EM VALUE INVESTING MYTHS

PZENA Investment Management

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Compared to developed economies, emerging markets are generally associated with higher growth rates, larger budget deficits, less stable currencies, and more volatile capital markets. These characteristics may elicit a view that value investing isn't effective in the developing world.

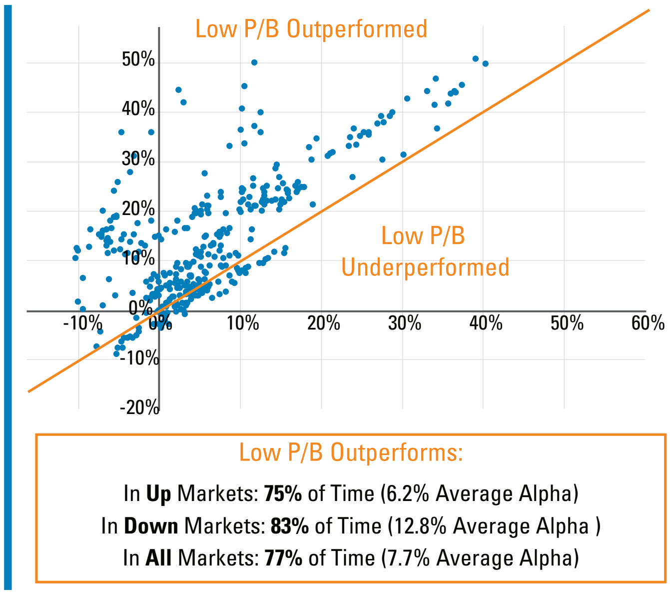
Both data analysis and our twenty-one-year history investing in emerging-market (EM) equities suggest the opposite to be true–that a disciplined, active value approach has demonstrated effectiveness in emerging markets equities. We offer powerful observations to counter three common EM value investing myths. In a balanced portfolio approach, we believe an allocation to an EM value strategy can be additive to a return profile over the long run while diversifying performance.

MYTH #1: VALUE INVESTING DOESN'T WORK IN EMERGING MARKETS

Developing countries exhibit faster GDP growth than developed markets, which might lend itself well to growth investing; however, there is no correlation between GDP growth and stock price performance. In fact, a value approach has historically outperformed with cheap (low price-to-book) EM stocks outpacing expensive names by 420 basis points per annum since 1989, according to Kenneth R. French data[1]. Exhibit 1 shows a clear long-term performance advantage for value stocks in emerging markets regardless of the broad market's direction.

Our research suggests that a value strategy may be even more effective in emerging than in developed markets. We believe this is due to a host of factors, most notably a discernable difference in investor psychology, which manifests in overly emotional responses to near-term headwinds. This can result in more prevalent and material short-term price dislocations, ultimately leading to powerful rebounds if and when value stocks normalize to reflect their fundamentals.

EXHIBIT 1: 5-YEAR ROLLING RETURNS OF LOW PRICE/BOOK* VS. MSCI EM INDEX (1992 – DECEMBER 2025)



*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.*

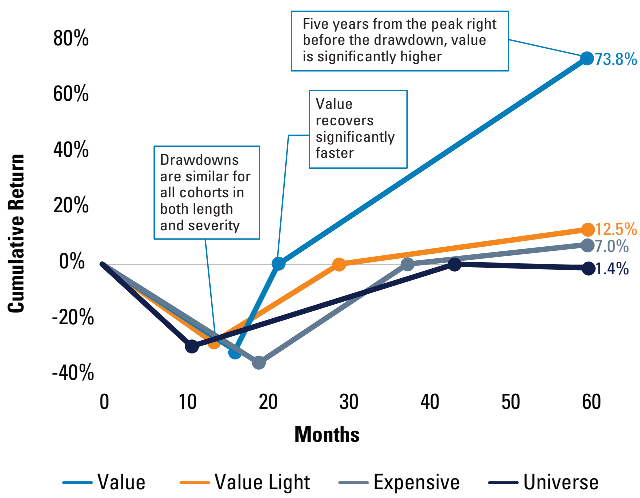
Past performance does not predict future returns.

MYTH #2: VALUE HAS DEEPER DRAWDOWNS

Given the risky perception of emerging markets investing, it is often assumed that value stocks must suffer disproportionally large drawdowns during market sell-offs. The reality is that value's drawdowns are similar to other cohorts in terms of both length and severity. The subsequent recovery period, however, is why value boasts a long-term performance advantage in EM. As Exhibit 2 shows, after bottoming, value's rebound is significantly faster and more powerful than the market's.

1. Kenneth R. French data, Pzena analysis of monthly value-weighted, large-cap EM returns from June 1989 – December 2025; cheap = lowest P/B tercile, expensive = highest P/B tercile

EXHIBIT 2: EM AVERAGE DRAWDOWN CYCLES SINCE 1992



Source: Sanford C. Bernstein & Co., Pzena analysis
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.

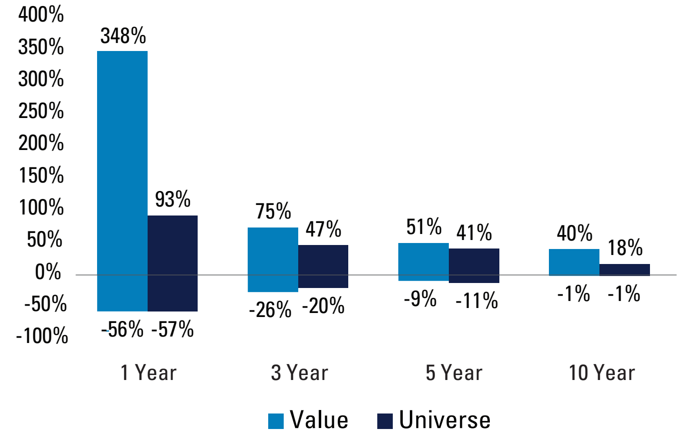
Drawdown periods are based on the 8 largest drawdowns of the universe.
Total return US dollar data from January 1, 1992 – December 31, 2025.
Does not represent any specific Pzena product or service. Past performance is not indicative of future returns.

MYTH #3: VALUE STOCKS ARE VERY VOLATILE

Higher-beta emerging markets understandably endure more frequent bouts of volatility but can offer amplified return potential for long-term value investors. The return distribution of value stocks significantly narrows over longer time horizons, with historical performance skewed to the upside. In other words, while short-term fluctuations in these markets may appear intense, examining the asymmetry of this volatility reveals its upside potential. The significant positive skew in value stocks highlights the strength of value investing in emerging markets, which becomes evident only when analyzing the nature of this volatility. Hence, while value may have higher volatility in the short term, it is largely skewed to the upside for longer-term investors.

The smoothing of value's performance over longer time horizons is perhaps best reflected in its far superior 3- and 5-year risk-adjusted return metrics (Exhibit 4).

EXHIBIT 3: EM ROLLING RETURNS SINCE 1992



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.
Does not represent any specific Pzena product or service. Past performance is not indicative of future returns.

EXHIBIT 4: EM AVERAGE ROLLING RETURN/RISK SINCE 1992

	1-Year	3-Year	5-Year
Value (Q1)	**0.46**	**0.86**	**1.13**
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.

Geopolitical, macroeconomic, and broad market risk factors are ever-present in emerging markets, and we find the situations they create – sometimes deemed "uninvestable" – to be intriguing. They present opportunities to buy good businesses at attractive valuations, and we firmly believe valuation is the single best determinant of long-term returns in any geography.

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FURTHER INFORMATION

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