believe that this document contains accurate information as at the date of publication; however, no representation is made that the information is accurate or complete and it may not be relied upon. Fiera Capital and its Affiliates will accept no liability arising from the use of this document.

Fiera Capital and its Affiliates do not make recommendations to buy or sell securities or investments in marketing materials. Dealing and/or advising services are only offered to qualified investors pursuant to applicable securities laws in each jurisdiction.

Past performance of any fund, strategy or investment is not an indication or guarantee of future results. Performance information assumes the reinvestment of all investment income and distributions and does not account for any fees or income taxes paid by the investor. All investments have the potential for loss. Target returns are forward-looking, do not represent actual performance, there is no guarantee that such performance will be achieved, and actual results may vary substantially.

This document may contain “forward-looking statements” which reflect the current expectations of Fiera Capital and/or its Affiliates. These statements reflect current beliefs, expectations and assumptions with respect to future events and are based on information currently available. Although based upon what Fiera Capital and its affiliates believe to be reasonable assumptions, there is no guarantee that actual results, performance, or achievements will be consistent with these forward-looking statements. There is no obligation for Fiera Capital and/or its Affiliates to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Strategy data such as ratios and other measures which may be presented herein are for reference only and may be used by prospective investors to evaluate and compare the strategy. Other metrics are available and should be considered prior to investment as those provided herein are the

subjective choice of the manager. The weighting of such subjective factors in a different manner would likely lead to different conclusions.

Strategy details, including holdings and exposure data, as well as other characteristics, are as of the date noted and subject to change. Specific holdings identified are not representative of all holdings and it should not be assumed that the holdings identified were or will be profitable.

Certain fund or strategy performance and characteristics may be compared with those of well-known and widely recognized indices. Holdings may differ significantly from the securities that comprise the representative index. It is not possible to invest directly in an index. Investors pursuing a strategy like an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns, whereas an index does not. Generally, an index that is used to compare performance of a fund or strategy, as applicable, is the closest aligned regarding composition, volatility, or other factors.

Every investment is subject to various risks and such risks should be carefully considered by prospective investors before they make any investment decision. No investment strategy or risk management technique can guarantee returns or eliminate risk in every market environment. Each investor should read all related constating documents and/or consult their own advisors as to legal, tax, accounting, regulatory, and related matters prior to making an investment.

The ESG or impact goals, commitments, incentives and initiatives outlined in this document are purely voluntary, may have limited impact on investment decisions and/or the management of investments and do not constitute a guarantee, promise or commitment regarding actual or potential positive impacts or outcomes associated with investments made by funds managed by the firm. The firm has established, and may in the future establish, certain ESG or impact goals, commitments, incentives and initiatives, including but not limited to those relating to diversity, equity and inclusion and greenhouse gas emissions reductions. Any ESG or impact goals, commitments, incentives and initiatives referenced in any information, reporting or disclosures published by the firm are not being promoted and do not bind any investment decisions made in respect of, or stewardship of, any funds managed by the firm for the purposes of Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures, in the financial services sector. Any measures implemented in respect of such ESG or impact goals, commitments, incentives and initiatives may not be immediately applicable to the investments of any funds managed by the firm and any implementation can be overridden or ignored at the sole discretion of the firm. There can be no assurance that ESG policies and procedures as described herein, including policies and procedures related to responsible investment or the application of ESG-related criteria or reviews to the investment process will continue; such policies and procedures could change, even materially, or may not be applied to a particular investment.

The following risks may be inherent in the funds and strategies mentioned on these pages.

Equity risk: value of stock may decline rapidly and can remain low indefinitely. **Market risk:** the market value of a security may move up or down based upon a change in market or economic conditions. **Liquidity risk:** the strategy may be unable to find a buyer for its investments when it seeks to sell them. **General risk:** any investment that has the possibility for profits also has the possibility of losses, including loss of principal. **ESG and Sustainability risk** may result in a material negative impact on the

value of an investment and performance of the portfolio. **Geographic concentration risk** may result in performance being more strongly affected by any conditions affecting those countries or regions in which the portfolio's assets are concentrated. **Investment portfolio risk:** investing in portfolios involves certain risks an investor would not face if investing in markets directly. **Operational risk** may cause losses as a result of incidents caused by people, systems, and/or processes. **Projections and Market Conditions:** We may rely upon projections developed by the investment manager or a portfolio entity concerning a portfolio investment's future performance. Projections are inherently subject to uncertainty and factors beyond the control of the manager and the portfolio entity. **Regulation:** The manager's operations may be subject to extensive general and industry specific laws and regulations. Private strategies are not subject to the same regulatory requirements as registered strategies. **No Market:** The LP Units are being sold on a private placement basis in reliance on exemptions from prospectus and registration requirements of applicable securities laws and are subject to restrictions on transfer thereunder. Please refer to the Confidential Private Placement Memorandum for additional information on the risks inherent in the funds and strategies mentioned herein. **Meteorological and Force Majeure Events Risk:** Certain infrastructure assets are dependent on meteorological and atmospheric conditions or may be subject to catastrophic events and other events of force majeure. **Weather:** Weather represents a significant operating risk affecting the agriculture and forestry industry. **Commodity prices:** Cash flow and operating results of the strategy are highly dependent on agricultural commodity prices which can be expected to fluctuate significantly over time. **Water:** Water is of primary importance to agricultural production. **Third Party Risk:** The financial returns may be adversely affected by the reliance on third party partners or a counterparty's default.

For further risks we refer to the relevant fund prospectus.

United Kingdom: This document is issued by Fiera Capital (UK) Limited, an affiliate of Fiera Capital Corporation. Fiera Capital (UK) Limited is authorized and regulated by the Financial Conduct Authority and is registered with the US Securities and Exchange Commission ("SEC") as investment adviser. Registration with the SEC does not imply a certain level of skill or training.

Abu Dhabi Global Markets: This document is issued by Fiera Capital (UK) Limited, an affiliate of Fiera Capital Corporation. Fiera Capital (UK) Limited is regulated by the Financial Services Regulatory Authority.

United Kingdom – Fiera Real Estate UK: This document is issued by Fiera Real Estate Investors UK Limited, an affiliate of Fiera Capital Corporation. Fiera Real Estate Investors UK Limited is authorized and regulated by the Financial Conduct Authority.

European Economic Area (EEA): This document is issued by Fiera Capital (Germany) GmbH ("**Fiera Germany**"), an affiliate of Fiera Capital Corporation. Fiera Germany is authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This document is issued by Fiera Capital Inc. ("**Fiera U.S.A.**"), an affiliate of Fiera Capital Corporation. Fiera U.S.A. is an investment adviser based in New York City registered with the Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training.

United States - Fiera Infrastructure: This document is issued by Fiera Infrastructure Inc. ("**Fiera Infrastructure**"), an affiliate of Fiera Capital Corporation. Fiera Infrastructure is registered as an exempt reporting adviser with the Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training.

United States - Fiera Comox: This document is issued by Fiera Comox Partners Inc. ("**Fiera Comox**"), an affiliate of Fiera Capital Corporation. Fiera Comox is registered as an investment adviser with the Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training.

Canada

Fiera Real Estate Investments Limited ("Fiera Real Estate**")**, a wholly owned subsidiary of Fiera Capital Corporation is an investment manager of real estate through a range of investments funds.

Fiera Infrastructure Inc. ("Fiera Infra**")**, a subsidiary of Fiera Capital Corporation is a leading global mid-market direct infrastructure investor operating across all subsectors of the infrastructure asset class.

Fiera Comox Partners Inc. ("Fiera Comox**")**, a subsidiary of Fiera Capital Corporation is a global investment manager that manages private alternative strategies in Private Credit, Agriculture, Private Equity and Timberland.

Fiera Private Debt Inc. ("Fiera Private Debt**")**, a subsidiary of Fiera Capital Corporation provides innovative investment solutions to a wide range of investors through two distinct private debt strategies: corporate debt and infrastructure debt.

Please find an overview of registrations of Fiera Capital Corporation and certain of its subsidiaries here: <https://www.fieracapital.com/en/registrations-and-exemptions>. Version STRENG003