

# International Alpha Q2 investment update

July 2024

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Investment manager Roddy Snell and investment specialist Andrew Brown give an update on the International Alpha Strategy covering Q2 2024.

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**Your capital is at risk. Past performance is not a guide to future returns.**

**Andrew Brown (AB):** Hello. My name is Andy Brown. I'm an investment specialist for the International Alpha Strategy. Today I'm joined by Roddy Snell. Roddy is a member of the Portfolio Construction Group for International Alpha, and he's also a longstanding member of the Emerging Markets team at Baillie Gifford. Roddy, hi, thanks for joining me today.

**Roddy Snell (RS):** Hi there, good to be here.

**AB:** Roddy, it's only a couple of months since you joined the Portfolio Construction Group. I wondered if it'd be helpful for our clients if you could give a bit of an overview of your experience within Emerging Markets at Baillie Gifford.

**RS:** Sure. Yes, I'm actually starting to feel a bit old at the moment because I actually joined Baillie Gifford's graduate training scheme straight out of university in 2006 after studying medical biology and I became a member of the Emerging Markets team in 2008. And then within that team, I've been managing our Asia Extra Prime portfolio since about 2010. And I'm also a co-manager of Baillie Gifford's specialist emerging markets strategies and was previously part of our China-only portfolio construction group. So really, nearly my whole career has been focused on emerging markets with a particular expertise on Asian markets. And then finally, more broadly, I became a partner of the firm back in 2023.

**AB:** Great. Well, we're very lucky to have you on board. So I guess just a couple of months in, in this role in the Portfolio Construction Group, what are your initial impressions on the portfolio, Roddy?

**RS:** Well, I suppose if you look at the holdings, they're nearly all held in our emerging markets portfolio. So as you'd expect, I'm generally very positive on all of the holdings. And to me, it really is the strongest selection of the best-in-class EM companies across a range of key sectors. For example, in semiconductors, TSMC and Samsung Electronics, which make up about 10 per cent of the portfolio. These are arguably two of the very best semiconductor businesses in the world. TSMC with a clear monopoly in manufacturing of leading-edge technology chips, and Samsung, the world's dominant maker of computer memory. In e-commerce, the likes of MercadoLibre, Sea, and Coupang which make up about six per cent of the portfolio, these really are the dominant forces in Brazil, Southeast Asia, and South Korea, with huge addressable markets to exploit, and I believe they will almost certainly be the long-term winners in these markets.

While in China, our platform companies such as Tencent and Meituan continue to improve their competitive positions, are growing strongly, 20 per cent per annum, and look extremely attractively priced. So overall, I'm very confident this is a strong selection of really the best-in-class EM growth stocks.

**AB:** So many of our clients will be familiar with our model of sponsorship and seconding of stocks to get into the portfolio. Have you taken over sponsorship of all the EM holdings within the strategy?

**RS:** Yes, I took on sponsorship of all the EM holdings with the exception of Moutai, Discovery and AIA, which Jenny is sponsoring. So taking over the vast majority of them.

**AB:** And have you proposed any changes yet since you've come on board?

**RS:** Well as mentioned you know very happy with the portfolio which I don't think is a surprise after working you know closely with Andrew Stobart for 16 years on the on the EM team, that said you know since joining the PCG at the end of March I've played a role in a few changes. In India I've always been a bigger buyer of Reliance Industries, which has arguably done more than any other business in transforming the country and the economy, most notably by rolling out 4G networks across the country and bringing the mobile internet really to the masses. It's cheap, so I think it's right that we own more of that business.

I also propose selling Alibaba, given its continued loss of market share in e-commerce. And in due course, I'll be discussing with the team some of the companies who have been taking that share, like Pinduoduo. And then more broadly, I think the main observation I would make is that the international EM exposure is genuinely focused on digital platforms and consumption, whereas our EM specialist portfolios have holdings across a broader range of areas, especially cyclical growth, such as energy. We've got large exposures to oil and gas companies, including Petrobras, and

materials where we've got some exposure to a number of copper businesses, including First Quantum. So I believe there are some opportunities in more cyclical growth industries, and I'll be discussing those with the team in due course.

**AB:** Interesting. Thank you, Roddy. I know you've been on some interesting trips so far this year. Any observations that you've made from those that are worth sharing?

**RS:** Sure. So I was over in Taiwan back in March and during the trip we spoke with a number of local academia and government policy advisors regarding geopolitics after Taiwan's elections in January. I'd say in general, most of the locals we spoke to, the situation is more or less status quo and the chance of any sort of cross-strait military action is very low, which tallies with our analysis of the issues there. The meetings with portfolio companies and prospects also really confirmed our conviction in the semiconductor space. We already touched on it a bit, but our biggest Taiwanese holding is TSMC, which has an effective monopoly on manufacturing high-end chips. And having spoken to a number of other semiconductor companies in Taiwan, both suppliers to TSMC and competitors it's really very clear that their position will not be changing much in the next several years.

The other area I visited recently was Vietnam which arguably has the best macro story of any EM country over the next few decades. And that's because it's the one Asian country that is successfully growing its export manufacturing base. And that really is the key for any country to actually emerge. And it's been helped hugely by companies looking to diversify away from China. So great foundation for growth for Vietnam. At the stock level, liquidity has really improved over the past couple of years. So it's now viable for larger international funds to look at. So watch this space.

**AB:** Thank you. Well, it sounds like you've been very busy. Lots of useful insights there. So just moving on to the asset class of emerging markets. Emerging markets represent about a quarter of the International Alpha strategy. So it'd be really interesting just to hear your thoughts on the outlook for the region, outlook for the asset class overall.

**RS:** I think the outlook would be actually genuinely very positive. Ultimately, if you look at the world today, most of the problems are in the West, not in the emerging markets. And I think it's quite telling that over the past few years, we've had one of the strongest US dollars really in the past three or four decades. And yet nothing's really happened in emerging markets. If this happened at any other time, we would have had a big crisis somewhere in EM. And that hasn't happened. And that's because the macro position for emerging markets is better than it has been for many, many years. And that's because they haven't done any quantitative easing or had negative interest rates. They've got no real inflationary pressures. And outflows have actually been negative for the past

decade. So we haven't got the hot money that usually comes in and then comes out of these markets. And you combine that with the fact that you've got faster growth over the next 5 to 10 years and at a much bigger discount to develop markets, I think the outlook actually looks very good for emerging markets combined with really cheap valuations.

So overall, I think the asset class looks very well positioned over the next five years. And it's an area of really enthusiasm. And I think rightly has a big place in the portfolio today.

**AB:** Well, I can really hear your enthusiasm coming through as you're talking about this. What about China in particular? It's obviously been a very difficult area to invest in the last sort of two or three years, even beyond that. What are your thoughts there?

**RS:** Yeah, so, you know, I gave the positive outlook for EM and it hasn't actually delivered in terms of performance. And a big part of that has been China. Now, China certainly has its challenges, especially in the property sector, which in turn is hurting the consumer, which is really quite weak at the moment.

However, the things are not as bad as implied by the news or the stock market. I mean, firstly, the economy is actually OK. You know, where else in the world can you find a \$17tn-plus economy growing five per cent or more? Secondly, the government does have levers that they can pull. You know, they've got positive real interest rates. They haven't done any quantitative easing, so there's plenty of firepower if they need it. And thirdly and crucially, they are starting to support the economy. You know, we've had a raft of measures over the past few years, past few months, sorry, and that have started to support the economy. And finally, there is huge value here. If we take the internet platforms, you know, despite all the bad news, operationally they're doing great. You know, sector revenues for most companies were about 15 per cent last year, operating profits grew by 30 or 40 per cent. And they've made huge cuts and layoffs over the past year, which will support margins going forward. And they're also starting to pay out significant, you know, sort of five per cent, either in dividends or buybacks, which I think puts a real flaw on valuations.

So ultimately, we're starting to find real opportunities at the stock level in the country. So I think the macro is OK, has its challenges, but they will get through this. And at the stock level, a lot of very good companies at extremely attractive prices at the moment. So overall, for stock pickers, I think it's a good opportunity.

**AB:** Thank you. So, yeah, sounds like for those clients that are able to invest in China, then there are plenty of opportunities for us to look for. Well, Roddy, thank you very much for your time and your insights. And thank you, you everyone for listening.

## International Alpha

### Annual past performance to 30 June each year (net%)

	2020	2021	2022	2023	2024
International Alpha Composite	9.6	34.7	-34.5	17.7	8.0
MSCI ACWI ex US Index	-4.4	36.3	-19.0	13.3	12.2

### Annualised returns to 30 June 2024 (net%)

	1 year	5 years	10 years
International Alpha Composite	8.0	4.2	5.0
MSCI ACWI ex US Index	12.2	6.1	4.3

Source: Baillie Gifford & Co and MSCI. USD. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

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