

ON-DEMAND AUDIO TRANSCRIPT

# 2025 Annual Emerging Markets Equity Review

**Matt:** Welcome to the 2025 Dodge & Cox Emerging Markets Equity Investment Review. My name is Matt Beck. I'm a Client Portfolio Manager here at Dodge & Cox, and I'm thrilled today to be joined by my colleague Sophie Chen. Sophie is a Global Industry Analyst and a member of our Emerging Markets Equity Investment Committee. Sophie, I always enjoy discussing emerging markets with you. Thank you for being here today.

**Sophie:** It's great to be here, Matt.

**Matt:** Today on our discussion, we're going to be talking about the emerging markets environment and the conditions in which our team was operating in 2025. We're going to discuss the performance of our main vehicle in this area, which is the [Dodge & Cox Worldwide Funds] Emerging Markets Stock Fund. We'll take a look at some of the attribution for 2025, as well as the positioning of the Fund as of year end, and we'll examine where the team and Sophie are finding opportunities on a go-forward basis in 2026 and beyond.

Sophie, before we get started, I'd like to ask you right off: Are there any key takeaways that you might cite for our listeners today in terms of 2025 and how things felt within emerging markets? Maybe contrast 2025 with other years where you've been managing the Fund.

**Sophie:** Emerging markets (EM) had one of their strongest years in over a decade, outperforming both developed and U.S. markets for the first time in five years. The MSCI EM Index delivered 34% for the year, and I guess nobody would've really predicted that [performance] during the depths of the global tariff scare back in April of 2025.<sup>1</sup> [There are] two notable drivers of that strong performance that I would point out here. One is the AI-related (artificial intelligence) investments and that started with the "DeepSeek moment" back in February and really percolating to many of the EM markets along the AI supply chain. Secondly, the material U.S. dollar depreciation in 2025 served as a tailwind for U.S. dollar-based investors investing in EM assets.

I think it's worth reminding our audience the important role of EM equities. If we go on to the next slide, you can see that, historically, emerging markets have provided diversification benefits to a global portfolio as you can see on the top-right chart. We've already talked about the very strong performance of emerging markets in 2025. On the bottom chart, you can see the EM is represented by the orange bar. EM was actually one of the best-performing asset classes in the period between 2000 and 2010.

Of course, we're not here to make a prediction whether 2025 marks the start of another era of [a] strong EM bull market. But one observation we would point out, as you can see on the top-left chart, is that even after a very strong 2025, the valuation of the EM markets, measured by forward price-to-earnings ratio, still compares very favourably to developed markets. The real EPS (earnings-per-share) growth forecast for the EM markets is stronger than the developed markets as well. So, as you can tell, we are very excited about investing in EM markets, and we are also very happy about our Fund's strong outperformance [for the USD Accumulating Class] and how our Fund is positioned going forward.<sup>2</sup>

**Matt:** Sophie, you mentioned just a moment ago the very strong performance of 2025. Let's stay on that theme, as we look at the market backdrop in terms of sectors and regions during this very strong 2025, what really stands out to you?

**Sophie:** I would say the returns are actually very strong across markets, both measured in terms of sectors and geographies. On the sector, if you can see the top-left chart, Materials was the best-performing sector in 2025. Gold, silver, and copper have all reached record-high prices [in 2025]. The second-best performing sector was Information Technology, which was driven by strong AI enthusiasm.

From a regions perspective, as you can see on the top-right chart, South Korea was up 100%—a standout performer—driven by AI-related demand, as well as the government's initiatives, [such as] the Value Up program, [enacted] to enhance corporate governance and shareholder returns.<sup>3</sup> China, which is the largest component of the Index, was up a solid 31% for the year, driven by domestic innovation and a dialing down of geopolitical tension. India, which was one of the worst-performing major EM markets, still posted a positive return, but some of the concerns around gross deceleration and a high valuation did drag down the performance of that region. High valuation in India is one of the main reasons that we have held a big underweight in this region.<sup>4</sup>

**Matt:** Thank you for that market backdrop, Sophie. Since we've looked at the environment in which you were operating in 2025, let's move on to take a look at the performance of the Fund for the year on this next exhibit. The Emerging Markets Stock Fund's USD Accumulating Class had an extremely strong year on an absolute and relative basis versus the MSCI Emerging Markets Index. The return for 2025 was 39.19% for the Fund's [USD Accumulating Class] versus 33.57% for the Index, roughly 550 basis points ahead.

The Fund's three-year result [for the USD Accumulating Class] is roughly 300 basis points above the Index per year, and, since inception, we are just over 200 basis points ahead per annum. We would note that we're thrilled to be celebrating the Fund's five-year anniversary this coming 11 May.

Homing in on 2025, we can take a look at this next exhibit and some of the attribution for the year. Certainly, what first stands out is the positive contribution that we've seen at the top of this page from Financials, Energy, [and] Communication Services. We would note outstanding stock selection in each of those areas. There were also some detractors during the year, in particular Information Technology (IT)—where we hold a fairly significant underweight [position]—as well as stock selection within Materials. What stands out to you, Sophie, in terms of the returns for the Fund this year? What worked, what didn't, and are there holdings that are worth highlighting as particularly meaningful?

**Sophie:** Matt, you're right. We are very happy about the strong performance we have delivered for our clients, not just in 2025, but since inception. Specifically in 2025, I would double click into a couple of the holdings. For Financials, the biggest contributor [for the Fund's USD Accumulating Class] is Itaú Unibanco, which is Brazil's largest private bank that we have owned since inception.<sup>5</sup> Credicorp, Peru's largest financial services company, was also a strong contributor to the Fund last year. Then Prudential [PLC], which is a pan-Asian life insurance company, seeing very strong penetration tailwind growth and trading at [a] very attractive valuation, was also a strong performer. In terms of Energy, NESR—National Energy Services Reunited—which is a Middle Eastern oil services company, was actually the top contributor to the Fund's [USD Accumulating Class's] performance last year. Then Alibaba, which is China's largest ecommerce and cloud operator, also delivered very strong performance.

Maybe on the negative side of the ledger, as you mentioned, Materials and IT were two of the sectors that detracted from our performance. For Materials, it was actually not so much what we have owned but what we did not own. So, we didn't own some of the top-performing gold mining stocks in the Index, which detracted from our performance. For IT, it is [one of] our biggest underweight area. We are concerned about the elevated valuations and the exuberance in what some would call an AI bubble, so we chose to [hold an] underweight [position] in this area and that detracted from our performance.

**Matt:** Thank you. So, we've talked about the macro environment in 2025. We've talked a little bit about how the portfolio did in 2025. But I imagine there might be some listeners out there that would like to see where we're going to go from here. So, let's take a look at the positioning of the Fund on this next exhibit as of 31 December 2025.

First, at the top of the page, you can see the Emerging Markets Stock Fund in the brown bars and the MSCI Emerging Markets Index in the lighter blue. For the most part, you can see that our portfolio is fairly close to Index weights when looking at particular sectors, with

a couple of exceptions. That is a modest overweight in Consumer Discretionary and in Financials, and as Sophie mentioned a moment ago, a more significant underweight in Information Technology. At the left side of this page, we show some valuation metrics and would note that we have a very strict price discipline and a value discipline here at Dodge & Cox. So, we expect to see a less expensive portfolio than the market in most environments, and indeed that's what we see today.

These portfolio statistics on the left side of the exhibit do play that out and look less expensive than the market in pretty much all the categories. We've talked a little bit about countries so far, and at the center of this exhibit—the center bottom—you can see our country weights relative to those of the Index. We would note a couple of interesting highlights. First would be our overweight to Latin America, in particular in Brazil and Mexico, as well as generally a market weight within what we consider to be Greater China, which would be a combination of China plus Hong Kong.<sup>6</sup> At the right side, you can see our ten largest holdings.

Sophie, with this exhibit as a backdrop, talk to us, if you don't mind, about where the team has been finding opportunities during the year and going into this new year: where have you added or taken from, and what are you really excited about when looking forward with the portfolio?

**Sophie:** Matt, I'm always excited to talk about our portfolio, as well as the opportunities that we are finding, but maybe I would first highlight the key characteristics of the emerging market portfolio. First and foremost, the strong value discipline as you mentioned, which is consistent with all our other Funds. Two, the bottom-up stock picking, which leads to a very high active share. Especially in this Fund, we have a very large, long tail of the EM universe that consists of small- to mid-cap companies and usually a lot of that is under-discovered. So, [approximately] 35% of our portfolio is invested in these small- and mid-cap companies. Three, diversification, as you can see on this portfolio structure page, across geographies, sectors, [and] themes, with very strong risk control.

Speaking of the opportunities, I think if we were to pick one word of the year for investing in 2025, it would be AI. While the United States is often viewed as the epicenter of AI innovation, we continue to find opportunities within emerging markets that benefit from AI-related enthusiasm but are trading at reasonable valuations.

To give you a couple examples, TSMC (Taiwan Semiconductor Manufacturing Co.), which is the world's largest semiconductor foundry, is the largest position in our Fund. We also initiated a position in SK hynix, which is a high bandwidth memory—HBM—supplier. HBM is a critical component of the AI data center build out. We also own a number of not so well-known names along the AI supply chain, which is what I described to be the long tail of the EM universe. One name I would highlight here is United Integrated Services. This is a Taiwan-based manufacturing and engineering company focused on building semiconductor fab (fabrication) plants for TSMC. It was one of the top contributors to our performance (the USD Accumulating Class) in 2025. We owned

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the stock since 2022 when the market cap of the company was only around \$1 billion, and we sold the position in 2025 after the stock went up over the course of three years.

**Matt:** So, AI obviously was a standout portion of the portfolio during 2025, but I'd love to ask you about another standout portion of the portfolio, which was our holdings in Latin America. The reason I bring it up, Sophie, is that I recall about a year ago on this very call, we were discussing Latin America as an underperformer in 2024. Talk to us a little bit about the journey of continuing to hold those names, what you've been doing in positioning there, and how those names performed in 2025.

**Sophie:** Yes indeed, Matt. As you can remember, 2024 was a very challenging year for many Latin American markets. It just reminds us of the volatility that often comes hand in hand with investing in EM markets. In this case, we really like Latin America. We've continued to hold our positions and, in many cases, added to our positions; and we have a pretty large overweight, as, Matt, you mentioned, in the region. In addition to a couple of the Financials names I talked about, a couple other key contributors to our Fund's [USD Accumulating Class] in 2025 were Millicom [International Cellular], the leading mobile cable and digital service provider in Latin America under the Tigo brand, and Cemex, which is a Mexico-based global leader in cement and building materials.

**Matt:** Great, and before we wrap up, I have to ask you about China. It's an area that most of our clients are asking about, so we'd be remiss if we didn't discuss that at the end of our call here.

**Sophie:** Indeed. China—as you mentioned, Matt—we look at it from a Greater China perspective. We are roughly equal weight to the Index. Historically, we've held a large overweight in China Internet companies.<sup>7</sup> A lot of those have worked very well last year so we actually pared back on our China Internet weight. Over the last couple [of] years, we've been building a more diversified set of opportunities in China, including in Financials. So, AIA and Prudential, two of the pan-Asian life insurance companies that derive a meaningful part of their revenue from Greater China. Then in [the] renewable energy sector, we have a couple holdings: BYD, which last year just surpassed Tesla to be the largest EV producer globally; CATL, which is the largest EV battery producer on a global basis; and Sieyuan Electric, a new name that we added to the portfolio in 2025. It is a leading power grid equipment producer.

**Matt:** Thank you, Sophie. Before we wrap up, do you have any final thoughts for our audience today?

**Sophie:** Two messages that I would leave the audience with: first, I think EM markets not only bring diversification benefits to a global portfolio, but on its own right, EM markets [also] have a combination of attractive valuation and strong growth prospects, making it a compelling asset class for long-term investors. Secondly, hopefully you can tell from this Investment Review that we are very excited about our portfolio. We have generated strong performance since our inception [of the USD Accumulating Class] and are excited to celebrate our five-year anniversary in a couple months. We

acknowledge the uncertain world with changing trade policies and geopolitical tensions, but we are very confident in our disciplined, long-term oriented investment approach, with an all-cap strategy that allows us to tap into the long-tail end of the under-discovered universe.

**Matt:** Thank you, Sophie, for another intriguing discussion today, and thank you to everyone in the audience that's listened. We appreciate your ongoing interest and confidence in Dodge & Cox.

**Sophie:** Thank you.

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- 1 All returns are stated in U.S. dollars, unless otherwise noted.
  - 2 All Fund performance and attribution statements are for the Dodge & Cox Worldwide Funds – Emerging Markets Stock Fund's USD Accumulating Class.
  - 3 Country performance shown is for the MSCI Korea Index. Unless otherwise specified, all country performance figures shown are in U.S. dollars and represent the MSCI index of each country.
  - 4 Unless otherwise specified, all weightings and characteristics are as of 31 December 2025.
  - 5 The use of specific examples does not imply that they are more or less attractive investments than the portfolio's other holdings.
  - 6 Greater China includes China, Hong Kong, and Macao.
  - 7 China Internet for the Emerging Markets Stock Fund consists of 37 Interactive Entertainment, Alibaba, Baidu, DiDi Global, IGG, JD.com, JOYY, NetEase, PDD Holdings, Prosus, Shanghai Baosight, Tencent, Vipshop, and Zhihu.

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