GEM EQUITIES

DOUBLING DOWN ON QUALITY GROWTH IN EMERGING MARKETS

By: Nick Payne, Analyst / Portfolio Manager

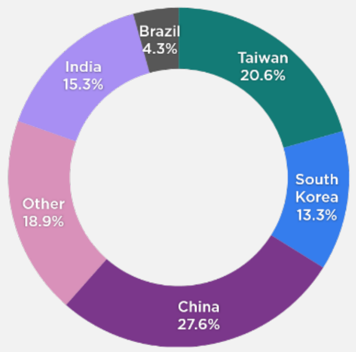
Key Takeaways

- **Reset and refocused**: Comgest's GEM Equity Strategy is more disciplined, higher conviction and aligned with our core quality growth philosophy
- **Good value, overlooked**: Emerging markets companies trade at a ~40% discount to developed market peers, yet many global investors hold far less than they have historically
- **More than just AI**: Broader long-term growth trends from across the emerging markets region include more people gaining access to banking and financial services for the first time, rising consumer spending and industrial expansion

LOOKING BEYOND A NARROW EMERGING MARKETS RALLY

At first glance, the emerging markets rally of the past two years looks like a broad revival. The shift began in 2024, supported by falling interest rates, a steadier macroeconomic outlook and the AI boom, which has helped reignite investor interest. The numbers, however, show that the recovery has not been shared equally. Three semiconductor chipmakers (**TSMC, SK Hynix** and **Samsung**) at the heart of the AI supply chain now account for close to 30% of the MSCI Emerging Markets Index.[1]

Figure 1. 2025 Country Weights - MSCI Emerging Markets Index



Source: MSCI Emerging Markets index factsheet, as of 30-Dec-2025.

With US technology companies expected to spend around $760 billion in AI capital expenditure this year,[2] that spending is showing up in the record earnings of these north Asian semiconductor giants.[3] Tight supply and surging AI-related demand have pushed memory and chip prices to record highs, raising the memory makers' profitability ahead of companies such as Nvidia, Apple and Alphabet.[4]

While it would be easy to conclude that owning emerging markets today simply means owning this trio, this is actually a quirk of how the index is built, not a picture of the wider opportunity. ASEAN markets accounted for under 4% of the MSCI Emerging Markets index in December 2025, dwarfed by China and India.[5] China, long cast as the AI boom's second-biggest beneficiary, was slower to be rewarded with Alibaba and Tencent lagging their Seoul and Taipei peers for much of the rally.[6] For many companies in emerging markets, the story has been one of trade tensions and political uncertainty, not an AI windfall.

Rather than crowd into the same handful of names or themes as the index, we hunt for well-run companies that meet our quality growth criteria: durable competitive advantages, strong free cash flow and visible, long-term growth. Finding them is where three decades in emerging markets earns its keep. Through our own in-depth research and on-the-ground

---

[1] Source: MSCI, MSCI Emerging Markets Index (USD) factsheet, as of 31-Jul-2026 (msci.com). TSMC (15.5%), Samsung Electronics (7.2%) and SK Hynix (5.6%) together account for roughly 28% of the index.
[2] Source: Statista, "Big Tech's AI Spending to Reach $760 Billion in 2026," 31-Jul-2026.
[3] Source: CNBC, "TSMC to invest additional $100 billion in Arizona after second-quarter profit soars 77%," 16-Jul-2026; SK Hynix Newsroom, "SK Hynix Announces 2Q26 Financial Results," 29-Jul-2026; and Samsung Global Newsroom, "Samsung Electronics Announces Second Quarter 2026 Results," 30-Jul-2026.
[4] Source: Seoul Economic Daily, as of 1-May-2026, citing Q1 2026 results; figures are operating margins for memory divisions.
[5] Source: MSCI, as of December 30, 2025. Combined ASEAN weight (3.8%): Malaysia (1.2%), Indonesia (1.2%), Thailand (1.0%), and Philippines (0.4%).
[6] Source: Bloomberg, "Alibaba, Tencent Shares Lose $66 Billion as AI Vision Falls Flat," 20 March 2026.

engagement, we aim to know a business as thoroughly as we can and to act decisively when it counts. We believe this insight gives us an edge: the conviction to hold these companies for the long term, in a concentrated portfolio built to compound through market swings.

REFOCUSING ON OUR QUALITY GROWTH ROOTS

This discipline didn't happen by accident. At the start of 2025 we took a hard look at how our investment team was working, and realised that complexity is not the same as depth.

Our Global Emerging Markets (GEM) investment team had grown large over the years, and its research had diverged along with it, split by region rather than joined up around a single view. The cost was not obvious at first, but it showed up in the portfolio: trading had become too frequent, decisions were increasingly driven by short-term price swings rather than long-term conviction, and valuation had occasionally crept ahead of quality and growth. We knew we had to right the ship.

The fix started with structure. GEM became the anchor for the team's research, with country and regional strategies built outward from it rather than run as separate silos. This allows the team to share ideas openly and has made us more agile, comfortable investing earlier on the strength of our research. We also extended holding periods and widened research coverage. Valuation still matters, but only once quality and growth have earned a company its place on the list.

The result is a GEM portfolio that returns to our roots: more concentrated, higher conviction and weighted more towards markets where quality is easier to find. Underpinning all of it is a collaborative culture where every member of the team feels confident in bringing their best ideas or challenges forward.

THE DISCONNECT BETWEEN GROWTH AND RETURNS

Our selectivity is a response to something many investors miss about emerging markets. It's tempting to assume that a fast-growing economy makes for a fast-growing stock market. If a country is expanding, surely its companies are too, and shareholders should benefit alongside them.

In practice, this has rarely held true. Growth only rewards investors when it shows up as higher profit per share, and for much of the past decade it didn't. Between 2015 and 2025, the MSCI Emerging Markets index delivered average earnings-per-share growth of just 1% a year,[7] even as many of the underlying economies grew far faster than that. The explanation lies in the composition of the index: state-owned companies, commodity producers and traditional banks, all businesses that tend to invest heavily without translating that spending into returns for shareholders.

What is changing is that more emerging market companies are turning their attention to long-term value creation. Buybacks are becoming more common, balance sheets are improving and management teams are thinking harder about where they put their capital, with capital allocation discipline starting to move in the right direction.[8] We believe this shift is one of the most important, and often overlooked developments in emerging markets today. If it holds, this would matter more for long-term investors than any single year of index returns.

At the same time, the index itself has become increasingly concentrated. To put that in context: TSMC's top weight (14%+) of the MSCI Emerging Markets index[9] exceeds Nvidia's

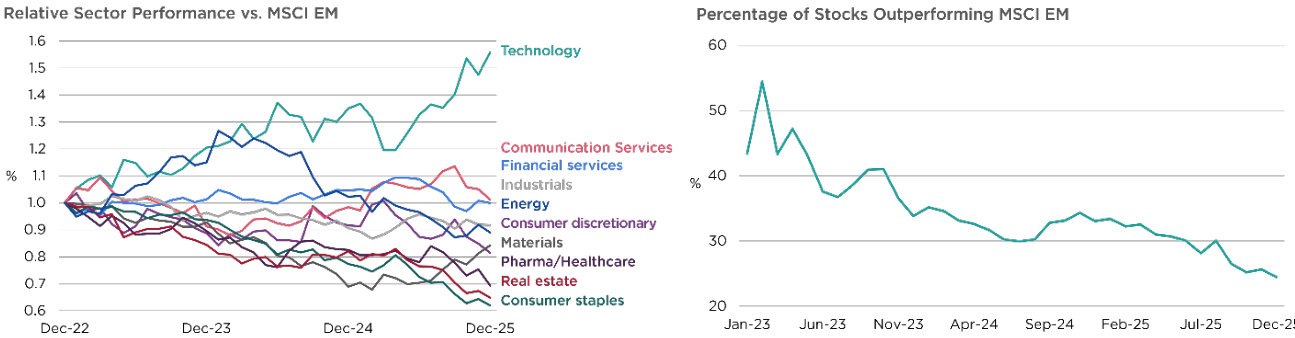
[7] Source: Comgest/FactSet. Compound annual growth in realised (trailing) earnings per share for the MSCI Emerging Markets Index, 2015–2025; data as of 31-May-2026.
[8] Source: Goldman Sachs Global Investment Research, "Building Long-Term Returns: Our 10-Year Forecasts," 12-Nov-2025; J.P. Morgan Asset Management, "Review of markets over August 2026".
[9] Source: MSCI EM Index factsheet, as of 31-May-2026.

(8%) in the broad US market.[10] For investors tracking the index, that creates a heavy reliance on a single company, and it underlines why being selective matters in emerging markets.

TAILWINDS FADE, FUNDAMENTALS ENDURE

After years of economic headwinds, emerging markets made a strong start to 2026, driven mainly by the macro environment. A shift in trade dynamics, a softer US dollar and hopes of lower interest rates all combined to lift the asset class, providing genuine relief after a long stretch of real pressure on emerging economies.

Figure 2. Concentration is not just a US story



Past performance does not predict future returns. Source: Comgest / FactSet financial data and analytics, unless otherwise stated. Data as of 31-Mar-2026, expressed in USD. Index: MSCI Emerging Markets. The index is used for comparative purposes only.

While we welcome such tailwinds, we do not build a portfolio around a weak dollar or a rate-cutting cycle, simply because macro narratives can change quickly. This past July provided a fresh reminder: a sharp pullback in AI-related semiconductors dragged the broader MSCI Emerging Markets index down around 3% in a single month, even as parts of China rose.[11] Those early-year tailwinds have begun to turn, with the dollar regaining ground and, through the summer, US Treasury yields rising on hawkish Fed commentary and firmer inflation, shifting attention to the prospect of further rate rises rather than cuts.

We believe our edge comes from understanding the quality of our underlying businesses. When a good company has significant competitive advantages and strong visible earnings growth, the ingredients should be favourable for its continued growth, regardless of the macro backdrop.

That, in the end, is the real story behind our GEM portfolio's recent strength: our companies have kept compounding throughout various headwinds, and the market is now starting to give them credit for it. In 2026, after a volatile, macro-driven start to the year, markets recovered sharply in the second quarter, with our GEM portfolio returning +26.9% year-to-date, ahead of the MSCI Emerging Markets index's +23.8%.[12] As July showed, we cannot predict what comes next, but if the period of macro gains is behind us and volatility persists, 2026 could increasingly reward selection over exposure – owning the right businesses, not simply the asset class. For long-term investors, periods like July's pullback are exactly when we lean on our discipline and opportunity by seeking to add high-quality businesses we know well at better prices.

[10] Source: S&P 500 Index, as of 31-May-2026.
[11] Source: MSCI, MSCI Emerging Markets Index (USD), one-month return as of 31-Jul-2026, and MSCI China Index, which rose over the same period (msci.com). On the semiconductor-driven selloff, see "Asian Tech Slide Sends Emerging-Market Stocks to Three-Month Low," Financial Post (Bloomberg News), 28-Jul-2026.
[12] Source: Comgest/Factset, data for the representative account as of 30-Jun-2026, performance expressed in USD (net). Past performance does not predict future returns.

FINDING QUALITY GROWTH BEYOND AI

Although AI and the technology supply chain are important to our portfolio, they are not the whole story. The portfolio is built around two broad long-term themes: Innovators and the Growth of the Emerging Markets Middle Class. The second, in our view, gets far less attention than it deserves.

Within the emerging middle class theme, the portfolio holds companies related to wealth management, financial protection and financial inclusion. In many of the countries we invest in, large parts of the population are only now gaining access to formal financial services for the first time. That indicates a potential for decades of growth for the businesses positioned to serve them: insurers, digital lenders and exchanges operating with little meaningful competition. **Capitec** in South Africa and **Bajaj Finance** in India are two examples, both growing quickly by reaching customers who were previously underserved or unbanked.

Beyond financials, quality growth shows up in less obvious places in emerging markets. In consumer goods, **Midea** and **Anta** are riding the rise in aspirational spending. In leisure and entertainment, **Tencent** and **NetEase** continue to capture the growing appetite for digital content and gaming. In industrials, **Delta Electronics** and **WEG** are niche leaders with genuine global pricing power, both positioned to potentially benefit from the multi-year capital investment cycle driving the global energy transition.

LETTING WINNERS WIN

Valuation alone rarely drives our sell decisions. We focus on the underlying business, watching for three specific indicators: a weakening competitive position, deteriorating returns on invested capital that signal poor capital allocation or a structurally declining growth outlook.

One of the most common mistakes in long-term investing is selling winners too early. Our guiding principle is a simple one: let the winners win. Getting an exit right requires two correct calls (when to sell and when to buy back in), rather than one, so we would rather run our winners for longer and act quickly where the investment case has broken. That takes a team genuinely comfortable in choosing patience over quick profit. Our GEM portfolio typically holds between 30 and 45 companies – reflecting our discipline rather than targets we set.

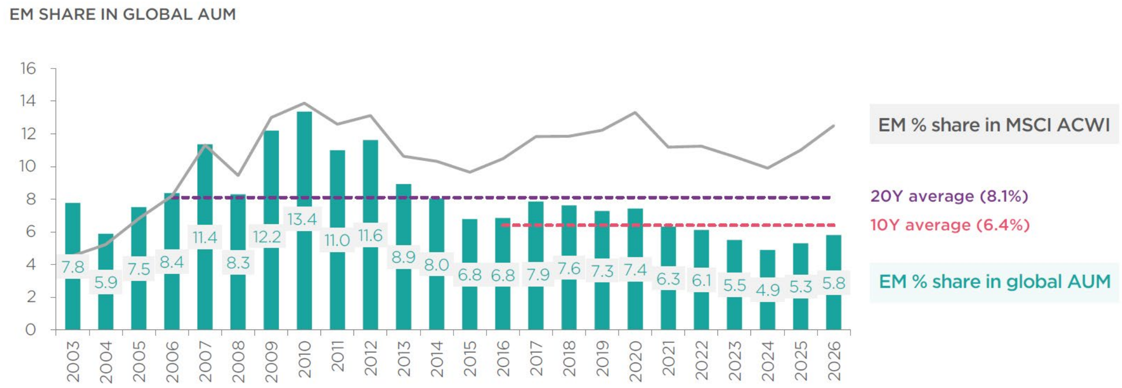
The hardest part of running a long-term portfolio is often doing nothing at all: staying invested through volatility, resisting the urge to trade and trusting that prices eventually should catch up to the value being created. A deteriorating business held too long because it was bought cheap is just as much a mistake as selling a strong compounder too soon. That patience, we believe, is one of the most underappreciated sources of return in quality growth investing.

WHY EMERGING MARKETS DESERVE A FRESH LOOK

Global investors have quietly edged away from emerging markets for over a decade. Allocations have fallen from a peak of 13.4% in 2010 to around 5.8% today, well below the 20-year average of 8.1%, and far below the region's weight in global equity benchmarks.[13] The valuation gap tells the same story: emerging markets equities trade at around 10-12x next-twelve-months earnings, against roughly high-teens to 20x for developed markets, a discount of nearly 40% and close to historical lows.[14]

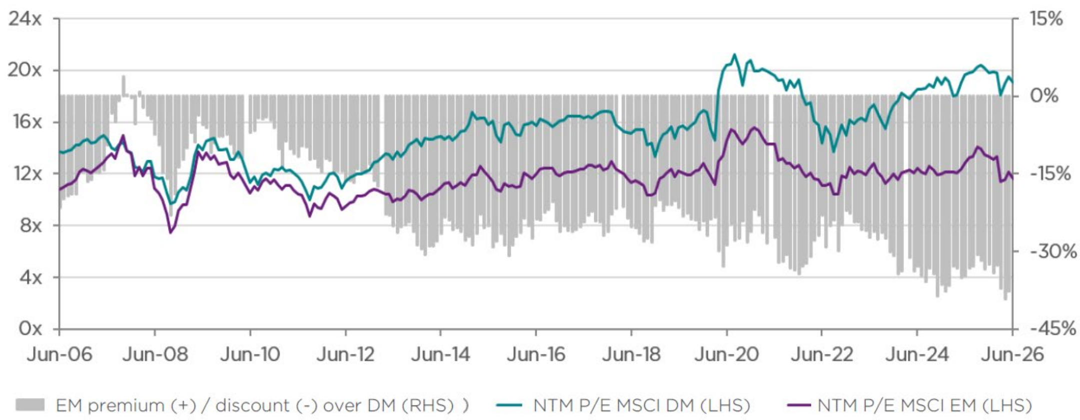
[13] Source: EPFR Global, Bloomberg Finance L.P, J.P. Morgan, data as of 31-May-2026. The MSCI ACWI is for comparative purposes only and the portfolio does not seek to replicate the index.
[14] Source: J.P. Morgan Asset Management, "Guide to the Markets - UK, Regional equity valuations," data as of 3-Aug-2026 (p.44).

Figure 3. Global Equity Allocation Underweight in Emerging Markets – MSCI ACWI



Source: EPFR Global, Bloomberg Finance L.P, J.P. Morgan, data as of 31-May-2026. The MSCI ACWI is for comparative purposes only and the portfolio does not seek to replicate the index.

Figure 4. Absolute and Relative P/E Ratio - Valuations Remain Attractive



Source: Factset and Comgest as of 30-Jun-2026. Investors should be aware that these figures are provided for information purposes only and Comgest does not take any responsibility for discrepancies which may occur between estimated forward figures and factual market data published in the future.

The past decade earned that scepticism. GDP growth rarely showed up in earnings per share and capital discipline was inconsistent. However, the conditions behind that record are shifting: earnings quality is improving, capital discipline is tightening and the valuation gap is becoming harder to ignore. None of this points to a single trigger or a sharp turn. It looks more like a slow re-rating, as the underlying quality of these businesses becomes too obvious to keep ignoring.

Although AI is likely to command attention for some time yet, the wide range of development among emerging markets economies presents an opportunity set far wider than the handful of AI names currently driving returns. That is the ground we cover in our hunt for enduring long-term quality growth companies and, potentially, where tomorrow's leaders may emerge. Because we are not reliant on those few AI names, our GEM portfolio's resilience rests where it always has, on the quality of the businesses we own.

This is a bet we have been making for around 30 years, not on a catalyst, but on quality, applied with patience through the cycles the market spends most of its time trying to time. It is why we spent the start of 2025 righting the ship: sharpening the process, deepening the research and rebuilding the portfolio around genuine conviction. The result is a GEM portfolio we believe is fit for whatever the next decade brings: concentrated where it counts, anchored in quality and built to compound long after today's tailwinds have faded.

Nick Payne joined Comgest in 2025 and is a Paris-based Analyst and Portfolio Manager specialising in Global Emerging Market equities. Prior to joining Comgest, Nick was Head of Global Emerging Market equities at Jupiter Asset Management in London for seven years. He previously worked at Nomura Asset Management and was a Partner at Rexiter Capital Management, a specialist emerging markets boutique, from 1999 to 2012. His career in emerging markets began at Kleinwort Benson Investment Management in 1996. Nick holds a Bachelor's degree in Commerce and German from the University of Birmingham (UK) and is an Associate of the Society of Investment Professionals (ASIP), the UK's forerunner to the CFA, now affiliated with CFA UK, the local chapter of the CFA Institute.

MAIN RISKS

- Investing involves risk including possible loss of principal
- The value of all investments and the income derived therefrom can decrease as well as increase
- Changes in exchange rates can negatively impact both the value of your investment and the level of income received
- Emerging markets may be more volatile and less liquid than more developed markets and therefore may involve greater risks
- The portfolio invests in a limited number of securities and may therefore entail higher risks than those which hold a very broad spread of investments

FOR PROFESSIONAL/QUALIFIED INVESTORS ONLY

Important Information

This document has been prepared solely for professional/qualified investors and may be used only by such persons.

Representative account information

The representative accounts discussed are managed in accordance with their relevant Composite since the Composite's inception. The representative accounts are open-ended investment vehicles with the longest track record within their respective Composite. The performance results discussed reflect the performance achieved by the representative accounts. Accordingly, the performance results may be similar to the respective composite results, but the figures are not identical and are not being presented as such. The results are not indicative of the future performance of the representative account or other accounts and/or products described herein. Account performance will vary based upon the inception date of the account, restrictions on the account, and other factors, and may not equal the performance of the representative accounts presented herein.

Comgest claims compliance with the Global Investment Performance Standards (GIPS®). To receive GIPS-compliant performance information for the firm's strategies and products please contact info@comgest.com. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Not investment advice

This commentary is for informational purposes only and does not constitute investment advice or a solicitation to buy or sell any security. It does not take into account any investor's specific investment objectives, strategies, tax status, or investment horizon, and should be read in conjunction with an oral briefing provided by Comgest representatives.

Not an investment recommendation

Any discussion of specific companies does not constitute a recommendation to buy or sell any particular security or investment. The companies mentioned do not represent all past investments, and it should not be assumed that any discussed investments were or will be profitable.

Comgest does not provide tax or legal advice to its clients, and all investors should consult their own tax or legal advisors regarding any potential investment.

Not investment research

The information contained in this communication does not constitute 'investment research' and is classified as a 'Marketing Communication' in accordance with MiFID II. This means that (a) it has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and (b) it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Performance disclaimer

Past performance is not a reliable indicator of future results. Forward-looking statements, data or forecasts are based on assumptions and judgments by Comgest and the Strategy regarding future economic and market conditions, which are inherently uncertain and beyond the control of Comgest or the Strategy. Actual outcomes may differ materially, and unforeseen events may significantly affect performance. Accordingly, no reliance should be placed on such statements as a guarantee that the Strategy will achieve its objectives or plans.

Trademark and index disclaimer

Product names, company names and logos mentioned herein are trademarks or registered trademarks of their respective owners.

MSCI data may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.mscibarra.com).

Information provided subject to change without notice

All opinions and estimates constitute our judgment as of the date of this commentary and are subject to change without notice. The portfolio holdings referenced herein may not be held at the time you receive this publication and are subject to change without notice.

Restrictions on use of information

This commentary and the information herein may not be reproduced (in whole or in part), republished, distributed, transmitted, displayed, or otherwise exploited in any manner by third parties without Comgest's prior written consent.

Limitation of Liability

Certain information contained in this commentary has been obtained from sources believed to be reliable; however, its accuracy or completeness cannot be guaranteed. Comgest accepts no liability for any errors or omissions in the information provided.

Legal entity disclosure

Comgest S.A. is regulated by the Autorité des Marchés Financiers (AMF). Comgest Asset Management International Limited is regulated by the Central Bank of Ireland and the U.S. Securities and Exchange Commission (SEC). Comgest US LLC is regulated by the SEC. Regulation by the SEC does not imply a certain level of skill or training. Comgest Asset Management Japan Ltd. is regulated by the Financial Services Agency of Japan (registered with the Kanto Local Finance Bureau, No. Kinsho 1696).

For UK only:

This commentary has not been approved under section 21 of the Financial Services and Markets Act 2000 (FSMA) by an authorised person. It is directed only at investment professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the FPO). Investments are available only to such persons, and any related agreement will be made solely with them. Persons who are not investment professionals should not rely or act upon this commentary. Recipients must observe all applicable restrictions and must not publish, distribute or share this commentary in whole or in part.