

Emerging Markets: our philosophy

May 2024

Investment manager William Sutcliffe introduces the Emerging Markets, reflecting on the exciting opportunities ahead

Your capital is at risk.

William Sutcliffe: Emerging markets are made up of some of the fastest growing economies in the world. They comprise cutting-edge companies that dominate domestic and export markets from a diverse set of countries. Brazil, for its resource champions, India for its digital infrastructure, Korea for its tech hardware, and China for its sheer scale and pace of change.

Over the 30 years that we've managed Bailey Gifford's emerging market Strategies, we've seen plenty of change in many market cycles. But the core of our approach has remained the same. We built concentrated portfolios of growth companies that we owned for long enough to allow fundamentals to drive share prices. By investing in a company that delivers hard currency earnings growth in the top 20 per cent over a five-year period, the evidence shows that investors have historically been rewarded with roughly a doubling in the share price. These are precisely the types of companies that we're looking for.

Our experience is that by being a little more patient than other market participants, by focusing on possibilities as much as probabilities, and by being open-minded to where this growth comes from, then there are persistent market inefficiencies that long-term investors like us can benefit from. Investing actively in emerging markets isn't just about exploiting the fact that these markets are more retail-driven or have higher turnover. It's about having a genuinely different view from others. Analysts' estimates tend to cluster around a relatively narrow range of outcomes, but the reality is that extreme outcomes, on both the positive and the negative side, are far more common than they predict. Focusing on what might go right is a key inefficiency that we look to exploit. We back pioneering themes such as the drive for self-sufficiency in colossal end markets like China or India.

Emerging markets also play a significant role in the energy transition by producing and processing crucial minerals. Digitization in emerging economies is another key theme drawing our focus. Developed markets have enjoyed internet penetration above 75 per cent since 2010. However, emerging markets have been closing that gap rapidly with internet penetration doubling in the same period. This means billions of consumers in low-income economies have been brought online in the last decade, dramatically improving the opportunities for digital businesses.

Change is a constant in emerging markets, and we embrace this. And our willingness to embrace that growth in different forms, our ability to invest with genuine patience, and our 30 years experience of managing emerging market portfolios enable us to take advantage of the diverse opportunities these countries and regions offer investors.

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