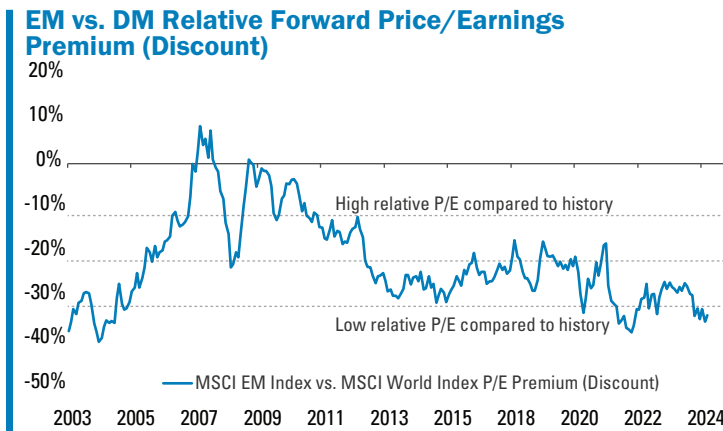


THE CASE FOR EM VALUE

For Bargains, Investors Should Look to Emerging Markets

For most of the past 3 years, top-heavy US indices surged while emerging markets (EM) stocks languished, effectively widening the valuation gap between developed and developing market equities to near-historic levels.

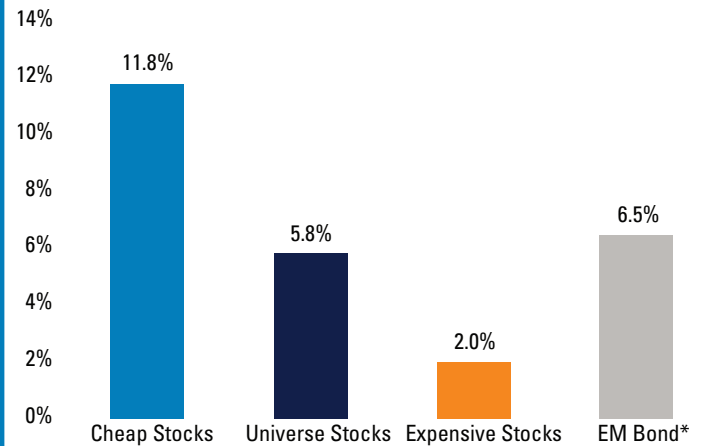
offering normalized earnings yields north of 11% versus 2% for the most expensive names, we believe this is precisely where investors can source the highest risk-adjusted long-term returns.



Source: FactSet, Pzena analysis
FY1 data per FactSet from June 30, 2003 – June 30, 2024.

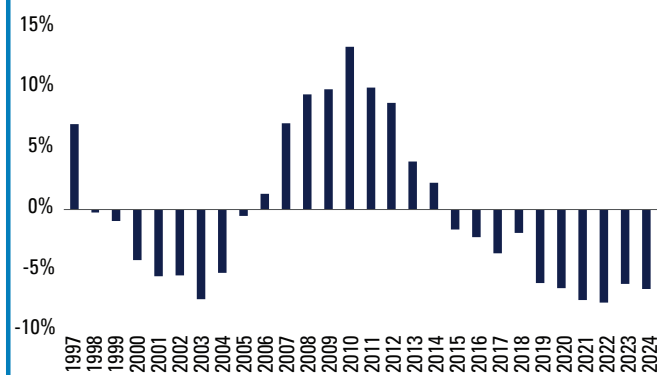
Aside from the post-pandemic digital economy boom, which saw US tech valuations explode, EM stocks' discount to their developed market peers hasn't been this material since 2005, immediately preceding close to a decade of outperformance for emerging markets.

Emerging Markets Normal Earnings Yields



Source: Pzena analysis
Cheap/Expensive earnings yield are based on the median stock within the cheapest and most expensive quintile based on price-to-normal earnings. The quintiles are measured on an equally weighted basis within the ~1,500 largest non-developed stock universe. Price-to-normal earnings are Pzena's estimates. Universe stocks is the earnings yield of the median stock within the entire universe. Does not represent any specific Pzena product or service. *Yield of the Bloomberg Barclays Emerging Markets USD Aggregate (7-10 Y) Index. The index includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Data as of June 30, 2024.

MSCI EM vs. MSCI World Relative 10-Year Trailing Annualized Return by Year (1997 - 2024)



Source: FactSet, Pzena analysis
Total return data in US dollars from January 1, 1988 – June 30, 2024. All data points end in December except for 2024 (June). Past performance is not indicative of future returns.

Perhaps because developing nations often post higher GDP growth rates than their developed peers, many market practitioners view EM investing as a growth story; however, the value approach has proven far superior over time, as evidenced by the risk-adjusted return metrics segregated by valuation quintiles shown below.

EM Average Rolling Return/Risk Since 1992

	1-Year	3-Year	5-Year
Value (Q1)	0.45	0.85	1.11
Value Light (Q2)	0.41	0.59	0.68
Growth (Q5)	0.31	0.47	0.66
Universe	0.35	0.50	0.61

Source: Sanford C. Bernstein & Co., Pzena analysis
Return/Risk = Average rolling return divided by the standard deviation of the rolling returns. Value = stocks within the cheapest quintile based on price/book of the MSCI EM universe. Value Light = 2nd cheapest quintile. Growth = most expensive quintile. The quintiles are measured on an equally weighted basis. Universe = cap-weighted returns of MSCI EM universe. Total return US dollar data from January 1, 1992 – June 30, 2024. Does not represent any specific Pzena product or service. Past performance is not indicative of future returns.

EM VALUE STOCKS ARE HIGHLY DISCOUNTED

EM has an undoubtedly compelling relative valuation as a broad asset class, and within the non-developed equity universe, value stocks look particularly attractive. Given the cheapest EM stocks are currently

WHY EM + VALUE IS A WINNING COMBINATION

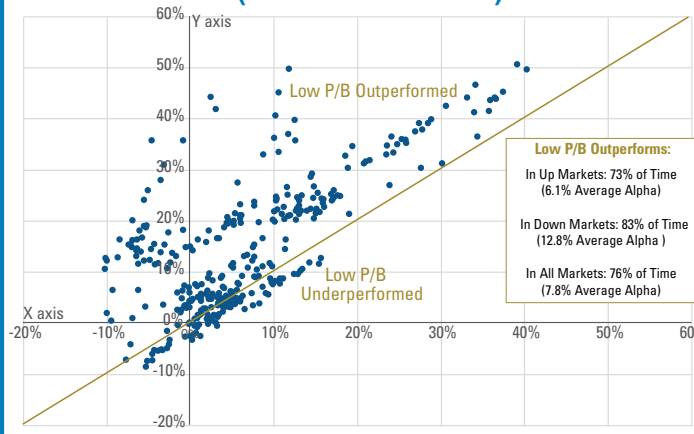
Higher-beta emerging markets understandably endure more frequent bouts of volatility, but offer amplified return potential for value investors. We believe this is due to four key factors:

- **Psychology** – Investors tend to exaggerate the significance of near-term problems, effectively discounting the potential for business, industry, management, currency, or macroeconomic improvements over time. Active value managers, like ourselves, exploit these overly emotional responses, which are more prominent in emerging markets.
- **Earnings power** – Despite the lack of empirical evidence, investors often inextricably link stock markets to economies, associating GDP growth with higher equity returns. When growth-seeking investors don't achieve the quick gains they're looking for, their reaction to disappointment can present a fertile hunting ground for disciplined value investors.
- **Wide range of outcomes** – The array of political and legal structures, currencies, and governance practices each add to the complexity of EM investing, offering robust opportunities across a large pool of stocks.
- **Underexploited** – Most investment managers tend to favor macroeconomic or quantitative approaches to EM investing, resulting in crowded trades and wider market swings that result in exploitable price dislocations.

These factors are ever-present in emerging markets, and we find the situations they create – sometimes deemed “uninvestable” by market prognosticators – intriguing. They create opportunities to purchase stocks with low expectations, at attractive valuations, and we firmly believe valuation is the single best determinant of long-term outperformance in any geography. Value works particularly well in EM because these valuation opportunities are more prevalent, rendering the growth style less effective.

As shown below, over approximately the past three decades, the five-year rolling returns for deep value stocks outpaced the market 76% of the time, resulting in average annualized outperformance of 7.8%. Because risk mitigation is top of mind for many EM investors, we analyzed the performance data throughout different market conditions and discovered that even in down markets, the cheapest quintile meaningfully outperformed. This illustration demonstrates what our research has shown more broadly: following extreme periods of market stress, deep value stocks have historically tended to outperform by a wide margin.

5-Year Rolling Returns of Low Price/Book* vs. MSCI EM Index (1992 – June 2024)¹



We can also assess EM performance by analyzing Kenneth R. French data, which segregates monthly EM stock returns (equal-weighted) into six buckets of market cap and valuation (price-to-book). Below are the annualized returns for each bucket, compounded monthly, from July 1989 through March 2024. The data clearly shows that over the last ~35 years, value stocks in emerging markets have maintained a sizable performance advantage across the market cap spectrum.

Smallest 50% of Companies			Largest 50% of Companies		
Growth	Neutral	Value	Growth	Neutral	Value
7.6%	15.5%	23.4%	5.1%	8.9%	13.6%

IS EM INVESTING A LEVERAGE PLAY?

It's worth noting that EM-domiciled companies aren't necessarily riskier than developed market businesses from a corporate leverage standpoint. Debt levels vary by industry and business model, but in aggregate at the index level, EM companies are 0.89x levered (net debt/EBITDA as of June 2024), compared to 1.64x for US-domiciled names². More than half of our non-financial portfolio companies have net cash positions on their balance sheets, i.e., no net debt, and our strategy's weighted average leverage ratio (non-financial companies) is effectively zero.

EXPLOITING EM OPPORTUNITIES

Historical data shows a discernible long-term performance advantage for EM value stocks, and we believe a targeted, research-driven, active strategy is crucial to generating long-term alpha. Emerging markets are inherently disparate, with each country possessing unique risks. The Pzena Emerging Markets Focused Value portfolio, for example, is currently invested in 20 countries, reflecting a diverse opportunity set. Whether fear-induced selloffs are driven by geopolitical tensions, commodity price inflation, or exogenous events such as the COVID-19 pandemic, the resulting volatility often presents opportunities for disciplined value investors.

China has recently become the largest hunting ground for value. Incessant negative headlines have prompted selloffs in many outstanding Chinese franchises, despite these companies displaying solid financial performance. This has resulted in a large subset of Chinese value stocks offering financial metrics comparable to EM peers at far less demanding valuations.

¹ Y axis: Monthly rolling 5-year USD annualized return of Low Price/Book*
 X axis: Monthly rolling 5-year USD annualized return of MSCI Emerging Markets Index (gross returns)
 Source: MSCI, Sanford C. Bernstein & Co., Pzena analysis
 *Cheapest quintile price to book of MSCI EM universe (equal-weighted data); Does not represent any specific Pzena product or service. Data through June 30, 2024. Past performance is not indicative of future returns.

² FactSet, MSCI EM, MSCI USA, Pzena analysis

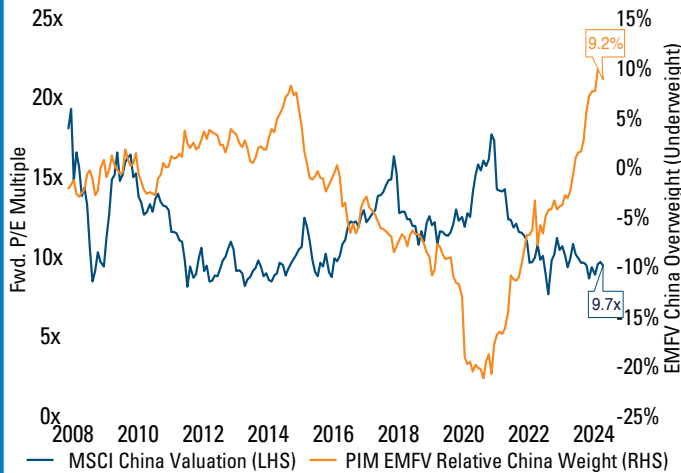
Emerging Markets Key Financial Data Cheapest Quintile vs Market

	Historical Return on Equity	Historical Revenue Growth	Price to		
			Earnings	Sales	Book Value
Cheapest Quintile (Q1)	16%	15%	8.9x	1.3x	1.2x
Q1 China	16%	18%	7.3x	1.0x	0.9x
Q1 ex-China	16%	12%	10.9x	1.9x	1.9x
Market	13%	15%	12.6x	1.4x	1.6x

Source: FactSet, Pzena analysis
 Cheapest quintile basket of stocks based on Pzena’s price-to-normalized earnings estimates.
 P/E and P/S ratios are calculated using consensus FY1 estimates.
 Return on equity and revenue growth average calculated over trailing 10-year period.
 Market is the largest ~1,500 stocks in non-developed markets ranked by market capitalization.
 Data as of June 30, 2024. Does not represent any specific Pzena product or service.

As Chinese valuations have collapsed over the last few years, we’ve selectively increased our exposure to stocks we believe have been indiscriminately sold off due to temporary geopolitical and macroeconomic headwinds.

Pzena Emerging Markets Focused Value Strategy’s China Positioning



Source: FactSet, Pzena analysis
 Pzena Emerging Markets Focused Value Composite estimate; includes both China and Hong Kong.
 MSCI China valuation uses FY1 P/E. Data from January 31, 2008 – June 30, 2024.

This group includes Haier Smart Home, an appliance manufacturer (owner of GE Appliances) that generates just over half of its sales outside of China; Alibaba, the e-commerce giant with a host of valuable ancillary businesses, trading at a discount of approximately 75% to US counterpart Amazon; Weichai Power Co., China’s leading diesel engine OEM with economies of scale, best-in-class technology, and proven pricing power; China Overseas Land & Investment (COLI), a state-owned property developer with a formidable balance sheet, superior scale, and a discernable funding cost advantage, which is primarily exposed to tier 1 & 2 cities; and Tencent, China’s largest internet company, with strong franchises

in gaming, advertising, and payments, whose management team is focused on expense reduction and monetizing its \$120+ billion investment portfolio.

EM selloffs can be severe, leading to share prices that decouple from the broad index, and often creating an asymmetric risk/reward profile. Individual countries, however, do generally recover, and good businesses find ways to navigate crises. As valuation-focused investors, we see these collapsing stock prices as compelling opportunities to begin deep fundamental company-level research, seeking to identify strong franchises unduly punished by a sweeping reaction to temporary issues.

FURTHER INFORMATION

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