



Emerging Markets Strategy

Key Takeaways

- ▶ Emerging markets declined modestly amid sharp regional and sector dispersion, as strength in Brazil and Taiwan was offset by declines in India and South Korea.
- ▶ The Strategy underperformed as weakness in IT and industrials and stock selection across China, Taiwan and South Korea outweighed contributions from select financial holdings.
- ▶ Our AI-related positions have come through the latest drawdown with fundamentals intact and we believe continued delivery of strong operational and financial results can help allay any fears on the steepness of the July selloff.

Market Overview

Emerging markets delivered mixed results in the third quarter, with a late rally in semiconductor stocks not enough to offset a sharp, AI-driven July selloff. The MSCI Emerging Markets Index declined 0.4% with regional returns reflecting diverse technology, policy and investor-flow dynamics. Brazil (+8.2%) was the strongest major market as the approaching October election appeared to improve the fiscal outlook and continued interest-rate cuts from previously elevated levels provided a tailwind. Taiwan (+4.8%) also advanced, led by steady results from its information technology (IT) sector.

China (+3.7%) produced a wide dispersion of outcomes. Technology, health care and financials strengthened, while industrials remained weak, and domestic investors increasingly favored income-producing assets.

India (-5.6%) was pressured by flows away from large caps, higher oil price sensitivity and concern about the continuing Iran conflict, despite healthy underlying fundamentals. South Korea (-9.6%) fell sharply before recovering as the market broadened beyond technology and investor focus returned to company fundamentals.

Health care (+13.6%) led sector returns on optimism around Western biopharma out-licensing of Chinese drugs and strong results from Chinese biopharmaceutical contract development and manufacturing organizations, though geopolitical scrutiny of pharmaceutical supply chains remains a risk. Energy (+10.6%) and financials (+6.3%) also advanced; in China, demand for dividend income supported public-sector banks and made high-quality private-sector financials appear increasingly attractive.

IT (-4.6%) and industrials (-6.2%) were weighed down by the steep AI selloff and a slow recovery in AI infrastructure. Long lead times and uneven order patterns have delayed the realization of demand for heavy-industry infrastructure suppliers, while potential restrictions on electrical products sold into the U.S. grid added to China-related uncertainty.

Performance Overview

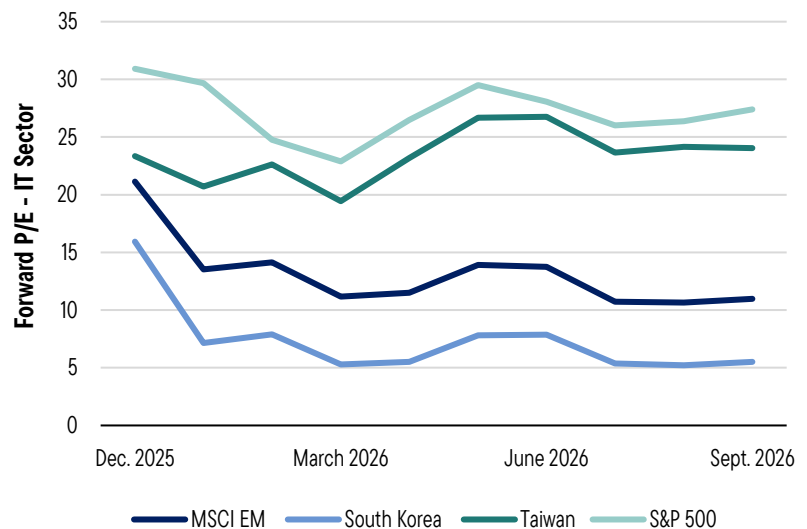
The ClearBridge Emerging Markets Strategy underperformed its benchmark in the third quarter, hurt by weakness in IT and industrials as well as stock selection in China, Taiwan and South Korea. In China, our underweight to banks, lack of health care exposure and modest underweight to IT weighed on relative results, reflecting our continued caution toward businesses we view as more volatile.

South Korea's Shinhan Financial was a leading contributor as the market broadened and financials became a secondary beneficiary of the country's technology-driven economic gains. The company was also supported by July results that included an increased buyback program and a rate hike by the Bank of Korea. China Merchants Bank, the largest privately held bank in the world's second-largest economy, benefited from domestic investors' search for yield. PKO Bank Polski contributed as its primarily domestic franchise saw sustained profitability, the company resolved legacy issues and grew its mortgage business despite the Polish government's announced windfall tax on banks.

Taiwan AI accelerator chip maker MediaTek advanced after issuing a convertible bond taken up by Nvidia, which we view as a meaningful endorsement of the company's role in the AI buildout. Brazilian oil producer Prio benefited from higher oil prices, an easing rate cycle and an improving political backdrop.

South Korean memory companies SK Hynix and Samsung Electronics were among the leading detractors, caught in the AI selloff and additional pressure from leveraged exchange-traded funds in their domestic market. Both companies received earnings upgrades during the quarter, and subsequent results from Micron Technology helped reinforce the underlying memory outlook. The sharp July decline has since given way to a healthier market increasingly driven by fundamentals rather than technical positioning.

Exhibit 1: EM Technology Valuations Still Attractive



Data as of Sept. 30, 2026. Source: FactSet.

Chinese battery supplier Contemporary Amperex Technology (CATL) declined as investors weighed the impact of potential U.S. restrictions alongside an uncertain domestic outlook and increased competition. Sieyuan Electric, a provider of equipment for electric grid upgrades, underperformed on concerns that U.S. restrictions of imported grid equipment will limit future growth. Chinese domestic grid contracts have also shown volatility to start the second half of the year, providing a further headwind. However, U.S. revenues are small for Sieyuan and they continue to see good growth opportunities in other overseas markets while domestic five-year grid plans are supportive for longer term growth. HD Hyundai Electric also detracted as sentiment toward transformer suppliers weakened with the AI infrastructure trade. Its long-cycle, capacity-constrained business should benefit from U.S. demand over time, but new production capacity will take time to come online and orders are inherently lumpy.

Portfolio Positioning

The Strategy initiated positions in China's Zhongji Innolight and NAURA Technology Group while exiting Wal-Mart de Mexico (Walmex). The addition of Innolight and NAURA have meaningfully reduced the Strategy's underweight to Chinese IT.

Innolight is a key supplier of optical modules to AI data centers globally, including large U.S. hyperscalers. We believe the company is well-placed to benefit from increasing optical content as well as overall growth in AI data centers. Innolight is a large-scale module assembler, sourcing components from suppliers globally; it is also developing its own intellectual property, which gives us more confidence in the long-term growth outlook for the company. While its share price has seen some volatility recently, reflecting potential geopolitical headwinds, we still think Innolight's long-term potential is underestimated and that

both high earnings compounding and valuation rerating are possible from here.

Semiconductor capital equipment maker NAURA has historically been a challenger to global large wafer fabrication equipment companies but has now established itself as the leading domestic supplier for certain equipment. The company will likely continue to benefit from a separation of U.S./EU and Chinese supply chains for semiconductors. While it is in a cyclical industry, we believe the structural drivers (improved foundry utilization, higher semiconductor pricing and China localization) mean NAURA is capable of high compounding of earnings with potential for further upside.

For Walmex, the Mexican economy has been weak, specifically the Mexican consumer. We reduced the stock on tariff uncertainty following Donald Trump's election in 2024, but there had been hope that a renewal of the U.S.-Mexico-Canada Agreement would lead to increased investment in Mexico. Unfortunately, this hasn't been the case, holding back Walmex from delivering sufficient market share gains to drive notable growth.

Outlook

At a high level, our AI-related portfolio holdings have come through the latest drawdown with fundamentals intact and we believe that continued delivery of strong operational and financial results can help allay any fears on the steepness of the July selloff. We had previously trimmed positions in these stocks as they gained in price throughout the first half of 2026, but more recently we have maintained our positions, seeing no reason to react to short-term price action. While we acknowledge that these stocks have endured periods of high volatility, we think our benchmark-relative weights in these stocks are reasonable given the high conviction we have in their fundamentals.

We remain positive on the outlook for the IT hardware industry as we continue to see a supportive combination of growing global demand and constrained supply. The latest indications are for the supply-demand situation to tighten further heading into 2027, which should support to our AI-related IT and industrial holdings.

While performance in EM had been relatively concentrated in recent months, we view the rotation into non-tech areas during the quarter, especially in South Korea, as healthy. That market, the third largest in the index and second largest in the portfolio, continues to benefit from a solid economic foundation and robust growth attributes.

We continue to see long-term positive drivers for the portfolio from several areas, in particular China, India and IT. In China, we see a stabilization in macro conditions combined with market valuations that are still relatively cheap on a global basis. It has become a two-speed economy, with domestic consumer weakness offset by export and industrial strength. At the same time, China continues to produce world-leading innovation across multiple industries beyond tech including industrials and consumer. In India, although the market has underperformed recently, we see long-term opportunities in high-quality, domestic-focused companies that the market has overlooked.

Portfolio Highlights

The ClearBridge Emerging Markets Strategy underperformed its MSCI Emerging Markets Index benchmark during the third quarter. On an absolute basis, the Strategy had positive contributions from five of the nine sectors in which it was invested (out of 11 sectors total). The leading contributors were the financials and consumer discretionary sectors, while the IT and industrials sectors detracted the most.

On a relative basis, stock selection in industrials, IT, financials, health care and energy detracted from performance. An overweight to IT also weighed on results. Conversely, stock selection in communication services contributed to performance.

On an individual stock basis, the largest contributors to relative returns were Shinhan Financial Group, China Merchants Bank, PKO Bank Polski, MediaTek and not owning Yageo. The largest detractors were SK Hynix, Sieyuan Electric, Samsung Electronics, CATL and HD Hyundai Electric.

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