

RATHBONES

RATHBONE SICAV GLOBAL EMERGING MARKETS EQUITY FUND

QUARTERLY UPDATE SEPTEMBER 2026

For professional advisers only

Emerging market (EM) equities – and your fund – ended the third quarter roughly where they began it, but that calm headline concealed a turbulent three months beneath the surface. How we got there matters, though: rather than relying on the narrow group of AI-driven chipmakers that dominates the index, our returns were driven to a large extent by stock selection across a diversified portfolio.

The third quarter was a reminder that concentration cuts both ways. The artificial intelligence (AI) trade that powered EMs' exceptional first half was severely stress-tested in July, when Asian tech stocks sold off sharply. Markets recovered some of that ground in August, before slipping again in September as a renewed oil shock and the US Federal Reserve's first interest rate rise in more than three years weighed on sentiment.

Against this backdrop, our portfolio is underweight China and, to a lesser degree, underweight Taiwan. That reflects a conscious choice to retain diversification, rather than hold the full index weight in the AI-driven chipmakers that make up an ever-larger share of the MSCI EM Index. Stock selection was a big driver of our returns, helping us keep pace with the index without becoming a proxy for it.

Since the fund's launch in late March 2026, we are very happy with our performance, both in absolute terms and against our MSCI Emerging Markets (EM) Index benchmark. We believe our first six months highlight three defining characteristics of our strategy:

- **Non-correlated returns:** our returns haven't depended solely on the dominant MSCI EM Index drivers
- **Consistency across market environments:** we participated in the market's upside in the second quarter, and held our ground in the third quarter when enthusiasm for AI and semiconductor stocks waned
- **Portfolio construction offsetting index concentration:** given our highly concentrated benchmark, our diversification framework helped mitigate single-factor and 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?

Despite the slight fall in Q3, EMs remain among the strongest-performing equity markets of 2026, easily outpacing developed markets.

July provided a stress test, both for EM momentum and our fund's strategy. EM tech stocks heavily plugged into the Western AI ecosystem fell sharply as investors worried about signs of progress in China's domestic memory chip production and the growing pile of debt being used to fund AI infrastructure. Another issue, of course, was that many of these stocks had been bid up unsustainably by leveraged investors, both retail and institutional. We had reduced our exposure to these areas as our equity screens had flashed warnings.

South Korea, the market most exposed to the memory chip cycle, bore the brunt, with Samsung Electronics and SK Hynix each falling sharply over the quarter. Market leadership then rotated away from the momentum and growth names that had powered the first half of the year, towards value, income and markets that had been left behind.

The resurgence of conflict in the Strait of Hormuz is another factor at play. Brent crude was pushed back above $100 a barrel, and diesel prices have been particularly badly affected, hurting transportation, haulage and agriculture disproportionately hard. Coupled with already persistent American inflation, this compelled the US Federal Reserve (Fed) to raise its benchmark interest rate to the 3.75-4.0% range. Higher energy costs are a particular headwind for big energy importers, including India (where we are underweight) and much of Asia.

Despite the big correction in Korean stocks, the EM index remains extraordinarily concentrated: Taiwan and Korea together account for half the index, tech accounts for 44% when split by industry. The index return may lead you to assume that all EMs move together. In reality, returns have been highly uneven.

Key performance drivers

Stock selection was a big driver of the fund's returns in the third quarter. Our country positioning played a supporting role. Our largest underweight remains China (we own roughly half the index's 20%). 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. Recent data underlines the split nature of the Chinese economy: strong exports and expanding high-tech manufacturing, alongside subdued retail sales and falling property investment. In the absence of a credible recovery in China's property market, investor confidence remains fragile, and we retain our underweight.

We are also underweight Taiwan, though to a lesser degree than China. We still have meaningful exposure to the semiconductor value chain, but not the full index weight. When a few stocks account for such a large share of the benchmark, holding them at index weight leaves our fund's fortunes tied largely to one theme, one industry cycle and two markets. This quarter showed how quickly sentiment towards that theme can turn.

Diversification in practice

The EM equity universe is anything but homogeneous. It spans more than 20 countries with very different economic structures, demographics, policy frameworks and growth drivers. Our fund has 113 holdings spread around the globe. And caps on the extent of our overweights and underweights relative to the MSCI EM Index help embed diversification into our portfolio.

We aim to capture breadth through companies whose fortunes are driven by distinct and durable economic forces, rather than by the AI hardware cycle:

- **Chile:** copper miner Antofagasta is a bet on the physical requirements of electrification and the energy transition, rather than on global risk appetite.
- **Poland:** infrastructure group Budimex is building the roads, railways and energy infrastructure needed for NATO's eastern-flank rearmament and the nearshoring of European manufacturing.
- **India:** consumer electronics retailer Aditya Vision is capturing domestic demand from first-time buyers of televisions, fridges and washing machines, supported by rising incomes and wider access to credit.
- **Romania:** Banca Transilvania, the country's leading bank, is poised to benefit from the EU convergence trade as more households save, take out mortgages and buy insurance.
- **Vietnam:** industrial park developer Kinh Bac City Development is directly exposed to the reshaping of global supply chains and the foreign direct investment that comes with it.

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 in its upside. The third quarter, when that trade stumbled, was a timely test.

Outlook: EMs should outperform developed, but it will be bumpy

EM equities are supported by strong earnings momentum and structural growth drivers, including digital adoption and domestic demand expansion. But they are also highly momentum-driven and volatile relative to their developed market counterparts.

Encouragingly, the broadening we anticipated in our last update has begun. As the AI trade wobbled, leadership rotated towards value, income and markets that had been left behind earlier in the year. We expect EM returns to continue to broaden into several non-correlated areas, such as Indian domestic demand plays, logistics hubs and secular demographic beneficiaries.

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

The near-term backdrop is more challenging than it was three months ago. Higher oil prices and tighter US monetary policy are headwinds, and we expect volatility to remain elevated. We will continue to monitor AI enterprise adoption as a lead indicator of future tech sector earnings. As ever, we advocate staying the course.

Summing up

In our view, our performance during Q3 reinforces several core attributes of our strategy:

- **Resilience when the market's dominant theme stumbles**
- **Alpha driven by process and stock selection, not factor exposure**
- **Diversified return streams in a concentrated market**

In simple terms: we want to own EMs' long-term winners, but we don't 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 you.





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For more info on our fund, including factsheets, performance and fund manager views, please click here.

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

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