Baillie Gifford™

Emerging Markets

Philosophy and Process

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Philosophy

Long term

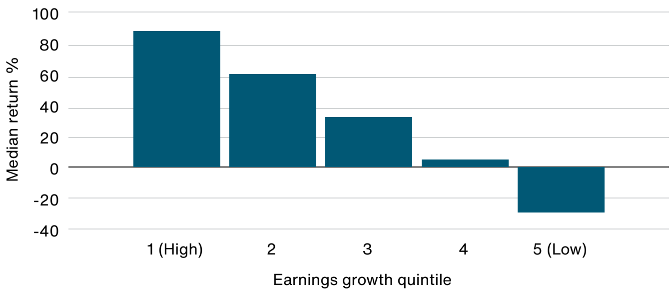
This matters. Stock prices are wildly unpredictable in the short-term. Ultimately, however, prices do reflect the earnings capability of a company. So when we find a company that has the potential to grow its profits significantly over time, we must invest with the patience that allows a good decision to prove its worth.

To this end, we ask clients to judge us over a five-year plus time frame and similarly, our investors' performance bonus is paid on rolling performance. This ensures alignment.

Growth

We have found the most persistent source of alpha to be those companies that can grow their profits faster than the market, in hard currency terms, over the long-term. This trend persists irrespective of starting valuation. To evidence this we looked at different quintiles of earnings growth, in US dollars, over rolling five-year periods in the Emerging Markets universe. We found that in the last 30 plus years, the top quintile of earnings growers were rewarded, on a median basis, with a near doubling in share price.

Returns follow hard currency earnings growth over long term in Emerging Markets



Source: Baillie Gifford & Co, Factset. Median five-year USD returns from Emerging Markets stocks as of the end of December of each year between 1994 and 2024 and with a market capitalisation larger than time-adjusted USD1bn.

The relationship shown in the graph striking. It underlines the importance of having a process with an unwavering focus on finding these companies that can grow their earnings over the long-term at double digit rates.

Active

This is critical in Emerging Markets. Not simply because the evidence still shows that having a dedicated active Emerging Markets manager makes sense but because the universe is in a permanent state of flux.

We would observe three particular features which emphasise the need for active management in Emerging Markets. Firstly, the index still consists of state owned enterprises (SOE), whose interests are not always aligned with minority shareholders. Secondly, most emerging countries do not emerge, so there will be times when we want to take advantage of the tailwind provided by economic cycles in certain countries and times when we want to limit our exposure. Lastly, positive returns in the asset class are driven by a very small number of companies that do exceptionally well. Being highly selective is imperative.

Responsible

In Emerging Markets you are rarely dealing with perfect companies. Many do not score well on ESG data metrics. Herein lies the opportunity. Investors, companies and society stand to benefit if we can play a role in pushing businesses towards improved standards of governance, behaviour and performance.

Our approach, as growth investors, is to engage with companies, where appropriate to help them towards industry best practice. When assessing ESG performance we look to differentiate the stubbornly bad from the potentially good – it is the direction of travel that counts.

Adopting this approach allows capital to flow to areas that need it the most and where returns on capital can be higher, thereby unlocking social and financial value.

Process

Our investment process is all about research and debate, founded on a clear idea of the market inefficiencies we can exploit for our clients. Our research framework asks investors to think creatively, beyond the constraints of traditional information sources, in order to find the best growth companies.

Coverage

Every member of the Emerging Markets Equity Team is first and foremost an analyst and spends the majority of their time writing stock research. We allocate research responsibilities by geography with dual coverage of each region.

For us this makes sense as we have observed that the unique aspects of different countries typically dominate the investment case more than global sector considerations.

We rotate geographic coverage every two to three years between members of the team which ensures once an investor has been in the team for a decade, they will have covered all the core markets. This ensures challenge comes from a position of experience and knowledge rather than having to rely on isolated expertise.

Idea generation

Every member of the Emerging Markets Equity Team meets with the investment partners in the team twice a year to agree on a research agenda. This provides a framework for research which covers potential new investments as well as reviews of existing holdings. Given we aim to hold companies for multi-year periods, each team member need only find a handful of new ideas in any given year. This ensures they have the freedom and time to research potential investments in great depth using a wide variety of inputs.

In addition to our Shanghai research office, research inputs include but are not limited to: extensive investment trips to visit company management (listed and private); suppliers; customers; competitors; journalists; regulators and industry experts. We similarly commission independent pieces of research from academics and forensic researchers, when we believe this will help with our analysis.

We are also fortunate to work in Edinburgh with the majority of our investment colleagues, many of whom are also researching Emerging Markets companies or competitors. Our centralised research library ensures that there is a constant source of new ideas from colleagues on which the team can draw.

Decision making

All investment ideas, whether existing holdings or new ideas, are discussed by the full Emerging Markets Equity Team at the weekly stock meeting. This is the opportunity to challenge and explore the research, drawing on the collective experience of the team.

Stock weightings are determined by a combination of the conviction in the investment case, the scale and probability of the relative expected return and the context of the holding in relation to the rest of the portfolio.

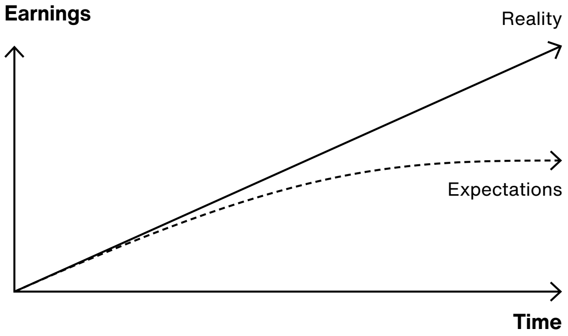
Our sell discipline is triggered if a company no longer meets our growth hurdle, if the investment case no longer stands up to scrutiny, if the valuation no longer leaves sufficient upside or if there are significantly better ideas elsewhere.

Research

Our research is singularly focused on finding those companies that can double in hard currency terms, on a five year view and we expect most of this doubling to come from earnings growth.

We are particularly interested in three specific and persistent market inefficiencies, outlined on the following pages.

1. Under-appreciated growth duration



We believe one of the greatest market inefficiencies in Emerging Markets is to be found in companies with excellent long-term earnings growth but where profits will be volatile from one quarter to the next, often as a result of investment or product cycles that are years in the planning.

The market shows a disdain for such companies, preferring the predictability of smooth profit generation even if the long-term growth rate turns out to be a fraction of that achieved by those more willing to reinvest in their business and with greater ambition.

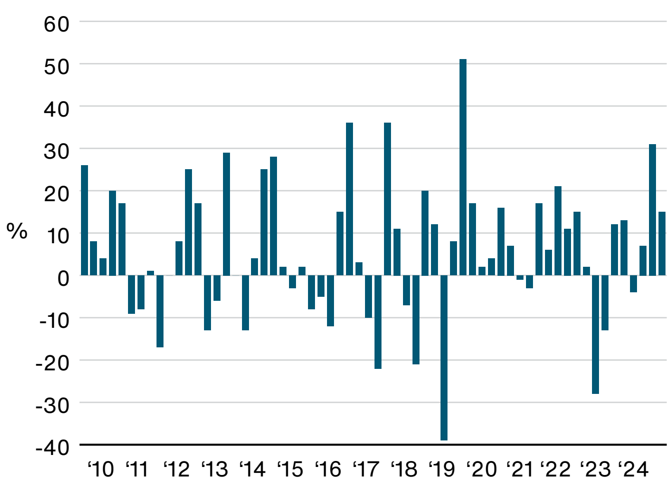
This presents us with fantastic investment opportunities, but it requires an approach and culture that allows near-term volatility to be ignored.

Consider the long-standing holding TSMC below.

Taking our Investors to task every time quarterly estimates were missed or there was an earnings surprise would have meant 'missing the forest for the trees'. The volatility of short-term earnings often masks a significant rise in the company earnings power over the long term. Our research focuses all its resources on trying to understand the drivers of the latter, which requires the discipline to ignore the former.

TSMC

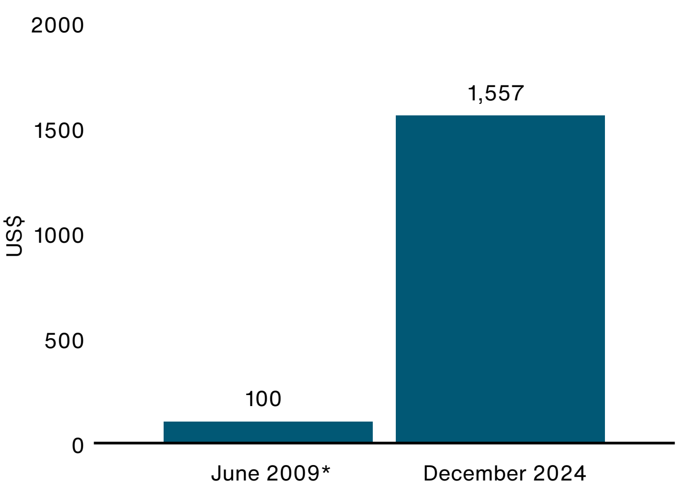
Earnings per share (quarter on quarter change)



Source: Factset. Taiwan Semiconductor Manufacturing Company Earnings. As at 29 June 2009. US dollars.

TSMC

Earnings per share



*Rebased to $100 as at 29 June 2009.

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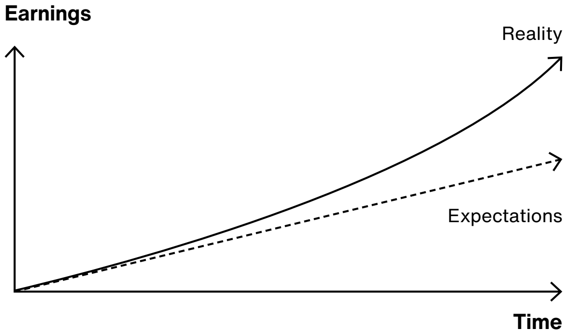
2. Under-appreciated growth pace



The market consistently underestimates the likelihood of rapid growth. Consider the chart below which compares the average sell-side forecasts on earnings growth to the reality.

We present this, not as a dig at forecasting skills, as we would be the first to admit that forecasting precisely is impossible, but rather to illustrate that extreme growth is more common than the market appreciates.

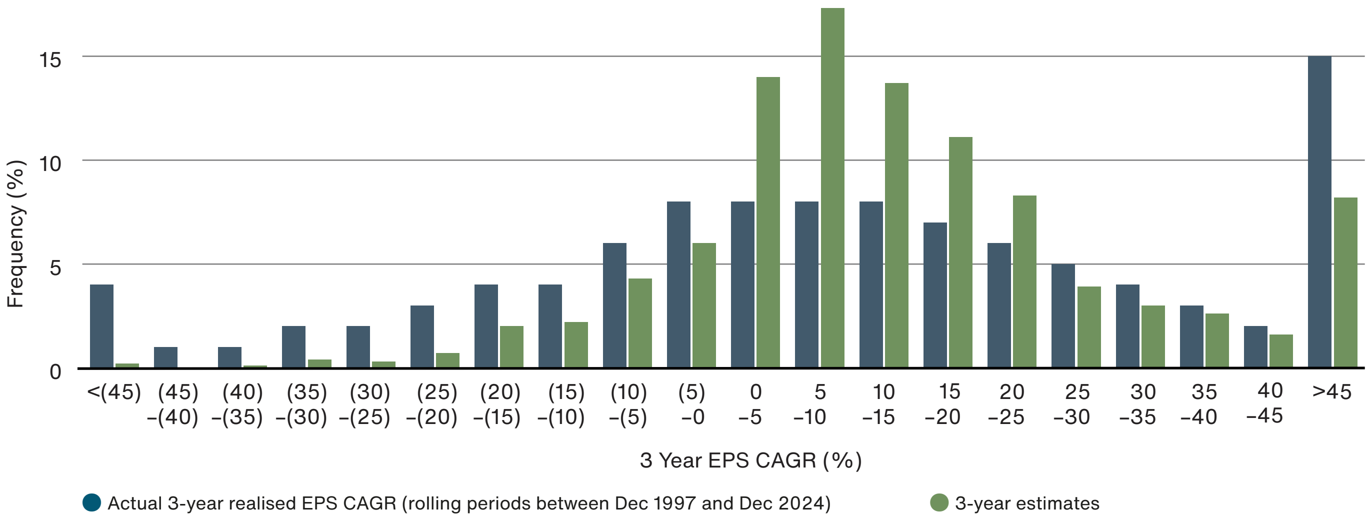
The evidence shows that most investors cluster around a narrow range of earnings growth predictions, which can in turn lead to significant mispricing of those companies with the potential to grow very rapidly. Our process is focused on finding these companies.

By looking further out and searching for low probability but high impact growth opportunities, we have been able to outperform. This requires our investors to think carefully about probabilities and possibilities, to spend more time thinking about what can go right rather than what can go wrong in any investment; as ultimately, stock markets are driven by a small handful of companies that do extremely well.

Indeed, we would argue that one of the biggest risks in investment is not holding the fastest growing companies. This is why our process focuses exclusively on investing in companies with the potential to substantially grow their profits, in hard currency terms, over five years.

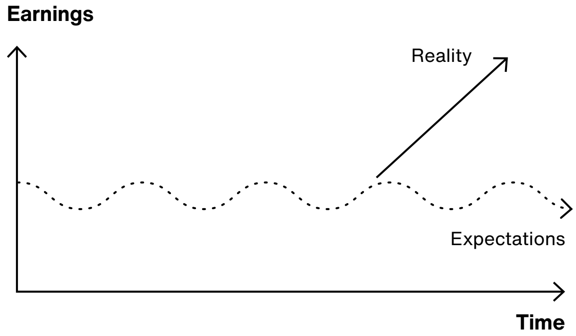
EM Stocks

Range of EPS 3-year compound annual growth rate (CAGR)



Source: FactSet, MSCI, FTSE. As at 31 December 2024.
Based on Emering Markets stocks in the MSCI EM Index or FTSE EM Index. US dollars.

3. Under-appreciated growth surprise



The final great market inefficiency in Emerging Markets lies in the interaction between top-down and bottom-up investing.

Emerging Markets investors do not have the luxury of ignoring macroeconomics. A purely bottom-up investment is a path to ruin in a universe where industrial and economic cycles can dominate investment returns over multi-year periods.

The long-term earnings outlook for a vast number of companies – notably in the financial, materials and industrial sectors – are determined by exogenous macro factors beyond their control. This also provides opportunities.

Our analysis shows that while it may pay to invest in those companies that display consistently high levels of earnings growth, the strongest returns are to be found in those companies that exceed growth expectations – a 'growth surprise' (i.e. those that deliver higher delivered earnings growth than is estimated).

This may seem obvious – rising levels of profit growth are normally accompanied by a re-rating, thereby providing a two-fold kicker to share price performance – but identifying the drivers behind this change is the key and has been a significant source of alpha for our Emerging Markets strategies.

We accept that timing these inflection points perfectly is largely impossible, but when you have an investment horizon measured over many years, successfully anticipating the future direction of travel is hugely valuable.

Average three year total return (% p.a.)

		Estimated Earnings Growth Quintile				
		Q1	**Q2**	**Q3**	**Q4**	**Q5**
Delivered Earnings Growth Quintile	**Q1**	19%	26%	28%	31%	35%
	Q2	9%	15%	19%	21%	25%
	Q3	4%	7%	10%	14%	20%
	Q4	0%	1%	5%	8%	12%
	Q5	-6%	-6%	-5%	-2%	2%

Source: MSCI. Based on MSCI Emerging Markets Index.
Rolling quarterly three year attributions from December 2000 to December 2024.
The chart above evidences the opportunity of owning companies that deliver an earnings "surprise".
The data set shows our analysis of EM returns data from December 2000 – December 2024 and compares three-year earnings estimates at the beginning of the period, with three year delivered earnings during the period. There are two conclusions to take from this, firstly, the top quintile of delivered earnings outperformed, regardless of the starting estimate. Secondly, that companies delivering an earnings "surprise", by delivering higher earnings than the market expected, were awarded with very strong performance.

Risk management

Our approach to risk is pragmatic. It seeks to ensure that portfolios are sufficiently diversified while at the same time accurately reflecting the team's investment convictions. It is our objective to have as many idiosyncratic 'bets' in the portfolio as possible, to mitigate any unsystematic risk.

We believe that the risk of an investment losing money is the most important risk to any portfolio, over and above risk as defined by tracking error, volatility or credit spreads.

In addition to the aspects highlighted below, Baillie Gifford's dedicated Investment Risk, Analytics and Research Department use a range of tools and measures to analyse risk within our portfolios.

These include risk models provided by FIS APT and MSCI Barra. Our Investment Risk, Analytics and Research Department is highly experienced in using these models and has a detailed understanding of their methodologies, as well as their limitations.

The following are the main aspects of risk that we consider:

Fundamental risk

Our first line of defence is rigorous stock analysis. New buy ideas are subject to thorough review by the team. The investment case for all holdings is constantly re-examined, with input from a plurality of Baillie Gifford research teams. We will tolerate uncertainty in an investment case and embrace the possibility that any individual investment may have a wide range of outcomes.

Portfolio risk

We seek to maintain an appropriate level of diversification at the overall portfolio level in order to reduce risk. The investment managers take the overall portfolio context into account when considering any buy or sell ideas that result from the weekly stock review. Our aim is to assess the real risks within the portfolio through forward-looking and open-minded debate, rather than relying solely on backward-looking risk models.

Liquidity risk

We maintain a firm rule that, across the entire dedicated Emerging Markets strategy base, we will not hold more than 10% of the portfolio in stocks where we hold more than eight days' trading volume at the time of purchase. This rule has evolved from our experience of investing in Emerging Markets, ensuring that the portfolio remains sufficiently liquid to enable positions to be exited or client cash flows to be managed with minimal impact.

Trading risk

Baillie Gifford has a separate and dedicated centralised Trading Team. Our proprietary restrictions system is designed to prevent inappropriate transactions before any trading takes place.

Competitive advantages

We believe our edge is the combination of several key factors, which together allow us to think differently to the market and deliver our objective of outperforming the benchmark over the long term.

These factors are outlined below:

Consistency and stability

Four of the investment managers in the Emerging Markets Equity Team have worked together for more than a decade and two of the partners in the team have worked together for more than 19 years. The team, in total, has over a hundred years of investment experience. The respect and trust that they have developed for and in one another, promotes rigorous debate at the stock discussions as they do not shy away from challenging one another.

Experience and tenure

Having managed Global Emerging Markets mandates since 1994 we can genuinely claim a tried and tested investment process, which has been tested through multiple market environments, both when growth has been in favour and when it has not. We can make this claim in such a way that those who have only been around for a decade or so cannot.

Cognitive diversity

The team is comprised of ten individuals with different academic backgrounds, including a historian, an engineer, and a biological science major. This diversity of thought leads to different curiosities amongst the team. This results in interesting and unique stock ideas as well as more thought-provoking debates amongst the team at the weekly stock discussion.

Alignment of interests

We are genuinely long-term in our investment approach. Many managers claim this; however, few actually pay their investors based on five-year rolling relative performance or exhibit portfolio turnover consistent with a truly long-term approach. The stability of our firm and team makes this possible. Having the comfort of knowing our investors often spend their entire careers at Baillie Gifford brings a level of accountability and commitment to the task at hand that few can match.

Research

All members of the team, from the partners to the newest graduate recruit, are first and foremost an analyst. All of our equity investors share a common research library containing research that goes back for decades. This provides our investors with a substantial critical mass of intellectual capital and proprietary research, as well as a wide array of different experiences and perspectives. In addition, our external perspectives tend to come from a range of sources ranging from industry specialists and academics to ex-journalists, rather than simply following sell-side recommendations We deliberately cast the net very wide in the belief that a wide range of inputs should lead to differentiated outputs.

We strongly believe our advantage lies in the way in which we think about the information that is available rather than the mere possession of it. We place great importance on producing differentiated, proprietary research focused on the long-term outlook for companies.

We encourage our investors to be diligent and creative when considering investment research inputs. This long-term approach creates a distinctive edge, particularly in inefficient, short-term focused Emerging Markets. As detailed within our philosophy, over the long term, evidence shows us that share price returns follow growth in earnings, but both patience and rigorous analysis are key to being able to exploit this.

Company relationships

One of the most important sources of insight for us is the relationships we have been able to build with companies directly as long-term investors, with an interest in their cultures and competitive advantages. Engaging with companies in this way will remain a crucial part of our process. A growing number of companies notice if you are committed, long-term shareholders, irrespective of their size and success.

Our emphasis on the long term means that we tend to spend much more time considering companies' future prospects (and discussing those with management) than analysing quarterly financial results. We believe that our willingness to factor durability and longevity into our analysis of the prospects for companies and to recognise and embrace uncertainty, sets us apart from most market participants. It is often a significant factor in the difference of view that we have on the valuation of individual companies compared with the broader market.

People and responsibilities

The Emerging Markets Equity Team is responsible for the Emerging Markets equity strategies.

A key element of the team's success has been maintaining a stable core of investors who have worked together for many years. There are four team members who have worked together for a decade or more. They are consistently supplemented by new investors, some of whom are rotating through their graduate training. This helps to ensure a constant stream of fresh ideas and challenges.

Additional input includes our China Investment Team of ten, which contains seven investors on the ground in Shanghai.

We set up our Shanghai office in 2019, primarily as a hub for China equity research. This was to complement the China equity research we do from Edinburgh and help us build strong on the ground relationships in China.

Throughout the firm we cherish breadth of perspective and diversity of thought. As such, we deliberately recruit from a wide range of academic disciplines. To outperform the market, we need to think differently from our industry peers and this approach to recruitment serves us well.

The decision as to whether to buy or sell a stock is taken by the various Portfolio Construction Groups (PCGs) as shown below.

Guidelines and investment management responsibilities

Strategy	Company range	Guidelines
Emerging Market All Cap Mike Gush Andrew Stobart Ben Durrant	60–100	Individual company position: 5% maximum overweight at time of purchase Industry guideline: +/-15% relative to benchmark* Country guideline: +/-15% relative to benchmark*
Emerging Market Leading Companies Will Sutcliffe Roddy Snell Alex Summers	35–60	Individual company position: 5% maximum overweight at time of purchase Industry guideline: +/-15% relative to benchmark* Country guideline: +/-15% relative to benchmark* Minimum market cap at time of purchase = $1bn
Emerging Markets ex China Andrew Stobart Mike Gush Ben Durrant	40–80	Individual company position: 5% maximum overweight at time of purchase Industry guideline: +/-15% relative to benchmark** Country guideline: +/-15% relative to benchmark**
Emerging Market Concentrated Growth Will Sutcliffe Andrew Stobart Alice Stretch	15–25	Individual company position: 15% maximum at time of purchase Minimum number of industries: 5 and a maximum 75% portfolio weight in top 3 Minimum number of countries: 5

*MSCI Emerging Markets Index.
**MSCI Emerging Markets ex China Index.

Will Sutcliffe*
Investment Manager

Will is head of our Emerging Markets Equity Team. He joined Baillie Gifford in 1999, and became a partner of the firm in 2010. Prior to joining the team in 2001, he also spent time working in our UK and US equity teams. Will graduated MA in history from the University of Glasgow in 1996.

Mike Gush*
Investment Manager

Mike is an investment manager in the Emerging Markets Equity Team. He joined Baillie Gifford in 2003, and became a partner of the firm in 2020. Prior to joining the team in 2005, he also spent time working in our UK and Japanese equity teams. Mike has also been a member of the Sustainable Growth Strategy since its inception in 2015, where he is currently an investment scout. Mike is a CFA Charterholder and graduated MEng from the University of Durham in 2003.

Roddy Snell*
Investment Manager

Roddy is an investment manager in the Emerging Markets Equity Team. He joined Baillie Gifford in 2006 and became a partner of the firm in 2023. He has managed the Baillie Gifford Pacific Fund since 2010 and Pacific Horizon Investment Trust since 2021 (having been deputy since 2013). Roddy became a member of the International Alpha Portfolio Construction Group in 2024. Prior to joining the Emerging Markets Equity Team in 2008, he also spent time in the UK and European equity teams. Roddy graduated BSc (Hons) in medical biology from the University of Edinburgh in 2006.

Andrew Stobart
Investment Manager

Andrew is an investment manager in the Emerging Markets Equity Team. He joined Baillie Gifford in 1991, and prior to joining the team in 2007, he has also spent time working in our UK, Japanese, and North American Equity teams. Andrew has been involved in running the Emerging Markets portion of the Managed Fund since 2012. Prior to joining Baillie Gifford, he previously spent three years working in investment banking in London. Andrew graduated MA in economics from the University of Cambridge in 1987.

*Partner

Ben Durrant
Investment Manager

Ben is an investment manager in the Emerging Markets Equity Team. He has managed the Pacific Fund since 2021 and became deputy manager of Pacific Horizon Investment Trust in 2023. He joined Baillie Gifford in 2017, and has also worked in our UK, Global Discovery and Private Companies equity teams. Prior to joining the firm, he worked for RBS in their Group Strategy and Corporate Finance Team. Ben is a Chartered Accountant and a CFA Charterholder, and graduated BSc (Hons) in mathematics from the University of Edinburgh in 2012.

Michelle Brown
Senior ESG Analyst,
Emerging Markets

Michelle is a senior ESG analyst in the Emerging Markets Equity Team. She joined Baillie Gifford in 2021. Prior to joining Baillie Gifford, Michelle led sustainability and social responsibility programs for the University of Edinburgh, and has extensive experience of working on ESG issues with a wide range of companies across Asia and Africa and with international development banks, UN agencies and NGOs on sustainable business practices.

Michelle is a fellow of IEMA (Institute of Environmental Management and Assessment) and the ICRS (Institute of Corporate Responsibility & Sustainability) and graduated MA in development studies from the University of Leeds in 1997, and BA (Hons) in sociology from Bishops University (Canada) in 1995.

Alex Summers
Investment Manager

Alex is an investment manager in the Emerging Markets Equity Team. He became a member of the International All Cap Portfolio Construction Group in 2024. He joined Baillie Gifford in 2022, and prior to joining the firm, worked as a senior investment analyst (EM/Asia) at Stewart Investors from 2013. Alex is a CFA Charterholder and graduated BBA (First Class Honors), in accounting and finance from the University of New Brunswick, Canada.

Alice is an investment manager in the Emerging Markets Equity Team. She joined Baillie Gifford in 2018, starting out as an analyst in the Emerging Markets Equity Team. She has previously worked in the Long Term Global Growth, Global Alpha and Credit teams. Alice graduated BSc in Political Economy from King's College London in 2018.

Alice Stretch
Investment Manager

Jack is an investment analyst in the Emerging Markets Equity Team. He joined Baillie Gifford in 2021 and has previously worked on the UK, International Growth and International Smaller Companies equity strategies. Jack graduated BA (Hons) in History and an MSt in Global and Imperial History, both from the University of Oxford.

Jack Allssop
Investment Manager

Rich is an investment analyst in the Emerging Markets Equity Team. He joined Baillie Gifford in 2022 as a client relationship manager before moving roles in 2024. Prior to this he worked in the education industry in China. Rich completed both undergraduate and master's degrees in History at the University of St Andrews and speaks fluent Mandarin.

Rich Singleton
Investment Analyst

Baillie Gifford

Clients

We are immensely proud of our supportive client base. Without them, our business could not exist.

Our primary goal is to build long-term relationships with aligned, like minded, clients. Our longest client relationship dates back to the early 1900s.

A core principle we have always upheld is prioritising our clients' interests above the firm's. In an industry that often puts financial gain over client outcomes, this focus is crucial. We aspire to be seen as more than merely the 'hired help', and aim to be recognised as a trusted, long-term partner, who can be relied on to give honest and objective advice at all times.

We are research-driven, patient and prepared to stand apart from the crowd. And because we're an independent partnership without outside shareholders, the long-term goals of our clients are genuinely our priority.

Partnership

Stability matters.

Since its inception in 1908, Baillie Gifford has proudly remained a private partnership. We have no intention of changing this. We have never had a merger or made an acquisition, nor do we seek to in the future. This is a rare level of stability in financial services.

All of our partners work within the firm which provides a unique level of alignment between them as owners, and our clients. This is a key differentiator in comparison to a lot of our peers.

Focus

We have a clear unity of purpose – excellent long-term investment returns and unparalleled client service. Our interests and long-term objectives are completely aligned with those of our clients.

We are not short-term speculators, rather we deploy client's capital to run truly active portfolios that give exposure to exciting and lasting growth companies. We would argue that it is visionary entrepreneurs and company leaders that generate long-term profits and share price increases, not stock markets or indices.

When active management is done well it can add material value over the long term. We need to be willing to take a differentiated view. This is not easy. It requires dedication, independent thought and a long-term perspective. Our whole firm is built around this, and we will always remain resolutely investment and client outcome driven in our outlook.

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Baillie Gifford™

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000