THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Three EM Leaders with Strong Moats and Clear Business Models

ROHIT KHULLER, CFA, is Vice President – Investment Management and Partner at Letko, Brosseau & Associates Inc. Mr. Khuller earned his MBA from McGill University and holds a bachelor's in engineering from Delhi College. He is a CFA charterholder and completed the Harvard Business School General Management Program (GMP). Before joining Letko Brosseau in 1998, he held a senior sales engineering role at Carrier Aircon Ltd., following internships with companies including Suzuki India, Indian Airlines and Bank of America. His career across the automotive, aerospace and banking sectors, and in several countries, has helped him build deep knowledge across industries. After 25 years with Letko Brosseau, he is now Vice President – Investment Management and a member of the Investment Council. He oversees portfolio strategy and risk management for all firm assets and is responsible for emerging markets equity investments.

SECTOR — GENERAL INVESTING

TWST: Please give us an introduction to the firm and an overview of its business.

Mr. Khuller: Letko, Brosseau & Associates is one of the leading asset management firms in Canada, managing approximately CA$20 billion for clients around the world. The firm was established in 1987 and has generated CA$40 billion in total gains for clients, with CA$22 billion of that generated beyond benchmark returns.

Sixty percent of our AUM comes from institutions, 35% from high-net-worth clients, and the remaining 5% is the firm's and employees' own capital invested alongside client assets. Since inception, the firm has delivered consistent and repeatable performance. We now have 47 client relationships of more than CA$100 million each.

TWST: What differentiates the overall investment approach and philosophy at Letko, Brosseau?

Mr. Khuller: We are bottom-up fundamental investors and conduct our own independent research. Our equity turnover is low, about 15% per year, which reflects our long-term approach.

A key differentiator is how our research team is structured. We have 20 analysts, each covering one or a few related global sectors.

Our goal is to develop industry experts to put them in a position to figure out which companies in the world are among the best run businesses, or in other words, which are the most competitive businesses globally. In this way, one can identify the lowest cost producer on a global basis.

If a manager is structured with generalists or country-specific teams, they may only identify the best companies within that country. Our approach helps us find the best globally.

We also blend growth and value disciplines. We like companies that are growing, but we are disciplined on price. We want to buy great businesses at reasonable valuations, not at any valuation or price. We believe we are very disciplined, and we believe because of these different characteristics, we are quite different, even unique, in some aspects from our peer group.

TWST: Let's talk about the emerging markets strategy you lead. Could you give us a snapshot of the strategy and portfolio?

Mr. Khuller: Our target is to own 50 to 60 of the best-run companies in the emerging markets universe — companies that are globally competitive and easy to understand. We look for businesses with clear economic drivers, where we see double-digit growth in earnings and cash flow on an annualized basis over the next five years. We also like companies that return capital through dividends or buybacks.

If one were to look at some key metrics, like price-to-earnings ratio and dividend yield, then our EM portfolio trades at only 11 times price to earnings and yields 4.5% dividend yield. How does that compare with the MSCI EM index? Our 11 times compares to 12 times for the MSCI EM index, and our dividend yield of 4.5% compares to 3% dividend yield for the MSCI EM index. If you were to compare it with the S&P 500, for example, the S&P 500 is trading close to about 22 times earnings and 1.3% dividend yield.

The portfolio has delivered strong upside and downside capture for more than a decade, relative to global peers. Our active share is about 95%, reflecting a high-conviction approach. We do not hug benchmarks or minimize tracking error.

TWST: Anything you'd add about research and portfolio construction?

Mr. Khuller: Our investment process is a two-step process. The first step is all about research.

We begin with idea generation. Here we run a quantitative screen to narrow down our search to a few companies based on price-to-earnings ratio, price-to-cash flow ratio, enterprise value-to-EBITDA ratio, the leverage ratios for these different companies, dividend yields, market capitalizations, things like that. From there, we conduct fundamental analysis: reading annual and quarterly reports, understanding business drivers, meeting management teams and visiting facilities. We then build a detailed financial forecast.

In parallel, our in-house economists conduct macro analysis for each country. These macro factors include geopolitical risks, trade balances, GDP growth estimates, inflation and interest rate expectations, country demographics, tax policies, household leverage, etc.

The idea here is to figure out what the EM currency is going to look like over the next five year period. So for example, if we expect a 3% depreciation in the EM currency based on our analysis, then we need to target a 18% threshold return in the local EM currency because our target return in U.S. dollars is 15%.

Finally, we perform a risk analysis focused on the risk of permanent capital loss, including stress testing. We view this research step as the driver of long-term alpha.

The second step of this process is the portfolio construction and decision-making process, and this step usually includes an investment team peer review. This peer review is for the companies that come out of the research process, where the analyst presents the idea to the entire research team of 20 analysts. Here we debate the potential investment in detail, discuss the merits, the risks involved in this potential investment.

This peer review is followed by the portfolio manager's final decision of go or no go. Nothing will go in or out of the portfolio without the portfolio manager's approval, and the portfolio manager here for the EM markets would be myself.

Finally, we have a portfolio construction step, where we target 50 to 60 companies to ensure a diversified portfolio, and to manage risks we have developed some risk guardrails like a 7% max position in any one single company, a 30% max position in any one single sector, and a 30% max position in any one single country.

TWST: Can you highlight a few holdings?

Mr. Khuller: We are big fan of companies that enjoy strong economic moats, with easy to understand business models, and at the same time are likely to grow at double digits.

This has led us to invest in multibaggers like **OMA** (NASDAQ:OMAB). This is the third-largest airport operator in Mexico, managing a long-term concession for 13 international airports in northern and central Mexico.

Both revenues and earnings for the firm are likely to grow at 10% to 12% CAGR over the next three to five years. And the company trades at only 13 times next year's earnings and yields almost 6%, so you are getting 6% every year back as dividends while the earnings keep growing at double digits.

Another company we like is **HDFC Bank** (NYSE:HDB). This is one of the best run banks in the emerging markets. It is a bank with one of the lowest gross non-performing assets and one of the highest capital adequacy ratios in its peer group. The bank is also on a path to reduce its cost structure going forward by increasing its exposure to CASA deposits — current account savings account deposits.

CASA deposits is where the bank has a much lower cost when compared to other forms of deposits like wholesale deposits from institutions, where the bank ends up paying a much higher interest rate. We expect **HDFC's** earnings to increase at double-digits CAGR over the next five years.

"We see attractive opportunities in infrastructure: clean water supply, sanitation, hydro and wind utilities, transmission and distribution, airports and highway concessions. We also find opportunities in health care, diagnostics, drug distribution, modern retail and e-commerce."

A third example I will give you is **Copel** (NYSE:ELP). This is another example of a stable, consistently growing, and easy to understand business. The company is one of the lowest-cost producers of electricity in Brazil. The firm not only generates electric power from its 6,600 megawatts of hydro and wind facilities, but is also a transmitter and distributor of electric power to 5 million customers in the state of Parana.

The company trades at a reasonable 10 times normalized earnings and offers a dividend yield of more than 7%.

These three companies are among the largest weights in our EM portfolio.

1-Year Daily Chart of HDFC Bank Ltd.

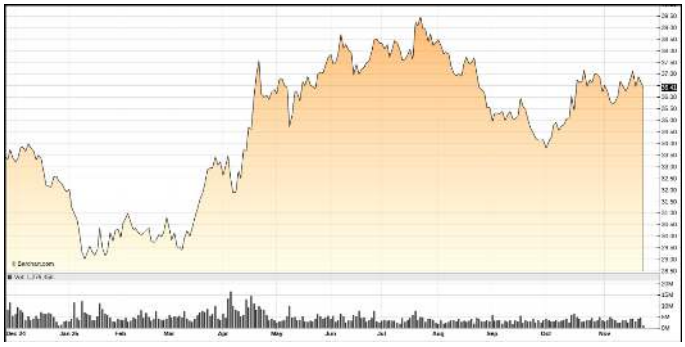

Chart provided by www.BigCharts.com

TWST: More generally, are you finding good opportunities in any particular area, whether that's a sector or region or country?

Mr. Khuller: We see opportunities across many parts of emerging markets. Indian equities look fully valued overall, but there are still a few reasonably priced companies.

We see attractive opportunities in infrastructure: clean water supply, sanitation, hydro and wind utilities, transmission and

distribution, airports and highway concessions. We also find opportunities in health care, diagnostics, drug distribution, modern retail and e-commerce.

TWST: On the other side of the coin, is there anything that you're especially cautious about, intentionally underweighting, or even avoiding altogether?

Mr. Khuller: We avoid tobacco, gaming, and coal mining companies altogether because of ESG or sustainability reasons.

Outside of these sectors, we are cautious about anything that trades above and beyond its intrinsic value, anything where there is financial speculation, or where the valuation is not supported by fundamentals.

For example, with AI and tech companies, one can spot a lot of overvaluation; that is, the valuation is not supported by fundamentals. Quantum computing companies and cryptocurrencies are some other examples. We are generally cautious about these types of businesses at this point.

TWST: International equities have been outperforming U.S. equities this year. Has that been true in emerging markets?

Mr. Khuller: Yes, developed market equities outside of the U.S. have generally been outperforming the S&P 500, the Dow Jones Industrial Average, this year thanks to a weaker U.S. dollar. And yes, it is also true that EM equities have outperformed U.S. counterparts this year as well.

The MSCI EM index is up 25.2% year-to-date through September 2025, compared to 13.7% for the S&P 500 and 9.1% for the Dow Jones. Our EM fund is up 39.6% net over the same period.

It's important to note how varied the opportunity set is. MSCI China is up about 39% year-to-date, and Brazil's Bovespa is up more than 41%. India's Sensex, however, is only up 0.1%, and Thailand is negative. This highlights the importance of stock selection, which is central to our strategy.

TWST: I know you don't have a crystal ball, but can you share any thoughts on your expectations or outlook for emerging markets equities in the next year or so?

Mr. Khuller: Emerging markets represent about 60% of global economic activity and 80% of forecast economic growth. They trade at roughly half the price-to-earnings multiple of the S&P 500, so the long-term opportunity is significant. Over 12 months, markets are unpredictable, but we believe emerging markets will likely be the global growth engine over the next five to 10 years. Institutions like the IMF and World Bank share that view.

TWST: Recognizing that your focus is on bottom-up fundamentals, I am wondering how you incorporate or balance the macro issues? There's no shortage of them, whether it's tariff and trade policies, economies that of course vary around the globe, geopolitics.

Mr. Khuller: We have focused a lot on infrastructure assets like water supply and sanitation companies, hydro and wind utilities in the emerging markets, electric transmission and distribution companies within the emerging markets, health care, diagnostic companies, drug distribution companies in these emerging markets. We also have e-commerce companies, modern retail companies in our portfolio. All of these companies are largely catering only to their own emerging markets. So, our EM companies are not impacted by tariffs that much.

In fact, our EM companies have only 4% of their revenues coming from the U.S. or coming in the U.S. dollar, versus 13% for companies in the MSCI EM index, so we have a lot lower exposure to the U.S. dollar and, as a result, to the tariffs.

Now, a weakening U.S. dollar, for example, is actually a very good thing for our EM portfolio, because it lowers the required return in the local emerging market currencies. Also, the trade policies and tariffs may reverse in the future. For rational minds, a strategy of focusing on lowest-cost producers is likely to win in the long term, so we are not very much worried about such things.

TWST: Any final advice for our readers?

Mr. Khuller: Just to avoid hard-to-understand businesses and things like cryptocurrencies. Diversify without sacrificing earnings growth. Focus on strong management teams that consistently return capital to shareholders. Avoid companies with high leverage. And when investing in emerging markets, choose a manager with a consistent track record and a repeatable investment process.

TWST: Thank you.

ROHIT KHULLER, CFA
Vice President – Investment Management
Letko, Brosseau & Associates Inc.
(514) 499-1200
www.lba.ca/us
email: info@lba.ca