

## Q3 2024 - Emerging Markets Quarterly Update

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Hi, I'm Akhil Subramanian. I'm one of the portfolio managers at Pzena Investment Management, and I'm here to give you an update on the third quarter of 2024.

After a relatively quiet July and August, equities rallied toward the end of the quarter where the Chinese government announced several stimulus measures, both monetary and fiscal, with the aim of kickstarting parts of the economy. For us coming into the quarter, we were overweight China. Our portfolios moved from about 20 points underweight China in 2020 to about 9 points overweight as of the end of Q2. We were overweight China primarily because we found a lot of very, very interesting individual investment opportunities.

Just as a reminder, for us at Pzena, we love to take a bottom-up fundamental research approach, and everything we do at Pzena is anchored around a metric called normalized earnings, which is a sort of 5-year out midcycle earnings estimate. Coming into the quarter, we had an overweight position in China primarily as a function of bottom-up stock picking, where we had found a collection of businesses that were trading at a low multiple of, again, midcycle normalized earnings.

In terms of what these stimulus measures mean for us, the way we think about it is if something is targeting one of the businesses in our portfolio, that would typically accelerate the path to normalized earnings. Given all the new stimulus that came out toward the end of Q3, the way we would think about it is if we have businesses that are trading near our estimate of fair value because they're already sort of rich on normalized earnings, that would be an opportunity to trim and possibly exit some of our exposure.

So, everything we do at Pzena is a very strict buy and sell discipline. We only buy businesses in the cheapest quintile of our universe on normalized earnings, and we sell when the business becomes the median stock in terms of its valuation on normalized earnings. On the margin, as Chinese equities rallied, we've been looking across our portfolio to see if there's anything we should be trimming and possibly exiting because they are indeed approaching our estimate of fair value.

Now, while China drove the bulk of the performance in Q3, it was a typical quarter in EM where we continue to see dispersion across countries. Some markets, such as Malaysia and the Philippines, were up over 20%, while other markets, such as Korea and Taiwan, actually were down. This is very exciting and interesting for us because we continue to see a diversity of opportunities coming through our research pipeline. These are businesses where some pain has shown up in the earnings, some pain has shown up in the stock price, and we're looking to see just as we did in China over the last four years whether we can buy these businesses at a low multiple of normalized earnings. It's encouraging for us to see, despite the performance in Q3, that there are still opportunities coming through the research pipeline that could be candidates for our portfolio.

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