How to Benefit from Emerging Markets Growth While Avoiding Concentration Risk.

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For Professional Investors Only

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Emerging Markets Outlook

Emerging Markets (EM) enter 2026 with improving macroeconomic fundamentals and stronger growth prospects than developed markets, presenting a renewed opportunity for equity investors seeking valuation support, global diversification, and access to differentiated sources of return.

According to the International Monetary Fund's October 2025 World Economic Outlook, EM and developing economies are projected to grow at just above 4% in both 2025 and 2026, significantly outpacing advanced economies, which will achieve approximately 1.5%. Inflation has moderated across most EM countries, enabling central banks to cut rates earlier and more decisively than in developed economies. In 2025, emerging market central banks delivered 3,085 basis points of cumulative easing across 51 rate moves, the largest since at least 2021, well exceeding the 2,160 basis points delivered in 2024. At the same time, global growth is becoming less U.S.-centric, while the U.S. dollar shows signs of a cyclical peak. The DXY index fell nearly 10% through September 2025, its weakest performance in over a decade, conditions that have historically supported capital flows into EM.

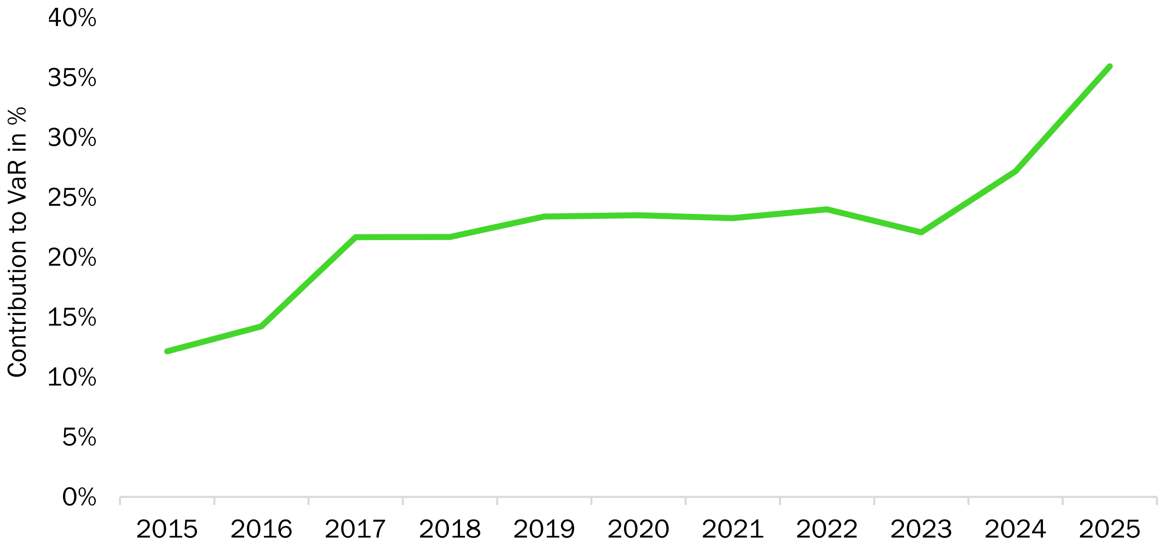
Valuations in EM equities remain attractive. As of December 2025, U.S. equities were trading at over 22 times forward earnings, compared to approximately 13 times for EM equities, one of the widest valuation spreads in two decades. EM equities currently trade at a discount of approximately 40% to developed market peers across key valuation metrics. This discount persists despite comparable or stronger long-term growth potential and improving credit quality among EM corporates. In parallel, regional growth drivers are broadening, fuelled by structural shifts in global supply chains, improving macro policy frameworks, and reindustrialisation in key economies.

In this context, the way investors access Emerging Markets is increasingly important. Passive benchmarks have become more concentrated, exposing portfolios to idiosyncratic and structural risks that may not reflect the broader opportunity set. The top five stocks in the MSCI Emerging Markets Index now represent nearly 27% of the entire index, with Taiwan Semiconductor alone accounting for approximately 12%. A differentiated approach that emphasises valuation discipline, quality fundamentals, and diversified country exposure can help investors navigate these challenges more effectively.

Concentration Risk in the Benchmark

The top five stocks in the MSCI Emerging Markets Index now contribute over 36% of the benchmark's Value-at-Risk (VaR), up from just 12% a decade ago. In practical terms, this means that while these five stocks represent around 27% of the index weight, they account for over a third of the potential losses under adverse market conditions. Investors bear disproportionately more risk from a handful of names than their allocation suggests.

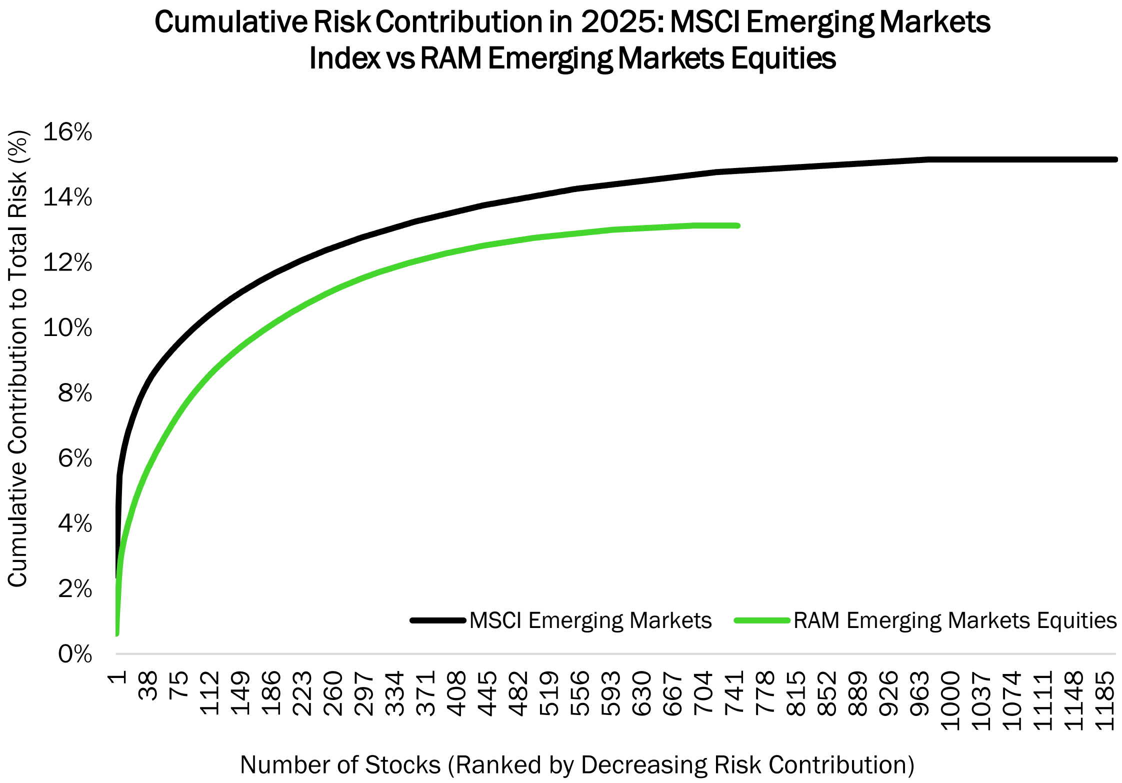
Historical Contribution to VaR of Top 5 Stocks of the MSCI EM Index



Source: Bloomberg data as of 31.12.2025

This trend, combined with the benchmark's heavy weight in China (24.9%) and India (15.3%), leads to a portfolio structure where a small set of countries and companies disproportionately influences returns and volatility. While this may not be problematic in terms of short-term performance, it introduces meaningful concentration risk that investors may not be explicitly targeting.

The second chart illustrates how risk accumulates across portfolio holdings. In the MSCI Emerging Markets Index, risk builds rapidly with the first few stocks (steep black curve), reflecting heavy dependence on a small number of names. By contrast, the RAM Emerging Markets Equities strategy accumulates risk more gradually across a broader set of holdings (flatter green curve), resulting in a more balanced and diversified risk profile.



Source: Bloomberg data as of 31.12.2025.

The RAM Emerging Markets Equities strategy is designed to mitigate this structural imbalance. Through a systematic bottom-up approach, portfolio risk is distributed more evenly across a wider range of securities. This avoids overexposure to any single stock or theme and enhances portfolio resilience during periods of benchmark-driven volatility.

• Fundamental strength

Our strategy applies a systematic, bottom-up framework that selects stocks based on fundamental signals: free cash flow generation, earnings stability, capital discipline, and valuation. This consistent style orientation leads to a differentiated portfolio with stronger fundamental characteristics relative to the benchmark.

As of 30th January 2026, the RAM Emerging Markets Equities portfolio exhibited:

Fundamental ▲	Fund	Benchmark
Dividend yield	2.89%	1.98%
Free cash flow yield	7.87%	3.96%
Price/book	1.78	2.30
Price/earnings	15.09	18.36
Return on equity	12.25%	13.00%

Source: Bloomberg data as of 30.01.2026

This profile reflects a deliberate value and quality bias, prioritising companies with robust operating models and undervalued future cash flows. These characteristics support capital preservation in weaker markets while providing participation in recovery phases.

Capital Discipline in a CAPEX-Heavy Environment

This quality and value orientation is increasingly relevant as large-cap technology leaders face mounting pressure on their free cash flow generation. Massive capital expenditure programmes, particularly in AI infrastructure, have led several mega-cap firms to issue debt to fund their investments, raising questions among equity investors about future returns on capital. By contrast, the RAM Emerging Markets Equities portfolio focuses on companies with disciplined capital allocation and robust free cash flow yields. As of January 2026, the portfolio's free cash flow yield stood at close to 7.87%, double that of the MSCI Emerging Markets index, reflecting our preference for businesses that generate cash rather than consume it.

Return Asymmetry

In the last 5 years, the RAM Emerging Markets Equities strategy has delivered an annualised return of 10.76%, compared to 5.34% for the MSCI Emerging Markets Index. This has been achieved with lower volatility (13.73% vs. 15.82%), resulting in a Sharpe ratio of 0.54 versus 0.13 for the index.

	RAM Emerging Markets (IP USD)	MSCI Emerging Markets
Annualised Return	10.76%	5.34%
Annualised Volatility	13.73%	15.82%
Sharpe	0.54	0.13
Beta	0.82	1
Alpha	5.80%	0
Upside Capture Ratio	0.94	1
Downside Capture Ratio	0.65	1

Source: RAM AI, as of 30.01.2026.

Performance is net of fees (Class IP) including a management fee of 1% per annum. Please click on the following link to access the fund factsheet and obtain a global overview of performance since inception. IP USD share class currently registered in LU, AT, CH, DE, DK, ES, FI, FR, UK, IT, NL, NO, SE, SG (foreign restricted recognised scheme). Past performance is not a reliable indicator of future returns.

The portfolio is actively managed with reference to a benchmark. While the product compares its performance against the Index, it does not try to replicate this benchmark and freely selects the securities that it invests in. The deviation with this benchmark can be significant.

Beyond returns, the strategy exhibits a distinct return convexity: it has captured almost the full upside of EM markets while limiting downside participation to 65%. This favourable asymmetry is not accidental; it stems directly from our quality bias, which naturally tilts the portfolio toward companies with more resilient business models and stronger balance sheets.

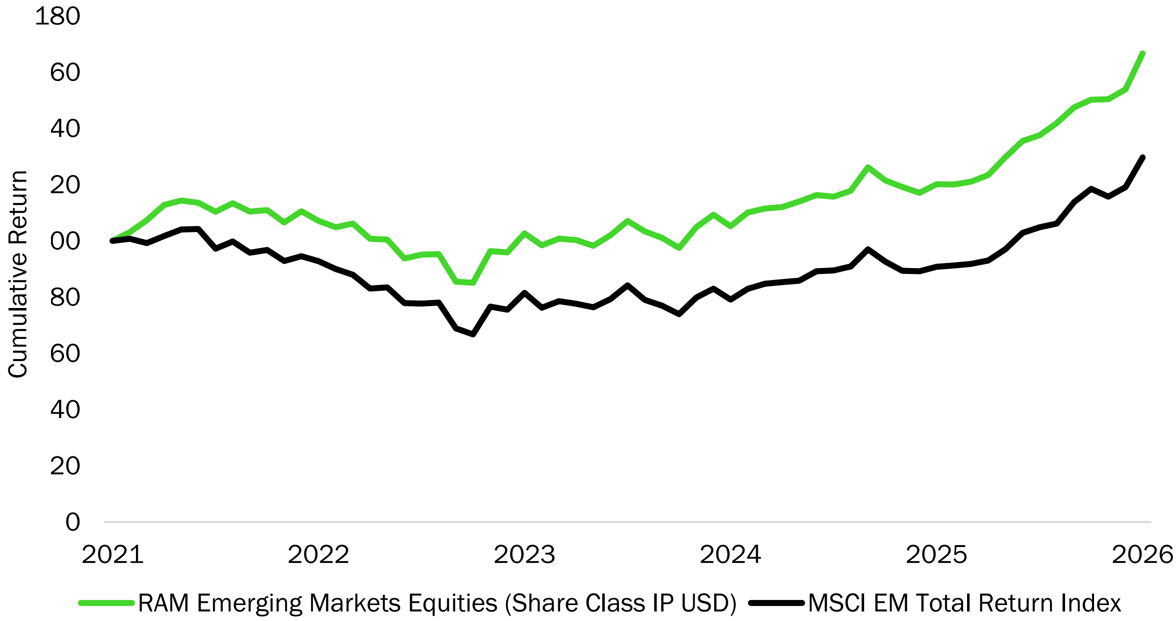
These characteristics provide a buffer during market stress, reducing drawdowns without sacrificing participation in recoveries.

Equally important is our dynamic approach to risk management. The strategy does not rely on static allocations; instead, portfolio exposures are actively adjusted in response to changing market conditions and evolving stock-level signals. This allows us to reduce risk when volatility rises and redeploy capital opportunistically when conditions improve, compounding the protective effect of our quality orientation.

The result is a return profile that aims to support more stable long-term compounding, a key objective for investors allocating to structurally volatile regions.

Cumulative Return (Growth of 100 USD)

Past performance is not a guide of future performance



Source: RAM AI, as of 30.01.2026.

Performance is net of fees (Class IP) including a management fee of 1% per annum.

This performance does not result from heavily weighed bets. It is the outcome of our systematic bottom-up process, stable style exposure, and diversification at the portfolio construction level.

Conclusion

EM present real opportunities, but also real structural risks when accessed via traditional benchmarks. Market concentration and changing regional dynamics suggest that investors should examine not only whether to allocate to EM, but also how to do so.

The RAM Emerging Markets Equities strategy provides an alternative: a diversified, style-consistent portfolio grounded in valuation, quality, and risk balance. With a strong track record of risk-adjusted returns and downside protection, the strategy offers investors a systematic and measured approach to capturing EM equity growth, while mitigating the risks of a benchmark-based exposure.

Sources

[1]: IMF World Economic Outlook, October 2025

[2]: Reuters, ‘Major central banks deliver biggest easing push in over a decade in 2025,’ December 2025

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