

Tariff Risk or No Tariff Risk! Plenty of Opportunity in Emerging Markets

July 2025

Restrictive U.S. tariffs on China, Mexico, Canada and other U.S. trading partners highlight a key portfolio risk factor that should be carefully anticipated and analyzed.

Key Takeaways Covered in this Paper:

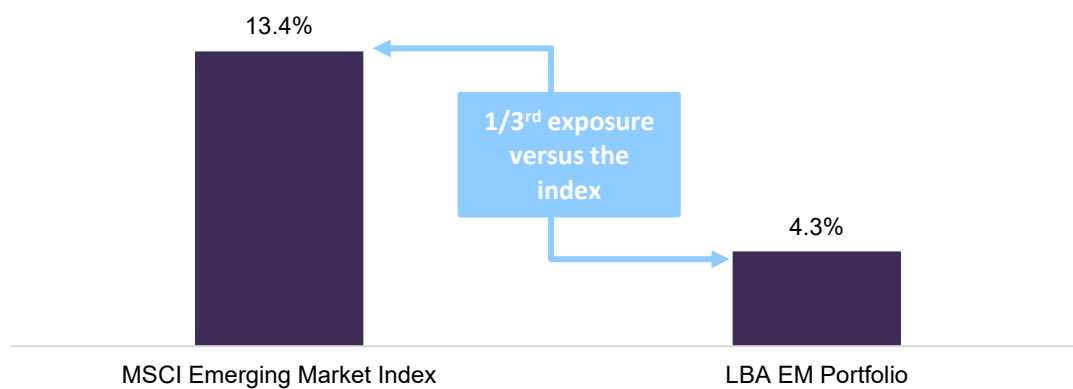
- LetkoBrosseau's EM portfolio exposure to tariff risk is low.
- Our internal stress test analysis indicates that roughly 80% of the revenue of our holdings is generated domestically, insulating the portfolio from potential trade disruption.
- Our EM strategy has less than a third of the EM index's exposure to U.S. revenue.
- Our proprietary EM research has identified a unique set of 54 portfolio companies growing their earnings from domestic growth levers, while yielding a 4.5% dividend yield.

Despite unpredictable and significant changes in the trade environment, emerging markets offer numerous opportunities. Many companies trade at discounted valuations, provide attractive growth prospects, and are well positioned to weather threatened U.S. tariffs. With a focus on domestically driven fundamentals, our portfolio offers an enticing combination of sustainable growth and income, diversified across several countries including China (22.4% weight), Brazil (19.9%), Mexico (16.4%), and India (12.6%).

While we remain mindful of near-term volatility given a highly uncertain trade backdrop, our strategy positions us to navigate tariff-related headwinds. Our internal stress test analysis indicates that roughly 80% of the revenue of our holdings is generated domestically, insulating the portfolio from the direct impact of potential tariffs. Indeed, a key attribute of LetkoBrosseau's Emerging Markets portfolio is that it has less than one third of the MSCI EM index's exposure to U.S. revenue (Chart 1).

Chart 1

Revenue exposure to US versus MSCI EM Index



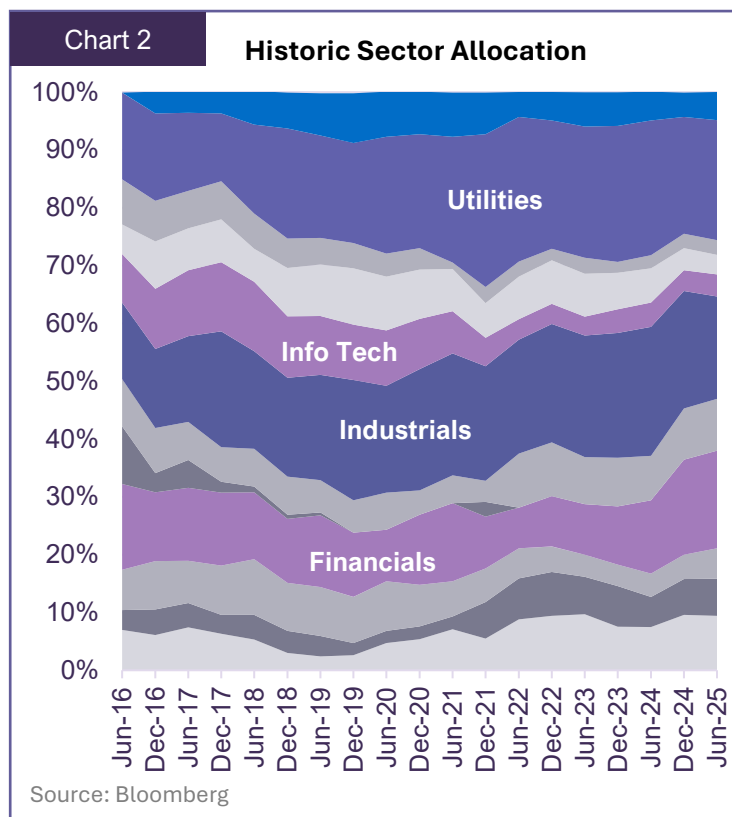
Source: FactSet financial data and analytics, estimated US revenue exposure multiplied by portfolio weight.



This favourable revenue profile reflects our bottom-up stock selection process. Our investment approach is focused on the secular growth of the middle class within emerging markets and the relative need for basic infrastructure relating to water, sanitation and clean energy opportunities. In turn, our holdings are less reliant on external demand than the index, providing meaningful protection from tariffs and trade-related disruptions.

To this point, at a company level, our holdings have low sensitivities to trade headwinds, given our avoidance of “exporter” stocks. For instance, our four largest holdings have zero material exposure to U.S. revenues. In contrast, TSMC – the MSCI EM Index’s largest constituent – derives nearly two thirds of its revenue from the U.S. market. Our bottom-up stock selection and portfolio emphasis on opportunities arising from domestic growth prospects and the infrastructure needs of local economies have been key drivers of long-term alpha in our emerging markets strategy.

Additionally, we believe our holdings are well-positioned to remain resilient against secondary risks that might arise from slowing global economic activity due to tariffs and policy uncertainty. Our EM strategy is currently overweight in sectors such as Utilities, Industrials and Healthcare, areas that are typically less sensitive to changes in external conditions (Chart 2).



Utilities are a sector particularly aligned with the emerging market theme of growing domestic demand for basic needs. Manila Water, our largest position in the utilities space, is the leading water utility in the Philippines and has a strong operational track record. Driven by strong fundamental demand for clean water and sewage services in the Philippines, Manila Water serves a total estimated population of over six million people in 23 cities spread over a 1,400 square km area. According to the government, there are still 40 million people with no access to fresh or potable water. Our investment in Manila Water gives us exposure to the secular trend of expanding clean water access in the Philippines. This example illustrates just one of many promising emerging market growth stories in our portfolio with zero exposure to external risks such as developed market demand or tariffs.

LetkoBrousseau’s EM Strategy: Portfolio Positioning

The LetkoBrousseau Emerging Markets Fund offers capital preservation through mitigated business, financial and valuation risks. Our companies provide critical, real assets with stable and predictable cash flows underpinned by compelling long-term domestic growth drivers. In addition, the resilient business models of our holdings offer sustainable dividends supported by strong balance sheets. We remain optimistic about the return prospects of our portfolio despite an uncertain trade environment.



All dollar references in the text are U.S. dollars and all data as of June 30, 2025 unless otherwise indicated.

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