Baillie Gifford™

Baillie Gifford Emerging Markets Fund

January 2024

2023 Reflections

A short summary of the performance pattern for the Emerging Markets Equity Fund over the last year may go along the lines of: 'a policy driven market in which Emerging Markets 'value' outperformed 'growth''. Whilst this is of course partially true, it understates the reality because, especially when compared to 2022, we have seen the return of a stronger link between operational performance of companies and returns to their investors. For stock pickers, this is very welcome.

The Fund outperformed during 2023 and more importantly remains ahead of the index over 5 years. We've seen some fantastic examples of operational excellence from companies in the Fund of late. Mercadolibre, the ecommerce and payments company in Latin America is a standout example. It is one of the few ecommerce companies that has kept such strong operating performance up before, during, and after covid lockdowns. Net revenue growth is 40% ($) Year over Year at its latest results. Cemex in Mexico was another example, delivering core earnings growth of 40% at its latest returns. In China, despite a challenging market backdrop, we've seen the likes of Alibaba return to solid growth rates too. There have of course been some more challenging cases, such as First Quantum Minerals in Panama, which we expand on further in the quarterly investor report. Thankfully, across the Fund operational issues are rare and isolated cases.

We're acutely aware though, that when absolute returns have not been as we'd have hoped for over a decade now, relative performance only goes some way to helping. So, we suspect the more important questions for you are likely to be around the fortunes for EM as an asset class. Valuations are attractive, growth rates are positive and the level of investor interest in Emerging Markets appears to be increasing.

Whilst we spend most of our time analyzing individual companies, in much of our commentary over the last year or so, we've highlighted the way that EM as a whole responded to the pandemic and its aftereffects, without massive stimulus, which has not led to the inflation pressures we've seen in much of the developed world. As such, interest rates continued to rise in Developed Markets, whilst this was not the case in most Emerging Markets. We have also been drawn to the argument that as the macro conditions in EM have improved relative to their developed peers in recent years, such that the 'safe havens' of the world may be changing. We watched with interest in November, when US Treasury Yields (5-year) pushed higher than the 5-year yield on investment-grade sovereign emerging market debt. Perhaps the bond markets are telling us something.

If, as seems likely, the Federal Reserve has finished hiking interest rates, we will have seen the first Fed tightening cycle in 30 years in which a major emerging market did not have a full blow crisis. In this context, we have thought carefully about the relationship between US Dollar trade and the outlook for Emerging Markets. Traditional market commentary suggests that a strong dollar is bad for EM. However, we are assessing whether we are in fact seeing a series of factors come together to mean that the dollar influence on EM is declining.

Firstly, EM to EM trade is increasing (the share of EM-to-EM exports in total EM exports is now approaching half); secondly, barriers are being put in place as the West tries to remove China from supply chains and from some of its end markets; and thirdly, Foreign Direct Investment into China has plummeted. During previous periods of US tightening and a withdrawal of foreign capital you might have expected China and other EM countries to implode but this hasn't happened. Instead, we're seeing a meaningful reduction in USD trade dependency and USD based capital and infrastructure spending in many Emerging Markets. The implications of this are hugely important for EM as an asset class. A universe that funds itself with its own RMB/INR/BRL/KRW/INR etc. is one which is less volatile, can take longer term decisions, where the cost of capital is lower, where growth can accelerate faster and where valuations are more likely to rise than fall.

It's unlikely to have escaped your attention, that if you'd removed China from the 2023 return equation, overall EM returns would've been stellar. At the beginning of 2023 China was the top pick for many investment banks. Expectations were so high, however, that when the economic data disappointed relative to those expectations, the market fell sharply. Taking a step back though, we suspect that a 5.4% projected growth rate for 2023, as per the International Monetary Fund, is a position almost any other country in the world would be delighted to be in! Market participants have been penal and valuations in China now look extremely low. We remain underweight China in the Emerging Markets Equity Fund, but with an underlying exposure that looks very different to the wider opportunity set. To be clear, it's been correct to be underweight China. We've been challenging our contrarian instincts regularly and we continue to balance our constructive views on a range of companies with the more challenging market context. Having peaked at around 40% of the MSCI Emerging Markets index, it is now down to around 25%.

The level of relative performance that has been achieved in 2023, despite value outperforming growth, is encouraging but, in truth, not a surprise given how we approach the task with a broad definition of growth. Some of the Fund's largest holdings, the likes of Petrobras in Brazil, HDFC Bank and Reliance Industries in India, and Samsung Electronics in Korea are amongst the top 10 constituents of the EM value index, but what links them all is the significant level of profit growth we expect to see from them over the coming years. Indeed we'd suggest that remaining open minded to where hard currency earnings growth might come from, irrespective of sector or geography, has been a key tenet of our investment success over the last three decades. And happily, as you can see from the shape of the Fund currently, we are finding growth well above our hurdle rates across a pleasingly diverse range of countries and industries right now.

We will hit our 30-year anniversary of managing Global Emerging Market portfolios this year. The evidence over time clearly shows that stock selection has been the key driver of long term returns for our investment approach. We will continue to spend the majority of our time focused on companies. To that end we're extremely enthusiastic about the number of opportunities available, across a wide range of countries and sectors. Looking at the Fund in aggregate, the characteristics are still strong, and valuations are still around about the market level on average. As a result, we are very optimistic about the outlook from here.

RISK FACTORS AND IMPORTANT INFORMATION

The Baillie Gifford Emerging Markets Fund

(Share Class K) as of December 31, 2023

Gross Expense Ratio	0.83%
Net Expense Ratio	0.83%

Source: Baillie Gifford & Co

The Baillie Gifford Emerging Markets Fund

Annualised total return as of December 31, 2023 (% p.a.)

	1 Year	3 Years	5 Years	10 Years
K Class	14.30	-8.58	4.85	4.55
Benchmark	10.27	-4.71	4.08	3.05

Source: Bank of New York Mellon, MSCI. Net of fees, US dollars.

Benchmark: MSCI Emerging Markets.

The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance please visit our website at Baillie Gifford Emerging Markets Equities Fund | Baillie Gifford | All Investors | Baillie Gifford.

Returns are based on the K share class from 28 April 2017. Prior to that date returns are calculated based on the oldest share class of the Fund adjusted to reflect the K share class fees where these fees are higher.

The Baillie Gifford fund's performance shown assumes the reinvestment of dividend and capital gain distributions and is net of management fees and expenses. Returns for periods less than one year are not annualised. From time to time, certain fees and/or expenses have been voluntarily or contractually waived or reimbursed, which has resulted in higher returns. Without these waivers or reimbursements, the returns would have been lower. Voluntary waivers or reimbursements may be applied or discontinued at any time without notice. Only the Board of Trustees may modify or terminate contractual fee waivers or expense reimbursements. Fees and expenses apply to a continued investment in the funds. All fees are described in each fund's current prospectus.

Expense Ratios: All mutual funds have expense ratios which represent what shareholders pay for operating expenses and management fees. Expense ratios are expressed as an annualized percentage of a fund's average net assets paid out in expenses. Expense ratio information is as of the fund's current prospectus, as revised and supplemented from time to time.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global emerging markets. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The Baillie Gifford Emerging Markets Fund

Top Ten Holdings as at December 31, 2023

Holdings		Fund %
1.	TSMC	10.51
2.	Samsung Electronics	7.98
3.	Petrobras	5.67
4.	MercadoLibre	4.12
5.	Reliance Industries	4.01
6.	Tencent	3.31
7.	SK Hynix	3.22
8.	Alibaba	2.90
9.	HDFC Bank	2.75
10.	Bank Rakyat Indonesia	2.17

It should not be assumed that recommendations/transactions made in the future will be profitable or will equal performance of the securities mentioned. A full list of holdings is available on request. The composition of the fund's holdings is subject to change. Percentages are based on securities at market value.

This content contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

As with all mutual funds, the value of an investment in the fund could decline, so you could lose money.

The most significant risks of an investment in the Baillie Gifford Emerging Markets Equities Fund are Investment Style Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, Market Disruption and Geopolitical Risk, Government and Regulatory Risk and Emerging Markets Risk. The Fund is managed on a bottom-up basis and stock selection is likely to be the main driver of investment returns. Returns are unlikely to track the movements of the benchmark. The prices of growth stocks can be based largely on expectations of future earnings and can decline significantly in reaction to negative news. The Fund is managed on a long-term outlook, meaning that the Fund managers look for investments that they think will make returns over a number of years, rather than over shorter time periods. The value of investments could be adversely affected by events such as war, public health crises and changes in economic and political conditions in the US and elsewhere. This could prevent the Fund from implementing its investment strategies and increase exposure to other risks. Governmental and regulatory authorities in the US and elsewhere have intervened in markets and may do so again in the future. The effects of these actions can be uncertain and could restrict the Fund in implementing its investment strategies. Some non-US markets have had little regulation which could increase risk of loss due to fraud or market failures. Governmental and regulatory authorities may adopt or change laws that could adversely impact the Fund. The Fund focuses on investments in emerging markets, meaning it may offer less diversification and be more volatile than other funds. Investing in emerging markets can involve additional market, credit, currency, liquidity, legal or political risks than investing in more developed markets. Other Fund risks include: Asia Risk, China Risk, Conflicts of Interest Risk, Currency Risk, Equity Securities Risk, Environmental, Social and Governance Risk, Focused Investment Risk, Frontier Markets Risk, Geographic Focus Risk, Information Technology Risk, Initial Public Offering Risk, Large-Capitalization Securities Risk, Liquidity Risk, Market Risk, Non-U.S. Investment Risk, Service Provider Risk, Settlement Risk, Small-and Medium-Capitalization Securities Risk, Underlying Funds Risk and Valuation Risk.

For more information about these and other risks of an investment in the fund, see “Principal Investment Risks” and “Additional Investment Strategies” in the prospectus. The Baillie Gifford Emerging Markets Fund seeks capital appreciation. There can be no assurance, however, that the fund will achieve its investment objective.

The fund is distributed by Baillie Gifford Funds Services LLC. Baillie Gifford Funds Services LLC is registered as a broker-dealer with the SEC, a member of FINRA and is an affiliate of Baillie Gifford Overseas Limited.

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

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