

The Case for Asian Equities



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For more than a decade, global equity portfolios have been dominated by the United States. And rightly so. U.S. companies delivered exceptional earnings growth, provided technology leadership and produced strong shareholder returns. But active investing is not about yesterday's winners. It's about identifying positive returns that are not yet reflected in today's prices.

We believe Asia is where those returns now sit.

First, Asia Continues To Offer Stronger Economic Growth

Even with the pressure from higher energy costs and increased global uncertainty, we expect Asia, on the whole, to deliver stronger economic growth than developed markets. This matters because economic growth compounds: rising income fuels consumption, which deepens financialization and lifts corporate revenues.

Across India and Southeast Asia, hundreds of millions of consumers are climbing into higher-income categories, shifting their spending away from just basic goods. According to the World Bank, about one in three people in the region now belong to the middle classes.¹ For investors, this growth helps create a long runway not dependent on a single economic cycle.

Second, Asia Is Central to the Global AI Ecosystem

There is no AI story without Asia. In the U.S. the focus remains firmly on the Mag 7.² But without certain Asian companies, whether Taiwan Semiconductor, Samsung or SK Hynix, those Mag 7 companies will be hard pressed to function effectively (Display 1). And it's not just the semiconductor companies, but the server components, chip testing, assembly, server racks, cooling systems among others. So far, the biggest beneficiaries of the massive AI capex, roughly \$2 trillion for 2026-2027,³ have been Asian companies across not just Korea and Taiwan, but countries like Thailand and Malaysia.

¹ Beyond Poverty: Why Growing the Middle Class Is a Different Challenge, Lalita Moorthy and Sailesh Tiwari, World Bank, 8/31/2026.

² Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla

³ Morgan Stanley 2026 Midyear Outlooks

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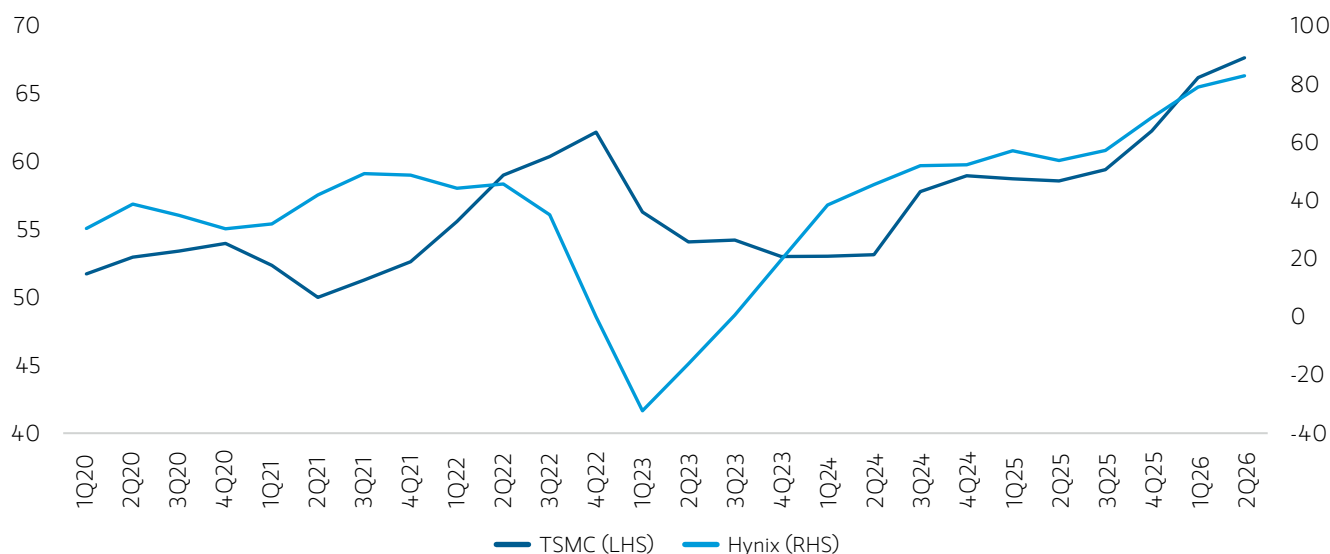


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DISPLAY 1

The Engines Behind Global AI

TSMC and SK Hynix gross margins (%) reflect their dominance



Source: Bloomberg. As of 06/30/2026. TSMC and SK Hynix are the top players in their field. Hynix has a 50% share of high bandwidth memory (HBM) market by revenue and 62% of global HBM shipments. TSMC manufactures more than 90% of the world's leading-edge logic chips.

Third, Valuations Remain Attractive

After more than a decade of outperformance, U.S. market valuations have become elevated. And with the rise of the Mag 7 and AI, many global portfolios with a large U.S. weighting are now highly concentrated in a small group of richly-valued U.S. tech companies. By contrast, China, Korea, Southeast Asia and parts of India offer differentiated earnings drivers and, in many cases, at more reasonable valuations.

China might be considered a controversial investment, but is nonetheless a place where we believe selective opportunities exist. A weak job market, property sector stress and poor consumer sentiment are understood, but pockets of growth in the technology, healthcare and industrials sectors look promising. High-quality Chinese companies with strong cash flows, competitive industry positioning and increasing focus on shareholder return can be found at reasonable valuations.

India, the other market that represents structural opportunities, faces near-term challenges of poor foreign investor sentiment and more elevated valuations broadly, though there are pockets of opportunities arising.

For us, it's not about buying every Asian market nor every big company, but instead finding selective ideas across countries, industries and companies. All this is happening as there has been increased attention being paid by companies to focus on shareholder returns, increased transparency and improved corporate governance. Korea's

Corporate Value-Up program is the clearest example (Tales From the Emerging World, Nov. 2025). We think these changes matter as growth alone does not guarantee shareholder returns. Investors benefit when management teams allocate capital effectively and recognize the importance of return on equity, sustained dividends and opportunistic share buybacks.

We believe this diverse market offers both broad diversification and active selection of countries and stocks in a region that offers strong growth, leadership in technology, with rising domestic consumption and improving governance, where valuations still appear attractive.

The question isn't about whether all Asian markets will rally now, but if long-term investors have enough exposure to a region at a pivot point. We think the answer is yes and that the timing looks right to increase exposure, mainly because the AI capex cycle is already flowing through Asia, and not merely a projection.

Asia Equities: 3 Themes to Watch

When investors discuss Asia, technology and semiconductors are the first industries that come to mind. But Asia's investment opportunity is far broader, and we think there are industries beyond chips that stand out. These are the sectors that in our view are well positioned to capture Asia's transition from export-driven to one more innovative and consumption-led.

Industrials: Building the Next Asia

This is an increasingly important sector for governments as focus has turned to investing in transport networks, power generation, increasing high-end manufacturing capacity among others. Supply chains are also being reorganized since the Covid disruption and recent Middle East conflict. Companies increasingly want production across multiple countries rather than dependency on a single location. This scenario is creating opportunities across Asia. At the same time, Asia is becoming a leader in factory automation, robotics, electric vehicle (EV) supply chains and renewable energy equipment. This has meant opportunities have broadened out from traditional construction companies to engineering firms, automation specialists and manufacturers of high-value components. The industrial focus is now much more on infrastructure, localization and smarter manufacturing.

Financials: Financing Asia's growth and a Beneficiary of the Consumer Story

Economic development has increased demand for credit, more robust payment systems and a broader set of investment products. In many Asian economies, household borrowing, insurance ownership and wealth management remain significantly less developed than in developed markets. As incomes rise though, demand for these services should expand. Banks and insurance companies stand to benefit from rising loan demand, greater need for protection and investment products.

The opportunity is not simply about owning banks but related to consumers, as a shift from simply "more" consumption to "better" consumption is underway. Consumers are becoming more sophisticated, now concerned with premiumization and experiences, increasing their spending on travel, healthcare, entertainment, beauty products and better-quality foods and beverages. India and Southeast Asia offer particularly attractive long-term consumption stories, supported by favorable demographics, urbanization and increasing digital adoption. In China, although the picture is more selective, recent government measures could provide some policy support. China's 15th Five-Year Plan (2026–30) does name consumption-led growth as a priority, with trade-in subsidies and urban-renewal programs.

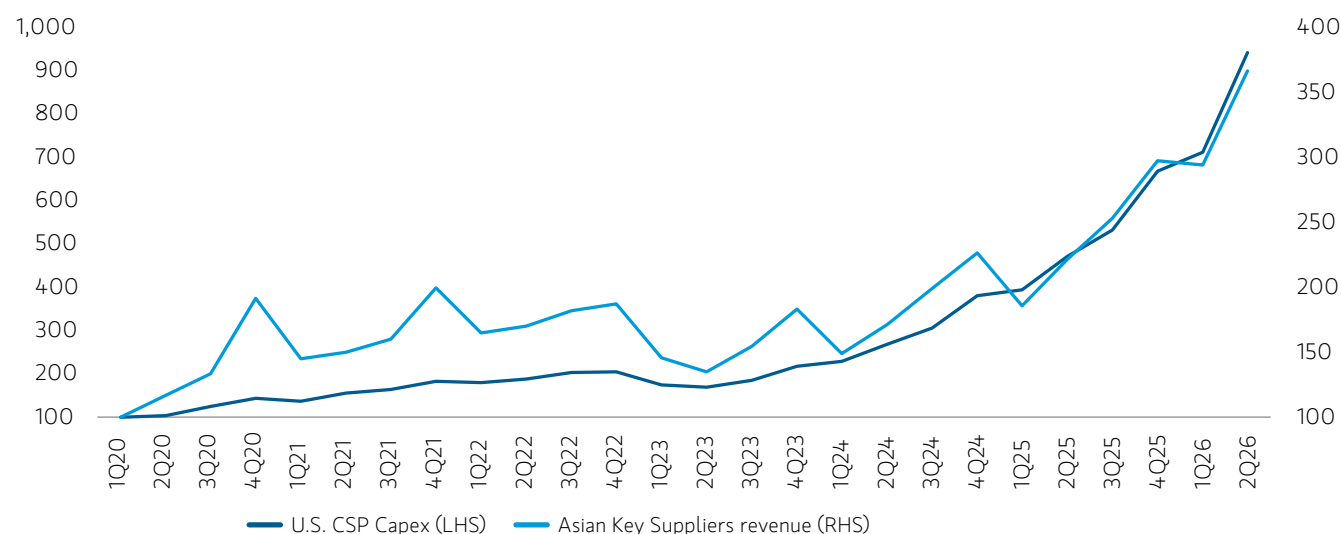
The Engine Behind Global AI

Asia remains a critical element in the global AI supply chain (Display 2). Taiwan and South Korea are central to advanced semiconductor manufacturing, memory, packaging and testing. China also now has major capabilities in EVs, leading technology in batteries, growing base of automation and established digital platforms. But the opportunity is moving beyond just chips. AI adoption can improve productivity across manufacturing, logistics, banking, healthcare and consumer services. We believe there are new opportunities in finding both the companies building the technology and those using it to strengthen their competitive advantage.

DISPLAY 2

EM Asia Remains a Key Supplier to U.S. Cloud Services Providers (CSP)

U.S. capex vs. revenues for Asian key suppliers (Taiwan Semiconductor, Hon Hai, SK Hynix) rebased to 100



Source: Bloomberg. As of 06/30/2026

How We Invest in Asia

We find that most equity managers, especially ones in Asia, focus primarily on bottom-up stock ideas. With our experience investing across Asia and emerging markets, we've come to realize the importance of top-down allocation from both a country and a thematic perspective. Before we ask which company, we ask which country, which themes and why now.

We build our portfolio top-down, from a country-allocation and thematic-exposure standpoint. This means we are deliberately overweight or underweight a market based on where it is in the economic, policy and credit cycles, coupled with an understanding of the themes driving growth, whether semiconductors in Korea and Taiwan, domestic consumption in India or political changes in Eastern Europe. Our strategy is not merely benchmark hugging with a tilt, but based on high conviction, dependent on where we believe capital should be working right now.

But that top-down view is only half the investment engine. The other half is bottom-up stock selection with analysts "on the ground," parsing investment ideas through a macro

and thematic lens before adding to the portfolio. We believe our competitive advantage derives from the ability to deliver returns generated from those two drivers: the correct country/theme, then the right company. Ideally both drivers work simultaneously, but it's often one driver, such as allocation, having a bigger contribution in a certain country, while it might be stock selection in another. That is not a coincidence, but by design, all related to our process.

The result is a return profile that is not dependent on a single country, theme or stock. Markets rotate and themes go in and out of favor. A strategy built on stock picking alone can often face extended periods of performance challenges when certain factors are out of favor. A strategy built with only country allocations can be undermined by stock selection. But our view is that the two drivers, working together, lead to a more consistent performance across market cycles, not just during periods when one or the other is in favor.

Top-down conviction with bottom-up discipline. One Asia strategy, designed to identify and capture opportunities through the whole cycle, not just sections of it.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by a portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. Please be aware that a portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries.

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