

Hi, my name is Akhil Subramanian. I'm one of the portfolio managers here at Pzena on our emerging markets strategy, and I'm here to give you an overview of Q4 2025.

Emerging markets had a strong Q4 and, in fact, quite a strong 2025. Specifically in Q4, most countries were up, but you still saw the usual dispersion that you see in EM because each of these countries is sort of going through its own issues in addition to whatever is happening on a global stage. And so while most countries were up, there were some notable detractors, including China, South Korea, and Turkey.

In terms of sector performance, it was a bit more mixed. But overall, emerging markets and the MSCI EM Index finished up 4.7%, and the value index finished up around 6.4%. Our emerging markets focused value strategy was up around in line with the MSCI EM Value Index.

Our top three contributors for the quarter were Samsung, TSMC, and Hankook Tire. Samsung, which was also a top contributor in Q3, continued to do well in Q4 primarily on the back of two things. One is its core memory business, DRAM, which continued to see strong pricing and has now entered an upcycle. And then secondly, its AI business, which is composed of high-bandwidth memory, or HBM, continued to see good news flow as Samsung is working to get its HBM qualified at top AI chip customers.

TSMC was a strong performer in Q4 as well, primarily benefiting from its customers' demand for AI data centers. And then lastly, Hankook Tire was a good performer for us in Q4, primarily on the back of strong Q4 results. Coming into the quarter, the stock had a very, very cheap valuation, and I think there was also some recognition that the business is doing well, and the shares were trading at a very, very undervalued price relative to mid-cycle earnings.

Our three biggest detractors were Alibaba, China Overseas Land & Investment, and Natura. Alibaba was a detractor after being a strong contributor in Q3. In terms of the fundamentals, in Alibaba's cloud business, we continued to see revenue acceleration as there's been strong demand for AI in China after the advent of DeepSeek. And in its e-commerce business, we've seen another new development over the course of 2024, which is this quick commerce business, which is really delivering goods to customers within a couple of hours.

Alibaba continued to see strong market share gains in quick commerce. And while that has come with an additional level of investment, the company does have a plan to pare back some of the losses and achieve break-even and then profitability over the next couple of quarters. So while Alibaba was an underperformer in the quarter, from a fundamentals perspective, the business is driving in the right direction.

At China Overseas Land & Investment, which is our property developer, the business really was plagued by a continued set of issues in the China property market, primarily weakness due to lower-than-expected pricing and weak sales. We still believe in the business. It's a very strong, scaled residential property developer and has the balance sheet to navigate through the challenging downturn in the Chinese property market. And then of course, Alibaba and China Overseas Land & Investment did participate in the overall downturn in Chinese equities. As I mentioned earlier, China was one of the declining markets in Q4 and EM.

And then lastly, Natura, which is a Brazilian cosmetics company, reported a challenging set of Q3 results, primarily due to weakness on the macroeconomic front in Brazil. More positively, the integration of the two brands, Natura and Avon, in Latin America is more or less complete. The last country will be done by the end of Q4 2025. And then the big cash drag for Natura, which has been its Avon International business, they've announced that it's going to be sold, and they expect the closing of that transaction early in 2026. So we're hopeful that this cash drag on the core Natura business will be rsold and the business can go back to being Latin America focused with the two key brands of Avon and Natura.

We added two new businesses to the portfolio in the fourth quarter of 2025: Doosan Bobcat and Shenzhou International.

Doosan Bobcat is a maker of compact construction equipment such as mini excavators, skid steers, and wheel loaders. For Doosan Bobcat, which is a Korean company, approximately two-thirds of sales are into North America. And in terms of end markets, the main end market is housing. The U.S. housing market has been in a downturn over the last couple of years after a very strong upcycle during COVID, and so we are taking advantage of this weakness in the U.S. housing market in terms of construction to buy a business that is levered to it, which is Doosan Bobcat, and is currently under-earning its mid-cycle earnings potential.

As you know, what we do at Pzena is look for good businesses that are under-earning their five-year-out mid-cycle earnings. And Doosan Bobcat represents one such example. We were able to take advantage of the weakness in the U.S. housing sector to buy a business that's trading at a low multiple of its mid-cycle earnings.

The second business that we bought is Shenzhou International. Shenzhou is a manufacturer of apparel. So it is a China-based business with factories in China, Cambodia, and Vietnam that manufactures apparel for various global brand customers.

And the four biggest customers that represent approximately 80% of revenue are Uniqlo, Nike, Adidas, and Puma.

If you look at the business up until around 2021, Shenzhou was gaining share in the apparel manufacturing sector on the back of three things, which would be its vertical integration, its capabilities in fabric R&D and development—so coming up with new formulations of both cotton and synthetic products—and then lastly, its scale.

More recently, over the last couple of years, the business has suffered from two things. One is an industry downturn, so destocking, which occurred probably around 2023–2024. And then more recently, issues around the consequences of tariffs and underperformance at a couple of its customers. We do believe at the end of the day that some of these issues are temporary. Shenzhou continues to have a very strong position on account of its vertical integration, its scale, and its R&D capabilities. And we believe that the business is trading at a discount to its five-year-out mid-cycle earnings potential.

So we're taking advantage of some industry weakness, noise around tariffs, as well as customer weakness, to buy the business at an attractive multiple of mid-cycle earnings.

Outside of these two new buys, we did some trimming and some adding to some of our companies, primarily based on strength and weakness. And while Q4, and in general 2025, was a very, very strong year for EM—with EM being up over 30% in 2025—we continue to see it as a very, very attractive asset class.

So we look forward to giving you an update on EM in the first quarter of 2026. But for now, thank you for listening to this video.