



## Emerging Markets Strategy

### Market and Performance Overview

Emerging markets surged 14.7% in an April rally following a ceasefire agreement between the U.S. and Iran and amid resurgent enthusiasm for artificial intelligence (AI) investment. South Korea and Taiwan maintained their tech-driven momentum, rising 38.2% and 26.2%, respectively, in the benchmark MSCI Emerging Markets Index. India (+9.2%) delivered solid absolute performance despite trailing the index, while Brazil (+4.0%), China (+3.6%) and South Africa (+2.8%) also underperformed in a period of concentrated market leadership.

Within the benchmark, companies in the information technology (IT, +32.2%) and industrials (+20.5%) sectors dominated performance, lifted by robust earnings results and positive AI sentiment. Every other sector delivered gains but underperformed, with communication services (+0.5%), health care (+4.0%) and consumer staples (+4.0%) the primary laggards for the month.

The ClearBridge Emerging Markets Strategy outperformed its benchmark in a risk-on April, supported by positive stock selection in South Korea and Taiwan and an overweight to South Korea that offset weakness in India, China and Brazil. From a sector standpoint, stock selection and an overweight to the IT sector were the primary drivers of relative outperformance. Conversely, stock selection in the industrials, financials, communication services and consumer staples sectors detracted from results.

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

South Korea memory chip maker Samsung delivered solid first-quarter results with 97% of operating profit coming from its memory business. It offered a positive outlook for the memory market with more undersupply expected into 2027 and its new DRAM technology progressing. SK Hynix was similarly lifted by constructive memory dynamics.

Also in South Korea, HD Hyundai Electric, a manufacturer of electrical equipment for energy grid and data center installations, was up despite reporting mixed results. The company delivered strong growth in revenues and order bookings, which offset a miss on operating profit due to shipment delays related to the Middle East conflict.

Among Taiwan contributors, Delta Electronics announced decent quarterly results with an upside surprise to profitability and strong revenue growth as demand for its cooling and power systems for data centers stayed robust. System-on-chip maker MediaTek also

delivered good numbers; the company is managing the slower parts of the business (like smartphones) well while the new areas of its business, including automotive platforms and AI accelerator chips, are ramping up.

Detractors in the period included Tencent, Sieyuan Electric, China Merchants Bank, WEG and Gold Fields.

Sieyuan Electric was lower on mixed results, with solid overseas demand for its electrical equipment offset by a margin miss due to product mix. We see no fundamental issues with Sieyuan and are conscious that the company can see some quarterly volatility in operating performance due to the timing of large orders.

Tencent continued to be penalized after its recent announcement of higher AI capex spend which offset the benefits of solid growth in its computer games business. The China LLM market is a closed system with access to U.S. chatbots prohibited. Tencent is competing with larger Chinese internet companies as well as Chinese independents like DeepSeek and has so far applied more of its AI capex to internal enhancements than to the more public models. Also in China, China Merchants Bank was hurt by profit taking and a rotation into insurance companies while delivering profitability and asset quality ahead of its domestic peers.

Brazilian industrial manufacturer WEG was weighed down by mixed results with weakness in its domestic short cycle businesses including wind and solar. However, the company is making good progress on capacity expansion in its electrical transformer business, which is a key growth driver. South Africa mining company Gold Fields was lower for the month on a decline in gold prices as well as cost inflation related to the Middle East conflict.

### **Portfolio Positioning**

We added one position during the period and sold another.

We added Taiwan's Elite Material, a provider of copper-clad materials used in circuit boards, as it has transitioned from a cyclical electronics materials supplier into a structural enabler of AI infrastructure with a competitive advantage in materials technology and manufacturing consistency. As AI systems become more complex and performance-sensitive, Elite's products become mission-critical, underpinning sustainable pricing power and high barriers to entry.

Although Indian IT services provider Tata Consultancy Services (TCS) delivered good results earlier this month, highlighting strong deal momentum, expanding margins and AI-led services as a key growth driver, other industry quarterly results suggest that protecting the revenue base may prove challenging going forward. While TCS screens attractively on valuation relative to its own history, we believe a number of other Indian franchises, such as banks, also offer attractive valuations but with a higher conviction in recovery.

## Outlook

Market concentration risks that had been previously 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 recent earnings results support continued visibility in these areas but are mindful of rising valuations in these areas of the EM universe.

We have been monitoring these developments and believe our investment process offers ways for us to manage concentration risk while 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 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 Manager



**Colin Dishington, CFA**  
Managing Director, Portfolio Manager



**Andrew Mathewson, CFA**  
Managing Director, Portfolio Manager



**Divya Mathur, ASIP**  
Managing Director, Portfolio Manager



**Robbie McNab, CFA**  
Managing Director, Portfolio Manager



**Alastair Reynolds, ASIP**  
Managing Director, Portfolio Manager



**Aimee Truesdale, CFA**  
Managing Director, Portfolio Manager

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