



Emerging Markets Strategy

Key Takeaways

- ▶ Emerging markets capped a strong year as the one of the best-performing global equity asset classes, supported by AI momentum in key Asian markets.
- ▶ The Strategy outperformed the benchmark on both a quarterly and full-year basis, led by strong contributions from our holdings in Korea, China and Taiwan.
- ▶ We believe the emerging markets performance recovery is at an early stage, with appealing valuations, supportive global macroeconomic drivers and local structural and company-level opportunities all pointing toward significant upside potential for the asset class.

Market and Performance Overview

Emerging markets advanced 4.7% in the fourth quarter to finish the year as one of the best-performing global equity asset classes. The benchmark MSCI Emerging Markets Index rose 33.6% for 2025, outpacing the developed market MSCI EAFE Index (+31.2%) and handily outperforming the U.S. S&P 500 Index. (+17.9%).

Within the benchmark, contribution to performance in the fourth quarter was led by Korea and Taiwan, which offset weakness in China. Korean equities soared 27.3% in the quarter, led by a 50% gain for its information technology (IT) sector, while AI-related momentum helped Taiwanese stocks climb 10.4%. Strength in precious metals lifted South Africa 14.1%, while India — rebounding from weak performance throughout 2025 — performed in line with the benchmark. China, meanwhile, declined 7.4% due to profit taking among its largest technology companies after a strong first three quarters of the year, as well as continued softness in consumer spending. Another notable detractor was Saudi Arabia (-7.6%) due to falling oil prices and lingering negative sentiment toward the Middle East (Exhibit 1).

From a sector standpoint, AI-related stocks continued to thrive, lifting IT to a 16.4% gain, while the materials sector advanced 11.6% as gold prices rose more than 10% during the quarter and copper prices hit record highs. The energy, financials and industrials sectors also outperformed the index, while consumer discretionary, communication services, health care and real estate companies underperformed.

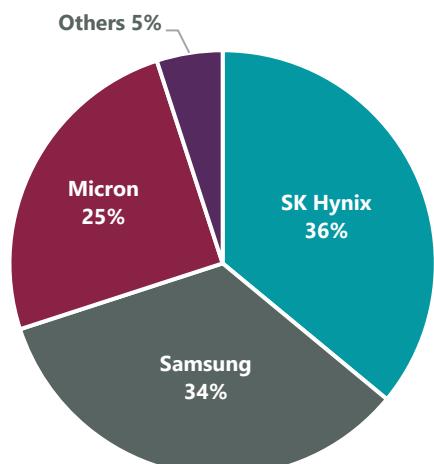
Exhibit 1: Emerging Markets Outperformed U.S. in 2025



Data as of Dec. 31, 2025. Source: FactSet.

The ClearBridge Emerging Markets Strategy outperformed the benchmark on both a quarterly and full-year basis, boosted by strength among our IT holdings. Korean semiconductor maker SK Hynix soared more than 80% in the fourth quarter and nearly tripled in price for the year on accelerating demand for its DRAM and NAND memory, particularly high-bandwidth memory products used for AI workloads. Shares of Korean memory competitor Samsung Electronics were also up strongly over both periods as memory shortages enabled stronger pricing power. Both companies are among the Strategy's top five holdings. Our largest position, Taiwan Semiconductor, benefited from its position as the leading manufacturer of high-end chips for Nvidia and other top semiconductor designers, also meaningfully outperforming the benchmark for both the quarter and the year.

Exhibit 2: Global DRAM Market Dominated by Korea



Data as of March 31, 2025. Source: Counterpoint.

Other significant contributors included China's Sieyuan Electric and Korea's HD Hyundai Electric, industrial holdings supporting AI data center buildouts and power requirements, as East Asia continues to gain share in global AI supply chains. Capitec Bank, a retail banking and insurance provider, delivered strong financial results amid a supportive environment in South Africa, and Titan, an Indian jewelry retailer, produced strong results with bullish comments from management in its latest quarterly release. We view Titan's performance as encouraging for an Indian market that significantly underperformed the broader benchmark in 2025.

Alibaba and Tencent, two of the largest names in the Chinese equity market, surrendered gains as part of a broader rotation out of China after strong performance earlier in the year. Chinese battery supplier Contemporary Amperex Technology (CATL) was also down, with its high active weight in the portfolio weighing on relative performance. However, we believe that each of these companies remains fundamentally sound and well positioned as the world's second largest economy works through a growth slowdown.

Latin America e-commerce platform MercadoLibre remained weak due to concerns over the investment level needed to fend off increasing competition in Brazil. Apollo Hospitals and ICICI Bank also detracted due to their large active portfolio weights in an Indian market still trailing the broader strength across emerging markets.

Portfolio Positioning

During the quarter, the Strategy added four new positions and closed out of three others.

Brazil was a focus of activity and included new positions in pharmacy operator Raia Drogasil and fintech company Nu Holdings. Raia Drogasil is a high-quality company looking to reaccelerate revenue after investing in the business, features a high return on capital and is a primary beneficiary of GLP-1 demand in Brazil. Nu Holdings, which has become one of the major banking disruptors in South America through its offerings of digital banking, credit and prepaid cards, is driving long-term growth through expansion of products and markets. Meanwhile we exited our position in stock exchange B3 S.A. - Brasil, Bolsa, Balcão, which has been a beneficiary of increasing trading. Capitalizing on its strong returns in 2025, we elected to exit the position and redeploy assets into areas we believe have greater return potential.

We upgraded our Indonesia exposure, replacing PT Bank Rakyat Indonesia with PT Bank Central Asia, Indonesia's leading non-state-owned bank. Rakyat's micro business, its most profitable segment, has faced asset quality and growth challenges that we believe will take longer to recover than is currently embedded in market expectations, which would pressure the business' profitability and returns. PT Bank Central Asia, meanwhile, has the best deposit franchise in Indonesia,

and we took advantage of a selloff in the region over the last year to purchase this high-quality business at an attractive valuation.

We also initiated a position in Harbin Electric in the industrials sector. We believe that power generation is a key global theme and China will play a significant role. Nuclear is a re-emerging area of investment and Harbin is a key supplier of equipment to this industry. We expect that the company will grow revenues and increase its profitability for a long-term, sustained period.

Our other sale was Chinese consumer staples company Proya Cosmetics. After previously benefiting from market share gains in its home market, Proya has seen deterioration in the growth of its business due to increased competition from other global cosmetics and skin care brands.

Outlook

Following a protracted period of relative underperformance versus developed markets, we believe the EM market recovery is at an early stage. Valuations are appealing, global macroeconomic drivers are supportive and local structural and company-level opportunities all point toward significant upside potential for the asset class.

International asset flows are also critical in driving prices for EM markets. The opportunity offered by lower valuations, combined with stronger economic growth and improving investor sentiment, creates a virtuous cycle attracting increased foreign capital flows. This, in turn, further enhances potential investment performance. We are still at an early stage in this process and anticipate increased foreign investments into EM equities over the coming years. We are bullish on three major themes in the year ahead: China, technology and India.

The Chinese economy has begun to demonstrate increased stability, with trade tensions easing, exports remaining strong and a generally more optimistic outlook emerging. Our earlier belief that China wouldn't separate much from the global economy has proven true, as relationships have improved and investors have regained confidence.

EM offers the opportunity to invest in world-class companies with cutting-edge technological innovation, with many of these companies benefiting from substantial investment in research and development and intellectual property creation. EM tech is best known for providing exposure to key global supply chain components for tech hardware. Tech investment can be found across industries; we see opportunities in areas such as industrial automation, e-commerce and fintech, as well as technological advancement driving increased global power demand amid the growth of AI data centers and wider electrification of the economy.

2025 was a challenging year for Indian equities after a sharp valuation pullback following the 2024 election, negative economic growth revisions and consumer softness. However, the long-term investment case remains robust: India offers great upside potential as it benefits from a large and young population, and it remains the fastest-growing major global economy, with real GDP growth of 6.6% compared to 4.2% for EM overall.

Portfolio Highlights

The ClearBridge Emerging Market Strategy outperformed its MSCI Emerging Markets benchmark in the fourth quarter. On an absolute basis, the Strategy produced gains across five of the nine sectors in which it was invested (out of 11 total). The primary contributor was the IT sector while the main detractors were consumer discretionary and communication services.

Relative to the benchmark, overall stock selection and sector allocation contributed to performance. In particular, selection in the IT and industrials sectors and an overweight to IT drove results. Conversely, selection in communication services and an underweight to materials detracted from performance.

On a regional basis, stock selection in Korea, China, Taiwan and Brazil and an underweight to China contributed to performance while selection in Indonesia and Mexico proved detrimental.

On an individual stock basis, the leading contributors to relative performance were SK Hynix, Samsung Electronics, Sieyuan Electric, Capitec Bank and not holding Xiaomi. The primary detractors were Tencent, Alibaba, CATL, MercadoLibre and Apollo Hospitals.

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