Baillie Gifford™

Emerging Markets investment update

April 2025

Investment specialist Andrew Keiller gives an update on Emerging Markets.

Your capital is at risk. Past performance is not a guide to future returns.

Andrew Keiller: As I record this in early April 2025, it feels to me as if appetite for EM is building. The US dollar has been coming off its multi-decade highs. At the same time, recent AI developments from China have firmly squashed any view that this country can't innovate. As well as that, the Chinese government are publicly and forcefully getting behind the private sector again. And then beyond China, across the rest of EM, the macro backdrop is generally strong. So, we have the market conditions in place together to provide the tailwinds that this asset class needs.

Recently our portfolios have been outperforming their indices. What's pleasing is that the contributions to this are broad. A bounce back in Brazil has helped after a difficult 2024. That's likely linked to dollar weakness and also strength from the large holding in Mercado Libre. The Indian market has been weaker, and our lack of exposure there has helped on a relative basis. I'm sure you've heard us before talking about the expensive nature of big parts of that market. And being honest, we're still cautious about that.

In the spirit of balance, I'd mention that both TSMC and a new holding in Globant have been performance detractors more recently. In the case of TSMC, we have no major change in view. It's committed to spending more on US foundries, which is important in a geopolitical context. But remember, this company earns around 30% returns-on-equity while investing tens of billions of dollars a year. So it has amongst the best return profile of all EM companies.

What about portfolio changes? Well, as you probably know, we have low-turnover portfolios, and that hasn't changed. But if I were to pick out just a couple of more recent purchases, we've bought the lithium miner SQM from Chile, and we've bought an IT outsourcer that I just mentioned called Globant.

So SQM controls one of the largest, lowest cost lithium deposits in the world. We don't think long-term demand for lithium is in question, but the supply side is of more interest to us. And we're now

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getting towards low enough prices to incentivise new supply. If we are close to the bottom for lithium prices, then it's the low-cost producers that we think will benefit the most.

And then Globant is very different. This is an Argentinian company by headquarter. Most of its people are in LATAM and India. I called it an IT outsourcer before. That probably doesn't do it justice. It deals in implementing really advanced technologies for a wide range of clients. One of their most well-known clients is Disney, and they do the advanced tech behind their theme park experience wristbands. These are used for everything from payment to queue management to car parking to catering. The investment case here is about the fact that Globant has a blue chip customer base with almost no turnover and is steadily growing in quality as a business.

I'd also like to touch on China, as we've seen a strong market rally there. Now, we've always thought China is a great market for stock picking. It's one where we have a disproportionate number of great growth companies. For instance, if you take all the companies in the MSCI ACWI index that are forecast to grow their earnings at least 20% a year over the next three years, then almost a third of those are from China. That's a significant anomaly, given that China represents just 3% or 4% of that index.

The tone from companies on the ground in China has been really positive in recent meetings. Now, that's probably not a surprise given what the market has done. But underlying company performance is very often backing that positivity up. For instance, if you look at the operating profits of the tech platforms, they've been incredibly strong. It feels like every Chinese company we meet just now is excited about integrating the DeepSeek AI model into their business. And at the same time as this, the government continues in its efforts to revitalise the consumer. The hope here is that it will unlock the $10 trillion or so of household savings that have built up in recent years. Now, we do remain cautious about geopolitics. There's always a looming risk of rising hostility in US-China relations. And that's what's stopping us from going further in China.

So summing all of this up, we're in a positive frame of mind. We see many supportive tailwinds for EM. And we're fortunate to be able to invest in some very, very good companies. Obviously, the portfolio contains diverse businesses by geography, by sector, and so forth. But we do think that the majority of these have something really important in common, in that they are massively undervalued relative to their long-term growth potential.

Thank you very much for taking the time to watch or listen to this and we'd be delighted to discuss anything further.

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Emerging Markets (including Emerging Markets All Cap and Emerging Markets Leading Companies strategies)

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
Emerging Markets All Cap Composite	77.3	-20.5	-10.7	10.6	5.9
Emerging Markets Leading Companies Composite	77.2	-20.5	-8.6	6.9	6.2
MSCI Emerging Markets Index	58.9	-11.1	-10.3	8.6	8.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
Emerging Markets All Cap Composite	5.9	8.1	5.2
Emerging Markets Leading Companies Composite	6.2	7.9	5.7
MSCI Emerging Markets Index	8.6	8.4	4.1

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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