

Portfolio Positioning Highlights

Finding opportunities in industrials. We increased our exposure to the sector, moving to an overweight relative to the benchmark, with a new position in Philippines-based port management company International Container Terminal Services and by adding to an existing holding, Brazil-based aircraft manufacturer Embraer. We also increased exposure to information technology, one of our largest overweights. Financials and communication services were also notable overweights. We reduced exposure to consumer discretionary, an underweight sector along with materials, energy and consumer staples. Our largest market overweights included South Korea, Hungary and Taiwan. India and China remained sizable underweights, despite heavy exposure.

Market Review

Emerging markets (EM) equities extended rally, outperformed developed markets. Artificial intelligence-related stocks and geopolitical developments drove gains. President Donald Trump's late-month meeting with China's president led to the suspension of some recent trade actions, reduced the effective U.S. tariff rate on Chinese imports and eased concerns around a near-hard decoupling, which we believe is unlikely.

South Korea, Taiwan led stocks higher. Strong corporate results fueled by constrained memory chip supply amid heightened AI capital expenditures supported both markets. Advancements in memory production, a U.S. trade deal and strengthened sectoral partnerships with the U.S. helped Korean stocks, while substantial demand for AI and iPhone products helped lift earnings and capital spending outlooks in Taiwan.

China, Latin America underperformed. Chinese equities declined as technology stocks consolidated following robust gains. Brazil advanced modestly amid mixed macroeconomic data. Industrial production and services output came in above expectations, but economic growth and retail sales missed forecasts. Inflation continued to ease, while the current account deficit widened despite improving foreign direct investment.

Key Contributors

HD Hyundai Electric Co. Demand for power transformers, switchgear and smart grid solutions drove earnings growth, while U.S. infrastructure investment plans around artificial intelligence data centers and grid upgrades supported the stock. We believe the company is well positioned for global trends around electrification and sustainability.

IsuPetasys. The printed circuit boards (PCBs) supplier specializes in ultra-multilayer PCBs used in high-performance computing, networking, aerospace and automotive applications. Shares advanced amid increased demand, with artificial intelligence and data center expansion driving server/storage needs.

Key Detractors

Montage Technology. Renewed scrutiny of semiconductor exports weighed on sentiment across Chinese technology stocks with high exposure to U.S.-China trade tensions, amid concerns around supply chains and customer relationships. The company's earnings were mixed as quarter-over-quarter growth slowed and missed market expectations.

Xiaomi. Shares declined sharply after a mid-month fatal crash involving Xiaomi's SU7 electric car in China raised concerns about Xiaomi's smart driving features and electronic door handles, which reportedly failed to open after the fiery crash. Analysts also lowered forecasts, citing macro headwinds and smartphone market weakness.

Notable Buys

International Container Terminal Services. We added the Philippines-based port management company amid what we view as multiple long-term themes and tailwinds, from the global trade recovery to the worldwide energy transition—which requires critical materials—and U.S.-China decoupling.

Notable Sells

Suzano. The Brazil-based pulp and paper producer was forced to cut production as recent disruptions in China led to an inventory buildup and price corrections. The U.S. imposed a 50% tariff on certain Brazilian paper products in August, and while Suzano claims limited exposure, trade tensions could escalate.

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