WALTER SCOTT

EMERGING MARKETS: SOME OF THE BEST COMPANIES YOU'VE NEVER HEARD OF

INTRODUCTION

Powerful structural growth drivers and a diverse opportunity set of high-quality companies make a compelling case for a long-term allocation to emerging markets.

Walter Scott has managed an emerging market equity strategy since 1997. We apply a consistent approach centred on high-quality companies with enduring competitive strengths and sustainable long-term growth prospects.

Despite previous prolonged periods of outperformance relative to their developed peers, emerging market (EM) equities endured a sustained stretch of underperformance from 2010 to 2024. This gave rise to a deeply ingrained perception of the asset class as an unattractive balance of risk and return when set against markets such as the US.

That narrative began to shift in 2025, as EM equities outperformed strongly – a trend that has continued into 2026. Yet investors have been slow to adjust. The result is a clear disconnect; while EMs now account for a significant share of global economic output and growth, they remain significantly under-represented in investor portfolios.

We think this meagre exposure represents a misallocation risk. Not only is the asset class a meaningful diversifier, but a vast opportunity set of innovative companies – supported by multi-year structural growth tailwinds – offers a rich hunting ground for investors.

More than half of the world's fastest growing companies[1] are in EM, yet global indices under-represent this with a single-digit weighting. From East Asia's technology giants to digital disruptors in Latin America and industrial leaders in China, the asset class is home to some of the world's most dynamic companies.

To best capture this long-term opportunity, we believe investors should prioritise a selective approach that favours high-quality EM companies with durable growth attributes.

[1]*Companies predicted to grow EPS at >15% over next 12 months. MSCI Emerging Market Index vs MSCI World Index.*

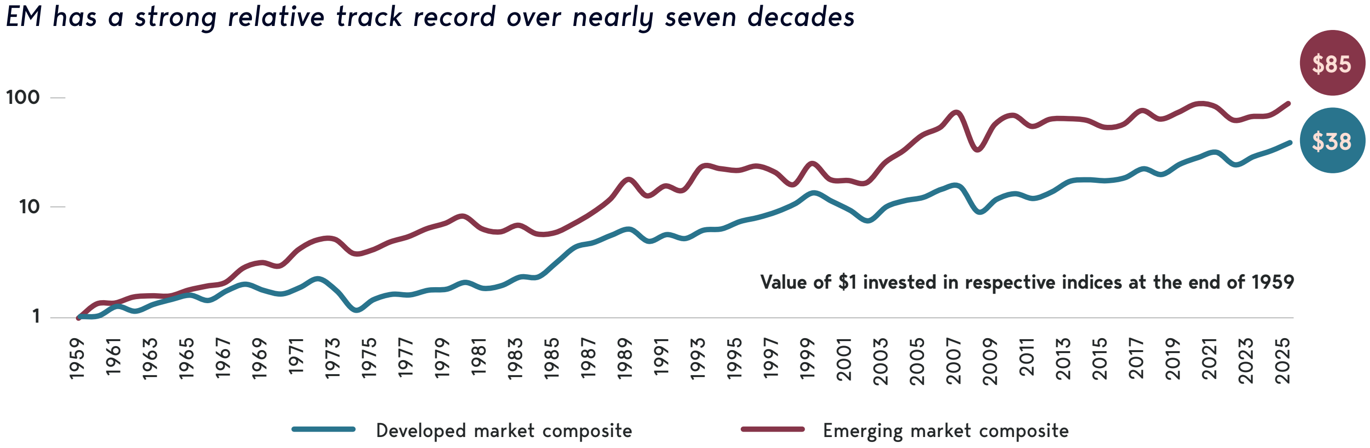
A longer-term perspective

It is worth situating the post 2010 period of EM underperformance within a longer term context. We take 1959 as a useful starting point. This excludes the distortions of Western Europe's post-war reconstruction boom and China's sudden exit from the investable universe following the establishment of the People's Republic in 1949.

From 1959 to the end of 2025, EM has delivered more than double the return of developed markets (chart 1). Over the same period – and longer – it should also be noted that extended phases of relative out and underperformance, such as 2010-2024, have been a recurring feature rather than an anomaly (chart 2).

Chart 1 – More bang for your buck

EM has a strong relative track record over nearly seven decades

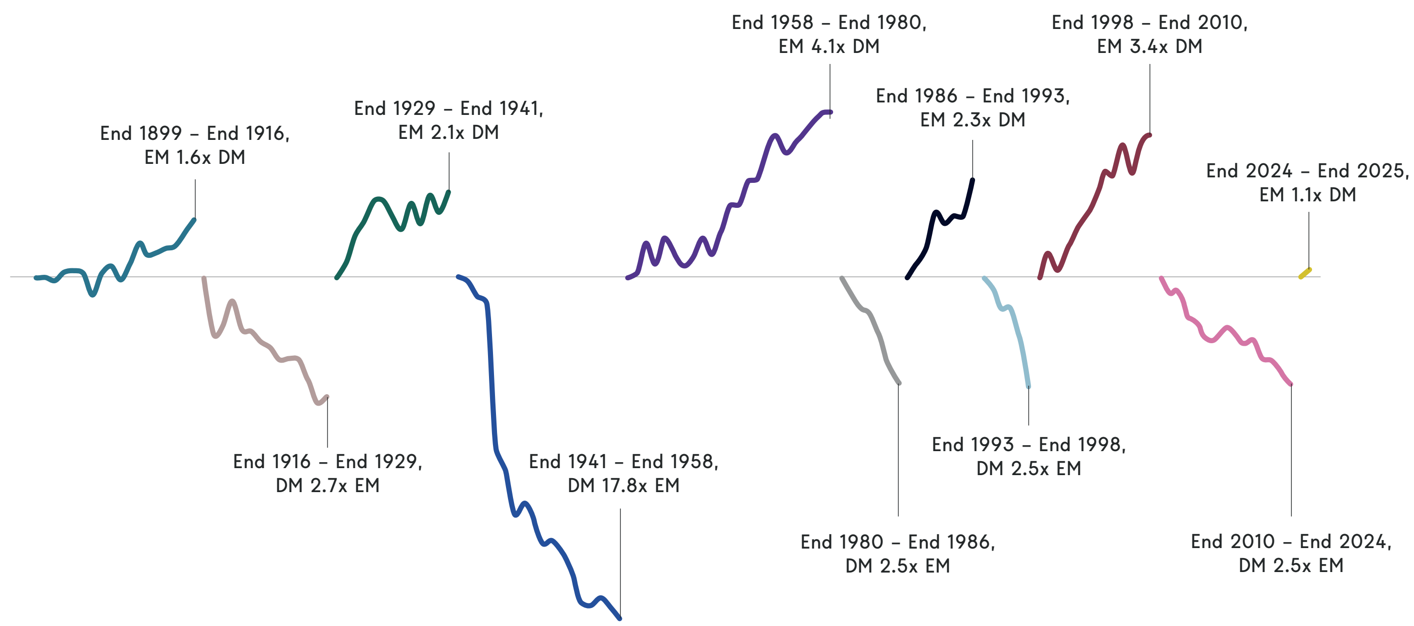


Source: E Dimson, P R Marsh and M Staunton, Global Investment Returns Database 2026. Equity Total Return real USD index

Chart 2 – A feature, not a bug

Sustained periods of relative EM/DM out- and underperformance are a regular occurrence

Emerging market performance relative to developed market performance indexed to 1 at the beginning of a cycle (log scale)



Source: E Dimson, P R Marsh and M Staunton, Global Investment Returns Database 2026. Equity Total Return real USD index

Prolonged relative performance cycles have typically been shaped by macroeconomic events or trends. Financial crises in Latin America and Asia in the years between 1994-98, for example.

The 2000–2010 cycle is another illustrative example, when China's accession to the World Trade Organisation sparked a prolonged commodity boom across large parts of the emerging world and saw EM strongly outperform.

More recently, the period from 2010 to 2024 was defined by an era of "US exceptionalism", supported by technology leadership, robust growth and abundant liquidity. A buoyant US dollar and, latterly, a deceleration in China further weighed on EMs.

Now, however, many of these headwinds have eased or gone into reverse. Combined with stronger growth trajectories and a reacceleration in company earnings, we believe this points to a meaningfully more supportive environment than in recent years. Disciplined policymaking and robust monetary frameworks further underpin solid economic foundations across many countries.

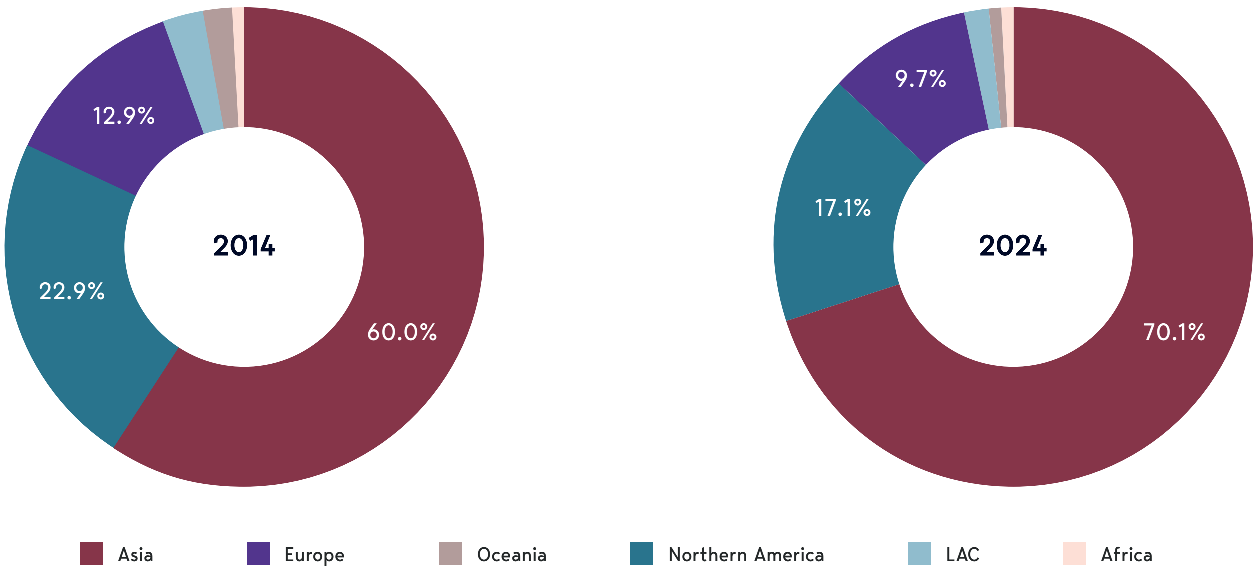
Moving into the mainstream

The notion that EM is home only to low-quality companies, competing on little more than scale and cost, is now outdated. From electric vehicles and energy storage to the robots reshaping global supply chains, to highly innovative e-commerce platforms serving vast digitally native populations, many of today's industry leaders are found in EM.

Nor is this based on a simple replication of developed market technology. Innovation is now central to many EM growth models, underpinned by scale, capital and a highly skilled and educated workforce. Many of these companies stand comparison with the very best globally; acknowledged leaders in some of the most important growth areas of the modern economy.

An innovation powerhouse

Asia dominates global patent applications



Source: World Intellectual Property Indicators 2025

Asia's AI tiger cubs

South Korea and Taiwan are indispensable players in the global semiconductor supply chain and prominent beneficiaries of the AI revolution. High-profile examples include TSMC, the world's leading semiconductor foundry, and SK Hynix and Samsung Electronics, which dominate the memory chip market.

However, both countries also host a network of lesser-known companies that provide mission-critical componentry, hardware and advanced materials.

South Korea's **Leeno Industrial** began as a producer of the humble plastic bag, before a series of unlikely but well-executed pivots in the 1980s reshaped the business. Today, it specialises in precision testing components used to identify faults in semiconductors.

As semiconductors become more pervasive and complex – trends accelerated by the rise of AI – demand for Leeno's testing pins and sockets continues to grow. While they might account for only a small portion of overall cost, they are vital for efficiency and reliability. Highly profitable and cash generative, Leeno is the industry leader and a classic "picks and shovel" play on a structural mega-trend.

The AI buildout is also benefiting Taiwan-based **Aspeed**, which is reaping the rewards of founder Chris Lin's foresight. More than two decades ago, Lin anticipated a shift in computing architecture – from decentralised systems to centralised data centres that could satisfy increasing performance demands.

Aspeed designs baseboard management controllers (BMCs), microchips that allow operators to monitor and manage servers remotely. Without them, today's "always on" data centres and cloud platforms would be far less reliable and significantly more costly to operate. With ~70% market share, Aspeed is a frontline beneficiary of the explosion in AI investment by the US hyperscalers.

Powering the new energy order

It might not be a household name, but **WEG** is one of Latin America's few truly global companies. Founded in southern Brazil in 1961, it makes the industrial equipment that turns electricity into motion, the motors and systems behind water pressure at the tap, lifts, escalators, and large building ventilation.

Major structural trends are supporting demand for WEG's products, most notably electrification and decarbonisation. Rising efficiency standards are driving uptake of advanced electric motors, while increasing investment in renewables is expanding exposure to areas like hydro, wind and solar.

WEG's "secret sauce" is a highly vertically integrated model that allows most production to take place in house. This is a huge competitive advantage – benefiting quality, reliability and profitability.

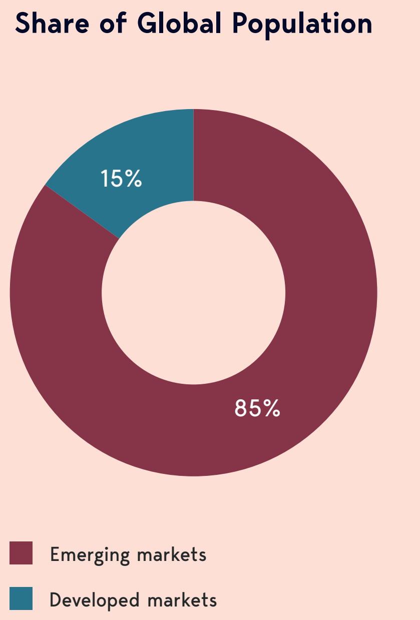
CATL is another company in the vanguard of decarbonisation and a totem of China's industrial ascent. With ~40% global market share, the company is the world's largest manufacturer of electric vehicle (EV) batteries, supplying major auto manufacturers across Asia, Europe and the US.

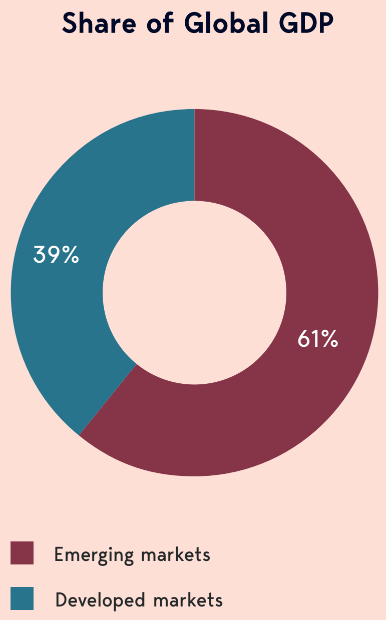
CATL is not simply an EV battery supplier, however. Investing significantly more than peers in R&D, the business has penetrated new growth markets, becoming a critical enabler of next-generation energy infrastructure.

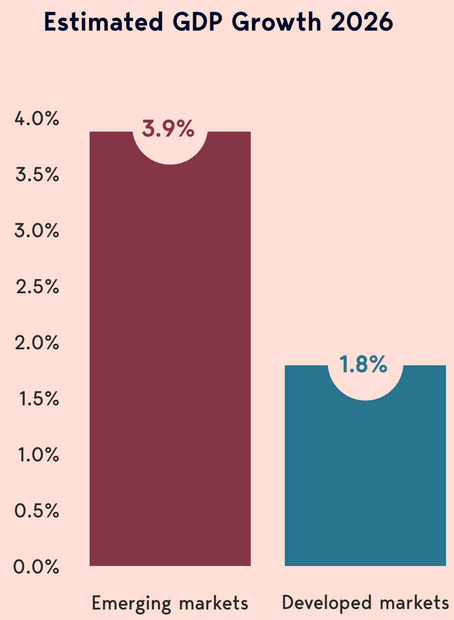
Energy storage solutions (ESS) are a notable example. Designed to overcome the intermittency challenges of wind and solar power – the wind doesn't always blow, and the sun doesn't always shine – ESS helps to scale renewables across industries and power systems. CATL's innovative drive has already secured it a pre-eminent position in this early stage but fast-growing market.

EMERGING MARKETS IN NUMBERS

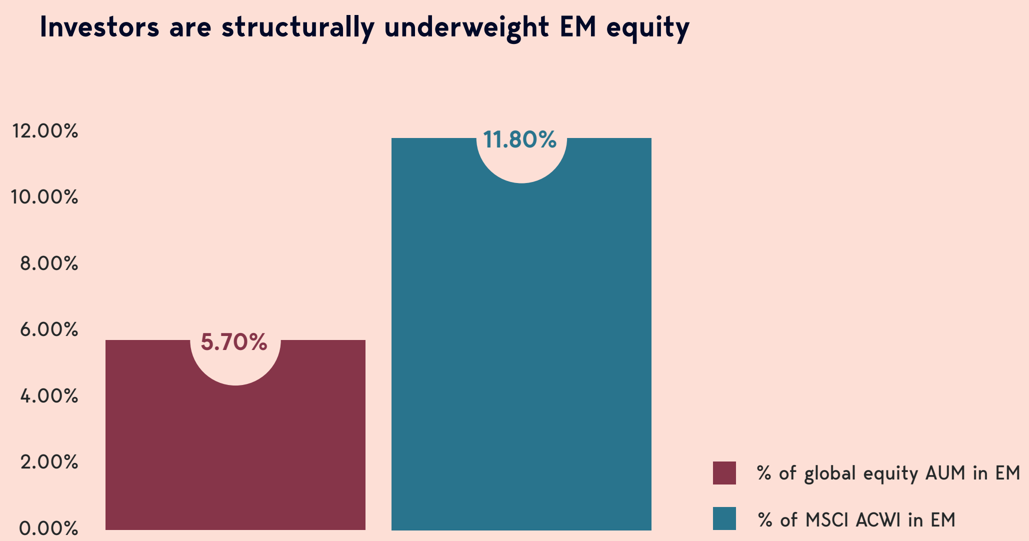
Investors are structurally underweight in emerging markets despite an increasingly important role in the global economy







Source: International Monetary Fund World Economic Outlook 2026



Source: JP Morgan Global Markets Strategy June 2026

OUR APPROACH TO EMERGING MARKETS

Walter Scott has managed a dedicated emerging market strategy since 1997, following the same disciplined investment approach as our developed market strategies. It is a simple, repeatable approach founded on three core principles:

- Conduct deep fundamental research
- Buy exceptional companies with measurably superior quality
- Invest with a long-term perspective.

Quality companies typically share common attributes, such as leading positions in industries with structural tailwinds and hard-to-replicate competitive advantages that create high barriers to entry. All have experienced management teams with a clear vision that aligns with the interests of shareholders.

In our experience, companies with these attributes are more likely to sustain high levels of growth and profitability, while remaining financially resilient during inevitable periods of economic or market stress. We believe that a portfolio of such companies has the potential to deliver superior returns over the long term.

The following table compares a representative Walter Scott EM strategy to the index across three of our preferred indicators of quality:

	Portfolio	MSCI Emerging Markets
Operating margin	18.1%	13.7%
CROCE*	37.8%	22.9%
Net debt to EBITDA**	0.7x	1.1x

Source: Walter Scott, FactSet, MSCI. As at 31 March 2026. A representative emerging markets portfolio was used to illustrate this strategy. *Cash Return on Capital Employed calculation excludes Financials and Real Estate holdings. **Net Debt to Equity ex Financials.

Our Emerging Market team

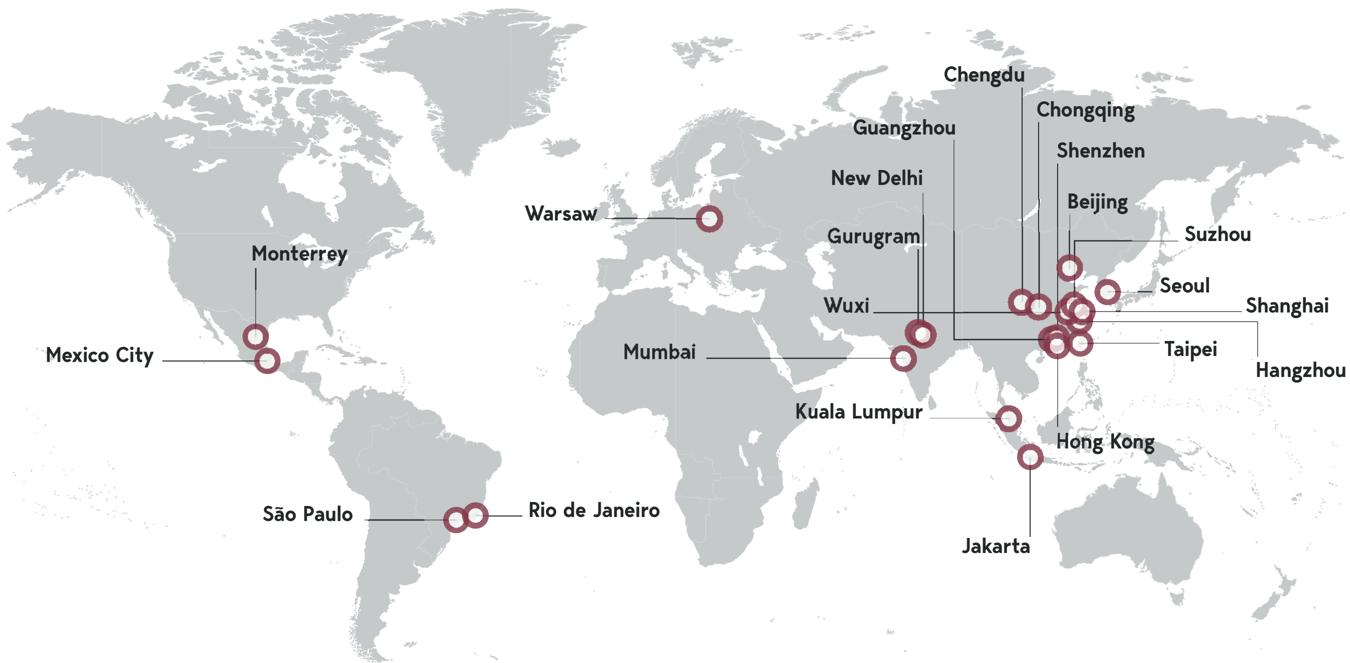
While emerging and developed markets are often treated as distinct asset classes, the reality is far less clear cut. The most successful companies operate globally, serve international customers and compete against the best, regardless of where they are listed.

We think this matters when making investment decisions, which is why our six strong EM team is embedded within the wider Walter Scott Research team. Aspeed, for example, cannot be understood in isolation. Demand for its products is shaped by the investment decisions of hyperscale customers such as Microsoft, Amazon and Alphabet. Likewise, assessing WEG's competitive position means understanding how it compares with global peers such as Schneider Electric. This perspective improves our understanding of EM companies, while also sharpening our view of global businesses by placing them in a broader, more competitive context.

Based in Edinburgh, the team travels extensively, meeting companies, policymakers and local experts. These visits provide valuable on-the-ground insights, helping to corroborate and challenge our desk-based analysis. Operating from a single location reduces the risk of local market biases that can arise in a multi-location structure.

Intensive emerging market research

Walter Scott research trips made over 2024 and 2025



Remaking the case

The renewed strength of EM equities has reignited investor interest in the asset class after a long period of apathy, and history suggests that shifts in relative performance can prove more persistent than investors initially expect.

Our conviction in the prospects of EM companies rests less on cyclical dynamics, however, and more on their long-term attributes. At its core, this is a broad and increasingly high-quality universe, supported by structural growth drivers.

We believe our differentiated approach – deep research, bottom-up analysis, collective insight, global context – maximises our ability to consistently identify those EM companies with durable fundamentals and the attributes necessary to deliver superior returns over a long-term investment horizon.

AUTHORS

Michael Scott, Investment Manager
Michael is an investment manager who joined Walter Scott in 2016 and spent four years in the Dealing team. He joined the Research team in October 2020. Michael graduated with a BA (Hons) in Economics from the University of Exeter.

John Rae, Client Investment Manager
John is a client investment manager at Walter Scott, who joined the firm in 2025. Prior to this, he was an Emerging Market Investment Specialist at Baillie Gifford, where he had worked since 2017. John holds a BSc (Hons) in Physics from the University of Glasgow.

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WALTER SCOTT

Walter Scott & Partners Limited, One Charlotte Square, Edinburgh EH2 4DR
Tel: +44 (0)131 225 1357 · Fax: +44 (0)131 225 7997 · www.walterscott.com

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