



## Emerging Markets Strategy

### Market and Performance Overview

Emerging markets were up 5.5% during the month, as ongoing positive momentum related to the AI buildout offset weakness in China. South Korea rose 22.0%, driven by strong quarterly results from its memory complex, while tech also propelled Taiwan to a 12.8% gain. South Africa (+9.6%) outperformed in February as well. China declined 5.8% due to AI uncertainty for Chinese internet companies, while India (+1.4%) and Brazil (+3.9%) also trailed broader EM performance.

Within the benchmark MSCI Emerging Markets Index, companies in the information technology (IT, +15.5%), materials (+7.6%) and industrials (+7.0%) sectors continued to thrive and turned in the best performance for the second consecutive month. Communication services (-9.1%) was dragged down by weakness in China while consumer discretionary (-2.6%) and financials (+1.8%) companies also underperformed.

The ClearBridge Emerging Markets Strategy outperformed its benchmark in February, supported by positive stock selection in South Korea and India, an overweight to South Korea and an underweight to China that offset negative stock selection in Brazil and China. From a sector standpoint, stock selection and an overweight to IT were the primary drivers of relative performance. Conversely, stock selection in the consumer discretionary, communication services and financials sectors detracted from results.

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

South Korea memory chip makers SK Hynix and Samsung benefited from the momentum of strong earnings reports issued in late January as well as continued growth in AI capex projections by U.S. hyperscalers and private LLMs.

Delta Electronics, the Taiwan supplier of power and cooling for AI data centers, was boosted by management comments that suggest the company's outlook remains upbeat, particularly on data centers. Delta maintains high market share in liquid cooling systems and power systems for data centers and announced it is converting some of its EV facilities to more AI allocated work.

Shinhan Financial, the Korean banking and financial services company, participated in general Korean market strength and has also been a beneficiary of the Value Up program. It released earnings

in February and reported that it achieved its 50% shareholder return target ahead of schedule in 2025.

Detractors in the period included Tencent, Alibaba, EPAM, Trip.com and Dr. Sulaiman.

Chinese digital conglomerates Tencent and Alibaba are becoming engaged in a public LLM subsidy battle for market share that also involves Bytedance, the leader in daily active users. Alibaba maintains the largest monthly active user base, of 72 million, and we believe it is best positioned among listed players. Tencent's core business areas, including its gaming business, continue to deliver strong growth.

Shares of Indian IT services provider EPAM were lower due to marginally light guidance, with its U.S. listing worsening the downturn. While there is some uncertainty around how AI will impact IT services and consulting business models, we believe that companies like EPAM will continue to play a role in customization and implementation of AI for corporates.

Fourth-quarter results for Chinese online travel agency Trip.com showed solid demand with revenue ahead of expectations but the stock was pressured by a guide-down on margin. Despite fears of AI disruption, management reiterated that agentic AI offerings are good for itinerary creation, customer service and its fragmented supply chain.

Dr. Sulaiman, the Saudi health care services provider, reported 18% fourth-quarter revenue growth, with its hospitals business still seeing expansion. While margin pressure from opening new hospitals is expected to strain near-term profitability and the Iran conflict has added uncertainty, we remain positive on the company long term given its large domestic base of patients.

## Outlook

Emerging market exposure to the Middle East has increased in recent years with Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Qatar and Egypt all included in MSCI EM Index. Given the long-standing sanction regimes, emerging market companies have essentially zero direct exposure to Iran.

The Strategy has an underweight position with only 2.6% of the portfolio invested in Middle Eastern stocks versus the index weight of 5.3%. All of our exposure is in Saudi Arabia in domestic exposed companies, specifically a bank, a telecom company and a hospital operator. While the operations of these companies should be relatively insulated from the current situation, we would expect some price volatility to persist as long as the conflict remains active. Elsewhere in the Middle East there are companies with more direct operational impact, for example business in the UAE that are exposed to tourism revenues. We have no exposure to these stocks.

In general, we would expect to see weakness across Middle Eastern markets while this situation continues. The mitigating factor for the region is the positive sensitivity of these markets to the rising oil price. Thus far the move in oil prices has been similar to what we saw during the 12-Day War in June last year but well below the reaction during the early stages of the Russian invasion of Ukraine. The energy sector (mostly oil and gas) is 3.6% of the index and we are 1.9% underweight. Given the low absolute oil exposures in the index and our even smaller active exposure, our internal portfolio risk systems estimate our portfolio demonstrates limited sensitivity to large oil price moves.

Overall, we expect global markets to be weak as the conflict remains ongoing. We don't see the emerging markets as specifically exposed, and in the long run it may even support the current positive asset allocation moves toward emerging markets we have been noting in recent quarters. The conflict underscores, then, broader geopolitical uncertainty and questions surrounding the outlook for the U.S. dollar that have been pushing investors to diversify exposures globally. We will continue to evaluate the situation and the implications for the portfolio.

## Portfolio Management Team



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