ROBECO
The Investment Engineers

FUNDAMENTAL EQUITY QUARTERLY

06 2025

THIS EDITION'S HIGHLIGHTS

P3 After an incredibly volatile Q2 for global equity markets, Kees Verbaas looks ahead

The rapid equity sell-off in April and equally fast recovery in May in the face of the new US tariff regime has left long-term investors set to start Q3, in many cases, slightly ahead of where they started Q2. Given the expiry of President Trump's '90-day pause' on 9 July and the background of intense geopolitical stress, the key word continues to be uncertainty. Nevertheless, there's also a bull case emerging, especially in Asia, as the US dollar drifts lower, the Fed ponders easing policy and the potential of AI excites bold investors.

CLICK HERE TO READ THE FULL ARTICLE

P8 Interview with Karnail Sangha, portfolio manager in Robeco's EM equity team

Karnail Sangha is Portfolio Manager for the Robeco Emerging Stars Equities and Sustainable Emerging Stars Equities strategies, after joining the Robeco EM team back in 2001. In this in-depth interview, he talks about his investment background and philosophy. He also discusses the AI theme for emerging markets investors and shares his current top-down view on which countries the EM team currently favors and why.

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THIS EDITION'S HIGHLIGHTS

P10 Trip notes: Cornelis Vlooswijk visits China for the first time

China's technological prowess has been underestimated in the past but its leadership in key global industries is now clear. On his first trip to China, EM Portfolio Manager Cornelis Vlooswijk reflects on his initial impressions, and the impressive innovation visible across the economy. He also discusses some of the other factors that need to be considered when assessing valuations in China.

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P11 Where we differ from the market. Patience is being rewarded in Korea

Korean equities have not met the high expectations of EM investors over a long period despite the country's importance within the technology supply chain. Equity Analyst Jennifer Kim looks at the dynamics of underperformance, the catalyst provided by the new government and its renewed drive to reform corporate governance, as well as identifying some sectors to consider beyond tech.

CLICK HERE TO READ THE FULL ARTICLE

3 EMERGING MARKETS IN H1 2025…

+18.7%

CHINA

Mean reversion and resurgent confidence in tech see China power through H1 25. MSCI China IMI index performance in USD to 27 June.

+28.4%

BRAZIL

Rotation from US assets and expectations of monetary easing help Brazil. MSCI Brazil IMI performance in USD to 27 June.

+39.8%

SOUTH KOREA

After a tough 2024, tech strength and political optimism have combined. MSCI South Korea IMI performance in USD to 27 June.

…AND 3 DEVELOPED MARKETS

+5.2%

US

Trump's policy cocktail has caused huge volatility but equities are finally looking up. MSCI US IMI in USD to 27 June.

+35.9%

GERMANY

An enviable fiscal position and expansionary spending plans have driven German stocks. MSCI Germany IMI index in USD to 27 June.

+12.1%

JAPAN

Foreign investors seek deep value while domestic investors are bringing money home. MSCI Japan IMI in USD to 27 June.

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 Kees Verbaas, Head of Equities

Through the maelstrom

Twice a year we organize Equity Day at Robeco, bringing together more than 100 analysts and portfolio managers from our Fundamental, Quant and Thematic teams. During last week's event in Rotterdam, we discussed many investment ideas across the different regions, next to new quant tools and process improvements. One of the topics examined was a question we often get asked by clients: has US exceptionalism come to an end? Not yet in our view. Strong global companies in banking, defense, software and technology maintain market leading positions and continue to generate high returns on invested capital. In global trade, the US dollar remains the currency of choice for large transactions. As an example, Saudi Arabia alone generates more than USD 1 billion a day from oil exports. There are no real substitutes to the US dollar for settling such large transactions and to US Treasury bills for parking the proceeds. Initiatives to create alternatives will take years to gain depth.

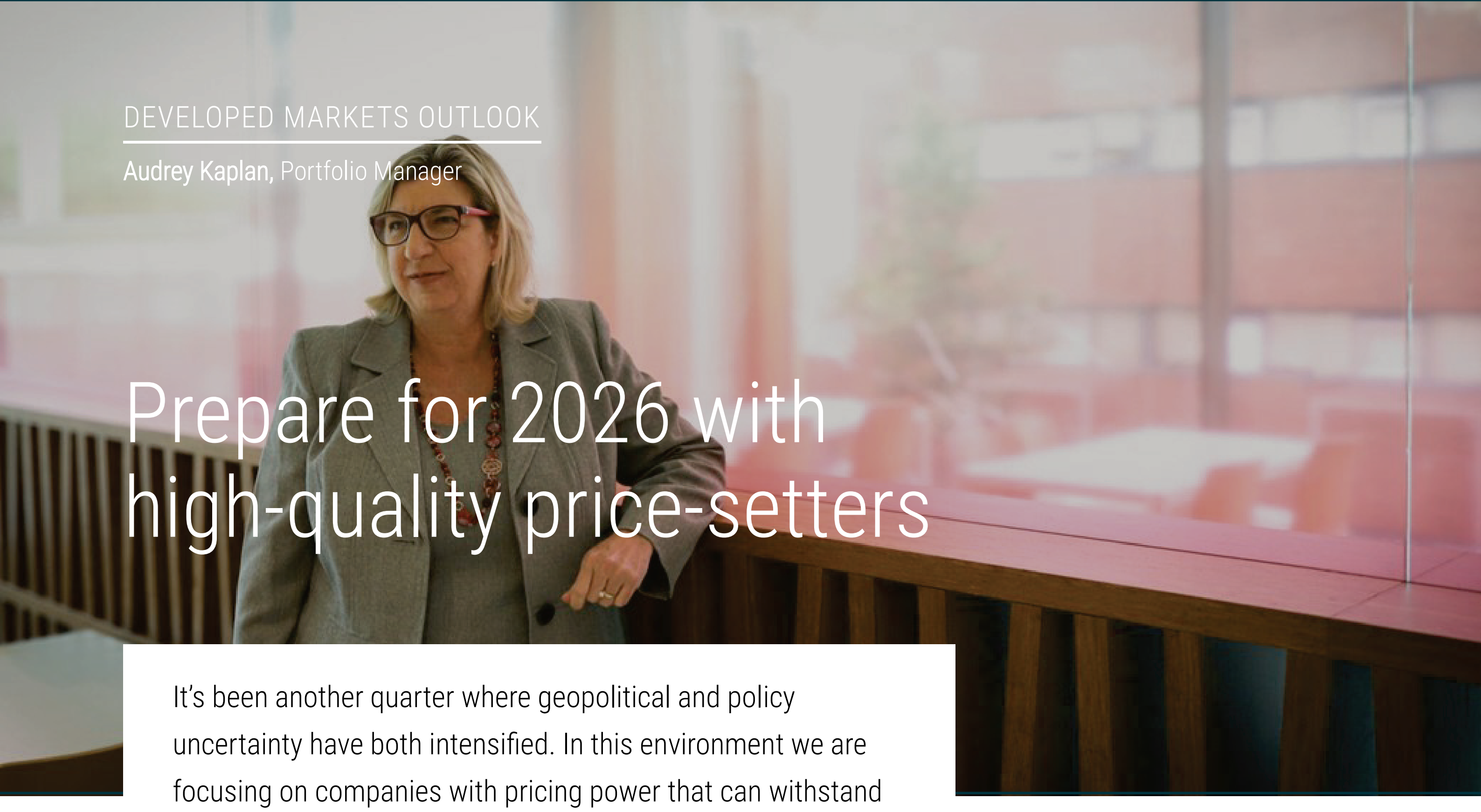
With all-time highs for the S&P 500 in mind, the current policy uncertainty makes us cautious. There are three related challenges to macroeconomic stability currently manifesting themselves: trade risk from the US with President Trump promising another round of unilateral tariff pronouncements as his 90-day pause expires in early July; macro risk as the impact of the tariffs and related uncertainty starts to feed through to economic data; and rate risk as the bond market contemplates a rapidly worsening US fiscal position. The tax initiatives in the 'big beautiful bill' threaten to worsen rather than improve the situation.

As a result, we keep our global strategies positioned somewhat defensively even as we have ridden the recent recovery in US stocks, and tech in particular. Europe and Asia offer interesting opportunities and we have shifted our portfolios accordingly. The release of the 'Schuldenbremse' in Germany, an extensive European investment agenda aimed at creating less dependence on US companies for defense and technology infrastructure, increases the region's attractiveness and our European team has many good stock ideas.

Several countries in Asia are benefiting from the current shifts in global trade and in this Quarterly we describe some of our preferences. A dollar gradually drifting lower combined with rising earnings as corporates leverage AI, supported by low valuations could see a sustainable bull market for Asia re-emerge.

Amidst uncertainty, we optimistically keep finding opportunities. Happy summer!

Kees Verbaas



DEVELOPED MARKETS OUTLOOK

Audrey Kaplan, Portfolio Manager

Prepare for 2026 with high-quality price-setters

It's been another quarter where geopolitical and policy uncertainty have both intensified. In this environment we are focusing on companies with pricing power that can withstand tariffs and potential consumer weakness.

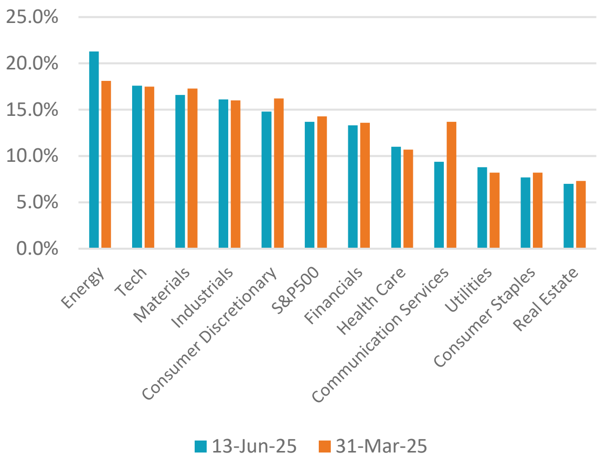
In his regular Fox News interviews, US Secretary of Commerce Howard Lutnick has suggested that multiple trade deals are coming soon – even with China. On the other hand, global companies including Apple, P&G, Mercedes and Sony have either reduced their profit forecasts or removed them outright. Many firms suggest the flip-flopping nature of President Trump's trade policies have made it impossible to estimate costs to the companies or to their consumers. Most companies – from whiskey makers to electronics – agree there will be lower consumer and business spending and higher inflation expectations in 2H25. Visibility near-term is foggy at best because tariff levels are still elevated everywhere. The US average effective tariff rate sits at around 14% (middle of June), significantly higher than the ~2-3% level coming into the year. So, our investment advice is to put on your binoculars and position for 2026.

US equity valuations remain stretched, but projected 2026 earnings growth is strong

According to FactSet, the forward 12-month P/E ratio for the S&P 500 is 21.6. This is above the five-year average (19.9) as well as the ten-year average (18.4). Heading into the final weeks of the quarter, analysts have reduced second-quarter earnings estimates for S&P 500 companies by more than average. However, the percentage of S&P 500 companies issuing negative earnings guidance for the second quarter is less than average, and we view this as a positive sign of potential bottoming. For CY 2025, analysts are predicting (year-over-year) earnings growth of 9%. We do believe this is still too high – perhaps it will shift down to mid-single-digits (e.g. 5-7%). Although the 9% is lower than what was forecast on 31 March when it was still expected to be double digits (11.3%), the outlook is murky for the remainder of 2025.

Looking ahead, the earnings growth forecast for 2026 remains a robust 13.7% led by Energy, Technology, Materials and Industrials – mainly cyclical sectors (Figure 1). This indicates that an economic expansion for full-year 2026 versus 2025 is expected. According to Bloomberg consensus economic forecasts, GDP growth will be higher in 2026 along with US Fed cutting rates from 4.5% to a more market-friendly ~3.5% by year-end 2026. Rate cuts of about 100 bps generally spur economic growth.

Figure 1: S&P 500 2026 projected earnings growth (YoY)



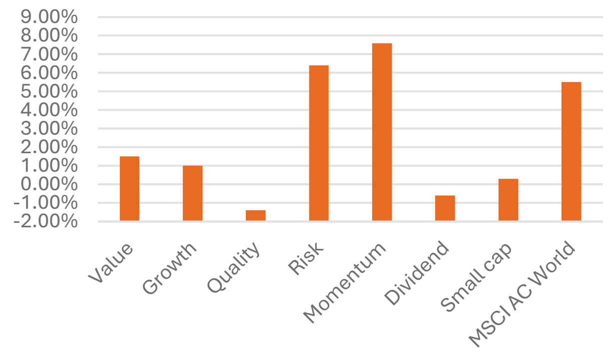
Source: FactSet and Robeco as of 13 June 2025.

Despite a weak period for Quality style, we still favor high quality

Globally, high-quality companies have sold off while Momentum was the best investment style last month (and year-to-date through 16 June 2025), as shown in Figure 2); Momentum and Risk strongly outperformed once tariff-relief news broke.

“The earnings growth forecast for 2026 remains a robust 13.7%

Figure 2: Momentum and Risk factors dominated recently



Source: BofA Global Quantitative Strategy and Robeco. 11 June 2025. Performance relative to MSCI AC World index in May 2025

However, in the mid-term (three to five years) given historical patterns, we still anticipate high-quality companies will continue to lead the market as they have done for more than 30 years (see Figure 3). We continue to use our favored indicators (ROIC and FCF Yield) to identify these companies. As we reviewed last quarter, we remain modestly overweight European quality companies in the portfolio, as quality companies are on sale year-to-date after trailing with a 9% return while momentum companies had a robust 21% return.

Robeco Global Stars strategy increases exposure to high-quality price setters

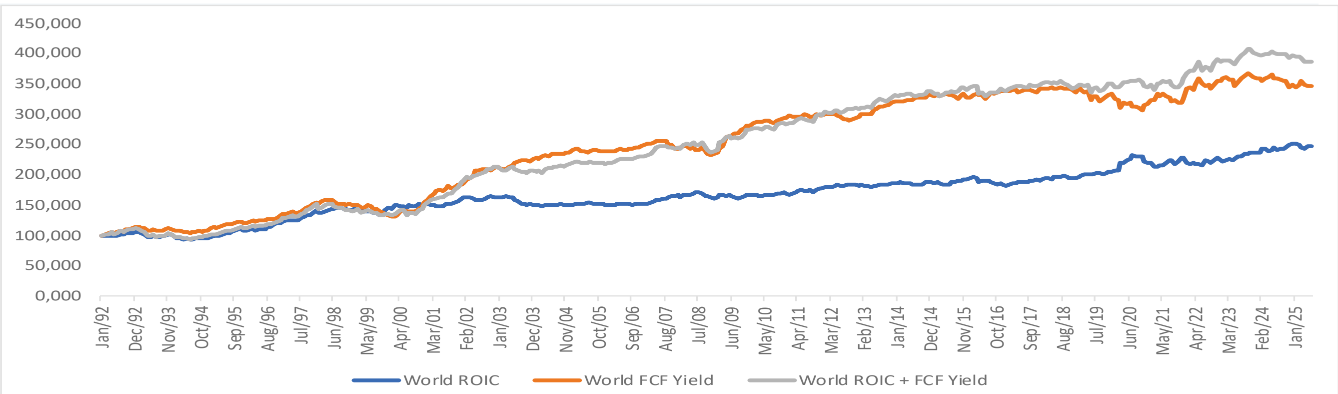
As mentioned earlier, rising tariff rates will force many companies to either raise prices or accept lower profit margins. We expect negative revisions to consensus profit margin estimates in coming quarters, creating a premium for companies with high pricing power.

According to research by Goldman Sachs, stocks with strong pricing power outperformed their low-pricing-power peers by 16 percentage points (pp) during the trade conflict in 2018-2019, and have outperformed by 6 pp so far this year. We believe these price setters will continue to outperform as they have competitive advantage through highly differentiated products, strong brand loyalty, continuous innovation or some combination thereof. These characteristics help companies in each industry maintain high and stable gross margins versus their peers over multiple time horizons.

Here are three good examples of companies[1] benefiting from pricing power: Relx, a potential AI beneficiary is an information and data analytics company that owns a portfolio of medical, legal and scientific journals. The company achieved a +10% pricing increase in full-year 2024 with strong gross margins of around 40%. Haleon, a consumer health pure-play with company price-setter status within the consumer health industry, is another example. After coming out of GSK/Pfizer, Haleon has built a record of growing margins and using its cash flows for debt paydown and shareholder returns. In the Consumer Discretionary space, we see AutoZone as a classic price setter and a stock that may benefit if budget-minded consumers fix their existing cars rather than buy new ones to avoid elevated prices caused by auto tariffs. The company maintains a very healthy gross margin exceeding 50%.

[1] These are not buy, sell, or hold recommendations. Holdings are subject to change and shown for illustrative purposes only to demonstrate the strategy as of the stated date. Future inclusion of these securities in the strategy is not guaranteed, nor can their future performance be predicted.

Figure 3: Quality has outperformed



Source: Bernstein research, Robeco, June 2025

EMERGING MARKETS OUTLOOK

Wim-Hein Pals, Portfolio Manager

From copycat to hard innovator

In this year of equity market flux and uncertainty, China's prowess in innovation is an emerging and very investable trend that is largely being ignored – but not by us.

DeepSeek milestone

The launch of AI model DeepSeek shook the world awake. At least that is what one would think. Today's China is perfectly capable of independently setting up an advanced AI infrastructure and thus outpacing the rest of the world. Only the US can keep up with the speed of Chinese innovation in this area for the time being. Recently, DeepSeek announced their latest AI model, the DeepSeek-R1-0528, which promises significant improvements over its predecessor and is now available to the public.

Importantly, DeepSeek AI has made the code of DeepSeek-R1-0528 open-source. This will allow researchers and developers to further study, adapt, and integrate the model into their own projects, contributing to advancing the AI community. With the latest launch, DeepSeek AI is taking a crucial step in developing more robust and reliable AI models, with potential applications in a wide range of industries.

Pharma strength emerging

More of China's medicines are being approved, and used, abroad. Since 2015, the industry has shifted from generic drug manufacturing to innovation-led growth, with a record number of innovative drugs being approved of and placed on national reimbursement lists.

According to Pharmcube, the number of registered clinical trials for innovative drugs from China surpassed those in the US in 2023 and that difference has since widened further in favor of the Chinese. In 2024, 38% of global approval of innovative medicines came from China. The US is likely to lag further given the de-funding of scientific and medical research by the Trump administration.[1] However, making money with medicines is more difficult in China than elsewhere because patent protection is shorter and buyers have more bargaining power legally.

EV leadership now established

We see a similar trend in the development and production of electric vehicles (EVs). China now controls no less than 70% of the total global EV production, according to the IEA's Global EV Outlook 2025. Even more impressively, Chinese automakers independently drove the entire 25% of growth in EV production in 2024. In Europe, production was stable last year and in the US, even fewer electric cars were produced than in 2023. China also accounts for 40% of total global EV exports, pushing 1.25 million plug-in cars across the border in 2024.

A significant part of this ended up in Europe because China supplied 60% of the 700,000 rechargeable cars that were imported by the EU in 2024. The US is and will remain a net importer of electric cars, despite Tesla. Imports of EVs even increased by 40% in 2024.

[1] The gutting of US medical research – New York Times - 4 June 2025

"The EM valuation discount is immense, and the earnings picture is also supportive

A serious player

We can conclude that China has become a serious global player in several sectors. In fact, in more cases, such as in AI, EVs and pharmaceuticals, China is taking a leading position. For an equity investor, this trend means that – despite all the risks that are inextricably linked to investing in China – the country should be considered an essential component of a global equity portfolio. Looking at the equity markets, the level of confidence in China has risen and its technology stocks have performed well. We believe the rally has more legs in China and, more broadly, in EM equity markets.

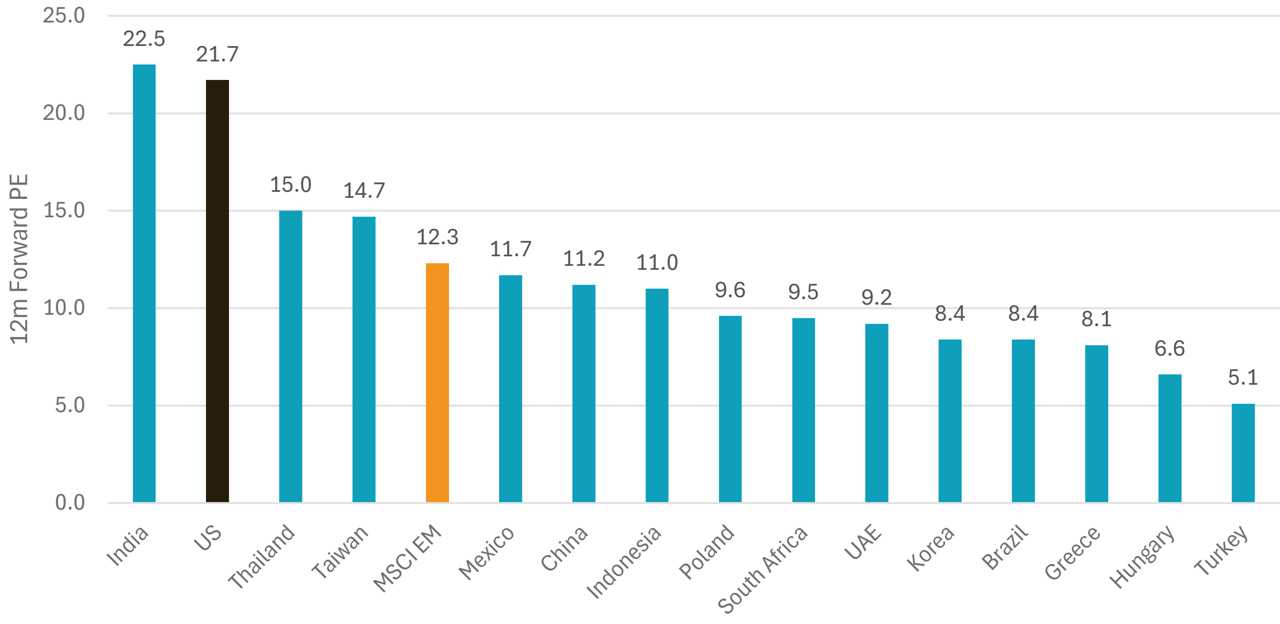
Valuations at huge discount to US

The EM valuation discount is immense and the earnings picture is also much more supportive to the EM case. The weakness in the US dollar completes the 'triple tailwind', which has made us more constructive on emerging equities.

The US tariffs continue to be a challenge for some countries, including China. In China's case, given its growing technological confidence and the continued supportive economic measures from the Chinese authorities, it might be risky to be too heavily underweight China in a Global Emerging Markets (GEM) portfolio. China still trades at a discount to the GEM average and is now more neutral in our GEM portfolio after we added to some internet names.

Elsewhere, we continue to favor Korea, especially after the election of the pro-business President Lee Jae-myung. Other favorites are Indonesia and Vietnam, which have strong economic fundamentals. We are cautious on the rest of Southeast Asia and India, which is too expensive even after the recent correction and underperformance. We continue to overweight Greece, Hungary, Poland and South Africa as well.

Figure 4: EM valuations are attractive with India as the outlier

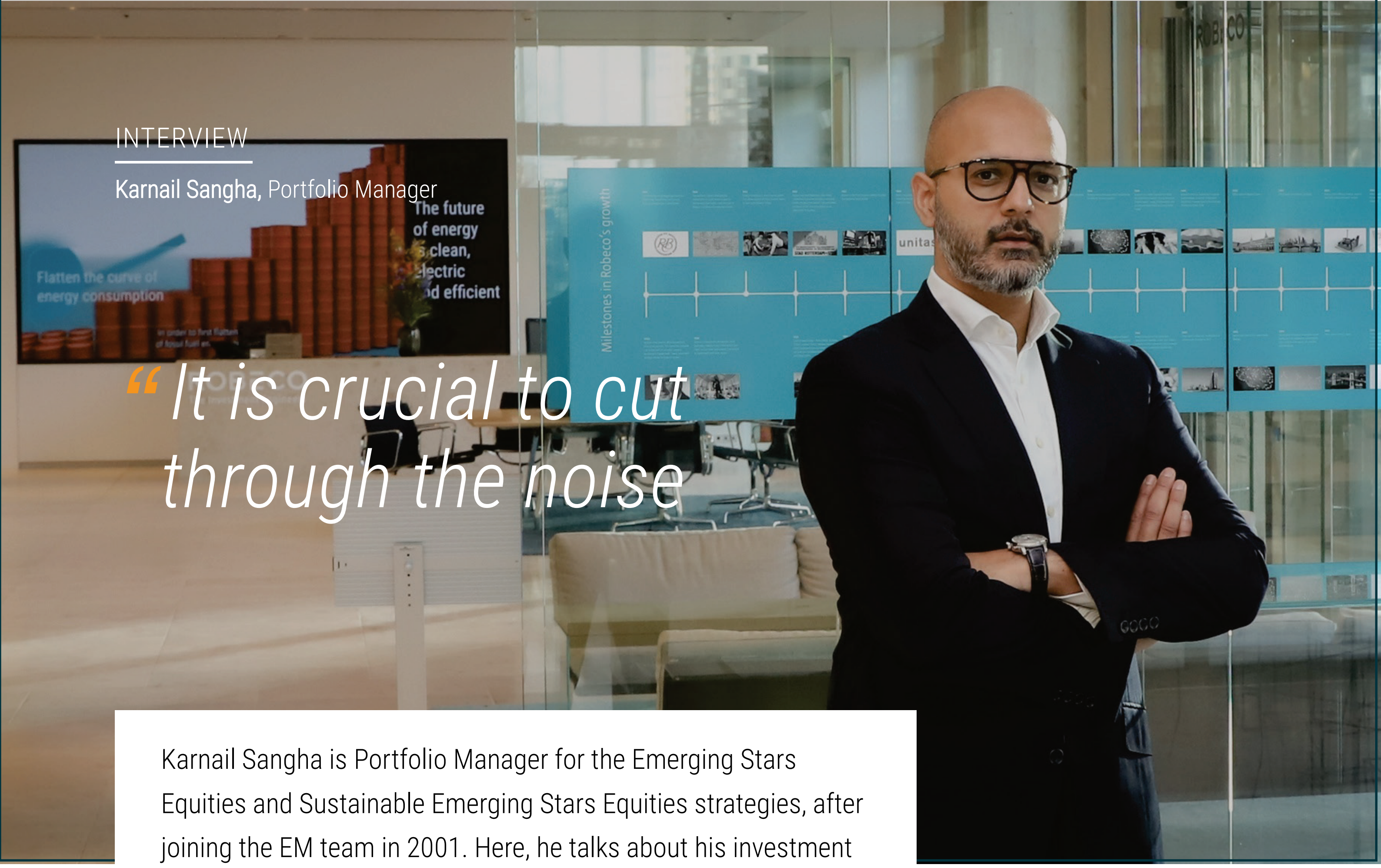


Source: MSCI, IBES, 31 May 2025

INTERVIEW

Karnail Sangha, Portfolio Manager

"It is crucial to cut through the noise



Karnail Sangha is Portfolio Manager for the Emerging Stars Equities and Sustainable Emerging Stars Equities strategies, after joining the EM team in 2001. Here, he talks about his investment background and philosophy, and shares his current views on EM.

What originally got you into investing? When did your interest in investing start?

My journey into investing began with a lifelong fascination with economics. This interest was shaped by my upbringing. Being from humble beginnings meant learning economic principles in practice at a very young age before they were taught at secondary school. The concept of scarcity and related to that opportunity cost of capital wasn't an abstract theory from a textbook; it was a daily consideration that instilled in me a fundamental drive to seek maximum value for minimal cost. This very ethos – the pursuit of intrinsic value – is also the cornerstone of our investment philosophy at Robeco's Emerging Markets team. We believe that investment success is achieved not by 'buying good things' but by 'buying things well'. The career of a portfolio manager strongly appealed to me because it offers a dynamic and influential path. It is a profession that demands constant intellectual engagement, requires critical high-stakes decisions, and ultimately delivers a direct and rewarding impact.

What makes a good stock?

A compelling stock investment is one acquired at a significant discount to its intrinsic value. This value is determined by discounting future cash flows while accounting for various scenarios and risks. Ideally, the stock should also be at the beginning of an upward cycle of earnings revisions. Share prices perform best when a company consistently surpasses low market expectations. Outperformance requires a somewhat contrarian approach. It involves departing from consensus and taking calculated risks when others are skeptical. The most attractive investment opportunities arise when market perception is considerably more negative than the underlying reality. It is critical to have a good fundamental understanding of the investment you are making. Without any concept of intrinsic value, it's impossible to gauge whether the market has already picked up on your insight.

What's your biggest lesson learned over the years?

Investing goes beyond just analyzing numbers, as it is also deeply intertwined with psychology and is significantly influenced by behavioral biases. The field of behavioral finance demonstrates that psychological factors frequently lead to irrational and inefficient financial decisions. Success in investing is as much about managing emotions and biases as it is about analyzing market data. Emotions like fear, greed, and the fear of missing out can trigger impulsive actions, such as panic selling during market volatility or overexposing a portfolio to high-risk assets. Therefore, emotional intelligence — the ability to recognize and control one's own emotions – is crucial for maintaining a disciplined, long-term investment strategy.
With the democratization of investment platforms and self-proclaimed investment gurus, it is crucial to cut through the noise in order to distinguish between what is important and what is not. Hence, one should avoid trading based on news or stories, and act only after thorough and prudent analysis. Constantly measuring the temperature of the market gives us a much better understanding of where the sentiment pendulum is.

Karnail Sangha, Portfolio Manager

How do you see emerging markets at the moment?

In the long run, the themes that underpin EM are strong, such as demographics, investment potential, digitization and intra-regional trade. And in between, we will have cycles of advance and decline. Currently, there are some challenges facing emerging markets including the global trade war. However, there is an alignment at the same time that can push EM into a multi-year upcycle. There is a positive relative growth gap with developed markets, a superior earnings growth picture, the peaking of high real interest rates in many EM countries, attractive valuations and record-low institutional investor positioning. Add to that the possible end of US exceptionalism and a weaker USD, and a positive long-term outlook for emerging markets equities looks justified.

The consensus is that India has a great future, but as a result it has a relatively expensive stock market. What's your view on the medium and long-term prospects?

From an investment perspective, India presents a classic dichotomy. On the one hand, its long-term economic prospects are exceptionally strong, fueled by demographics and transformative policy reforms. On the other hand, this narrative is well understood and largely reflected in current market valuations. Our stock-evaluation process indicates that many Indian equities are priced for perfection, with valuations that assume flawless execution and indefinite high growth. We have already observed early signs of strain in these lofty expectations over the past few quarters. For us to increase our investment exposure to the Indian market in our EM equity strategies, we would first need to see a repricing of risk, where valuations are reset to more sustainable and fundamentally justified levels.

AI is an interesting investment opportunity. How do you play this theme in EM?

Within EM, there are various ways to get exposure to the global AI theme. We are invested in the leading technology hardware providers for this AI revolution, based out of Taiwan and South Korea. These companies design and develop critical components that are not easily available elsewhere in the world. Earlier this year, we had the DeepSeek moment, that demonstrated to the world that there is a rapidly developing technology ecosystem in China that can compete with the leading US companies. We are invested in some key Chinese companies that are related to the AI investment opportunity. Then we also have exposure to the Indian software outsourcing companies that are providing solutions and implementation for global companies for AI solutions.

Which trends and opportunities are most prominently reflected in your portfolio?

We are one of the few EM equity managers that still do country allocation next to stock selection. Here we review countries that have a large weight in our strategies which include:
South Korea – we see very well-managed companies and are leading players within the industries that they are operating in, while they are trading at very attractive valuations. Also, the favorable election outcome will mean a continuation of the 'Value Up' program. This would mean better capital allocation, improved governance and higher dividends. This will reduce the valuation discount for the South Korean equity market going forward. **China** remains an important market for us, where although growth has slowed down, there are still attractively valued opportunities. Given the breadth of the market, we have to be selective and avoid the more vulnerable pockets of the market. Hence, we are for example invested in various e-commerce and internet companies that are trading at very attractive valuations. **Taiwan**, although valuations have re-rated, still provides us with good opportunities related to the information technology sector that remain critical for the AI revolution. Although **India** is enjoying one of the best macroeconomic outlooks in the emerging market universe, most of this story is already reflected in the equity market. Hence, we are more selectively positioned. We like the private sector banks and the IT software solutions providers where we still see some relative value. In **Brazil,** real rates are very high due to the expansionary fiscal stance and rising inflation. Approaching peak inflation rates, going forward, a rate-cut cycle can re-rate the market. Then there are some smaller markets that have idiosyncratic drivers such as **Greece, Indonesia, Vietnam, Mexico, UAE, Turkey** and **South Africa**. Also, here we find very good opportunities that are trading at attractive valuations.

What's been your best investment ever?

Looking back since the inception in 2007 of Robeco Emerging Stars Equities, our flagship high-conviction EM strategy, the best-contributing stock is HCL Technologies, the Indian software solutions provider. Also in the top five contributors ever is the Indian private sector bank ICICI Bank. So having two stocks in the top five does feel great! Furthermore, I would also like to mention that in order to repeat these kinds of investments, you need a strong investment process and an experienced team. Following the process, conducting fundamental research and constantly challenging each other, yields the best results in the long run. In this vein, it is also important to evaluate any investments that did not perform well. When you do not get the results you were aiming for, you learn the most. These lessons humble you and make you a more balanced and seasoned investor.

If you could meet any historical investor (dead or alive) who would it be, and what question would you ask him/her?

If there is someone, then it would be Benjamin Graham, the father of value investing. My question would be how he would evaluate his investment approach now that fixed assets play a less prominent role in balance sheets, while intangibles assets have grown in significance. With the rise of AI and tech IP, this trend will increase further and complicate the process of asset valuation. So I would ask him how he would approach this and what valuation measures he would use.

TRIP NOTES

Cornelis Vlooswijk, Portfolio Manager

China – seeing is believing

We travelled to China in late May to speak to management teams and visit plants and showrooms of some of the companies we are researching for our EM strategies. It was my first trip to China and it was impressive to see the technological advances in society, the economy and production processes firsthand.

Taking the technological lead in key sectors

Chinese companies in many sectors have over the last few decades narrowed the technological gap with global industry leaders and some have become technological frontrunners through innovation or building on existing techniques. Experiencing how easy and advanced the payment apps WeChat Pay (Tencent) and AliPay (Alibaba) are to use day-to-day makes an immediate impression on the visitor.

Our trip to the headquarters of BYD, which produces not only electric vehicles but also rail transit systems, robots and energy storage systems, also brought home the speed of progress in China. BYD employs 100,000 engineers and technicians across 11 Research & Development hubs and if it hasn't already happened, it appears a question of time before BYD and its peers will not only have a cost advantage (partly due to scale benefits), but also a technological advantage versus many western competitors.

During our trip we also talked to various companies in the internet/ecommerce space that have to deal with chip shortages due to US sanctions. It was interesting to see how creative Chinese companies achieve efficiencies and other benefits using artificial intelligence despite a shortage of advanced chips. DeepSeek shocked the tech and investor community in January 2025 with its model launch but that was just the beginning with Alibaba and others also making rapid progress in the AI field.

Some supply chain flexibility to deal with US import tariffs

Chinese exporters had effectively stopped exporting to the US when Trump hiked import tariffs for Chinese goods to 145%, but after the trade war was paused and the tariff was reduced to 55%, all the exporters we talked to resumed shipments to the US. As the tariff is only charged on the costs, and profit margins are often quite high, a limited price hike for US consumers is enough to make trade profitable for Chinese exporters. It was also interesting to hear how many Chinese exporters already have manufacturing operations and/or sourcing possibilities in Vietnam and other nations in Southeast Asia. If the US import tariff gap between China and Southeast Asian countries is small, the Chinese companies source from China, but if the gap is big, they can quite easily switch.

Competition intensity can be extremely high

One recurring topic in conversations with companies from various sectors was the intensity of competition. In some sectors with a limited number of players and a positive sector outlook, we observed that Chinese companies sometimes forego near-term profits and instead cut prices or give customer discounts in order to gain market share or scale. Competition is good for consumers and corporate clients, but aggressive pricing policies are no guarantee of long-term financial success.

Stock picking key in very diverse Chinese market

The outlook for Chinese companies very much differs per sector and even within segments of sectors. The government makes sure the property market does not crash, but property companies continue to struggle with weak demand and some oversupply. On the positive side there are many consumer segments where companies are benefiting from upbeat sentiment and government incentives, while using artificial intelligence to boost revenues and improve efficiency. Within growth segments as previously mentioned it is important to evaluate competition intensity on a case-by-case basis to assess whether a company's valuation is attractive.

Jennifer Kim, Equity Analyst

Korea: Patience is being rewarded

The fuse has been lit on Korea equities where Robeco's emerging markets team has remained overweight through years of corporate foot-dragging, domestic political turmoil, and the imposition of tariffs by the US. We think for long-term investors this is only the beginning.

Cheap is cheap for a reason?

The Kospi Index has been rangebound for a decade with the index even gaining the local nickname 'Box-pi'. The presidential election in June however has provided a catalyst for the market to finally break out as new President Jae Myung Lee has detailed supportive policies with the aim of the Kospi reaching 5,000 during his term. The Kospi is up 24% in the year to 18 June, but still sits just below 3,000. What are the dynamics behind Lee's ambitious target?

False starts

Despite activist campaigns like Elliott Management's attempt to reform Hyundai Motor's governance in 2018, Korea's major conglomerates, known as Chaebols, have resisted change. Today, they still maintain complex ownership structures, fueling recurring rumors about succession. The intransigence has exhausted investors, leading to record-high discounts to NAV for Korean conglomerate holding companies and P/B multiples dipping below 0.5x.

Value Up: starting to bear fruit

We have discussed previously[2] the launch of the Value Up initiative – which aims to improve long-term ROE by asking companies to voluntarily deliver public roadmaps detailing how they would maximize shareholder returns. This has already had an impact with higher payouts and has brought investor attention to improved governance and higher balance sheet efficiency. For example, domestic retail investors have been net buyers of Korean banks since 2024, whereas previously, this sector was among the least favored by retail investors. Going forward, the new DPK government will further strengthen Value Up via the Commercial Act revision, promoting cumulative voting for large corporates, mandatory treasury share cancellations, stricter delisting rules, and possible tax incentives for companies with payouts higher than 35%. The median discount to NAV of the Chaebols bounced from 40% toward the medium-term average of 30% since the election and an enforced version of Value Up will reduce the discount further in our view.

Driving retail investors from real estate to equities

There is still some skepticism about the enforcement of Value Up, but it will continue as it is of great interest to the government. The ultimate aim of Value Up is to move money locked up in real estate markets to the capital market. This is a structural change that many countries, like Japan and China, have also encouraged amidst real estate bubbles and declining population.

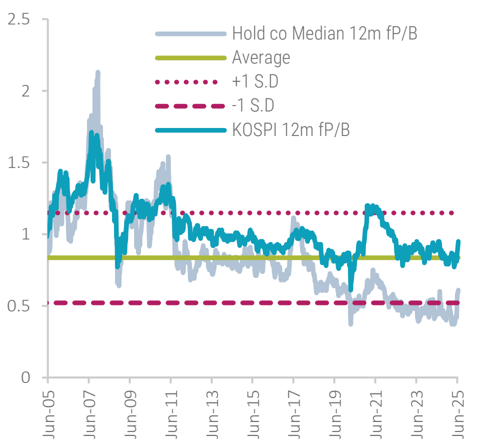
Where to (patiently) invest?

Many foreign investors have looked at South Korea through traditional export sectors like semiconductor and autos. In recent years, new export sectors have also drawn interest such as defense, shipbuilding, and K-beauty. From Robeco's perspective, there are still opportunities inherent in holding companies that receive cash from these exporters and can return more to shareholders going forward, alongside expedited corporate structure reforms. Also, with a stronger equity market, we see additional opportunities in the financial sector with brokers at the forefront. Construction companies being included as a new player in the US nuclear supply chain is also a sector to monitor.

Conclusion

We believe the positive changes in the Korean market favor investors with a long-term perspective. Notwithstanding the potentially slowing trajectory for global growth, there will be a lag between the Commercial Act revision taking effect and the real-world impact. It is therefore crucial to keep an eye on policy detail, to be discussed from July, to distinguish what will be realized and the potential beneficiaries. Close communication with invested companies to track how the responsibility to shareholders will be delivered is also important.

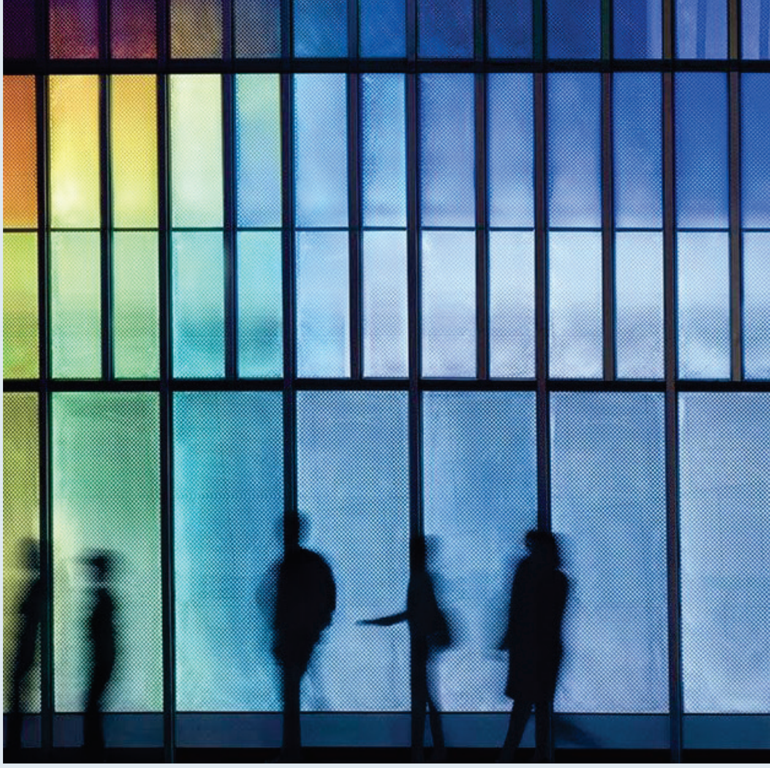
Figure 5: Korean Holding Companies Median 12m forward P/B vs. KOSPI 12m forward P/B



Source: Quantiwise, Goldman Sachs, June 2025 . Data refers to the largest 20 Korean holding companies

[2] Unraveling the Korea discount – Sejung Seo, Jan de Bruijn, Robeco, February 2024

Mark van der Kroft, Chief Investment Officer



Balancing risk, return and sustainability in turbulent times

Robeco's fifth annual Global Climate Investing Survey examines evolving investor attitudes toward climate investing amid global turbulence, noting regional differences and the need for a more consistent approach from government.

At Robeco, we have always taken a long-term investment approach, integrating environmental, social, and governance (ESG) factors where appropriate. Few long-term challenges are as far-reaching as climate change, and our fifth annual Global Climate Investing Survey reveals how investor attitudes are evolving in response to today's turbulent environment.

The survey highlights growing regional differences in how climate-related risks and opportunities are perceived and shaped by local political, economic, and regulatory dynamics. Sustainability means different things to different investors, depending on their context and priorities. This can be seen in the central issue of making climate investing central to strategy. Around three-fifths of European (62%) and Asia-Pacific (59%) investors still have it as a priority, slightly reversing the 2024 results which had Asia in the lead.

There are also marked regional differences to those who regard lacking supportive economic policies as a barrier to decarbonization. Only 25% of European investors cited this, compared to 39% in North America and 41% in Asia-Pacific. Legislation and regulation in Europe supporting net zero remains strong. In the US, political and legal headwinds are challenging the momentum behind sustainable finance.

However, this may be a short-term shift, directly linked to the current political climate. Over half of respondents (56%) said that while Trump's pro-fossil fuels and anti-clean energy agenda will hamper the net-zero transition, momentum will recover once US leadership changes. A similar percentage (53%) said US government policy is likely to slow down their progress on decarbonizing portfolios, but only in the short term.

A notable theme in this year's findings is the growing concern among investors about the lack of consistent government support for net zero goals. Many feel they have made significant commitments toward achieving net zero by 2050, but that policy frameworks have not kept pace. This perceived imbalance is creating uncertainty and prompting calls for more reliable and coordinated action from policymakers.

At Robeco, sustainable investing has always been about the risk-return profile of our investments to seek the best long-term outcomes, even when the short-term road is bumpy. We recognize that our clients are at different stages of their sustainability journey. Our role is to support them – wherever they are – by aligning investment strategies with their specific goals, whether those emphasize return, risk, sustainability, or a combination of all three.

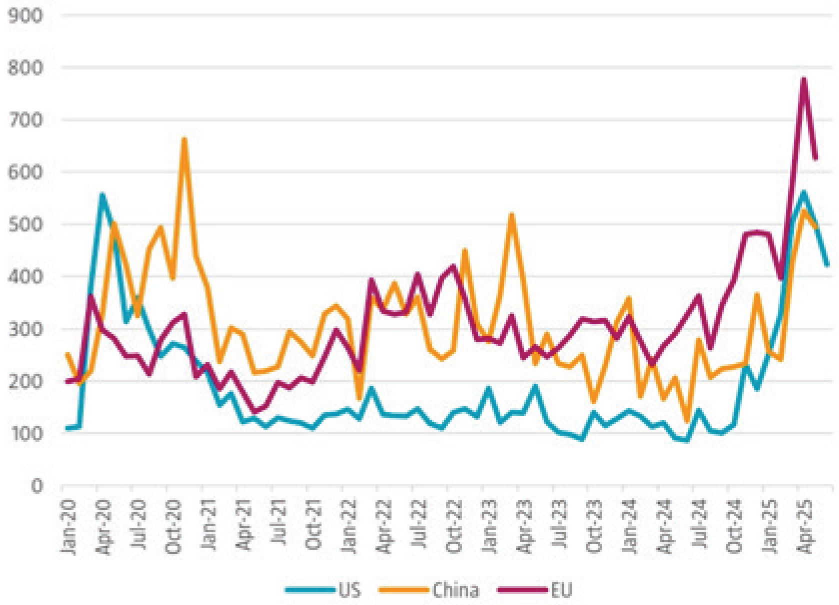
We tailor our solutions to reflect each client's unique objectives, drawing on our deep expertise and capabilities to deliver long-term value. Even in uncertain times, we remain committed to helping our clients navigate complexity and invest with confidence.

For a more detailed look at the Robeco 2025 Global Climate Investing Survey visit the Robeco website .

Policy uncertainty

Over the past two months, economic policy uncertainty has decreased in the US, EU and China, but it remains much higher than a year ago. In the US, uncertainty spiked due to shifting fiscal and trade policies and debates over interest rate paths. The EU has faced its own challenges, including political fragmentation, energy policy shifts, and ongoing debates over fiscal rules. Meanwhile, China is grappling with a complex mix of domestic policy changes and external pressures, including trade tensions and efforts to stabilize its property sector, which have added to the unpredictability of its economic trajectory. The economic policy uncertainty index is calculated using news articles and is widely cited in academic research.

Economic policy uncertainty index



Source: Baker, Scott R., Bloom, Nick and Davis, Stephen J., Federal Reserve Bank of St. Louis, June 2025

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