

Emerging markets: turning constraints into competitive edge

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In this disruption week conversation, explore how emerging markets have transformed from manufacturing hubs to innovation powerhouses. Discover how companies like Pony.ai, Nubank, and Sea Ltd are solving everyday problems through technology, offering exciting long-term opportunities as they disrupt the status quo and expand globally.

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Your capital is at risk.

Leo Kelion (LK): Welcome to the first of our Disruption Week webinars on Emerging Markets Innovation. I'm Leo Kelion, Editor and Host of Baillie Gifford's Short Briefings podcast.

In late July, Typhoon Co-May hit Shanghai. While flights were grounded and ferries docked, something remarkable happened on its roads. Pony.ai's driverless taxis made their commercial debut in the Chinese city during the storm. To the startup's satisfaction, the cabs slowed whenever the rain intensified, but otherwise handled the wild weather with ease. Their edge? Relentless testing in conditions that would challenge any human driver, plus self-cleaning sensors that can handle everything from snow to sandstorms.

But here's what's exciting to emerging markets growth investors. Pony.ai says that its latest Robotaxis cost significantly less to make than those of Google's sister company, Waymo, helping it to charge lower fares. That's just as well, since Chinese citizens earn less than their Western counterparts, but could also stand

the firm in good stead as it pursues international ambitions. It's just one example of an emerging markets company turning a constraint to its long-term advantage. Over the next 45 minutes, investment manager Alice Stretch will tell you about others. Let's begin Disruption Week.

Hello and welcome. As mentioned, this webinar is about 45 minutes, and we'll take questions from you, the audience, during the last 15. We'd love to hear what you want to know, so please use the Ask a Question tab on your screen to send your requests. Alice, thanks for joining me. Great to have you with us.

Alice Stretch (AS): Thanks, Leo.

LK: So Alice, I want to come to Pony.ai in a little bit, but let's start by setting the scene. Emerging markets and their companies have historically been thought of as playing catch-up with the West, but in many cases, that's no longer true, is it?

AS: Yes, absolutely. For a long time, emerging market companies were seen as factories for the developed world. They were copycat business models with cheap production, and often using developed market technology or capital. And that's changed. The imitators are now the innovators. And we've seen this with a new generation of emerging market companies coming through with innovative products, ideas and services that are designed for their domestic market but end up being world-leading. So if you just think in terms of China's short-form video trends and how TikTok has transformed the world over the past five years.

Now, the reason innovation is important to us as long-term investors is because innovation broadens out the opportunities in front of us. It presents opportunities, disrupts the status quo, and that means we can look at a broader set of investable ideas. We can look at companies with more durable growth. We can also look at the potential size and scope of that end demand increasing, which increases revenues and profits too.

Now, in an emerging market context, there are two forces of innovation that I think are really important. The first is the lack of legacy systems. And I remember when I first had this thought, I was a student in London, and I went to study abroad in Seoul. And at the time in London, the Tube had just got to its 150th anniversary.

And it almost feels that way. It's very old. The network is worn out and very noisy, all of this sort of thing.

And I landed at Incheon Airport in South Korea and jumped on the metro system there and just thought, wow, this is incredibly clean, safe, reliable, fast. And that was the first time I thought, wow, you're not locked into those old systems. You're not locked into a design from a different era. And as impressive as the Tube was in 1800s London, an engineering feat, really, it doesn't translate to today. Even trying to get air conditioning on the Tube seems nearly impossible. So that's the legacy systems part of innovation.

And the second force for me is actually, in emerging markets, being able to turn constraints into capabilities. And the example that comes to mind here is within China. So in China, in terms of the past few decades, there's been energy insecurity. And for China's desire to electrify, to reduce pollution and to increase its own reliance of energy, it's massively accelerated its battery development and its renewables programmes, to the point where it's turned what was a strategic vulnerability into a world-leading capability, and it now ships electric vehicles and lithium-ion battery cells all over the world.

And I think those two forces of innovation are really important, because it highlights why many emerging market companies have to be pioneers. They have to leapfrog what has existed before. So when you're looking to the future, whether that's renewables, batteries, robotics, the future and the pioneers are in emerging markets.

LK: That first point you made is really interesting, about the lack of legacy systems, because we often talk about first-mover advantage, but this is that, but in reverse. So can you give me an example of a company in your portfolios that's benefited from not being locked into a legacy system?

AS: Yes, definitely. So what comes to mind is PolicyBazaar. So this is an Indian company that's best in class in terms of digital and health and insurance plans. And they've designed this for 100 million customers, and they've been able to do this by not closing down old branches, by not having to update old legacy tech. They've been digital first, which means they've been able to grow really rapidly.

And what that's also meant is they've been able to respond quickly to changing consumer behaviour. And changing consumer behaviour isn't just about what a company releases as a product. It's actually often the ecosystem change around it. And this is the case in India. So this is where innovation, policy and capital have all worked together to allow PolicyBazaar to have accelerated growth.

And this backdrop, this policy backdrop, has been India's digitalisation. So over the past decade, the government has spent a lot of time and effort to upgrade digital infrastructure, including payments. So the payments interface now is incredibly popular. It got to 20 billion transactions in August this year, so monthly transactions, and it's also now being used as a way to pay to go up the Eiffel Tower. So if you were an Indian tourist visiting Paris, you could use your UPI, your payments interface, to get up the Eiffel Tower, which I think is really cool.

And against that policy backdrop, you then have this company, PolicyBazaar, that can leverage all of that consumption behaviour. You've got consumers really used to getting financial transactions done online, so they can grow within that ecosystem. And this all leads to the economic theory that new winners in a technology wave are the ones that can reorganise quickly, are really frugal with resources, and are able to not be weighed down by baggage. And I think that points to PolicyBazaar, and it also points to emerging markets more generally.

LK: And of course, you're investing in specific growth companies rather than broader economies. So with that in mind, can you tell me what types of innovation are you actually looking for?

AS: Yes. So innovation isn't just a shiny new piece of technology for us. Innovation can often be about reducing friction and reducing pain points. And if you look to one of the most common places of pain points, it's banking. And I think we can all agree with that. And banking especially in Brazil has been the case. So in Brazil, the norm was high fees, payment delays, incredibly long queues.

And we actually invested in a company called Nubank, which was Brazil's first fully digital bank. And what they've been able to do is become a better offering for customers, so get over those original pain points, but then also come up with better products, innovative products. They collect 30,000 data points per customer, which means they can tailor everything effectively.

And one of these products I think is really interesting is their transparent starter card. So this is where, if you haven't had much access to credit, you can get credit of a low limit, say \$10, and then you can build up step by step, with Nubank helping you so you can improve your credit quality. And I think that's really important, because that brought hundreds of thousands of people into the banking system, but it's also part of that company's future growth there as well.

Now, I think one part of innovation is the products and the friction, but the other part would be a company that can then expand that into a multiple-act innovation. So this is kind of like Amazon going from a bookstore to being able to do cloud services. And when we're analysing companies, we're looking for that right to expand from that original excellent execution to the next growth area.

And one company in mind for this for me would be Meituan in China. So Meituan is one of the dominant super apps. When we first knew the company a decade ago, it was mainly coupons and discounts. And now it's become a dominant food app that's extended its reach into Hong Kong, the Middle East and Brazil, and even more recently is trialling its restaurant software in the US at the moment as well. So that's what I mean by multiple acts. You take one success from one area and you use it as a foundation for the next.

LK: And I guess another company from your portfolio that would qualify would be Mercado Libre, one of your team's biggest investments that started off in e-commerce, but is now very much a fintech giant as well.

AS: That's right, yes. So Mercado Libre is huge in Latin America, started off in e-commerce and built and heavily invested in logistics to support that growth, then went into payments and fintech. And it is a multi-app company and continues to be so, which is what we think's really interesting. So they're now applying for a banking licence, and they're also expanding their reach in terms of advertising technology. So as well as advertising on their own platform, they're providing it off platform. And when you just think of that digital advertising opportunity in Latin America, that could be a huge next area of growth.

And underlying all of this for Mercado Libre is their vision to be the operating system between the merchant and consumer. And they want to cut out as many of

those middle layers as possible, reduce the costs and build up trust in the ecosystem.

LK: So that's Mercado Libre continuing to move into adjacent areas. Is there maybe an example that you can give of a company that's doing this that will be less familiar to most of our audience?

AS: Yes. I think the one that we've recently taken a holding in as well is Mobile World, and this is in Vietnam. You might be surprised that Mobile World is actually primarily a grocery retailer, and that's because it talks to its first act as a mobile retailer. Back in 2004, it became a distributor of brands, and later on, such as Apple in Vietnam. And it took that backbone of supply relationships, advanced inventory systems and operational execution, and took that base to then expand into grocery retail, now operating 2000 stores across Vietnam.

And I think what's really interesting is, again, it's against a policy backdrop where things are changing in terms of the type of retail in Vietnam. So my team, we've visited these stores, and we've seen what they look like, the strengths in terms of their offerings. There's branded products, there's consistent pricing, and there's a lot of really good aspects to the business.

And this is in comparison to, the majority of retail at the moment in Vietnam is done in traditional and wet markets. And this means that consumers have to go down to the market every day to haggle for goods, and in amongst live animals, and again that point, inconsistent pricing, as well. So I think we can really see the strengths for this company and the multiple act from one area of retail to the next.

LK: And then the other idea that you were discussing earlier is the idea of these companies developing capabilities while operating under constraints. Just to bring that home, can you give me an example of a company where that's the case?

AS: Yes. So I think the clearest example would be Sea, S E A, and it's a company that's based in Singapore but operates across the entire region. Now, Sea started out as a mobile game company. So their game is called Free Fire, and this was developed to be low latency, so low bandwidth for Android phones, so that it would work in multiple regions and areas of low internet connectivity. And this meant it

became a success almost overnight in Vietnam, Malaysia, Indonesia and even eventually into Latin America as well.

Now, from that base and those constraints, that became an enduring advantage for the game. And this summer, it actually overtook the number of mobile downloads in America compared to the mobile downloads for Call of Duty, Call of Duty's mobile game, and it has a very similar multi-billion-dollar lifetime value. And then from that very cash-generative mobile game base, they've launched into Shopee.

And Shopee is Sea's e-commerce venture. And to do this, they had to deal with another level of constraints, way beyond bandwidth. It's actually more about the physical properties of e-commerce in somewhere like Southeast Asia. So they had to stitch together land, sea, air, last mile, that last leg to a customer, stitch all of those together to be able to ship to customers. And this meant they were dealing with 20,000 islands in Indonesia and that patchiness there.

And I think both of those examples demonstrate how the constraints became the best training ground for how the company needed to push on progress and innovation, and it's also part of the reason why they're doing so well and they expand into new markets too.

LK: So that's the water around all of those islands acting as a metaphorical moat, if you like...

AS: Yes, exactly. Exactly.

LK: For Sea. So for a company like this that's trying to tie in adversity to its advantage, I imagine that leadership of the company is going to be incredibly important. So what can you tell us about the leadership of Sea?

AS: Yes, it's exceptionally important. And Sea is still founder-led. So it's managed by Forrest Li, and he combines vision with operational execution. He has high-performing teams, he allocates capital towards technology-led growth, and he can just adapt and pivot all the time. We've spent significant time with him, and I think our deep knowledge and expertise with the business means we can have really, really valuable, differentiated conversations. We spend hours talking about what is

the five-year picture, the ten-year picture, rather than a 30-minute conference slot that other investors may get.

And this has really also helped us remain invested during tough periods for the company. So back in 2022-23, post-pandemic, there were questions about growth and about profitability for Sea. And we could sit down with Forrest and his team and understand what were the steps they're taking, so outlining what costs they were cutting and also what their future product iteration would look like.

And it's always just really exciting to listen to him talk about the future, with how much Sea has achieved. And recently, he's spoken about agentic AI, which is the next stage of AI, so rather than it being search-based, it acts on your behalf, and positing maybe for Sea and e-commerce, could that make Sea a trillion-dollar company someday?

LK: So getting access to leaders in companies like this is obviously part of what gives your team its advantage. But more generally, what other things are there that give Baillie Gifford its edge when it's investing in these types of emerging market growth companies?

AS: Yes, absolutely. I think firstly would be long-termism. So we're a private partnership. We've been around for over a century. And that means we can act internally very long term. And I'm learning from people who've worked in the business for 30 years and from people who've been looking at emerging markets for over a decade. And I think that's really useful. And also, we take that to how we assess companies. We can look at companies in a very long-term manner, we can back managements' multiple-year expansion plans, and also in terms of experimentation into new growth areas.

I think another aspect is how we spend time on the ground. So my team has visited maybe ten or 15 countries this year. And whilst we visit them and meet all the companies, we also put in time for getting to know experts and accelerating our learning with analysts who know the local market. And I think that's really important as well for our Shanghai office, an important part of that. So there are many specific factors in China that matter in terms of policy alignment, in terms of regulatory environment and also just the sheer size. There's more companies listed in China than in the US.

And then another aspect would be, on the investment floor, we're all generalists. And this means we can take lessons from one industry or one geography and apply it to another. So I've rotated through teams, and from looking at NVIDIA in one team, I can now take that to my understanding of Taiwanese AI supply chains. And that's all to say, all together, all of those reasons mean that we spend a huge amount of time looking at how societal and technological change affects companies and their prospects. And it helps us find those innovative companies too.

LK: It's interesting that you highlight that you're a generalist, because I imagine that some of the companies you invest in need some quite deep subject matter expertise, not least semiconductors, a very complex sector.

AS: Yes.

LK: When you're looking to build the conviction to invest and hold these companies for five to ten years, or longer, how do you get that conviction without dedicating yourself to studying the field full time?

AS: Yes, absolutely. I think you don't necessarily have to be a chip designer or a physicist to be able to analyse semiconductor companies. We just need to be able to ask the right questions and test out the investment cases fully. And I think learning about an industry like semiconductors mirrors the time that I've spent at BG, at Baillie Gifford.

So I went to a recruitment event where I was talking with the analysts there about what might the chips look like for car software in the future. Then when I first joined the firm, in my first year, we had a teaching on how does sand become silicon. And then across many strategies, we hold lots of different elements of semiconductor ecosystem, from equipment makers to the big memory chip players, to local and global companies. And I think that really helps, through an investment lens, to understand the semiconductor ecosystem.

But then to your point, you do have to understand the technical ecosystem. How is it going to develop going forward? And in that regard, we have a really good relationship with experts. And one of those groups would be IMEC. So this is the

Interuniversity Microelectronics Centre. And we have a relationship with them. You might not know them by name, but if you looked at any kind of technology roadmap from a major semiconductor company, you might see their name is on the watermark in the corner. And it's because they're so central to progress and development in the semiconductor ecosystem.

And so I've visited their HQ, their headquarters in Belgium, and spent time with them on bespoke topics such as quantum computing and chip regulation, which is incredibly useful. And it means we can take our learnings from them to ask the right questions in the right rooms for the companies and other experts and analysts.

Another element of the semiconductor ecosystem is we've been invested in TSMC for 20 years, that's Taiwan Semiconductor Manufacturing Company, and we frequently visit the region. So I spent a few weeks in Taiwan this year, visiting 30 to 40 companies, including TSMC. And we also built in time to go and meet local experts and research centres. And one of these was actually in Hsinchu Science Park, which is where you'd find TSMC and another 500 or so semiconductor companies.

LK: And when you say you visit 30 to 40 companies in Taiwan, is that just to get deeper knowledge of TSMC? Or do you have other investments on the island as well?

AS: Yes, so it's plenty of both. So at the moment, TSMC makes up a huge part of the Taiwanese index. And whilst we were out there, it was quite interesting, it was repeatedly referred to as the mother of the nation. So a lot of the time, I'm looking for what are the exciting children of the nation? So we do have investments in other elements of the Taiwanese semiconductor ecosystem, one of which would be Chroma, which does the system-level testing, so precision and measurement testing for AI chips.

And maybe slightly separate to semiconductors, but still technology, we also invest in a company called E Ink. Again, you might not know the name, but I think you know the product, because it's the ePaper that makes up the Kindle. And so they've gone from those black and white particles that make up the Kindle to

colour-based ones now, which is really exciting because you can think of student textbooks, note taking, highlighting, all of this coming through.

And what else they're doing is if you imagine expanding that piece of electronic paper of a Kindle, blowing it up to 100 inches, that's when they're making display advertising. So this is low power consumption, and it means that you can have a display in a shop, in a mall, in public places that doesn't use as much electricity. And then if you think of slicing up the Kindle even smaller into those little ones, you can have little display screens. And this is something that E Ink does for electronic shop labels. So this is inside supermarkets, little price labels as well.

LK: So putting them in supermarkets, is that a big opportunity?

AS: Yes, I think it's not something that you naturally think a lot about. I worked in a supermarket as a teenager and used to have long overnight shifts where I'd have to individually replace price labels, and shredded my nails in the process. And so I do think I've maybe thought about it a little there as well. But I think the electronic shop label opportunity is huge. It means that the labels can sync automatically the pricing, it cuts waste, and it means you can do more dynamic promotions.

And if you think, in an average Walmart store, you've got maybe 50,000 to 100,000 labels, depending. And Walmart in the US are looking to roll this out by the end of next year to the majority of their stores. Morrison's in the UK has signed up for 11 million to go as well. And so if you build up by each geography, and add on that internal display advertising in the store as well, you can get to around a \$7 billion addressable market by the end of this decade. And then...

LK: And...

AS: Oh, sorry. And then also actually thinking about it in terms of the future of retail, so when you're thinking about unmanned stores or quick commerce where you have to try and get goods to a customer within 15 or 20 minutes, or that greater integration of offline and online, you can see the importance of having something that can dynamically update. And yes, we've got to know the company over a number of years and also stress tested these adoption curves over the time by talking to retail holdings that we have across the firm.

LK: Thanks, Alice. We're going to be going to audience questions soon. So if you'd like to pose one, please do use the Ask a Question tab on your screen. But first, I want to return to Pony.ai, that driverless Chinese car company...

AS: Yes.

LK: That I mentioned at the start. This is one of your team's most recent investments. So can you tell me a little bit about how that came about?

AS: Yes. So Pony.ai, it's one of our newest investments. We're also really excited about it. We've been interested in autonomous driving for a long time because it's exactly that kind of long term technological opportunity that suits our approach, where a company's technical lead can translate into operational scale. And it's the only Chinese company that has received full driverless permits for the four tier one cities, so Beijing, Shanghai, Shenzhen and Guangzhou. And what that means is there's regulatory confidence in the model. And by the way, what driverless actually means here, it means that there's no human intervention, but that the company also does have remote safety officers so they can jump in and help if needed.

And amongst the team, what we've been discussing is, where does the value accrue long term? What edge cases train the models best? What does a platform for autonomous driving look like over the long run? And I think there's some really exciting aspects here. So I joined a call with the CTO a few weeks ago, and he was talking about how there's customers in Beijing who are booking these taxis to have a lunchtime nap. So when you think about that, imagine what a future car journey actually looks like.

LK: And CTO's Chief Technology Officer, is it?

AS: Yes, that's right. Yes.

LK: And as I mentioned earlier, this is a company with international ambitions, which means that it might come into competition ultimately with Google's sister company, Waymo. Its parent, Alphabet, has obviously got very deep pockets.

AS: Yes.

LK: So what gives Pony.ai the right to succeed against that type of competition?

AS: Yes, definitely. So we don't think Robotaxis will be a winner-takes-all market, but we think Pony.ai could be one of the winners in China. And that's for a few reasons. It's got regulatory approval, as I mentioned, in those areas. And if you add up those markets, that's actually serving the most dense and the highest fare potential markets in the world. So we think that's really important.

And then it's on the partnership side. So they have partnerships for both production and distribution. So we think that's an attractive model to grow from. So on the production side, it means that they claim they're 20 per cent to 30 per cent cheaper than Western rivals, and they've already been able to bring down costs by 70 per cent since the first R&D generation. And on the distribution side, it means they can partner to expand. So they're looking to partner with Stellantis, the European car group, and come to Europe next year.

And I think for us, we stress test everything with them, with customers, with experts, with competitors. And as a firm, we're already invested in a lot of the enablers of this technology, so when you're thinking about the chips, the sensors or the software. So even though Robotaxis are at an early stage, we do think there's an exciting opportunity here.

LK: So, Alice, one last question before I go to the audience's questions. We've talked about a large number of companies now doing very innovative things. But when you're investing in emerging markets, there are distinct risks.

AS: Yes.

LK: There's trade restrictions, as we've seen with some of the US tariffs. You've got regulatory uncertainty. And there can also be geopolitical tensions, not least between mainland China and Taiwan. Without going into each of those issues in depth, can you give us a high-level view of how you balance such concerns with your focus on trying to find truly exceptional companies?

AS: Yes, absolutely. We know that even the best companies can get overwhelmed by macro, macroeconomic and geopolitical risks. So we can't dismiss it out of

hand. But our core focus is bottom up investing, is fundamental research and finding attractive investment opportunities. In terms of how we think about macroeconomics and geopolitics and all of those risks you've mentioned, a lot of it is a similar approach to how we analyse other parts of the investment case. We speak to experts, we speak to management, we have conversations to work out what's really happening. We do scenario planning, and also a risk-reward approach to it as well in terms of our financial modelling.

And a lot of that can also translate in terms of diversification and position sizing across the emerging markets portfolios. We think it's especially important to consider in commodity-based countries, so countries that rely on rare earth metals, for example. And also assessing financial companies like banks, it really does matter. And where there is a distinct geopolitical threat, sometimes we look to companies that have a greater domestic opportunity, so where actually we'd maybe spend more time on the local political regulation than on the geopolitical relationships from there.

LK: That makes sense. Thanks, Alice. Let's have a look at some of those audience questions then.

LK: So, Alice, looking down at the iPad, I've got a couple of questions that are both on the same theme. So the first one asks, what's your definition of an emerging market? And then the second is, is emerging market still the most apt description for countries that have been developed and have developed so much in recent decades, I guess places like South Korea?

AS: Yes, absolutely. I think from a practical standpoint, as a team, we start by looking at the emerging markets MSCI classification, so the global index. That's where we can invest. And we can also invest when 50 per cent of sales or assets are in emerging markets. We think the term emerging markets came out of a 1980s description of a grouping of companies. So we know it's not perfect, but we think it does present a really lovely broad asset class with lots of growth opportunities and different industries and sectors. So it's useful for us as a place to look for ideas, absolutely.

LK: And just to be clear, when we talk about emerging markets, at the risk of introducing another technical term...

AS: Yes.

LK: That also includes frontier markets, doesn't it, places like Kazakhstan?

AS: Yes, so we invest in Kazakhstan and Vietnam, which are termed frontier markets. And so you have emerging, developed and frontier. So we look there for opportunities as well. And I think in terms of emerging markets, even this year, it's been really exciting. They've outperformed S&P 500 year to date, as well as the All World Index. So there is a lot of fundamental progress ahead for emerging markets.

LK: A question, this is a hard one, but will they start to outperform the broader equity markets? Well, let me ask, do you think there's the potential for them to outperform?

AS: Okay, yes. So as I mentioned, year to date, they already have. So I think that's a great place to be. And then there's an element of global portfolios, how much exposure do they want to emerging markets? And we think most global equity portfolios are underweight by maybe 2 per cent or 3 per cent. And that actually represents trillions of dollars of potential coming into emerging markets, at the same time where you've had strengthening macroeconomic picture and strengthening capital pictures for many of these countries and economies.

LK: Okay, let's go on to the next one. What role do you see emerging markets playing in the big transformational themes of today, such as AI or clean energy?

AS: Yes. So I think in terms of AI, as I've mentioned, emerging markets are a really core part of AI hardware. So if you're looking at TSMC or the memory players like SK Hynix and Samsung or looking at switch technology like Accton...

LK: What is switch technology?

AS: Oh, so inside data centres in terms of trying to transmit information in certain ways. Accton is a Taiwanese company that provides switches as well. All of that hardware, that supply chain for AI, is within emerging markets. And then you've got the potential for the application of AI, which, as I was mentioning in terms of

leapfrogging, it's interesting how much consumers in emerging markets are very happy to trial new AI software.

When you're looking at companies like Tencent and Kuaishou in China, they're using AI in the fundamentals of their businesses. And there's companies in India where AI has been the long-held solution for having so many disparate languages over an entire population. Maybe AI and voice control and recognition over those languages, that could be the answer to getting more people into the technology. And that's on the AI side. And was the other part the clean energy or...?

LK: Yes, clean energy.

AS: Yes, clean energy. So on clean energy, I think you've got... As I mentioned at the start in terms of China, you can just look to China in terms of battery technology, renewables, but then also all the metals that are behind it. So thinking of rare earth metals, from copper in Peru and nickel in Indonesia, all of these technologies rely on the emerging market supply chain. And then also, you've got those fundamental end demand markets. Electric vehicles have gone from 0 per cent to 4 per cent of Brazil, for example. So you've got new markets coming in with that South-to-South trade happening.

LK: So I'm pretty certain you're going to say no to this one.

AS: Okay.

LK: But I'll be interested to know why. The question is, has big tech crowded out emerging market tech companies?

AS: Oh, okay. So I think there's an element of how strong American tech companies have been over the last few years. There is concentration in the All World Index that focuses on the US particularly, and you have seen NVIDIA and the Magnificent Seven going from strength to strength. But I don't think that means that's crowded out the potential future technology that comes out. And as I mentioned, you've got AI supply chains, AI application of technology. And even at the start, mentioning TikTok, you've got so many companies that are innovating incredibly fast. So I think there is definitely opportunity for big tech.

I think there's an element that in America, you have that enterprise system. So you've got loads of big businesses that are happy to pay for software contracts that you might not see yet in emerging markets as much. There's also the element of how much in America comes out of Silicon Valley. You do actually have those same deep tech ecosystems in South Korea, in Taiwan, in China, which I think are really interesting as well.

LK: Yes, we're going to be talking more about Silicon Valley later in the week.

AS: Okay.

LK: But let's focus on emerging markets for the moment.

AS: Yes.

LK: Are there any particular themes or markets you expect Baillie Gifford to be overweight in in the long term, in other words, that we might have bigger positions than the index?

AS: Yes. So I think we've touched on lots of them in terms of clean energy, AI and AI transformation of lots of different industries, robotics, renewables, all of that kind of thing. I think in terms of where we're overweight, I think we're quite interested at the moment in terms of where corporate governance is improving. So you're seeing that in South Korea at the moment, with the Value-Up initiatives, where the duties of shareholders are improving. I think it's where we find the opportunities that we find attractive. So at the moment, yes, I'd say South Korea, Taiwan, Brazil, yes, all the companies I've mentioned, basically. Yes.

LK: Fair enough. Some questions about risk. A general one to start with. What are the key risks for emerging market innovators over the next ten years?

AS: Yes. I think my get-out-of-jail answer here would be the opposite of everything I've said, basically. So just in terms of product adoption doesn't happen, capital markets don't support ideas, companies fail under intense competition, and macroeconomic headwinds that could work against them. So I think those are the risks that you can identify. Yes, I think that's it. And we've mentioned US tech,

European tech. There's elements of as the geopolitical environment changes, how does that change the competitive dynamics in three years, five years' time, as well.

LK: And you've discussed how you then weigh them up against the growth case already. Another question about risk. Can you say more about how you handle the risks associated with Taiwan?

AS: Yes. So it's incredibly important. Taiwan and China's complicated history is something we have to spend time thinking about. Our biggest holding in Taiwan is TSMC, as I've mentioned. And for TSMC, we often have to think about what does a future look like for the island? And for TSMC expanding into the US at the moment, what does that really mean longer term?

And I think we handle this very similarly in terms of speaking to experts. We've got great relationships with geopolitical analysts and consultants. And after the Russia-Ukraine invasion a few years ago, we actually expanded our inputs to try and make sure that we're covering the full range of potential outcomes and spending our time thinking about that. But yes, incredibly important. Spend our time having conversations about it. And then, also, it does filter into our risk-reward. And as it stands for TSMC particularly, it's the monopoly provider, it has no competition in what it's doing at the advanced end. That reward is so big. So that's why we're happy holders, and we'll monitor that situation as well.

LK: Okay, travelling to another part of the world, a question here. Are you invested in Africa and the Middle East?

AS: Yes. So we've been invested in Africa and the Middle East over time. We've looked at lots of different companies, from pharmacy chains to retailers, and we've held them over different periods. At the moment, we're invested in one of the Middle East exchanges, so one of the financial exchanges. And my colleague is actually in South Africa at the moment, researching companies there.

And I think, yes, we do just look for opportunities, if they meet our growth hurdles. I think what I'm finding interesting at the moment is it seems like the Middle East, and UAE particularly, are a net beneficiary of a lot of the geopolitical issues at the moment. So what does the UAE do with that, with that population base, with that influx of foreign capital as well? What does that mean for in five or ten years' time?

LK: Interesting. And I know you're not supposed to play favourites.

AS: Okay.

LK: But I may have to ask you in this case. Somebody writes, can you pick out the one company you think may have the most upside in emerging markets?

AS: Oh, okay. So I think we've discussed Pony and See today for those reasons. I think autonomous driving in China has a long, long road ahead of it. I think Sea I really like as a company. As I mentioned, is there a trillion-dollar opportunity in front of it, a trillion-dollar market cap in front of it? But I think the fact that they've got to 100 million customers on their financial platform within three years is incredibly impressive. And what does that cohort look like in the future is really exciting too.

LK: Thanks, Alice. Well, we didn't have time to answer all your questions, but we'll aim to respond to some of those that we didn't get to on our Disruption Week website, details of that coming up. But before we get to that, Alice, I wonder if you can pull some of the strands together of this conversation and leave our audience with one final thought.

AS: Yes. Thanks, Leo. Yes, I think our deep knowledge, our research, our time spent thinking about disruption and the conditions for companies to innovate really do lead us to find companies like Sea and TSMC, and hopefully the next ones like them after that. And so I think by investing in emerging markets, you can benefit from our analysis in these world-leading companies and think about how the world changes from here.

LK: Alice, that's a great place to leave things. Thank you so much for taking part.

AS: Thanks, Leo. Thank you.

LK: And I hope you, our audience, have enjoyed this event as much as we have. Join us tomorrow when I'll be chatting to investment manager, Christopher Howarth, about Europe's next generation of winners. You'll be able to recap this

and the week's other conversations by visiting our Disruption Week website at bailliegifford.com/disruptionweek, where we'll post webinar recordings, write-ups and responses to the audience questions we didn't get to. As ever, if you have any specific questions, don't hesitate to get in touch with your client contact, or email us at disruptionweek@bailliegifford.com. But for now, I look forward to seeing you again soon.

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