



RATHBONES

RATHBONE SICAV GLOBAL EMERGING MARKETS EQUITY FUND

QUARTERLY UPDATE JUNE 2026

For professional advisers only

In a quarter characterised by exceptionally strong headline emerging market (EM) equity returns, but increasingly narrow market leadership, we participated in that upside, while also avoiding heavy dependence on one country, sector or theme. Importantly, our portfolio construction overlays ensured that performance was not reliant on one single sector. Returns came from tech, financials and industrials as well as domestic demand opportunities.

The semiconductor ecosystem was the primary driver of EM equity returns in the second quarter, with the EM tech sector overall up by more than 70%. We managed to keep pace with that upside participation. This was helped by our top-down Value, Momentum & Risk (VMR) models which led us to underweight Taiwan versus Korea at the end of May, which paid off. In addition, our bottom-up models led us to slightly overweight GARP (growth at a reasonable price) versus Value from March through to the end of May, before rotating modestly into laggard Value stocks in June. That helped us capture specific AI hyperscaler capex beneficiaries, notably platinum and copper exposures. Our models also favoured staying underweight India's software-as-a-service (SAAS) sector and, therefore, underweighting Indian tech overall.

We believe our performance during the first few months since the fund's inception highlight three defining characteristics of our strategy:

- **Non-correlated returns:** our gains did not depend solely on the dominant MSCI EM Index drivers.
- **Consistency across market environments:** we participated strongly in the market's upside while demonstrating downside protection when enthusiasm for AI and semiconductor stocks waned, driving periods of tech weakness
- **Portfolio construction offsetting index concentration:** given our highly concentrated benchmark, our diversification framework helped mitigate single-factor or country-specific risks.

We believe these characteristics are proving particularly pertinent this year as headline index performance masks extreme dispersion in returns beneath the surface.

What happened in emerging markets?

EMs have enjoyed an exceptional start to 2026, helped by improving earnings, stronger capital flows and enthusiasm around artificial intelligence. But the headline returns generated by the MSCI EM Index tell only part of the story.

A disproportionate part of the index's outsized gain came from Korea and Taiwan, where semiconductor and AI-related companies were the dominant winners. Investors looking at the index return in isolation may assume that all EMs did equally well. In reality, returns have been highly uneven. Korea and Taiwan now command very large weights in the index, and the tech sector dominates it. The 'three horsemen' of Asian tech (Taiwan Semiconductor Manufacturing Company (TSMC) and Korea's Samsung and SK Hynix) alone now represent close to an astonishing 30% of the MSCI EM Index.

This concentration creates both opportunity and risk. The opportunity lies in the fact that certain EM companies sit right at the centre of the global AI supply chain. And the risk stems from the potential for investors taking passive index exposure to overload on their exposure to a narrow group of winners without realising it. This is why we view active portfolio construction as critical.

Key performance drivers

Our performance was driven by a combination of disciplined stock selection and thematic positioning.

Our tech exposure in Korea and Taiwan, particularly across the semiconductor value chain, was the dominant positive contributor. Holdings such as **Samsung Electronics**, **SK Hynix** and **SK Square** benefited from continued earnings upgrades linked to global demand for their AI hardware. Our financials and industrials stocks provided important diversification from the AI theme, with strong contributions from India, the United Arab Emirates and Brazil, underpinned by domestic growth and capital flow dynamics. Our country allocations also added value, notably our exposure to Korea and India, while our large underweight and careful stock selection in China, contributed positively given the market's weak overall returns.

At a stock level, alpha generation was concentrated, but risk-controlled, supported by our diversified portfolio framework of 80-120 holdings and caps on the extent of our overweights/underweights relative to the MSCI EM Index.

The main drags on performance over the quarter came from our exposure to Chinese internet platforms, including **Alibaba** and **Tencent**, which continued to be held back by weak sentiment, competitive pressures and broader structural headwinds. A further drag came from wider dispersion across the AI supply chain, with not every hardware/semiconductor name participating equally in the rally

Importantly, these headwinds were mitigated through diversification and relative positioning. As we've explained, our selective China exposure remains both highly focused and highly risk-aware.

How we manage risk

A central objective of our strategy is to deliver diversified, non-linear returns in an increasingly concentrated market.

Our approach is defined by:

- **Our style-agnostic framework** which allows us to navigate shifting market regimes without being forced into Growth or Value extremes.
- **Broad geographic and sector diversification** which ensures our alpha is sourced from multiple independent drivers.
- **Our commitment to avoiding too much correlation with our concentrated benchmark**, particularly when it comes to mega-cap tech exposure.

In our view, this approach has enabled us to avoid becoming a proxy for the dominant Korea/Taiwan tech trade, while still participating meaningfully in its upside.

Themes we benefited from

The key drivers of our Q2 performance were our clear thematic positioning aligned with our top-down VMR framework, further reinforced through our bottom-up stock selection.

- **Underweight tech services and software (particularly in India):** We reduced our exposure to traditional SaaS and software services, where emerging AI models (e.g. large language platforms) are beginning to challenge pricing power and business model durability. This was most evident in parts of the Indian IT complex.
- **Underweight China:** Our positioning reflects ongoing structural headwinds, most notably 'involution' (China's self-defeating predilection for hyper-competition), high debt levels, unfavourable demographics and persistent deflationary pressures. In the absence of a credible recovery in China's property market, investor confidence remains fragile, and we have continued to underweight the country selectively.
- **Underweight consumer discretionary and telecommunications:** We reduced our exposure to areas most sensitive to weak consumption and margin compression, particularly within China, where pricing pressure and demand uncertainty have intensified.
- **Overweight financials (Korea, Taiwan, Eastern Europe):** We benefited from our exposure to high-quality financial institutions in markets leveraged to strong nominal growth, capital markets activity and cross-border flow dynamics, particularly in Korea, Taiwan and parts of Eastern Europe.
- **Selective exposure to domestic demand stories (especially UAE real estate):** We added to UAE property during periods of market weakness, taking advantage of cyclical dislocation in the Gulf, supported by strong underlying liquidity, population inflows and domestic demand resilience.
- **Positioning for ongoing involution in China via downstream beneficiaries:** Rather than owning upstream Chinese manufacturers exposed to margin compression, we focused on downstream distributors and beneficiaries across EM markets, capturing the benefit of falling input costs as China exports deflation globally.

START versus the Mag7: broadening the AI Opportunity

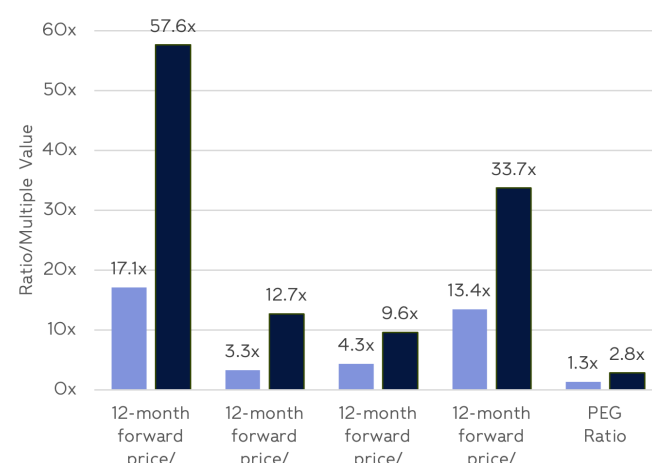
A central theme in our thinking is the evolution of global tech leadership. While America's "Magnificent Seven" continues to dominate headlines, we see a compelling parallel within EM where a group of companies are equally important to the global AI ecosystem, but often less well understood.

We call these companies START: Samsung, TSMC, Alibaba, Reliance and Tencent. They are involved in areas such as chips, memory, cloud platforms, digital distribution and consumer tech infrastructure. A simple way to think about this group is that many US tech giants are closer to tech's application layer (the services that consumers use), while EM tech leaders tend to sit closer to the infrastructure layer that enables AI to work.

This distinction is important for three reasons:

- **Structural positioning:** the START businesses control key bottlenecks in the global tech stack.
- **Earnings momentum:** recent performance has been driven by strong earnings upgrades, rather than multiple expansion.
- **Valuations:** Despite comparable growth dynamics, the START group trades at a significant discount to its US peers on a growth-adjusted basis.

START VS MAG7 VALUATION & PROFITABILITY MULTIPLES



Source: Rathbones as at 31 May 2026.

We believe this presents a compelling opportunity for valuation-conscious investors seeking exposure to global AI growth beyond the US.

Outlook: constructive, but more selective

We remain constructive on EM equities relative to developed markets. We expect them to remain supported by improving capital flows, strong earnings momentum and structural growth drivers, including digital adoption and domestic demand expansion. But we're increasingly stock selective. We expect EM returns to broaden into several non correlated areas, such as Indian domestic demand plays, logistics hubs and secular demographic beneficiaries. Specifically, we favour the cyclical and structural growth opportunities that we regard as inherent to the EM equity opportunity set.

We are increasingly focused on:

- Managing concentration risk, particularly in AI-driven segments of the market.
- Recycling capital from extended positions into lagging, but fundamentally strong, opportunities.
- Broadening our exposure into 'picks and shovels' AI plays, commodities, and domestically driven sectors.

Encouragingly, we're beginning to see early signs of rotation, including toward Latin American equities, where valuations remain attractive and the cyclical recovery potential is improving.

Over the shorter term, renewed dollar weakness (which supports both international equity flows into EM and EM carry trades), coupled with a less hawkish US Federal Reserve than anticipated, are positive for EM equity markets. Furthermore, a lower oil price backdrop is a significant plus for Asia and India (which are both big index heavyweights).

Although we will be monitoring AI enterprise adoption as a lead indicator on future tech sector EPS, we anticipate EM equities will outperform their developed market counterparts in the second half of 2026. But we also anticipate more volatility as the concentration of returns in the year-to-date broadens out into more sectors/themes. As ever, we advocate staying the course, especially when Foreign Direct Investment, repatriation and domestic pension flows are all positive – something we expect to drive further multiple expansion and consistently resilient EPS.

Summing up

In our view, our performance during Q2 reinforces several core attributes of our strategy:

- **Less downside, more consistent upside capture.**
- **Alpha driven by process, not factor exposure.**
- **Diversified return streams in a concentrated market.**

In simple terms: we want to own EMs' long-term winners, but we do not want to depend on only one country, one sector or one investment theme. Participating in upside potential, while managing concentration risk, is central to how we aim to deliver returns for clients.

We remain fully invested, selective, and committed to delivering strong risk-adjusted returns for our clients.



TIM LOVE

Head of Global Emerging Market Equities, Fund Manager



JOAQUIM NOGUEIRA

Fund Manager

For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. When you invest, you could lose some or all of your investment.

This fund is actively managed. This is a marketing communication. Please refer to the prospectus of the UCITS and the KIID before making any final investment decisions.

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Rathbones Asset Management

EU/EEA investors
+352 691992088
arnaud.gerard@fundrock.com

UK and non EU/EEA investors
+44 (0)20 7399 0800
international@rathbones.com
rathbonesam.com

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