



Emerging Markets Strategy

Market and Performance Overview

AI-driven momentum continued to spark emerging markets in May, although the 9.7% rally became even more concentrated in information technology (IT) names in South Korea (+35.3%) and Taiwan (+16.5%). The rest of the universe was generally flat to down with some of the weakest results in Brazil (-9.1%) and China (-3.0%). Declining oil prices and stubbornly high interest rates have held back Brazil while industrial improvement in China has not been enough to offset consumer weakness.

Within the benchmark, IT companies (+28.8%) dominated performance, lifted by robust earnings results and better than expected outlooks from companies in South Korea and Taiwan. Real estate (+1.9%) and industrials (+0.9%) also managed gains while falling oil prices caused energy (-7.8%) to suffer the worst losses. Utilities (-4.0%), communication services (-3.0%) and health care (-2.9%) were also weak.

The ClearBridge Emerging Markets Strategy outperformed its benchmark in May, aided by positive stock selection in South Korea, an overweight to South Korea and an underweight to China. From a sector standpoint, stock selection in and an overweight to the IT sector were the primary drivers of relative outperformance while underweights to energy and materials were also beneficial. Conversely, stock selection in the industrials, consumer discretionary, financials, communication services and consumer staples sectors and an overweight to industrials detracted from results.

Individual holdings that performed well during the month included SK Hynix, Samsung Electronics, MediaTek, Delta Electronics and Antofagasta.

South Korean memory makers SK Hynix and Samsung benefited from an improving outlook for their high-bandwidth memory chips, which are in high demand to run AI workloads. Taiwan's MediaTek, meanwhile, has delivered outstanding results in its nascent business of designing application-specific integrated circuits (ASICs) for AI applications. The company is a key supplier to hyperscaler Alphabet and enjoys a close working relationship with Taiwan Semiconductor. These drivers helped contribute to higher than expected revenue guidance for the second half of 2026 and into 2027.

Delta Electronics saw continued uptake from data center clients as the Taiwanese company is one of the few service providers that can offer a full range of data center products, including power and cooling.

Copper miner Antofagasta has benefited indirectly from AI-related spending, as copper wiring is essential for connecting chipsets within data center server racks. The company, which operates copper mines in

Chile, is also exposed to broader demand from power grid expansions tied to renewable energy and electrification, with strong copper prices providing further support.

Detractors in the period included Shinhan Financial, HD Hyundai Electric, Tencent, Titan and Raia Drogasil.

South Korea holdings Shinhan Financial and HD Hyundai Electric were hurt by a general rotation out of Value Up names tied to the improving of corporate governance theme in favor of AI-related stocks.

China's Tencent was pressured by negative investor sentiment over its increasing capex on AI. While the company was a late mover in the AI race, we believe Tencent will be an eventual beneficiary. However, concerns over a lack of return on investment for its AI spending could continue to pressure the shares in the short term.

Jewelry retailer Titan was negatively impacted as India raised tariffs on gold and silver to help protect its currency. We view this as a side effect of the Iran conflict rather than a company-specific issue.

Brazil pharmacy operator Raia Drogasil was lower primarily due to seasonal weakness in GLP-1 sales, which have been a meaningful growth driver for the company. Brazilian regulatory processes have also postponed the start of generic GLP-1 sales, which would have been a near-term tailwind.

Portfolio Positioning

The Strategy added three new positions during the month. Taiwan's Accton Technology is a high-quality compounder operating in network switches — an increasingly critical part of data centers as AI drives rapid growth in data traffic. While there may be some additional short-term pressure after recent results, our confidence in the long-term story has strengthened given Accton's strong relationships with major customers and its efficient, asset-light business model. This weakness has provided an opportunity to build exposure, with growing participation in AI infrastructure and continued upgrade cycles supporting attractive long-term growth at attractive valuations.

We also purchased Brazil oil and gas exploration and production company Prio. Supply disruptions in the Middle East are likely to keep oil markets volatile, with risks skewed toward further price increases. We believe that the market is not factoring in the risk of higher oil prices in the short term and is only partially factoring higher for longer prices. Against this backdrop, Prio becomes an attractive portfolio candidate, with a free cash flow yield of between 20% and 30%.

Conglomerate SK Square diversifies our South Korea exposure. We are positive on the company for two primary reasons. First, 98% of the stock's net asset value is SK Hynix, where we have a positive view given the strength of the current memory cycle. Second, we believe SK Square can continue to reduce its holding company discount from

~45% today. Management is currently targeting a reduction to less than 30% by 2028. We believe the combination of these two factors leads to a positive backdrop for SK Square, the purchase of which we partially funded with a trim of our standalone SK Hynix position.

Outlook

Market concentration risks that had previously been a concern in the U.S. have begun to surface in emerging markets due to the strong performance and momentum among semiconductor and AI-related industrial and technology stocks, primarily in South Korea and Taiwan. We believe that recent earnings results support continued visibility in these areas as they have kept valuations in check. The forward earnings multiple for SK Hynix, for example, is about 7x compared to an average 12x multiple for the MSCI EM Index.

We have been monitoring these developments and believe our investment process offers ways for us to manage these risks while actively maintaining dedicated exposure to secular AI growth trends. These include keeping individual EM country weights constrained to prevent one market from dictating performance or exposing the portfolio to undue risk. We also monitor the portfolio beta closely, pairing higher-beta companies that have outperformed due to AI tailwinds with lower-beta holdings in areas like health care and consumer staples sectors, as well as companies more insulated from global trends. We have also applied lessons learned during the early stages of the Russia-Ukraine conflict and U.S. tariff cycles to ensure the portfolio is properly positioned for periods of heightened inflation.

Portfolio Management Team



Paul Desoisa, CFA
Managing Director, Portfolio



Colin Dishington, CFA
Managing Director, Portfolio



Andrew Mathewson, CFA
Managing Director, Portfolio



Divya Mathur, ASIP
Managing Director, Portfolio



Robbie McNab, CFA
Managing Director, Portfolio



Alastair Reynolds, ASIP
Managing Director, Portfolio



Aimee Truesdale, CFA
Managing Director, Portfolio

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