

# THE CASE FOR EM VALUE

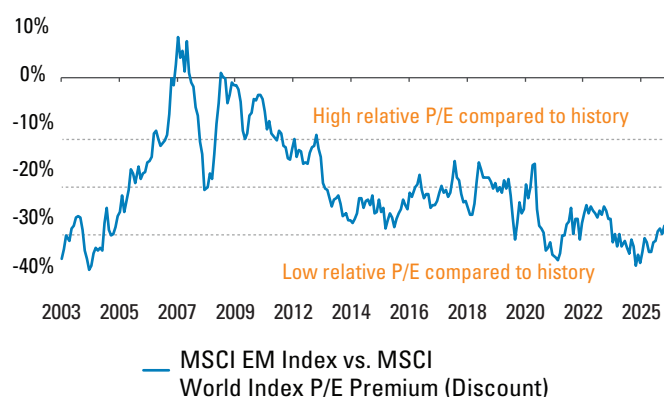
PZENA Investment Management

February 2026  
For Professional Investors Only

## For Bargains, Investors Should Look to Emerging Markets

Emerging markets have underperformed developed markets for the better part of the post-GFC era, even if the U.S. is excluded; thus, despite the sizable outperformance of emerging-market (EM) stocks in 2025, the relative valuation gap remains near historically wide levels.

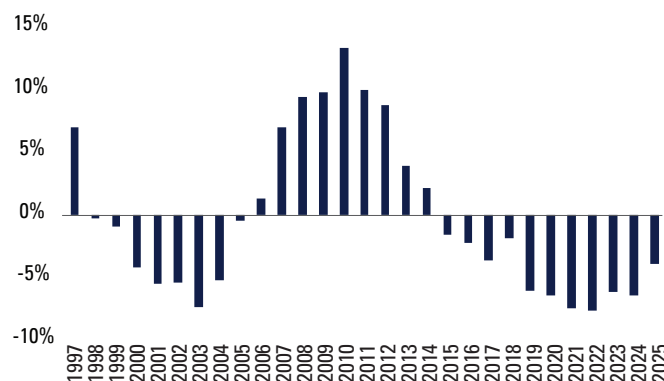
### EM vs. DM Relative Forward Price/Earnings Premium (Discount)



Source: FactSet, Pzena analysis  
FY1 data per FactSet from June 30, 2003 – December 31, 2025.

Aside from the post-pandemic digital economy boom, which saw U.S. 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.

### MSCI EM vs. MSCI World Relative 10-Year Trailing Annualized Return by Year (1997 - 2025)

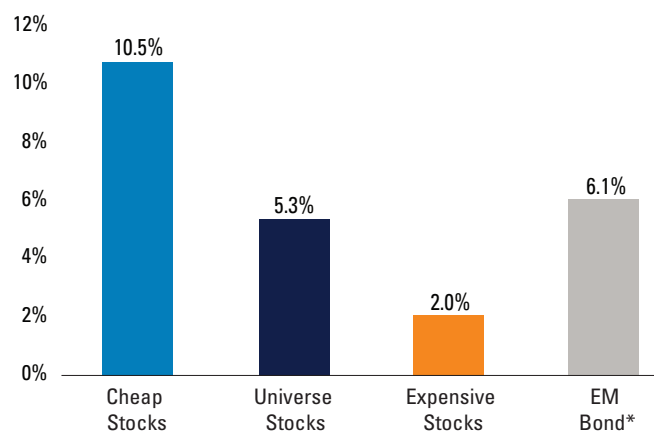


Source: FactSet, Pzena analysis  
Total return data in US dollars from January 1, 1988 – December 31, 2025. All data points end in December. Past performance does not predict future returns.

## EM VALUE STOCKS REMAIN HIGHLY DISCOUNTED

EM relative valuation as a broad asset class is compelling, and within the non-developed universe, value stocks look particularly attractive. The cheapest EM stocks offer normalized earnings yields of approximately 10.5% compared with 2.0% for the most expensive stocks and 6.1% for EM bonds. We believe the cheapest quintile is precisely where investors can source the highest risk-adjusted long-term returns.

### 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 Emerging Markets USD Aggregate (7-10 Y) Index. The index includes fixed- and floating-rate US dollar-denominated debt issued by sovereign, quasi-sovereign, and corporate EM issuers.  
Data as of December 31, 2025.

## WHY EM + VALUE HAS HISTORICALLY WORKED WELL

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 historically delivered higher risk-adjusted returns, 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
<b>Value (Q1)</b>	<b>0.46</b>	<b>0.86</b>	<b>1.13</b>
Value Light (Q2)	0.42	0.60	0.70
Expensive (Q5)	0.32	0.43	0.63
Universe	0.36	0.49	0.62

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. Expensive = 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 – December 31, 2025.

Does not represent any specific Pzena product or service. Past performance does not predict future returns.

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

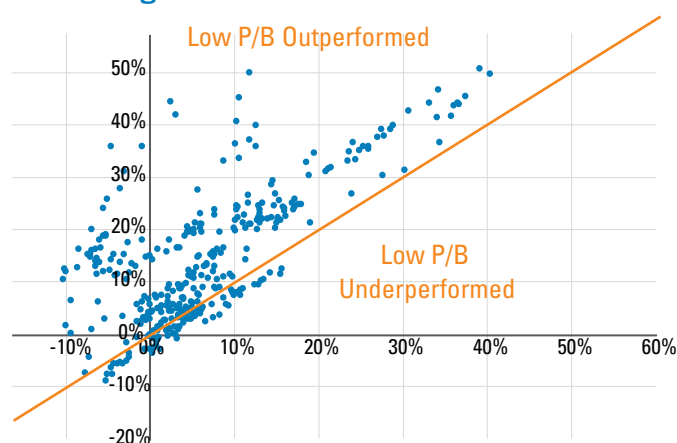
- **Psychology** – Investors tend to exaggerate the significance of near-term problems, effectively discounting the potential for business, industry, management, currency or macroeconomic improvements over time. Active value managers can exploit these overly emotional responses, which are more prominent 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 investors pay up for expectations of future growth, their reactions to disappointment can present a fertile hunting ground for disciplined value investors.
- **Range of outcomes** – The various political and legal structures, currencies, and governance practices all add to the complexity of EM investing, offering robust opportunities across a large pool of stocks.
- **Under-exploitation** – Most investment managers tend to favor macroeconomic or quantitative approaches to EM investing, prompting crowded trades and wider market swings that result in exploitable price dislocations.

These factors frequently arise in emerging markets, at times giving rise to situations that some investors may regard

as ‘uninvestable.’ For disciplined, research-driven value investors, such dislocations present opportunities to purchase fundamentally strong businesses 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 emerging economies because these valuation opportunities are more prevalent, rendering the growth style less effective.

Over approximately the past three decades, the five-year rolling returns for deep value stocks outpaced the market 77% of the time, resulting in average annualized outperformance of 7.7%. 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.

## EM Rolling Returns Since 1992



### Low P/B Outperforms:

In Up Markets: 75% of Time (6.2% Average Alpha)  
In Down Markets: 83% of Time (12.8% Average Alpha)  
In All Markets: 77% of Time (7.7% Average Alpha)

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 December 31, 2025.

Past performance does not predict future returns.

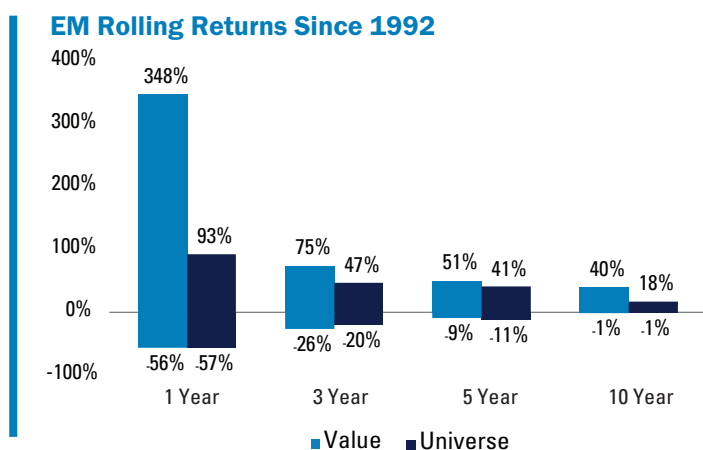
## IS EM INVESTING A LEVERAGE PLAY?

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 0.77x

levered (net debt/EBITDA as of December 2025), compared to 1.44x for U.S.-domiciled companies. Nearly half of our non-financial portfolio companies have net cash positions on their balance sheets, i.e., no net debt, and our strategy's average leverage ratio (non-financial companies) is 0.56x.

## ARE EM VALUE STOCKS TOO VOLATILE?

The return distribution of value stocks significantly narrows over longer time horizons, with historical performance skewed to the upside. While short-term fluctuations in these markets may appear intense, examining the asymmetry of this volatility reveals its upside potential.



Source: Sanford C. Bernstein & Co., Pzena analysis  
 Value = stocks within the cheapest quintile based on price/book of the MSCI EM universe (Equal Weighted). Universe = cap-weighted returns of MSCI EM universe.  
 Total return US dollar data from January 1, 1992 – December 31, 2025.  
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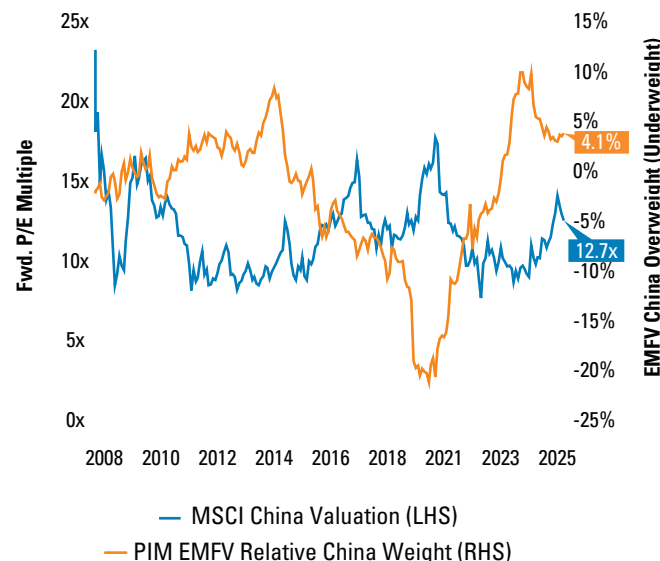
## EXPLOITING EM VALUE OPPORTUNITIES

Emerging markets are inherently disparate, with each country possessing unique risks. Our 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.

Brazil has become a fertile hunting ground for value over the past few years. While the Brazilian equity market has recently been under pressure, some key macroeconomic indicators present a more constructive picture than market sentiment suggests. The unemployment rate is at a 10-year low, and inflation remains materially below the double-digit percentages of 2021 and 2022. Despite this relatively benign economic backdrop, the pricing of Brazilian equities appears to reflect a

negative outlook, with the drawdown largely driven by political concerns. As the market multiple has approached single digit territory, we have steadily and selectively increased our exposure to companies that we believe to be particularly cheap on a normalized earnings basis.

## Pzena Emerging Markets Focused Value Strategy's China Positioning



Source: FactSet, Pzena analysis  
 Pzena Emerging Markets Focused Value Composite estimate; relative China weight versus MSCI EM Index (includes both China and Hong Kong).  
 MSCI China valuation uses FY1 P/E. Data from January 1, 2008 – December 31, 2025.

Our Brazilian holdings include Companhia Energética de Minas Gerais (CEMIG), a diversified power company with defensive characteristics and an attractive dividend yield; Vale, a global mining leader known for disciplined capital allocation and strong shareholder returns; Ambev, Latin America's largest brewer with a strong balance sheet and consistent cash generation; Itaú Unibanco, one of Brazil's largest private banks with strong return on equity and disciplined cost management; and Banco do Brasil, a state-controlled bank demonstrating improving profitability and credit quality.

## CONCLUSION

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.

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