

Emerging Markets Q3 review

October 2025

Investment Specialist Amy Leishman gives an update on the Emerging Markets Strategy for Q3 2025.

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Donna Neil (DN): Good morning, everyone, and welcome to the third quarter Emerging Markets update. My name is Donna Neil, and I am part of the US Financial Intermediaries team based here in Edinburgh. I'll be your host for the next 20 minutes or so, and I'm delighted to be joined today by Amy Leishman, who's one of our Emerging Markets investment specialists.

Before we get started, just a reminder that the information discussed in this webinar is based on the strategy and may differ ever so slightly from the vehicle that you're invested in. Our plan today is to give you an update on the emerging markets backdrop, alongside portfolio performance, positioning, and a bit of an outlook. As always, we prefer this to be as interactive as possible, so please do use the Q&A button at the bottom of your screen, and we'll do our best to get through these.

Lastly, I'll just touch on AUM figures. As at the end of September, the firm had just over \$287 billion in assets under management. And of that, around \$14 billion is invested in the emerging markets all-cap strategy.

So, Amy, if we told clients at the start of the year that EM would be one of the best performing regions globally, most would have been sceptical. Yet here we are. So, what's been going on?

Amy Leishman (AL): Thanks, Donna. You're right. We are in a very different place from where we were at the start of the year. I mean, if we cast our mind back to April, we had the introduction of US tariffs, which looked like they'd be particularly challenging for large chunks of our universe. We've had rising geopolitical tensions and plenty of global uncertainty since then. However, the MSCI EM index is up roughly 28% year-to-date and has outperformed the S&P500. And against that backdrop, our portfolio has outperformed the index over the same time period.

Now, as everyone on the call will know, we obviously don't place too much emphasis on short-term numbers, but it is really encouraging to see the asset class doing so well. So, I suppose the next logical question is really why is all of this happening or why has this happened? And really, we think it reflects the fundamental progress that's been quietly building beneath the surface in emerging markets for years.

Over the last decade, many of the countries in our universe have been getting their houses in order. Fiscal and monetary policy has been broadly conservative. Inflation has been well managed in large parts of the universe. And perhaps surprisingly, political stability in several emerging markets has been better than in some developed markets. You add to that a weaker dollar and improving sentiment towards China, which has done very well this year. And you've got one of the best backdrops that we've seen in years.

DN: That's great context. Thanks, Amy. So, you mentioned structural improvements at the country level, but what about company performance? What's really driving the results in the portfolio?

AL: That's probably the most important thing to highlight, really, and that's really that this year's performance has ultimately come down to the companies doing what we would expect them to do. So growing revenue and earnings and executing well.

So, if we take the most recent quarter, a lot of what has driven performance has come from the Asian technology space. So particularly Acton Technology, it's a leading supplier of high-speed network equipment that essentially allows data centres to handle the massive data flows that are being created by AI and cloud computing. So, it's continued to execute very well here, and revenues up about 159% year-over-year.

And Samson Electronics is another good example. And if you joined us for the last couple of webinars, you'll recall that Samson has had a tough time recently. It hadn't qualified with Nvidia for its high bandwidth memory chips. And there were questions around its foundry business. However, since July, it's rebounded strongly. And really, that's down to two key developments at the company level, as well as being helped by a more positive Korean market at large.

So, at the company level, firstly, we've seen progress on the Nvidia front. Samsung recently qualified its latest chips there. And secondly, it's entered a partnership with Tesla for a \$16.5 billion deal, where Samsung will essentially manufacture Tesla's eight A16 chips. Now, both of those events are thesis confirming for us, so we're really pleased to see the progress here. But I think it's also a really good example of where patience has paid off for our clients.

And then beyond tech, we've also seen a strong performance from our South African platinum miner, Impala Platinum. It's been strengthening its balance sheet, maintaining cost discipline, and it's also expanded operations in Zimbabwe. Of course, it's also been helped by the fact that platinum prices have risen to their highest levels in over a decade as well.

But for balance, India has been a mixed contributor recently. Our underweight position has helped performance in the near term. You know, valuations have cooled somewhat there. But some of our stock-specific holdings, such as the private banks, Kotak Mahindra, Axis Bank, have been a short-term drag. And, you know, we continue to have conviction across both. They're high-quality franchises with exposure to India's structural growth potential. So really we're comfortable holding them through the volatility that they're currently experiencing.

DN: Excellent. And that was perfectly timed. You've actually just answered a question that has come in regarding our outlook on India. So, continuing on here, it's nice to hear some of those long-term stories, especially Samsung finally turning a corner. And you mentioned AI. It's clearly still dominating headlines. So how are you and the team thinking about AI more broadly?

AL: AI remains a key focus, and rightly so. For the last few years, it's been driving a significant technology capital expenditure cycle. Obviously, all of that leads to more demand for computing power, data centres, electricity and so on. And then that creates opportunities well beyond the US tech companies.

So, think cooling technologies, critical minerals, energy infrastructure, much of which is found in emerging markets. Now, obviously, the well-known US players have done very well over the last few years. But less well known is the progress that's being made in China. Now, there are clearly still constraints on access to the most advanced AI chips there. But the gap between global leaders and China's top players in foundational AI models, so the likes of large language models like ChatGPT, has narrowed considerably. A couple of years ago, the gap was estimated at around six months or more, but now I's thought to be closer to three. And we believe that that trend of rapid catch-up is likely to continue there.

There's also a clear self-sufficiency undertone here in China. So, for example, China now requires at least 50% of public data centre chips to be domestically produced. And what we're seeing is that policy shift driving huge levels of innovation and investment in the country.

Now, we don't own any of the Chinese chip manufacturers, but that trend still matters for our holdings. So, companies like Alibaba and Tencent have been adapting really quickly. They've been increasingly integrating domestic hardware into their AI infrastructure. And ultimately, that enhances the resilience and the long-term competitiveness of their ecosystems. So that's an important development that we're watching closely.

But importantly, it's not just China where we're seeing innovation in this space. For example, we recently took a position in a Vietnamese tech company called FPT, it's partnered with NVIDIA to build AI data centres across the country there. And we also own many of the key enablers of AI. So, hardware manufacturers like Acton, like Samsung and TSMC, but also the miners that are supplying the critical minerals and materials that make the AI build out possible, such as copper from Chile, for example.

DN: Great, all sounds massively positive and exciting for us. And I don't think I'd quite appreciated how much progress China had made on that front either. But of course, there's been a lot of chat about the AI bubble, particularly within the US. So how are we really thinking about that from an emerging markets perspective?

AL: Very true. We definitely can't be complacent. We're very conscious of the exuberance around AI. The six largest US stocks are now worth more in market cap terms than the whole of China's GDP. So, I think it's understandable that people are starting to ask questions. But from an emerging markets perspective, I think the picture looks very different.

The companies driving AI across emerging markets are delivering exceptional growth. Yet their valuations still look very modest relative to that. One example, if you look at TSMC, the Taiwanese semiconductor manufacturer, it generates about \$120 billion in annual revenues, nearly \$50 billion in profit. It's growing sales around 36% year on year, yet it trades at roughly 25 times forward earnings.

And then SK Hynix, another good example, it's the South Korean memory chip maker. You know, it's leading the market in high bandwidth memory. It's seen revenues up about 67%, but it's trading on seven times earnings. So, I suppose I would argue that our emerging markets AI exposure is still very much grounded in fundamentals and ultimately still undervalued and underappreciated.

DN: Really interesting. So, I know the team have always said that EM isn't just about AI and tech. So where else are we seeing opportunities at the moment?

AL: Great question, because AI is important, of course, but it's far from the only long-term trend that we're excited about. So, our portfolio captures a broad range of structural growth drivers, from digitisation and financial inclusion to the energy transition and rising domestic consumption across emerging economies.

I think one of the best examples of this is MercadoLibre. It sits right at the intersection of digitisation and financial inclusion in Latin America. And I know it's become more familiar with many investors in recent years. I think the average EM manager holds roughly 1% in their portfolio. However, we own roughly four times that amount, and we've also held it for nearly two decades. And over that time, we've watched it evolve from this small ecommerce company, inspired by eBay in the US, to become one of the region's dominant ecommerce and fintech platforms.

But what's really striking is that despite its scale, despite the progress, digital and financial penetration remain relatively low across many of its markets, like Brazil, Colombia, Mexico. And that means that the runway for growth for this company is still very long.

Now, for full transparency, it's had a volatile quarter. And this time around, its margins have come under pressure. And that's really due to the expansion of its free shipping policy in Brazil. But, you know, we would argue that that's ultimately a good thing over the long term. It secures market share, it reinforces its leadership, and it fends off the competition.

But more importantly, rather than worrying about that volatility and that short-term margin compression, what we've been focusing on is the generational transition in leadership that we're seeing at MercadoLibre. So, Marcus Galperin, the founder, is stepping back. And so, our focus has been on deepening our relationship with his successor, someone that we've met a number of times over the years, and just really trying to understand what his priorities will be, where he sees the next leg of growth coming from.

DN: Okay, so before we segue into portfolio activity, just a reminder to everyone to please continue submitting your questions using the Q&A function below. Okay, Amy, I'm going to keep you with LatAm, as I see that one of the new buys this quarter was Eletrobras in Brazil. So can you perhaps tell us a bit more about this company and why we're excited by it?

AL: Of course. So Eletrobras is less well known than MercadoLibre. But I think it's a good example of a company that's positioned to benefit from the long-term opportunity created by the energy transition.

It's Brazil's largest power generation company. So, it has a quarter of the country's electricity capacity. And much of that comes from hydroelectric power. So, it's really sitting at the heart of Brazil's clean energy mix. Now, the company was privatised quite recently, back in 2022, and that's a key part of our investment case. The removal of state-imposed burdens gives Eletrobras much greater flexibility to cut costs, pursue more profitable growth opportunities, and access capital markets without the old state-owned stigma.

And we've been watching it for a while, and since the privatisation, we've seen real progress. Governance has improved, relationships with regulators have stabilized, and the company has delivered large and complex transmission projects, both on time and on budget, which is a marked change from the past.

But I think what's really interesting for us, with Eletrobras, is that the story really builds on lessons from our long-term holding in Petrobras, Brazil's traditional energy company. In both cases, success has come and will come from looking through political noise and really focusing on what really matters.

And here it's management execution, it's regulatory discipline, it's long-term cash generation. And so, identifying those qualities helped us deliver strong returns for our clients in Petrobras. And we think that that same combination can work in our favour with Eletrobras too.

DN: Excellent. That's a really great example. Thanks, Amy. And since it sounds like it's been quite an active quarter, can you perhaps give us a sense of what else has been happening in the portfolio and really keeping the team busy?

AL: Spot on. It has been an active quarter this time. But I would note that turnover in the portfolio does remain low. So about 15% annual turnover as at the end of September.

I'll start with China, as that's where we have been most active this quarter. So firstly, following a productive meeting with one of its co-founders, we added to Didi, or we added Didi to the portfolio, I should say. It's China's ride-hailing leader, and it has an incredibly strong domestic business, but also potentially something quite exciting in the food delivery space internationally as well.

When we spoke to the co-founder, he was openly frustrated that the international opportunity was being vastly underappreciated by the market. Investors just aren't valuing the strength of the opportunity there. And he gave a really good example, actually, from Brazil. So, drivers will pick up people using the Didi ride-hailing app. They'll then take them home or take them to work. And then they'll head to a Didi center to collect a food delivery bag. They'll pop that food delivery bag back onto their bike, and they'll head straight back out to deliver people's dinners.

I think what that shows is that companies such as Didi repurpose its network to keep its drivers earning throughout the day. And so, we believe that, alongside the domestic retailing business in China, that international opportunity also has great growth potential.

And maybe just as a fun aside, Didi actually gets its name from the sound of a car horn in Mandarin. So, it was Didi. Which feels fitting for a company built entirely around movement and momentum.

We've also added to a jobs platform called Kanzhun in China, as well. And we really think that that's emerging as one of China's more scalable digital platforms. And then we participated in two IPOs. So, the IPO of Zijin Gold, the Chinese gold miner, and also Sanhua Intelligent Controls.

Now Sanhua is a really interesting company, because it's the global leader of thermal management components, but it's now actually applying its engineering expertise to robotics. And it's actually producing parts used in Tesla's humanoid robot project.

And then beyond China, we've been watching South Korea's corporate governance reforms play out. And here we've been particularly impressed by progress made at the Hyundai Group. So, we took a position in Hyundai Glovis. Now, it's essentially the logistics backbone of the group. So, think moving cars, parts and materials around the world, but it's also moving into EV battery logistics. So, a good growth angle there as well.

I'd maybe finish by just saying that competition for capital in the portfolio is fierce, but I'd argue that's a good problem to have. It speaks to the breadth of the opportunity that we're seeing across the universe.

DN: It certainly has been a busy quarter, to say the least, but some very exciting, impressive and very varied opportunities as well. So, if we look at the other side of the coin, where are the team really seeing risks or headwinds at this moment in time?

AL: Good question. Across emerging markets, there are pockets of our universe that we remain cautious on. You know, I mentioned India earlier and we're maintaining our underweight there for

now. The market still looks expensive relative to other opportunities across emerging markets. And that's actually despite the recent pullback.

Of course, despite the Chinese market's strong performance over the year, the Chinese consumer economy remains more subdued than we'd like. So we're continuing to watch what's happening on the ground there.

And as ever, geopolitical tensions remain present across our universe and our asset class. But I think the key really is that despite these headwinds, emerging markets companies are still growing. Across the portfolio, we've seen a marked improvement in fundamentals over the past five years.

So, for example, earnings growth forecasts are now 50% higher than they were five years ago. The same is true for the net margin of the portfolio. And I'd really argue that those aren't cosmetic improvements. They really do signal a higher quality, more resilient set of businesses in the portfolio that are better placed to withstand some of those headwinds that we face or may face.

DN: Great. We've had another question in from the audience here, and I do think you have covered a lot of it, but I'll just pose it to you anyway. The question is, what makes you believe the outperformance of EM asset class is a multi-year and not just a one-year thing? And what insulates emerging markets from deteriorating in the global environment?

AL: Excellent questions. What makes this a long-term opportunity, really, is when you look at the stronger fundamentals, the better macro health, the improving sentiment, attractive valuations, we believe that actually suggests a real turning point in emerging markets.

For a very long time, investors have asked, why would you bother with this asset class at all? And after 15 years of underperformance, I think that's fairly understandable. But, you know, if those trends do continue, I don't think that 2025 will be a blip. I think it could be something, or it could mark the start of a much broader reappraisal of what emerging markets can deliver going forward.

And then on the second part of the question around 'why are emerging markets more insulated?', I think that it really is because of that greater macro resilience that we're seeing. It's the fact that we're seeing intra-emerging markets trade at higher levels. They're becoming each other's own biggest customers. And that does insulate them to an effect.

DN: Great. Thank you very much. We should probably wrap up soon looking at our time here. And how should our audience think about emerging markets and our clients' portfolios today?

AL: Great question. And I would really encourage advisors to think of emerging markets as a structural growth opportunity and not a tactical trade. You know, I've mentioned some of the trends, and the reasons why we think emerging markets is well set up. But if you add to that the fact that the majority of global equity funds remain significantly underweight EM, it means that despite the recent performance that we've seen, we're still early days.

So, I'll maybe finish by sharing a brief anecdote from a UK wealth management conference I attended the other week. And there were around a hundred senior investors and senior executives there. And at the start of the day, everyone was asked which region they had the highest conviction in over the next few years. And 43% of those in the room chose emerging markets.

Now that's UK specific, but I share it because I think it highlights that investors are increasingly recognising the value and the opportunity in emerging markets today. Even if allocations haven't yet caught up. And of course, our philosophy is very much centred on earnings growth driving share prices over the long term. But that combination of stronger fundamentals, increasing conviction and underexposure is really where we believe that the major opportunity is today.

DN: I think that's a great note to end on. I have to say that that stat from your conference really stands out, with 43% choosing EM as the region they have the highest conviction in. It definitely feels like sentiment might be starting to catch up with the opportunity. So, thank you very much for your time and those wonderful insights today, Amy.

AL: No problem. Thanks so much for having me.

DN: And a big thank you to everyone for joining us today.

We did touch a bit on AI in our discussion, and I would encourage you to read the excellent short article that the team has produced on 'three ways we think about AI in emerging markets', which is linked to the right of the screen now. We have a wealth of insights available on our website and LinkedIn pages, so please do follow us and sign up to our monthly mailing to ensure you receive all our latest pieces.

And finally, I'd encourage you to reach out to your relationship manager should you have any follow up questions or simply to hear more from us. As you know, this webinar is part of our quarterly series, and we have our International Concentrated Growth one tomorrow and Private Companies on Thursday to finish up.

So once again, thank you for joining us and we hope to see you again next quarter. Bye.

Emerging Markets

Annual past performance to 30 September each year (%)

	2021	2022	2023	2024	2025
Emerging Markets All Cap Composite (gross)	18.8	-35.3	18.9	26.6	21.1
Emerging Markets All Cap Composite (net)	17.9	-35.8	18.0	25.6	20.1
Emerging Markets Leading Companies Composite (gross)	19.7	-34.7	16.8	25.5	15.2
Emerging Markets Leading Companies Composite (net)	18.7	-35.2	15.8	24.5	14.3
MSCI Emerging Markets index	18.6	-27.8	12.2	26.5	18.2

Annualised returns to 30 September 2025 (%)

	1 year	5 years	10 years
Emerging Markets All Cap Composite (gross)	21.1	7.0	10.7
Emerging Markets All Cap Composite (net)	20.1	6.1	9.8
Emerging Markets Leading Companies Composite (gross)	15.2	5.7	10.8
Emerging Markets Leading Companies Composite (net)	14.3	4.9	9.9
MSCI Emerging Markets index	18.2	7.5	8.4

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.

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