

EM ex China Quarterly Update

30 September 2024



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Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

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Product Overview

Emerging Markets ex China is a long-term, regional equity strategy that adds value through active management, by identifying and exploiting inefficiencies in growth companies listed in global emerging markets, excluding China.

Risk Analysis

Key Statistics

Number of Holdings	61
Typical Number of Holdings	40-80
Active Share	69%*
Rolling One Year Turnover	16%

*Relative to MSCI Emerging Markets ex China Index. Source: Baillie Gifford & Co, MSCI.

Baillie Gifford Key Facts

Assets under management and advice	US\$293.0bn
Number of clients	633
Number of employees	1711
Number of investment professionals	376

The immediate focus of the Emerging Markets (EM) team is the impact of the Federal Reserve starting to cut interest rates. Is this a harbinger of lower inflation or lower growth in the US economy? India stands out in the global economic backdrop as a relatively safe haven, with strong growth expected over the next decade. Still, we are increasingly frustrated by valuations that seem to be stretched, and we continue to hunt for decent growth companies at reasonable valuations to reduce the underweight. However, indiscriminately buying expensive shares in companies with modest long-term growth profiles seems a poor use of our clients' money.

Longer term, investors will still be cogniscent of EM's modest returns relative to the World and especially the US indices over the last decade or more. Let's not forget that much of those superior returns were driven by quantitative easing, negative interest rates and yield curve control – it's amazing what free money will do for asset prices! In contrast, most EM countries have run orthodox monetary policies and conservative fiscal policies. To anchor off the recent stock market performance is to risk fighting the last war, especially as we move from a fairly stable and predictable unipolar world to a more fluid and dynamic multi-polar one. In such an environment, there are three areas that emerging markets stand out against developed markets:

1. EM countries don't have to pick a side; they're not 'them' or 'us'. Expect them to play both sides against the middle for their own benefit.
2. EM countries contain many of the resources and minerals that are needed to move to a cleaner and greener global economy.
3. EM countries still contain some of the largest under-served domestic markets whose needs may well be met by local champions.

The Non-Aligned Movement ("NAM") was born in the last Cold War. In 1961, it was created by the ideologically disparate group of Yugoslavia's President Tito, India's Prime Minister Nehru, Egypt's President Nasser, Ghana's President Nkrumah and Indonesia's President Sukarno. All five believed developing countries should not become embroiled with either NATO or the Eastern

Bloc. The NAM still exists today with 120 members and held its triannual conference in Uganda in January this year; perhaps it will find a new purpose in the face of Sino-American rivalry? Even as things stand, China is South Korea's, Brazil's, South Africa's and Indonesia's #1 export partner, while the US is their #2. China is India's #4 export partner, the US is its #1, Vietnam's #1 export partner is the US, and China is its #4. These countries are hedging their bets, and an Emerging Market exposure allows investors to do the same.

Near-shoring, re-shoring and environmental pressures mean that some commodities could see a step change in demand over the next decade. Who has the biggest copper reserves? Chile & Peru. Who has the biggest bauxite reserves? Guinea and Vietnam. Who has the biggest nickel reserves? Indonesia (Australia) & Brazil. Who has the biggest manganese and platinum reserves? South Africa. All Emerging or Frontier countries. Amongst these, Indonesia pursued a policy of capturing more of the value-added processing of these minerals. It banned the export of raw nickel in 2020 and has subsequently seen almost US\$ 14 billion invested in domestic smelting capacity. How long before other countries follow suit? To get a meaningful investment in the future growth areas in metals and mining requires an Emerging Market allocation.

Consumption growth has long been the narrative of Emerging Market investing. However, it remains striking how much further there is to go. 37% of the world's population, roughly 2.9 billion people, have yet to go on the internet. Most of these people live in Latin America, Africa and Asia. In many cases, these people are in more remote, rural locations. Perhaps the most crucial corollary for these future savers and spenders is that they have no access to a bank. In 2021 numbers, 66% of the Philippines (pop. 110 million), 63% of Mexico (pop. 129 million), 51% of Indonesia (pop. 274 million), and 30% of Brazil (pop. 213 million) were unbanked. This inhibits a substantial proportion of the population in emerging markets from saving, consuming and investing. Clearly, no banks will ever build branch networks to bring these people into the financial system, but innovative digital delivery might do the trick.

In decades past, perhaps many asset owners allocated to emerging markets as a high beta bet on global growth. For better or worse, things are now more complex. A unipolar world is now bipolar or even multipolar. As a result, financial and trade

flows are shifting, which may reduce the volatility and increase asset class diversification. These increased opportunities in emerging markets, particularly ex-China, are reflected in a broader, deeper opportunity set within the asset class. A combination of a stable top-down outlook and a plethora of great bottom-up opportunities could be looming.

Performance

After a strong run of performance over the year, sentiment has softened towards AI recently, which has affected the share price of many of the semiconductor stocks, notably the Korean memory chip makers SK Hynix and Samsung Electronics. Nvidia's AI chips need similarly powerful High Bandwidth Memory ("HBM") chips to support them. As things stand, HBM is sold out for 2024, and 2025 is mostly sold, but there are concerns about short-term demand for their more prosaic DRAM (PC) and NAND (smartphone) chips. This is a very cyclical industry, but looking longer term, if AI does prove to have utility, then the ramification is that we will all have to buy new phones, tablets and laptops – a massive Tech cycle, which will benefit the South Korean memory chip makers.

Latin American e-commerce and fintech business Mercadolibre were the main contributors to performance. 2Q24 results once again beat the market expectations. Net revenue across its platform grew 42% YoY to US\$ 5.1 billion, and net income +103% YoY at US\$ 531 million. In e-commerce, Gross Merchandise Value ("GMV") grew +20% YoY to US\$ 12.6 billion while the number of items sold rose +29% YoY to 420.9 million. On the fintech side, the total payment value ("TPV") was +36% YoY at 46.3 billion, with monthly active users above 50 million for the first time, which had grown to +37% YoY. However, it remains the case that e-commerce and financial penetration remain low in much of Latin America, giving ample scope for growth.

Similarly, South East Asia's gaming, e-commerce and fintech business SEA Ltd was also a strong positive contributor. Again, strong 2Q24 results were the catalyst, with revenues +22% YoY and a return to profitability. On the e-commerce side, Shopee's GMV was US\$ 23.3 billion, +29% YoY, while in Fintech, SeaMoney accumulated 21mn consumer and SME loan active users, up nearly 60% YoY. On the gaming side (Garena), its major title, 'Free Fire,' maintained over 100 million

daily active users and was the most downloaded mobile game globally during the quarter. Fears of maturity in Free Fire look overdone, while it is anticipated that Shopee should be profitable by year end. These positives, combined with the momentum in fintech and a US\$ 9.0 billion cash pile, suggest it is well placed to continue to grow strongly.

We wrote about Bank Rakyat last quarter as it was one of the leading detractors to performance. This quarter, it is one of the main contributors, highlighting the limitations of looking at performance in terms of months rather than years. What has changed? To be fair, the Bank of Indonesia front-ran the Fed and cut interest rates by 0.25% in mid-September. As we highlighted last quarter, micro-loans make up almost half of Bank Rakyat's loan book, a high proportion of which are fixed. As a result, the bank benefits from a falling interest rate environment. In the longer term, we continue to like Rakyat, which uses innovative techniques (from its own satellites to floating banks) to reach its customers, who are spread over 18,000 islands. Moreover, as noted above, roughly half of Indonesia's 274 million inhabitants still don't have a bank account.

Reliance Industries also detracted from performance this quarter. While Reliance is a diversified conglomerate, it has upstream gas assets and an extensive oil refining and petrochemicals business. The oil price has fallen from over US\$ 85/barrel in June to about US\$ 70/barrel by the end of the quarter. More directly, refining margins have fallen due to weaker demand in China, weaker demand in India (diesel), and new capacity in Africa, the Middle East, and Malaysia. Nonetheless, at the recent AGM, Chairman Mukesh Ambani reiterated his aim of doubling Reliance in size (implying a CAGR of 12%) by 2030, driven by new energy investments as it ramps up its four gigafactories into 2027. Given Ambani's highly impressive track record of delivery (telecoms, retail), we are quite happy to look through any short-term volatility in the oil price and refining margins.

Kaspi, the Kazakh super app, recently returned to the portfolio. Before re-investing, we commissioned extensive due diligence on Kazakhstan (focused on sanctions) and the company itself. The company has recently been the subject of a short-seller attack, to which the company has responded. It is alleged that the company has taken Russian money; Kaspi has

stated that only 1% of customer accounts are non-residents. It is also alleged that Kaspi has been used for money laundering; the company made clear that only an equivalent of US\$ 2,000 can be transferred each month, there is no access to Swift and no facility to open US\$ or GB£ accounts. The Kazakh regulator has come out in support of Kaspi and stated, "The Bank fully complies with the sanction's regime of the United States, the European Union and other foreign countries." We visited the company in Kazakhstan a couple of weeks ago and are currently sceptical about the allegations.

Performance Objective

To outperform the MSCI Emerging Markets ex China Index over the long term.

The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-4.6	-1.9	-2.7
1 Year	16.3	16.4	-0.2
Since Inception	2.2	4.2	-2.0
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	1.3	4.1	-2.8
1 Year	27.8	28.0	-0.2
Since Inception	1.8	3.8	-2.0
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-2.7	0.0	-2.7
1 Year	21.2	21.4	-0.2
Since Inception	2.5	4.5	-2.0
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	0.0	2.8	-2.8
1 Year	27.7	27.9	-0.2
Since Inception	4.3	6.4	-2.0
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-2.5	0.2	-2.7
1 Year	18.9	19.1	-0.2
Since Inception	3.6	5.6	-2.0

Annualised periods ended 30 September 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 31 December 2021

Figures may not sum due to rounding.

Benchmark is MSCI Emerging Markets ex China Index.

Source: Revolution, MSCI.

The EM ex China composite is more concentrated than the MSCI Emerging Markets ex China Index.

Discrete Performance

GBP	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	N/A	N/A	N/A	11.1	16.3
Benchmark (%)	N/A	N/A	N/A	5.4	16.4
USD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	N/A	N/A	N/A	21.5	27.8
Benchmark (%)	N/A	N/A	N/A	15.3	28.0
EUR	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	N/A	N/A	N/A	12.4	21.2
Benchmark (%)	N/A	N/A	N/A	6.7	21.4
CAD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	N/A	N/A	N/A	19.5	27.7
Benchmark (%)	N/A	N/A	N/A	13.4	27.9
AUD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	N/A	N/A	N/A	21.0	18.9
Benchmark (%)	N/A	N/A	N/A	14.8	19.1

Benchmark is MSCI Emerging Markets ex China Index.

Source: Revolution, MSCI.

The EM ex China composite is more concentrated than the MSCI Emerging Markets ex China Index.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024		One Year to 30 September 2024	
Stock Name	Contribution (%)	Stock Name	Contribution (%)
MercadoLibre	0.9	TSMC	1.4
SEA Limited	0.6	MercadoLibre	1.2
Naspers	0.3	SEA Limited	1.1
HDFC Life Insurance	0.2	Mediatek	0.6
Hon Hai Precision	0.2	Samvardhana Motherson	0.6
Bank Rakyat Indonesia	0.1	Nu Holdings	0.6
Ivanhoe Mines	0.1	SK Hynix	0.5
Coupang	0.1	Ivanhoe Mines	0.4
Nu Holdings	0.1	Naspers	0.3
SCB X	0.1	Posco	0.3
Samsung Electronics	-0.6	First Quantum Minerals	-1.1
SK Hynix	-0.5	Samsung Electronics	-0.8
Mediatek	-0.5	HDFC Bank	-0.6
Hyundai Motor	-0.3	FEMSA	-0.6
Reliance Industries	-0.2	PTT Exploration and Production	-0.5
Kaspi Bank	-0.2	Petrobras	-0.4
FEMSA	-0.2	Hon Hai Precision	-0.4
Infosys	-0.2	B3	-0.4
Axis Bank	-0.2	Natura & Co	-0.3
TSMC	-0.1	Walmex	-0.3

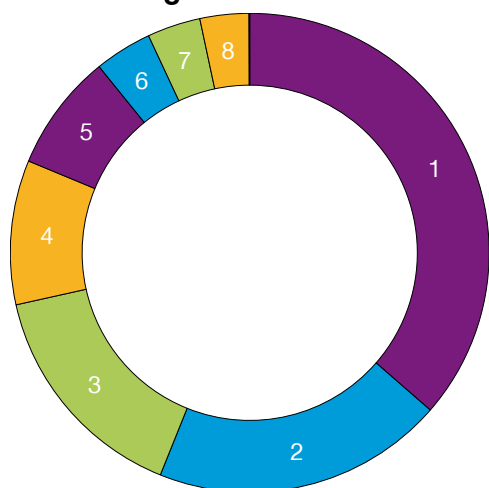
Source: Revolution, MSCI. EM ex China composite relative to MSCI Emerging Markets ex China Index.

The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
TSMC	Semiconductor manufacturer	17.4
Samsung Electronics	Producer of consumer and industrial electronic equipment	6.4
MercadoLibre	Latin American e-commerce and fintech platform	4.7
Reliance Industries	Indian conglomerate in energy, textile, digital and financial services and more	4.2
Petrobras	Oil exploration and production company	4.1
Naspers	Media and e-commerce company	3.9
MediaTek	Taiwanese electronic component manufacturer.	3.6
Sea Limited	E-commerce, gaming and fintech platform	3.0
SK Hynix	Korean manufacturer of electronic components and devices	2.8
Axis Bank	Banking services throughout India	2.7
Total		52.8

Sector Weights



	%
1 Information Technology	36.4
2 Financials	19.7
3 Consumer Discretionary	15.4
4 Energy	9.7
5 Materials	7.9
6 Communication Services	3.9
7 Industrials	3.6
8 Consumer Staples	3.3
9 Cash	0.0

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	17	Companies	1	Companies	None
Resolutions	194	Resolutions	4	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	CEMEX, S.A.B. de C.V., Coupang, Inc., PT Bank Rakyat Indonesia (Persero) Tbk, Petroleo Brasileiro S.A. - Petrobras, UltraTech Cement Limited
Social	Accton Technology Corporation, MercadoLibre, Inc., PT Bank Rakyat Indonesia (Persero) Tbk, UltraTech Cement Limited
Governance	Accton Technology Corporation, Axis Bank Limited, Koh Young Technology Inc., Naspers Limited, Natura &Co Holding S.A., Petroleo Brasileiro S.A. - Petrobras, Raia Drogasil S.A., SCB X Public Company Limited, Saudi Tadawul Group Holding Company
Strategy	CEMEX, S.A.B. de C.V., Hyundai Motor Company, MercadoLibre, Inc., PT Bank Rakyat Indonesia (Persero) Tbk

Company	Engagement Report
CEMEX, S.A.B. de C.V.	<p>Objective: To contribute to our assessment of Cemex's emissions reductions opportunities.</p> <p>Discussion: We met Cemex's Head of Sustainability to learn more about the company's strategic priorities including decarbonisation and opportunities for waste reuse. The company invests heavily in innovation, which it prioritises using its own carbon price, and so far, has been able to surpass its targets. For instance, emissions per ton of cement have been reduced from 546 kg/ton in 2022 to 455 kg CO2/ton in 2023, with its 2030 target being 366 kg CO2/ton. Interestingly, we're seeing sustainability ambitions, like clinker factor reduction and increased use of alternative fuels are also enhancing the company's financial returns. One of the current focuses for the company is water usage, which is stressed in certain locations. It's clear that the company has a proactive approach, which has no doubt been helpful, given their exposure to Emission Trading Schemes in the EU and California, alongside carbon tax mechanisms in other markets.</p> <p>Outcome: The insights into the practical implementation of its plan assisted in understanding the company's opportunities and challenges in different markets in relation to evolving market demands and regulatory landscapes. The company has a comprehensive approach to sustainability, from emissions reduction and innovative technology to investment decisions and executive compensation linked to CO2 reduction targets.</p>
Coupang, Inc.	<p>Objective: To encourage Coupang to report scope 1 and 2 emissions to better understand its climate exposure and material risks.</p> <p>Discussion: Climate considerations are crucial to Coupang's success for two main reasons: urban pollution and regulatory compliance. Coupang operates in densely populated areas of Korea, with 70 per cent of the population living within seven miles of a fulfillment centre. Seoul, known for its narrow streets and high vehicle usage, ranks among the worst cities globally for air pollution. Additionally, as a company listed in the US, Coupang must adhere to the latest SEC requirements to disclose scope 1 and 2 emissions. Currently, the company prioritises recycling and green packaging over emissions disclosure.</p> <p>We recommended that Coupang begin disclosing its scope 1 and 2 emissions, though we advised against setting targets until the company has a clearer understanding of its carbon footprint. Furthermore, we offered the support of our Climate Team and agreed to provide examples of companies in similar sectors that we admire.</p> <p>Outcome: Following our meeting, the company indicated it is evaluating internally whether to include its scope 1 and 2 emissions in its forthcoming ESG report. We look forward to studying the report once published.</p>
Natura &Co Holding S.A.	<p>Objective: To better understand how Natura & Co. think about sustainability in relation to its brands, sales channels, and future growth opportunities.</p> <p>Discussion: Part of Natura's success stems from the continued strength of the brand and its transition into new sales channels. We have recently had a couple of meetings with company management, where it's clear a strong commitment to sustainability remains core to the Natura brand. The Latin American business has beaten expectations, particularly the company's ability to integrate Avon LatAm into its operations. We learned about how important the role of individual consultants is for both brands, and how the integration has opened new customer bases for merchants, alongside new digital tools and connections with retail store capabilities.</p> <p>Outcomes: We have gained an improved understanding of how it plans to integrate brands in Latin America. We will continue to monitor the integration and its connections to future growth opportunities.</p>

Company	Engagement Report
Petroleo Brasileiro S.A. - Petrobras	<p>Objective: To better understand how Petrobras' operational emissions reductions and governance controls are being implemented and to continue to encourage further progress.</p> <p>Discussion: We met with Petrobras' head of governance and head of climate in Brazil, followed by a meeting with the chief financial officer (CFO) in London. Petrobras has environmental targets, including greenhouse gas emissions associated with oil and gas production. However, over the years, we have encouraged the company to be more ambitious. The company highlighted that its reservoirs have enabled low-cost and lower carbon barrels, it has also invested in technologies for further emissions reduction. Examples of this would include new floating production, storage, and offloading (FPSO) vessels that have decarbonisation technologies. The company is resolutely focused on efficiency, identifying opportunities to go even further in eliminating flaring and improving energy consumption and supply. Of course, efficiency gains will become incrementally harder, so the company aims to stay abreast with new technology that can enable further improvement. Petrobras has one of the largest carbon capture and storage (CCS) programmes globally in the context of offshore oil and gas production, and this expertise is being extended to onshore CCS hubs. Petrobras has a strong safety record, but we discussed how the company addresses governance and sustainability standards in new markets, where they highlighted new compliance and controls.</p> <p>While the company has embarked on energy transition projects, these remain a small part of its overall business. Management sees its expertise in biofuels and sustainable aviation fuels (SAF), as long-term opportunities for the business, but the CFO reiterated the focus of the company's mission, which is replacing oil reserves through ongoing exploration to underpin long-term production growth at the company.</p> <p>Outcome: The meetings with Petrobras and other experts in Brazil helped us better understand the company's governance and sustainability practices in the local context.</p>

Votes Cast in Favour

Companies	Voting Rationale
Axis Bank, Delhivery Ltd, Escorts Kubota Ltd, HDFC Life Insurance Co Ltd, ICICI Bank Ltd, Jio Financial Services Ltd, Kaspi.kz ADR, Kotak Mahindra Bank, NCsoft, Naspers, Nu Holdings Ltd., PB Fintech, Raizen, Reliance Industries Ltd, Samvardhana Motherson International, Tech Mahindra, Ultratech Cement Ltd	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Naspers	AGM 08/22/24	O.6	We opposed the resolution to approve the remuneration policy because of concerns with a special 'moonshot' award for the CEO, in addition to the regular long-term incentive plan. We do not believe that the conditions attached to the award promotes appropriate pay for performance.
Naspers	AGM 08/22/24	O.7	We opposed the resolution to approve the remuneration report because of concerns with quantum and misalignment between pay and performance. Our concern also relates to the stretch of targets under the long-term incentive plan, all of which we do not deem to be in the best interest of long-term shareholders.
Naspers	AGM 08/22/24	S.6	We opposed the resolution which sought authority to repurchase shares because of the lack of disclosure.
Companies	Voting Rationale		
Naspers	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.		

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Kotak Mahindra Bank	Kotak Mahindra Bank is one of India's leading universal banks. Its long-term track record is much admired, as it has managed to grow strongly despite lending conservatively. However, it has historically traded at a premium valuation which deterred us from investment. It has de-rated over the past four years, due to what we believe to be transient concerns around management change, temporary bans by the regulator on credit card issuance, and whether it will grow aggressively enough in what others perceive to be a benign lending environment. Our assessment is that despite stepping down as CEO Uday Kotak will remain influential at the bank given his shareholding, and they have built both an enviable brand and deposit franchise which will permit them to be selective and competitive in lending. We believe the current price to book value valuation to be unjustifiably low given the returns on equity the bank generates, and so have taken a new holding.

Complete Sales

Stock Name	Transaction Rationale
Advantech	Advantech is a Taiwanese technology company focused on four main areas: embedded computers, industrial automation, applied computing and design manufacturing. The shares have performed well. We believe the upside is therefore limited and that there are better ideas elsewhere. We sold the holding.

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