1Q26 Emerging Markets Quarterly Strategy Video with Akhil Subramanian.

Hi, I'm Akhil Subramanian. I'm one of the portfolio managers here at Pzena Investment Management and I'm here to give you an update on the first quarter of 2026. Q1 has been a very interesting quarter with a lot of events happening. Emerging markets were quite volatile in the first quarter of 2026, they were up for January and February and then have come down in March primarily as a result of the conflict in Iran. Under the surface of EM as usual we've also had a lot of idiosyncratic movements across countries because as much as we like to think about the global economy sometimes countries have their own cycles that they're dealing with. So some countries for example Indonesia have been going through their own country specific issues above and beyond what's been hitting the global markets.

Beyond high level comments such as that, would be remiss of me not to talk about AI. And so AI continues to be a theme that's affecting EM primarily in the value chain of companies that are making and manufacturing semiconductor components because that's where you typically find EM companies. And so the main comment to make there is, you know, the memory cycle where we're a shareholder of Samsung has continued to experience an upside. So things are going well because there is very strong demand and the three-player market of Samsung, SK Hynix, and Micron cannot meet it with the capacity that they have and so Samsung was a good contributor in the quarter. And for us as a disciplined value manager, we are always looking at what is the midcycle earnings power or normalized earnings power of a business 5 years out and looking to pay a low multiple of that in terms of price to midcycle earnings. And so when we see companies whose valuations have moved up and become more expensive on price to normalized earnings, they're usually candidates to be reducing our position size.

Beyond Samsung, what we saw was a little bit of an air pocket around fears of AI disruption for the software industry and a little bit more push back from investors about how much the hyperscalers — which are Google, AWS, Azure — how much the hyperscalers are spending on AI capex. And so that is starting to become a little bit of a theme where people are trying to understand whether some of these AI investments can earn an adequate ROI. For us at Pzena, it's always about looking at businesses that are experiencing difficulties and trade at low multiples of midcycle earnings. And so we stay true to our process of looking for companies that have idiosyncratic opportunities because their earnings are being temporarily depressed.

So in the quarter, you know, some of the stocks in our portfolio that worked were companies that benefited from the semiconductor and memory value chains such as

Samsung and TSMC. And then we also had some idiosyncratic opportunities where we had discrete businesses across shipping and cosmetics also do well. In terms of our activity in the quarter, it was fairly active. But I will just highlight one or two investment opportunities just to give you a sense of the kinds of things that we're seeing out there in the market today.

So the first business that I wanted to mention was a company called KT, Korea Telecom. So this is a Korean telecommunication company or you know mobile company. Korea has a very interesting telco market. It's three players primarily and so the setup sounds really great because it appears to be an oligopolistic market structure and maybe you might expect that as a result competition is rational and returns are pretty good. The history of the last 15 years would sort of dictate the opposite and that's a combination of a few things. One, Korea has generally been at the forefront of adopting next generation mobile technology. So they were first to 4G, first to 5G and as a result that's led to kind of an expensive deployment of towers and infrastructure for each new generation deployment before sort of the generation has matured. And then on top of that, you've had a fair amount of price competition and a little bit of an impulse from the regulator and the government to enforce kind of the telcos having multiple different plans that hit all the different price points of consumers. So despite looking like an oligopoly, the returns of the Korean telco market have not been great due to basically investing in infrastructure and the high demands of that and then government sort of regulating the sector a bit. These downward pressures on returns have been easing over the last couple of years.

The telcos have become much more rational. They now have introduced a family of price points that can suit the lowest end consumers that are looking for basic services to the highest end consumers that are looking for complex family plans. So the environment appears to be getting better and the regulation on the part of government is also getting a little bit lighter. So these are some instances that have shown to us that the industry has been improving and what we've been capitalizing upon by looking at the telco sector is a couple of these companies got hacked last year and so as a result of the hack there were subscriber losses, you know a lot of virality in the press about is the data that you know customers have with the telco safe. What we've learned is that the hacks at KT have been fairly minimal. And the company has provided a window for people to switch plans without paying any penalties and hasn't lost many subs as a result. What we're looking at now at KT is what we believe to be a good business fighting in a competitive sector but where competition is very rational and the business has matured.

And then what also attracts us to KT is the fact that they have a lot of non-core, non-telco assets. Just as an example, KT was the original mobile incumbent. And so over the years

has invested in real estate in Seoul; a collection of private and public companies and hotels. For example, if you stay at the Sofitel Ambassador in Seoul, you're actually staying at a hotel that's operated by this telco. So what we're encouraged to see is that these non-core assets that have always been there are starting to get monetized. So they're being sold and that capital is being returned to shareholders. So we think we're buying a good business that is operating in a sector that has a path to rational competition and improved returns. All the players want to be rational and KT specifically has this very large non-core asset portfolio that it's slowly monetizing and returning that capital to shareholders. So, we're buying a business at what we believe to be a low multiple of midcycle earnings as well as a pretty decent capital return story via buybacks and dividends.

Another business that we bought in the first quarter is a company called Globant. Globant is an IT services company and this is kind of at the crosshairs of all the AI related disruption. Now, Globant historically was a very good business that was viewed as a premium IT services company because of their expertise in UI and UX, which is user interfaces. Just as an example, if you go to Disney and you're using the Disney app, that has been developed and is run by Globant. If you go to a Formula 1 race, if you go to the La Liga app, these are all consumer-facing products. It's very important to have a good experience for the underlying company and they're being developed and run by Globant. So their expertise is in having these apps work across a variety of services such as iPhones, Androids, tablets, watches. And so this business has hit a collection of headwinds primarily from demand. So the IT services sector is going through a downturn and then we've had an augmentation of the fears around AI that's also hit this business. So people are concerned that maybe you need fewer people doing IT services because they can leverage technology and AI agents to do perhaps some of the coding and as a result that's going to lead to extreme price pressure. We have been diligencing you know this area of disruption and fear and uncertainty. We believe some of it will be true, but the company is also pretty well positioned because they're also looking at new business models such as their AI pods which they will go to clients and offer basically a collection of agents and people that can work on discrete IT projects. So at this point we feel like we're buying the business of Globant at a very low multiple of midcycle earnings as well as the fact that the company's currently generating cash and trades at almost actually at this point it does trade at a double-digit free cash flow yield. So we think that the combination of all of these fears and the demand downturn that we're experiencing is allowing us to buy a good business at a very attractive valuation.

Hopefully this gives you a flavor of some of the things that we've been doing in EM. In terms of the conflict in Iran, it's something where we stick to our disciplined investment process anytime we see volatility in the market. The first step is to look within our portfolio to see if

there are any unique businesses that might be structurally impaired by the conflict. We don't believe we have any such businesses and we've done a little bit of portfolio activity since the conflict began, primarily on trimming positions that have gone up in valuation. And then the next step for us is to look within our universe of 1,500 companies for good businesses that might be unfairly punished by the volatility in the market and having our analyst team take a closer look, underwrite whether this problem is temporary or permanent and then hopefully buy these businesses at a low multiple of midcycle earnings.

So while there is a lot of noise and volatility and fear in the market, we continue to do what we've always done at — 30 years at Pzena — looking for good businesses trading at midcycle earnings at low multiples of midcycle earnings. So we are looking forward to giving you an update next quarter about some of the activity that we're currently doing.