Baillie Gifford™

Emerging Markets

Monthly insights

March 2024

In US$ terms, the Indian stock market index was up over 38% in the 12 months to end February. This is nearly 4 times the wider Emerging Markets index and well over 50% better than MSCI China over the same period. It could be argued that negativity towards China has been India's gain: risk seeking investors inclined towards Emerging Markets have been vacating China in favour of India. Anecdotally, we've heard from Chinese companies that their foreign investor visits are down by 90-95%, while Indian conferences are full, with standing room only.

Rather than speculate on when the sentimental tide may turn (or otherwise), we explore both countries from a different angle in this short note. Michelle Brown, our senior ESG analyst, has recently conducted due diligence visits to both. In Emerging Markets, we are not seeking perfect companies as a starting point. Rather, our research and company meetings will work from the current starting point to explore the topics that we believe are material to our investment cases, in the pursuit of strong financial returns. Often, these relate to how companies interact with the stakeholders around them over the long term. Two of the more significant case studies from her trip follow: Reliance Industries and Zijin Mining, two companies we've been following closely for some time.

Let's start with energy. In a world focussed on decarbonisation, the basics can get lost: without energy, businesses won't thrive, essential services won't be met, children won't have lights to do their homework, and ultimately, economies won't grow. China and India have been exceptional at increasing access to energy. Whereas only 50% of the population in China had access to electricity at the end of the 1980s, by 2005 this was 98%. In India, this transformation took place a bit later – in 1995, only 50% had access to electricity, but by 2020 it was 99%. However, both countries face the challenge of providing reliable and affordable energy while also combatting air pollution and decarbonising. A balancing act is emerging; both countries are leading the way in renewable energy and capacity for development here whilst at the same time being heavily reliant on fossil fuels (82% of primary energy consumption in China and 88% in India).

India's Reliance Industries provides a real-world example of this dichotomy and is a company we continue to be excited about. The company aims to 'have the world's most affordable green energy within this decade' and will make a significant contribution to India's renewable energy. At the same time, Reliance contributes 30% of India's gas requirements, and its various businesses (including oil-to-chemical, telecommunications, and retail) are energy-hungry. The company's decarbonisation plans sit alongside its new energy investments via solar manufacturing with energy storage, electrolyser manufacturing and green hydrogen production.

During Michelle's visit, Reliance explained that the solar PV manufacturing facility is expected to be ready within the year, and by early 2027, both the solar and battery facilities are expected to be operational and integrated. She was impressed with how quickly this has happened, given that it was not even on the table a few years ago. The company is not known for detailed disclosures on some topics, and in 2023, we encouraged additional reporting on methane and enquired about Scope 3 emissions beyond their telecoms business. Ultimately, better disclosures can make companies such as Reliance more palatable investments for foreign shareholders, thus raising the potential long term valuation multiples they can command.

India's corporate environment has often been criticised for being dominated by large conglomerates intertwined with the government. We wouldn't contest that, but history has shown that it has often helped achieve some important large-scale projects. In Reliance's case, good relationships with the government, large capital budgets and an existing energy network are a recipe for getting things done. We've seen this play out in traditional energy, then telecoms, and is now bearing fruit in green energy.

We expect some analysts to be impatient and demand immediate results, but a patient approach should be our edge here. We understand the long-term potential of the new energy business and trust the company's capital allocation track record, which should afford it long-term success.

Michelle's China visit took her to the Zijinshan copper mine, one of the key copper assets controlled by Zijin Mining. Our previous monthly commentary spoke to our interest in copper as an undersupplied yet vital resource in renewable infrastructure globally, where we expect price rises over the long term. Copper is one of the key starting blocks in the EV supply chain, as well as wind and solar power. Zijin mines materials which are essential for the energy transition, but how the company addresses social and environmental topics can affect the success of the mine and ultimately the financial returns it can generate. We have been encouraging their adherence to international norms and best practice through improved preparedness and reporting.

Throughout 2022-23, we also spoke with the company on its approach to human rights and the environment, and our colleague Lin from our Shanghai office visited the Ashele mine in in September. More recently, in Fujian, Michelle and Lin met with management and one of the directors who oversee environmental, social, and governance issues at the Shanghang headquarters. Meeting in person to share perspectives was helpful for our engagement and appreciated by the company.

Among other topics, the discussion with the company was about international concerns about Xinjiang and reports of risks of forced labour. The company could benefit from providing more assurance to shareholders on how it upholds its fundamental commitments to rights at work, as referenced in its own standards. The company commented that it would continue prioritising human rights and audit to international standards, which was reassuring.

In Beijing, Michelle and Lin also stopped in to see the local representative of the International Labour Organisation (ILO). They reminded us that some of the social topics in China remain sensitive and may not get the same attention, especially publicly, as topics more firmly in the environmental realm. The opportunity for companies to promote fundamental principles and rights at work, as well as the challenges of social audits, were highlighted in the discussion. We were surprised to hear that we were the first investor to knock on their door seeking a dialogue.

We are very aware of our key role as stewards of your capital, in holding the companies we own on your behalf to account. This is directly related to the long-term return potential of these investments. We hope these short case studies give you some insight into how we do this, though we'd be delighted to discuss this further if it's of interest.

Risk factors and important information

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in March 2024 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for profit and loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this communication are for illustrative purposes only.

Important information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Financial intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions (FinIA'). The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a 'wholesale client' within the meaning of section 761G of the Corporations Act 2001 (Cth) ('Corporations Act'). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a 'retail client' within the meaning of section 761G of the Corporations Act. This material contains general information only. It does not take into account any person's objectives, financial situation or needs. South Africa.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America. The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Israel

Baillie Gifford Overseas Limited is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law,5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

Baillie Gifford™

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

96403 10045800