A Developing Story

If emerging-markets equities are sustainably awakening from their long slumber relative to developed-market – particularly U.S. – stocks, Kunal Desai and Marcin Lewczuk have a number of ideas for how best to take advantage.

GIB Asset Management's Marcin Lewczuk has been investing in emerging markets for over 15 years, a period in which the performance of developed markets' equities has trounced that of their smaller-market counterparts. That started to change in 2025. The MSCI Emerging Markets Index rose 34% last year, against a 21% increase for the developed-market MSCI World Index. "It's been a long time coming," he says, "but it finally appears investing in emerging markets can start working for reasons beyond valuation. Relative cheapness hasn't been enough to drive longer-lasting outperformance."

While he says the valuation argument is still intact – the forward P/E multiple of the MSCI EM Index remains at nearly a 40% discount to the S&P 500 – he sees other reasons for emerging markets' outperformance to have legs. Earnings in emerging-market-index companies are expected to grow at roughly twice the rate of developed-market counterparts over the next two years. Monetary policy in key emerging markets remains relatively more accommodative. Institutional capital appears less enamored of U.S. "exceptionalism" and assets are shifting more to non-U.S. markets. Because of that – or as a result of that – the dollar has weakened against most foreign currencies. "It's difficult to make a call on timing," Lewczuk says, "but we believe we're at the beginning of a much better backdrop for investing in developing markets."

He and co-portfolio manager Kunal Desai [*VII*, November 27, 2024] are finding particular opportunity today in mid-cap companies where they believe their "active engagement" approach with management can drive incremental value creation. One representative example is India's Jyoti CNC Automation [Bombay: 544081], which manufactures Computer Numerical Control [CNC] machines that use pre-programmed software to more precisely cut, shape and drill metal components. Key end markets include autos, aerospace, defense, semiconductors and medical devices.

Desai believes the company is poised to benefit from significant secular tailwinds in India. The government is prioritizing and supporting the development of the country's manufacturing infrastructure, to drive employment growth, capture supply-chain realignment from China, and reduce in several areas an overreliance on imports. All this would be good news for Jyoti, driving what he sees as 15-17% annual growth in the CNC metal-cutting market in India over the next five years. He expects the company to also increase market share over that period from about 10% to 15%, on the strength of "buy India" initiatives and the company increasing R&D to produce higher value-added

INVESTMENT SNAPSHOT

Jyoti CNC Automation
(Mumbai: 544081)

Business: Manufactures Computer Numerical Control machines that are used to cut, shape and drill metal components; key end markets include autos, aerospace and electronics.

Share Information
(@2/27/26, Exchange Rate: $1 = INR 91.08):

Price	**INR 820.00**
52-Week Range	INR 750.20 – INR 1,331.00
Dividend Yield	0.0%
Market Cap	INR 186.59 billion

Financials (TTM):

Revenue	INR 20.70 billion
Operating Profit Margin	24.7%
Net Profit Margin	17.1%

Valuation Metrics
(@2/27/26):

	544081	S&P 500
P/E (TTM)	52.6	24.7
Forward P/E (Est.)	40.7	21.9

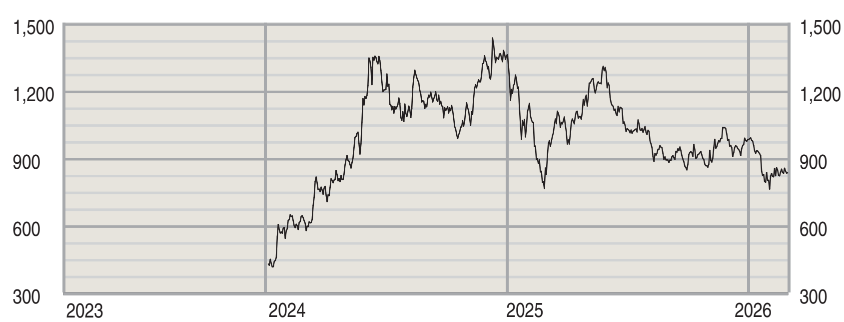
Largest Institutional Owners
(@12/31/25 or latest filing):

Company	% Owned
Kotak Mahindra Asset Mgmt	4.7%
Axis Asset Mgmt	3.2%
Invesco	1.6%
HSBC Global	1.4%
Vanguard Group	1.3%

Short Interest (as of 2/15/26):

Shares Short/Float	n/a

JYOTI CNC PRICE HISTORY



THE BOTTOM LINE

Kunal Desai believes the company will benefit from significant secular tailwinds in India, including government initiatives to expand domestic manufacturing and to reduce in a number of industries an overreliance on imports. Assuming what he would consider a reasonable P/E multiple on his 2029 estimates, the stock would double from today's level.

Sources: S&P Capital IQ, company reports, other publicly available information machines increasingly sought in semiconductor, defense and advanced-electronics applications.

With respect to engagement, he's advocating that management significantly reduce working capital to free up cash, rationalize the number of products on offer and improve investor relations. Jyoti came public in January of 2024 and could do a better job, he says, in providing detailed information on the company and its strategy to attract analyst and investor interest.

While the company's stock is not at all classically cheap, Desai expects it to grow into its valuation relatively quickly. From end-market growth and market-share gains, he estimates company revenues over the next four years can reach 75 billion rupees, up from today's run-rate level of around 21 billion. Assuming a 26% EBITDA margin, up from 24% today, he believes net profits in 2029 can quadruple from the current level. If the shares then traded at what he'd consider a reasonable 30x P/E, the stock would roughly double. Upside from his engagement efforts would be incremental to that.

Another industrial company the GIB team considers attractive today is Taiwan-based Lotes Co. [Taipei: 3522]. The company makes connectors used in electronics, the most important of which are CPU sockets that connect microprocessors to printed-circuit motherboards in computer servers. The sockets enable modular processor installation, allowing for easier upgrades, maintenance and component replacement. Lotes has a leading 35% to 40% of the global market for server CPU sockets – other big players include TE Connectivity, Amphenol and a division of Foxconn – and that server business accounts for about 40% of the company's overall revenues. Other business lines include electronic connectors that are used primarily in personal computers and automotive applications.

Lewczuk believes the market, enamored as it is with Graphics Processing Unit [GPU] servers used in artificial-intelligence data centers, is underestimating the potential in Lotes' CPU-server business. Rather than AI cutting into traditional server spending, as many market observers originally feared, he argues the opposite is happening and that CPU-server demand will significantly exceed expectations to keep up with the demands of AI computing. Even better, as primary server-chip suppliers Advanced Micro Devices and Intel upgrade their platforms at an accelerated pace they require greater CPU-socket capacity, for which they pay materially higher prices. That for Lotes should drive both higher revenue growth and expanded margins.

Despite Lewczuk's expectation that rising volumes and rising prices can drive annual per-share earnings growth for Lotes of 25-30% over the next two years, the company's shares at a recent 1,775 Taiwan dollars trade at around 20x this year's expected earnings, a 25% discount to relevant global electronic-connector peers. The earnings growth he expects would alone translate into excellent share-price upside, but he sees no reason why the valuation gap versus peers shouldn't close as well. "The company is perceived as operating outside what everyone is so excited about today," he says. "We think the results will prove that wrong sooner rather than later." VII

INVESTMENT SNAPSHOT

Lotes
(Taipei: 3533)

Business: Taiwan-based designer, manufacturer and seller of connectors and sockets used in electronics built primarily into servers, personal computers and automobiles.

Share Information
(@2/27/26, Exchange Rate: $1 = TWD 31.39):

Price	**TWD 1,775**
52-Week Range	TWD 1,040 – TWD 1,880
Dividend Yield	2.3%
Market Cap	TWD 198.68 billion

Financials (TTM):

Revenue	TWD 32.82 billion
Operating Profit Margin	31.8%
Net Profit Margin	25.1%

Valuation Metrics
(@2/27/26):

	3533	S&P 500
P/E (TTM)	24.2	24.7
Forward P/E (Est.)	20.5	21.9

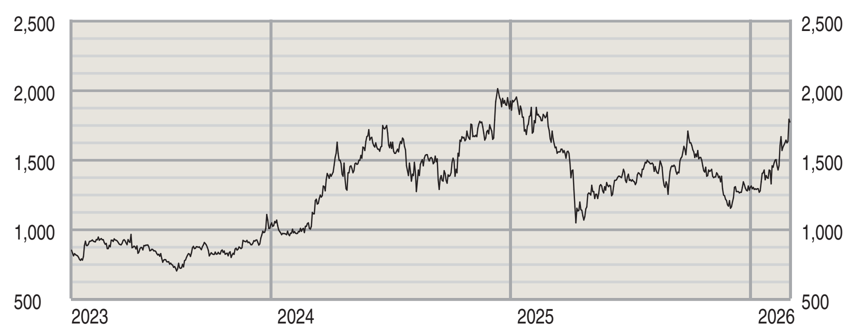
Largest Institutional Owners
(@12/31/25 or latest filing):

Company	% Owned
New Labor Pension Scheme	5.0%
BlackRock	3.5%
Vanguard Group	3.4%
Fubon Life Insurance	3.3%
Capital Research & Mgmt	2.7%

Short Interest (as of 2/15/26):

Shares Short/Float	n/a

LOTES PRICE HISTORY



THE BOTTOM LINE

The market doesn't seem to appreciate how proliferating AI use will drive demand for the traditional Central Processing Unit [CPU] servers Lotes supplies, says Marcin Lewczuk. Its stock trades at an unwarranted discount to peers, he says, despite his expectation that the company can increase earnings at a 25-30% annual rate over the next two years.

Sources: S&P Capital IQ, company reports, other publicly available information