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Hi, I'm Akhil Subramanian. I'm one of the portfolio managers at Pzena on our emerging market strategy and I'm here to give you an update on the third quarter of 2025.

Emerging markets had a good quarter in Q3. Generally most markets finished up, some significantly up more than 10%. And as usual in EM there were a couple of underperformers because there always is this dispersion in EM because there are a lot of countries going through their own macroeconomic cycles. So for example, India and the Philippines finished modestly down in the quarter.

Generally speaking, valuations in EM are quite compelling and that probably contributed to some of the performance that you saw in Q3 as well as a bit of a digestion in the market around the knock-on effects of potential tariffs after Liberation Day.

Turning to sectors, only one sector was down very modestly, that was financials. Most other sectors or actually all other sectors were up in the quarter with a couple of notable outperformers. So materials, communication services and information technology were up almost 15%. In this kind of environment the MSCI Emerging Markets Index was up approximately high single digits. The value index was quite close to that as well.

On an absolute basis, our top three contributors to the quarter were Alibaba, Samsung and Baidu.

Just turning to Samsung first. You know Samsung had been a detractor of ours in the past thinking back to last year and that was primarily due to concerns around the memory cycle and their ability to get their high bandwidth memory or HBM chips qualified at customers such as Nvidia. I think what we saw in the last 3 to 6 months is increasing optimism around two things. One is the memory cycle picking up and exiting its downturn and then secondly, news flow around the idea that Samsung may get its HBM chips qualified at customers such as Nvidia. So those two things which were headwinds thinking back six to seven quarters ago are starting to become drivers of the thesis at Samsung.

Alibaba and Baidu were also top contributors, primarily around optimism that China's AI cloud market is going to be a very viable segment for both the companies going forward. I think the advent of DeepSeek has led to a push of AI adoption in China and that ought to benefit leading AI cloud companies that include Alibaba, Baidu, also Tencent, which was a good contributor for us in the quarter.

Turning to detractors, our top three detractors were Cognizant, HDFC Bank, and China Merchants Bank.

Cognizant, which is an IT services company, is dealing with two issues. One is an industry-wide downturn that has affected the sector over the last couple of years primarily due to macro weakness, and then on top of that there are questions around Cognizant and other IT service companies' ability to navigate the AI landscape. AI has shown to be effective in certain use cases such as call center triage and discussions around very basic queries, and the market is trying to digest whether that success in AI can be translated into larger parts of Cognizant's service base.

Generally speaking, IT services companies have been one of the biggest underperformers year to date in 2025. And our team, not just the emerging markets team, but the Pzena investment team in general, is evaluating several of these companies to see if there are any interesting opportunities both within EM and then across some of our other strategies. So this remains a work in progress that we are tackling because it's a big key issue that's facing an entire sector.

HDFC Bank reported pretty good earnings but just given the weakness in India sort of participated with the downdraft in the market there. We still believe that the company is a good franchise and the earnings are tracking to our investment thesis which was primarily normalization after they merged with HDFC Mortgage.

And then lastly, China Merchants, which is one of our Chinese banks, continues to face headwinds from the Chinese macroeconomy. And so China Merchants Bank reported a weak Q1 due to pressure on the net interest income and fees. That trend persisted in the second quarter but nonetheless we believe the bank is adequately capitalized and trading at a very low multiple of normalized earnings.

In Q3 we added three new businesses to the portfolio. The first one was B3, which is the Brazilian stock exchange. The second one is an Eastern European low-cost carrier called Wizz Air, an airline. And the third one is a Korean construction machinery company.

So just touching on each of those, B3 is the leading stock exchange monopoly in Brazil. It and Brazil generally speaking are behind in the maturation of different products and types of investors that trade on stock exchange. So we have analogies to stock exchanges both within developed countries such as the US and also emerging markets to see what is the proliferation of products, what kind of participants take place in the market. And we see a very similar development in Brazil that should be a tailwind to B3's earnings over the next several years. We had an opportunity to buy this business primarily given the weakness in Brazil.

The second business that we purchased was Wizz Air. As I mentioned earlier, Wizz is an ultra low-cost carrier that's domiciled in Eastern Europe. Wizz is facing several problems on many fronts. One big issue is the company had a very aggressive expansion plan into the Middle East which has been pared back and I think that has disappointed a lot of people who were expecting a lot of growth in the airline. The second thing is from the grounding of several aircraft at Wizz Air due to an issue with their engines which are made by a company called Pratt & Whitney. Pratt & Whitney makes an engine called the geared turbofan or GTF and Wizz had a significant amount of its fleet operating with Pratt & Whitney's GTF engine. The groundings of those GTF engines, which Pratt & Whitney intends to fix and then return, has led to a lot of operational complexities at Wizz Air because they've had to rent or wet lease aircraft and personnel to continue delivering service to their customers. While they are getting some payments from Pratt & Whitney for the delays, it's not a full payment that compensates all of the issues that Wizz Air has. And ironically, in certain instances, Pratt & Whitney has been able to return the aircraft with the fixed engine earlier, but Wizz Air has to continue to carry that wet lease or extra capacity that they've rented.

So Wizz Air is really facing a whole host of operational challenges that has led to the market to severely penalize what they believe Wizz Air's midcycle earnings estimate should be. We think that the business is still a really good franchise and will benefit from outbound travel and within-country travel in Eastern Europe, and these issues which are plaguing the earnings at the moment we believe will be temporary thinking three to five years out. That's the goal at Pzena. We're trying to find good businesses trading at very discounted multiples primarily because there are concerns about their ability to generate midcycle earnings three to five years out. So we think Wizz is a good opportunity to acquire such a business within EM.

It's been the kind of quarter where you see some dispersion. Some countries and some sectors are still experiencing pain despite the markets being up high single digit in the third quarter. Our process at Pzena is always around trying to find businesses trading at low multiples of midcycle earnings due to some kind of problem that's hopefully temporarily depressing their earnings potential. And we continue to find a lot of these interesting investment opportunities and we're in the process of researching them through our investment pipeline.

So, we look forward to giving you an update at the next quarter of what happened in Q4 of 2025. Thanks.

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