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When consensus fails: EM research in practice

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Why differentiated research matters

Emerging markets (EM) can feel dominated by the loudest narrative of the day – politics, sentiment, currencies and governance headlines. Those factors matter, but they also distract from what ultimately drives long-term returns: as we have explained in previous papers (“How we do what we do” and “Why we do what we do”), this is the growth of a company’s earnings in hard currency and the market’s evolving understanding of that growth.

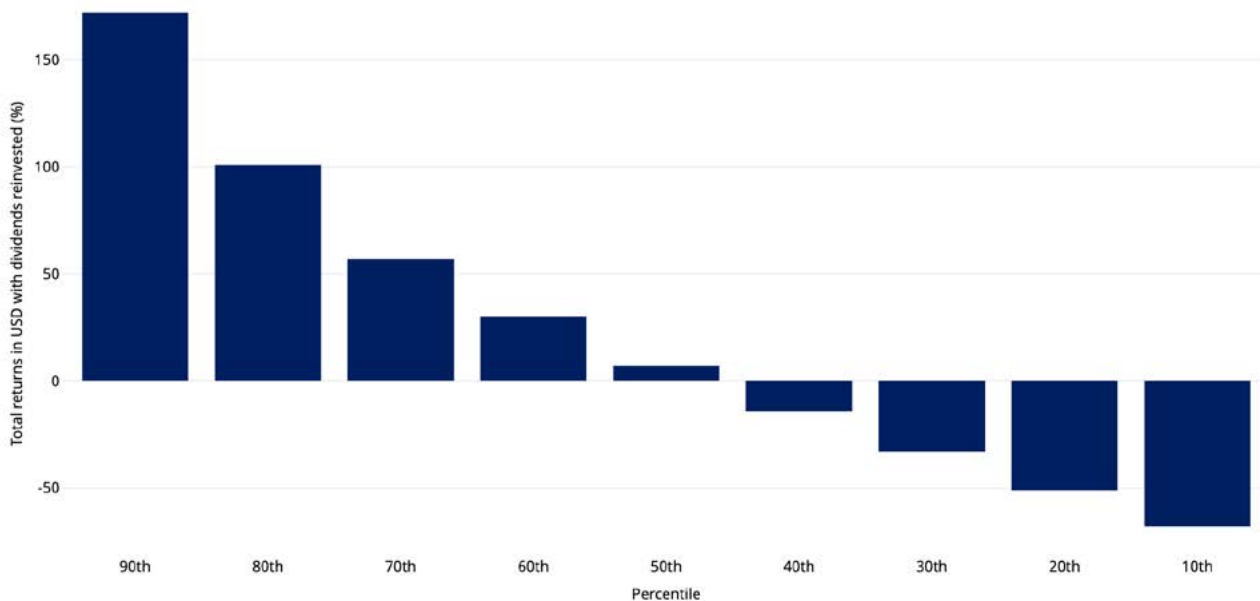
Our starting point is that long-term outcomes are non-linear. In emerging markets, the distribution of returns is particularly fat-tailed: a small number of exceptional companies generate an outsized share of the value created, while many businesses deliver mediocre outcomes or worse.

Over the past five years, 10 percent of index constituents offered a total return greater than 22 percent per year in US dollars, while 40 percent delivered negative total returns including dividends reinvested.

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Dispersion of outcomes for MSCI Emerging Markets Index constituents

Subsequent performance of 2020 constituents over 5 years



Source: FactSet, USD. Five years to 31 December 2025.

The sell-side has a very mixed track record of predicting which companies will end up in this fat tail. The correlation between consensus expectations two years forward and delivered results has been near zero over the last 20 years. This is a strong foundation for active management.

Investigative work is our way of improving the odds of being on the right side of this asymmetry. It is not about making precise near-term forecasts. It is about identifying where consensus is anchored and using diverse evidence to build a better probability-weighted view.

MSCI Emerging Markets Index: actual vs. forecast earnings per share



Source: FactSet, USD. Data from 29 February 2008 to 31 January 2026.

Coverage and consensus

One useful way to frame effective research is through ‘coverage’: we need to behave differently when a stock is widely covered by the sell-side versus when a company is lightly covered and poorly understood.

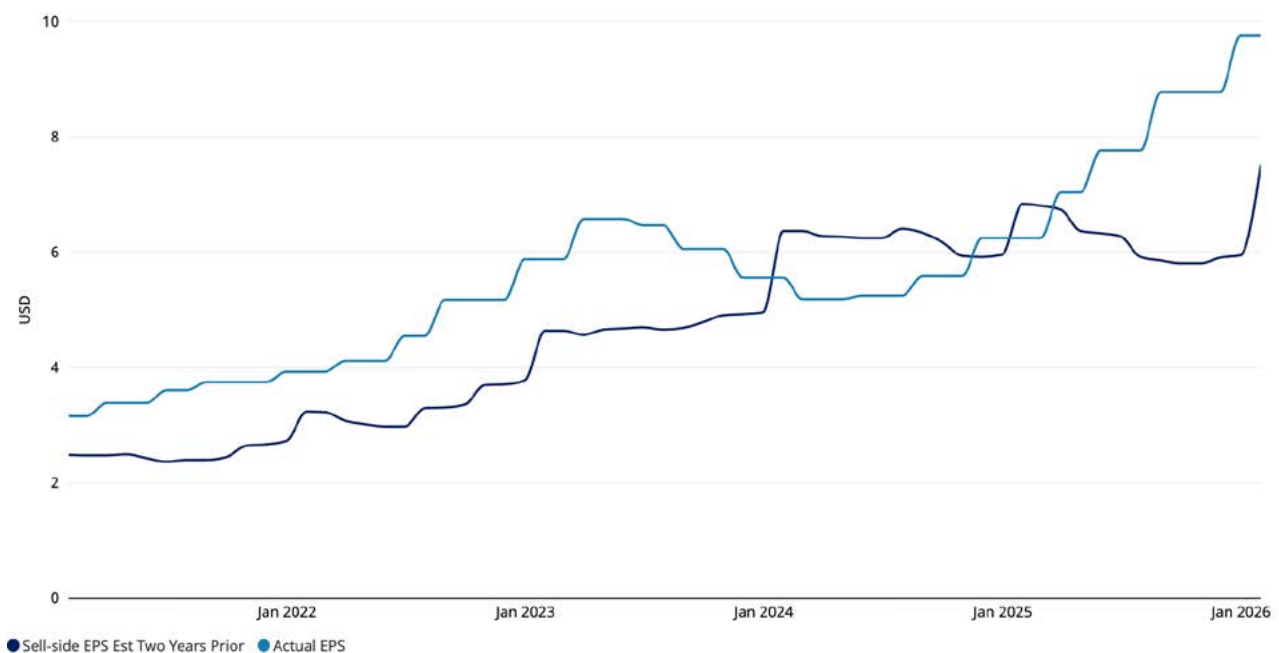
1. Widely covered stocks: we ask different questions

For large, widely owned companies, we don’t expect to ‘out-forecast’ consensus quarter by quarter. Our edge is asking different questions over a long horizon.

Many market participants are pushed into short-term behaviour: sell-side analysts may forecast only the growth needed to support a buy rating, limiting downside if wrong while still claiming credit if the company beats expectations. In contrast, we are incentivised to underwrite the full growth opportunity.

TSMC illustrates this. It has 45 sell-side analysts and 98 percent rate it a buy (94 percent did five years ago), yet consensus has repeatedly underestimated its growth, while the brokers who cover it celebrate the success of their recommendation.

TSMC sell-side forecast vs. delivered earnings per share



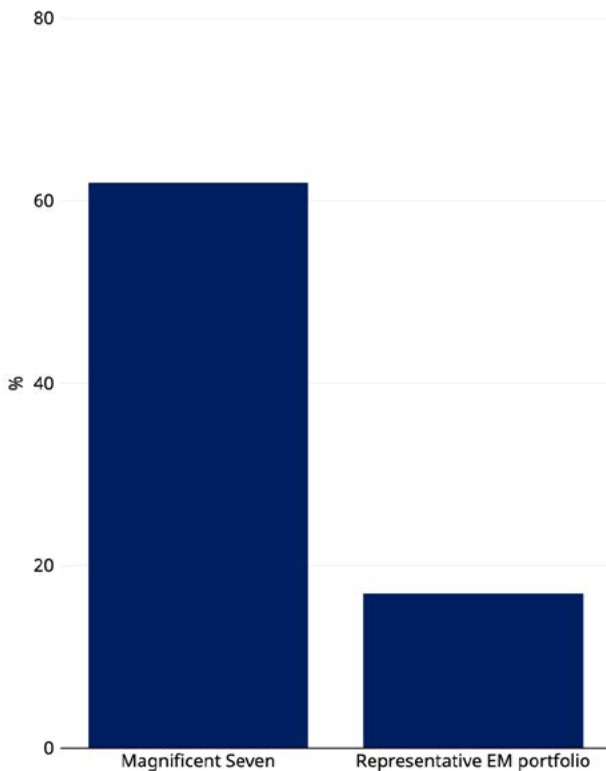
Source: FactSet, USD. Data from 31 January 2021 to 31 January 2026.

For instance, we may ask what could enable competitive threats over the next decade, whether that be technological shifts, customers finding capacity elsewhere, or the seemingly unlimited funding available from the Chinese state. A broad roundup of recent sell-side notes includes reference to price hikes during the last month and an active debate as to whether margins have sustained in the yet to be announced quarter.

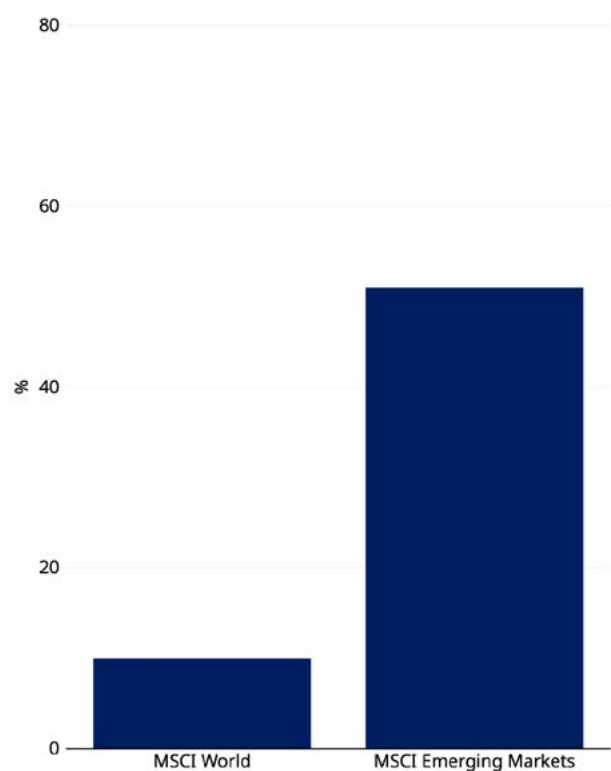
2. Under-covered stocks: we close the information gap with networks

For smaller, less widely owned companies, the problem is different: there are too few incentives for the sell-side to invest in deep coverage. That can create meaningful information gaps – around industry structure, management quality, governance incentives and competitive dynamics. In this circumstance, deep primary research, utilising diverse sources, can result in novel insight.

Median analyst coverage



MSCI Index constituents without five-year forecasts



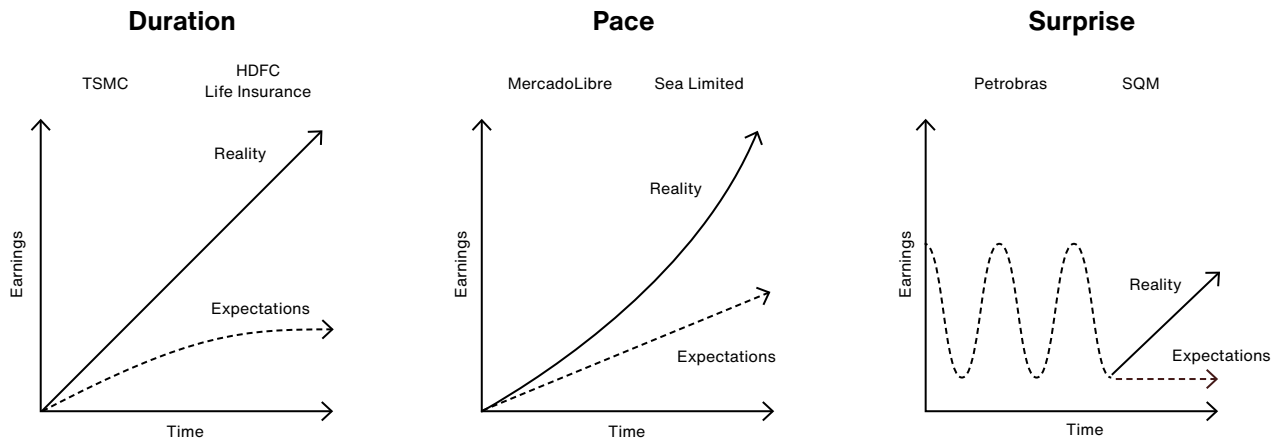
Source: FactSet, MSCI. Data as at 17 February 2026.

How we uncover mispriced growth

Our research is designed to answer a simple question: where is the market mispricing long term earnings power? Doing this well is not a box ticking exercise. Much of our work relies on the interplay of data, experience, educated creativity and probability, as well as on the judgement to weigh imperfect evidence without overreacting to noise. Experience matters here.

That judgement is strengthened by two advantages. First, we are a dedicated emerging markets team, with experience built over decades and multiple market cycles. This is important in an asset class where narratives can swing faster than fundamentals. Second, we can draw on perspectives and relationships across the wider Baillie Gifford investment team to broaden and challenge our understanding.

We use a consistent lens to focus that judgement. In our work we repeatedly see the market misprice three aspects of growth:



Growth mispricing	Typical market failure	Diagnostic lens
Duration	Anchors on near-term volatility; assumes competitive advantages erode faster than reality; undervalues compounding.	Is the competitive advantage enduring?
Pace	Underestimates adoption curves and operating leverage; waits for 'proof' after the rerating; linear extrapolation of growth.	What would 'proof' look like before it shows up in reported numbers?
Surprise	Assigns low probability to step changes (positive or negative); anchors to base cases; underprices optionality.	Which scenarios could create step-changes in profitability? How do we build confidence?

Our overarching research principles

Information itself is not an edge. Breadth of information matters — but our edge is what we do with it: framing the right question, gathering evidence from diverse sources, synthesising conflicting signals and pressure testing conclusions until we're clear how (and whether) to express conviction in a portfolio.

Understand what you're testing. We begin by being explicit about the key uncertainty and where we believe there may be a gap between our view and the market's. If we can't clearly articulate what we're testing and why the market might be wrong, we're unlikely to develop differentiated conviction.

Use a broad set of perspectives. We meet management teams, but we do not stop there. We build a mosaic using access to management and board perspectives, alongside input from industry participants, academics, customers, competitors and other relevant experts, and we draw on colleagues across Baillie Gifford to broaden our perspective.

Commission primary research when useful. Where it strengthens decision-making, we commission primary research and bring in independent work to sharpen the evidence base.

Synthesise and decide what matters. We expect signals to conflict. The work is to reconcile them: identify what's material, what's durable and what would change our mind. We focus on building a coherent perspective and understanding what that implies for long-term outcomes.

Pressure test through rigorous internal debate. Conclusions are challenged repeatedly both within our team and across Baillie Gifford.

Case studies: bringing the process to life

Case study A: Samsung Electronics

Market narrative

Having failed to deliver a new memory chip technology, the market increasingly viewed Samsung Electronics as permanently impaired. In November 2024, Arete Research published a piece of research titled, Samsung Electronics: Facing Structural and Strategic Setbacks.

Our questions

Are the foundations of Samsung's past success intact, and will these technological challenges be surmounted in the long-term, unleashing significant growth and profitability?

Investigation

We began by speaking with management to understand their perspective on the problems being faced. We spoke to sell-side analysts covering the company to understand their perspectives and the quality of the evidence those were built upon.

A few members of the team then spent two weeks in South Korea meeting industry experts, including professors who knew the technology in depth, we also met its key competitor, along with suppliers and affiliated companies. Back in Edinburgh, we cross-referenced what we had learned with other companies which interact with Samsung in their business or their markets. We also debated the idea internally with those who were more sceptical of our conclusions.

We were more optimistic than others on the technology challenges. But our wider concerns now centred around governance of the company and included the risk of key personnel departing due to a poorly designed remuneration scheme and capital allocation. Voicing these constructively led to us meeting with the chair of the company, the first such meeting we have had in the twenty-plus years we have held the shares.



Insight

We built confidence that it was a matter of when, rather than if, Samsung would develop this new technology. We also gained confidence that Samsung was addressing its internal challenges which included evolving its management team, remuneration policies and bureaucracy in a manner that would enable it to outperform. We became convinced that a few emerging businesses such as robotics would be critical in the future. Additionally, we were continuously struck by the intensity of the negative narrative, which was poorly evidenced, but passionately argued. This gave us confidence that our positive view of Samsung Electronics was truly differentiated.

Case study B: Natura & Co

Market narrative

Natura, a cosmetics business, had been a darling of the Brazilian stock market delivering fast growth and high returns on capital. Unfortunately, in 2017 it acquired The Body Shop and then in 2020 it acquired Avon International. Not only were these poor acquisitions, but Natura relied on debt financing.

As Brazil's interest rate rose from 2 percent in February 2021 to nearly 14 percent in August 2022, Natura became a forced seller of its prized international brand, Aesop, along with these more recently acquired brands. This was a messy company, with an uncertain timeline, an environment with which many would steer clear. In March 2025, JPMorgan published research headlined, "Frequent one-offs blur any improving trends."

Our questions

Does the weak share price correctly reflect the fact that the Natura brand in Brazil is no longer valuable? Is its route to market still fit for purpose, or does ecommerce mean this is a melting ice cube? As the structure is cleaned up, will the underlying growth and returns reflect those of its darling days?

Investigation

We repeatedly engaged with management and the board at Natura to understand the economics of the cleaned-up business. It was clear that even for those few analysts following the company, it was low priority, so doing this work could generate differentiated insight.

Additionally, we commissioned a third-party research company in Brazil to survey and interview more than 1,500 consumers and 600 sales representatives of the brand and its closest competitors to help us understand the brand's value and the evolution of the sales channel. We then fed our findings back to management to understand their perspective on the challenge we uncovered and what, if anything, they were doing to address them.



We spent a lot of time understanding the culture of the organisation as well. Natura has a values-led reputation, which has benefited the brand over the long-term, but we were concerned this would stop them from making hard decisions as it relates to shrinking the business. We found management receptive to our engagements.

Insight

We believed that the business could be simplified and that the core brand still commanded significant value. Additionally, while the sales channels were okay in the medium term, management were proactively engaging with MercadoLibre and TikTok to future-proof the business. We found evidence that management were willing to make hard cultural decisions for the betterment of the business in the long run.

Case Study C: Luckin Coffee

Market narrative

Luckin Coffee, a Chinese coffee chain, was engulfed in an accounting scandal in 2020 under the leadership of its founder Charles Lu. He and his management team exited the business. Luckin, which had been delisted from the Nasdaq, remained relegated to trade over the counter and outside of the major indices. That context and history meant few were interested in the company despite its growth prospects. Credit Suisse published a note in July 2020 titled “Termination of coverage.”

Our questions

Has Luckin Coffee genuinely reformed and is the founder truly out of the picture? How will competitive dynamics in the market evolve?

Investigation

To build confidence in the new management team, we not only spoke with them ourselves, but we also worked with our colleagues in Shanghai to meet with the founder of Centurium Capital, the private equity firm which had supported Luckin Coffee even before it came to market, and is still the company’s largest shareholder.

We also engaged with the consultancy which did the analysis for the initial short-seller report which exposed the fraud to get their updated views on the company post the change in management.

To understand the competitive environment we met industry experts, franchisees and competitors to build a complete picture.



Insight

We built conviction that under the leadership of the new management team, the historic governance issues had been resolved. This would ultimately allow the company to relist with exchanges and bring renewed attention to the company.

While the competitive dynamics remained challenging, we understood from our conversations that the competition’s actions were unsustainable given their own financial positions, but were also ineffective at shifting market share long-term.

Luckin Coffee remained an underappreciated growth company, and eventually became the clear winner given its superior business model and customer proposition.

Case Study D: Silergy

Market narrative

Silergy is a chip designer operating in China. Following a booming end market during Covid-19 which had created shortages for power management semiconductors, the industry subsequently swung into an inventory correction. The drawdown was amplified by its consumer end market exposure, fears that a large competitor would pressure prices in China, as well as evolving geopolitics.

A management team which had previously been celebrated was now viewed with scepticism. The strategy to improve the quality and economics of the business was viewed as a failure. Mizuho Securities published research in November 2025 with the headline “Challenging for Silergy to outgrow market.”

Our questions

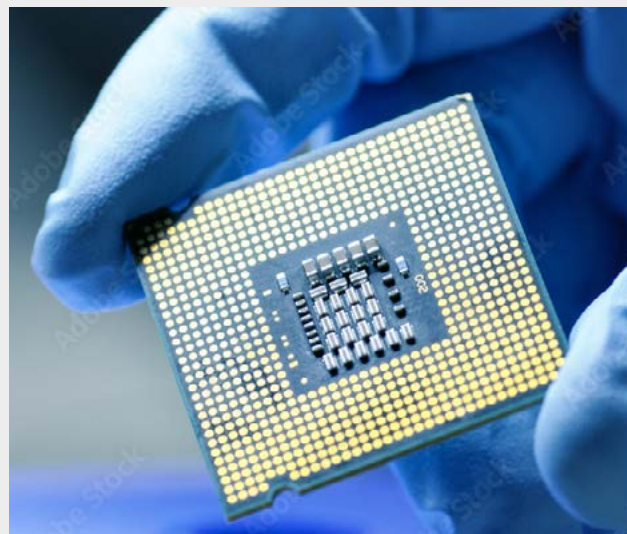
Is volatility revealing a low-value power-management integrated circuit (PMIC) business? If not, what led to the delay in the development of the strategy and its financial results? Should we have faith in the management team?

Investigative work

We repeatedly engaged with the founder of the company to understand his perspective of what was happening in the business. We met with a former board member as well to understand the challenges from their perspective.

We met with many founders of competing businesses to understand their impressions of Silergy’s culture, its founder (in their view), its products and its business strategy. These included both global and Chinese companies leveraging Baillie Gifford’s relationships across markets.

In addition, we met with Silergy’s foundry partners, as well as its customers, again leveraging Baillie Gifford’s broader investments and relationships.



Insight

We came to understand the broader ecosystem within which Silergy was operating, and how all the pieces were playing a distinct role to help Silergy emerge as a higher-quality player in the industry.

We also understood that some of the recent challenges had been the result of specific customers, but also due to delays in the development of the ecosystem around them.

While the current products were competitive, we became more convinced that the products that were being developed would be materially differentiated when they launched and offer a huge growth opportunity for Silergy.

Case Study E: Talabat

Market narrative

Talabat was a rare, entrepreneurial, profitable, Middle Eastern growth company selling into a growing market for food delivery and quick commerce in the United Arab Emirates. JPMorgan's initiation in January 2025 was titled "Champion in food delivery in the Middle East."

Our questions

What is enabling those economics? How vulnerable is the market to a new market entrant?

Investigative work

We met the founder and management team multiple times over several months, including an in-person visit to the UAE where we toured dark kitchens and stores fulfilling quick-commerce orders.

We spoke with industry experts, founders of related businesses who sold to strategic buyers and competitors across the Gulf Cooperation Council (GCC).

We studied Meituan (Chinese food delivery giant) and their entry into Saudi Arabia. We spoke directly with Meituan, as well as with Talabat's parent company, Delivery Hero, both of which Baillie Gifford had strong relationships with. To better understand the likely timing of Meituan's entry into the UAE, we set up an automatic alert to flag Meituan employees being hired locally.

We met Talabat's largest restaurant partner to gather feedback on Talabat and to compare its operations with other food-delivery platforms globally.

Finally, we incorporated the firm's broader work on gig-worker rights to assess how sustainable the operating environment may be in the UAE.



Tamer - stock.adobe.com

Insight

Our work suggested the economics were real but fragile. Competitive intensity in the UAE looked set to rise and we judged take-rates and margins to be less defensible than the market implied. With regulatory and gig-worker dynamics adding downside optionality, we passed.

Conclusion

These are all living examples of our approach to research, some may be great investments, others poor. In emerging markets a small number of outliers drive a disproportionate share of returns. In that environment, sell-side research, useful in some developed markets, tends to struggle with the possibility of extremes in emerging markets, both in breadth of coverage and in depth, even for the most widely followed companies.

Where coverage is heavy (for example, Samsung Electronics), we can add value by asking different questions and doing genuinely differentiated fundamental work. Where coverage is thin (for example, Luckin Coffee), our research process can add even more. In every case, we use our long time horizon to exploit predictable inefficiencies, around the duration of growth, the pace of growth and the ways in which growth can surprise the market.

Our objective is to develop and implement a repeatable framework which allows us to identify the best investments early, size positions sensibly and hold them long enough for compounding to matter. Thoughtful portfolio construction then marries these together in an intentionally diverse portfolio.

Emerging markets do not reward consensus; they reward insight. That is the opportunity. And it is for active managers to capture.

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