Baillie Gifford™

International Concentrated Growth Q4 investment update

January 2025

Investment manager Paulina McPadden and investment specialist Paul Taylor give an update on the International Concentrated Growth Strategy covering Q4 2024.

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

Paul Taylor (PT): Hello, and welcome to Baillie Gifford's International Concentrated Growth fourth quarter 2024 update. My name is Paul Taylor and I'm one of the investment specialists working with the strategy, and I'm joined today by Paulina McPadden, one of our portfolio managers.

Thank you very much for joining us. I think we just jump right in. 2024 was an exceptional year for performance, but we think about investments on a five to ten-year time horizon. Given we're now five years from the beginning of the pandemic, we've been reflecting about how we've fared over what was a fairly turbulent period. I'd be really interested to be able to share our thoughts with viewers in terms of conclusions we've drawn.

Paulina McPadden (PM): Well, I think it's been a very volatile start to the decade, certainly more volatile than we had been expecting. The pandemic pulled forward quite a lot of demand, drove it online, and the types of companies that benefited, digitised ecommerce companies, were the ones that we owned. In combination with historically low interest rates, which increased valuations for those high growth companies, that meant that the portfolio did particularly well over the first couple of years.

The end of the pandemic meant that a lot of that demand went offline, again, growth rates moderated somewhat, and again, in combination with tighter monetary policy, valuations suffered. And I think it's important to recognize that particularly for clients who joined within the last three years, that experience has not been something that we would have wanted for them. However, as you point out, the last year 2024 in particular, has been very strong. And I think that demonstrates that our style of long-term concentrated growth investing does work in different environments, and so it makes me very excited for the future as well.

PT: That's good to hear. I mean, over that five-year period, the performance has been exceptionally strong. But that's required us to stick firmly to our philosophy and process in some quite challenging conditions. Can you highlight the key elements of what we do that allows us to deliver returns like this?

PM: So there's a few things to pull out there. First of all, it's the concentrated nature of the portfolio that I think stands out the most. And one of the reasons for that is there's very good academic evidence to show that fund managers actually do have some good ideas on occasion. The problem is that we don't tend to have that many of them. So rather than diluting client experience by owning the 40th or 50th best idea, we'd rather focus on the 20 or 35 that we have genuine conviction in, hold them in size, and that's the experience we want to deliver for clients.

The second one is about a focus on outliers, those companies that are capable of delivering fivefold, tenfold, or even better returns. And the reason for that is, again, historic evidence shows that's the kind of company that actually drives stock market returns. You can see that perhaps even more obviously in the last few years with the Magnificent Seven in the US and the impact they've had on the stock market.

And then finally, I'd pull out the importance of patience and a long-term approach. When you're owning outlier companies and when you have a concentrated portfolio, each of these companies will go through a period, in some cases several periods, where they underperform quite significantly. The likes of Apple, Spotify, NVIDIA, all falling 60~70 per cent or more at particular points in time. And if you sell at that nadir, if you sell at the moment of deepest fear and worry, you're not going to benefit from the massive upside that's actually possible over the long term. So, holding on is very important.

PT: Yeah, and we've had to demonstrate that in a number of cases during the last five years. I think Spotify is up six-fold from the nadir in 2022. So the idea that patience matters, I think we can't underscore that strongly enough in terms of how we do what we do. And we need that long-term aligned client base to allow us to invest in that way as well.

Looking at the trade-offs to patience though, it is a trade-off, where would you say the downside to how we operate is?

PM: So I think about it as almost a spectrum. So you can be the perfect long-term owner that never sells, or you can be the perfect seller [and] always sell at the exact right time. But you can't do both. And we don't necessarily want to be at that very far end either. But it's about managing those trade-offs and recognizing that in order to deliver the type of experience and the type of return that we want for clients, we are going to veer more towards that patient ownership and holding on, perhaps in some cases, for too long. We need to be conscious of that, try and minimize that wherever we can, but also accept that that is the price that we have to sometimes pay in order to hold on to those real winners over the long term.

So, in some cases like with Alibaba, for example, or NIO, the Chinese electric car company, those are companies we probably should have sold sooner. We hope that we don't have those sorts of experiences in the future but we have to be aware of it.

PT: Yes, indeed. So, we're resolutely firmly standing behind our philosophy and process. But that doesn't mean we can't continue to improve. Is there anything else that we're pushing ourselves on at the moment in terms of getting better as investors?

PM: It's two things I'd probably pull out there. So first of all, it's about always remaining open to different types of growth. So over the last decade-plus, we've probably focused very much on that kind of digitisation, growth in computing, those companies that are driving that are benefiting from it and those have delivered phenomenal results for the portfolio.

But if you go back even further in history for ICG, we have owned companies like Petrobras and Vale, and those were driven by fundamentally different growth drivers. In those cases, basically the growth in China and the growth of the middle class there. So, we want to be open to owning those types of companies in the future and never falling prey to a sort of pattern dependence where the companies we've owned over the last five or ten years are the types of companies we will always own, because growth can come in many guises.

And then the second one is about, as well as being imaginative, forward-thinking, and optimistic about the type of outcome that a company can deliver, we also need to more consciously think about the journey that it's going to take to get there. Moderna is a very good example of this, where we remain very convinced about their potential for the platform technology to revolutionize different areas of health care, in particular cancer care.

But I think it's become clear that health care moves slowly. And while the pace of change possible during the pandemic, because it was a global disaster that needed an immediate response, was thrilling, that's not the sort of pace that is capable of being sustained going forward. And clinical trials simply take time. So we perhaps should have recognized that a bit sooner.

PT: That's interesting. That's something I don't think clients will maybe have heard us talk too much about in the past. So that's a good lesson to take forward from here.

Talk about going forward, life is live forward. Over the next five to ten years, what areas are really exciting us? What are we really looking forward to seeing unfold over that sort of time period?

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

PM: Well, I mean, the thing I harp on about the most, and clients are probably a bit sick of me saying this at this point, but this portfolio is fundamentally geared towards change. So if you believe that the world is going to look different 10 years from now, this is the portfolio that you should own.

I think it's fair to reflect. I mean, you've told me quite a few times that you're out, you're seeing companies, talking to management teams, and pretty much they're all in agreeance that the pace of change is accelerating in their businesses.

PM: Absolutely, at the moment that's driven by artificial intelligence. Underlying that is the continuing pace of growth in compute, Moore's law in particular. We've owned NVIDIA for well over eight years now, and that's obviously been tremendously helpful, but we also own two of the most fundamental companies to the pace of computing growth, TSMC and ASML as well, and we're very excited about their long-term prospects.

The second thing that I would pull out that's increasingly exciting for us is the digitisation of emerging economies. We've seen growth of ecommerce and digitisation in the US, we've seen it in China where ecommerce penetration is now something over 30 per cent, and we're seeing that growth in emerging economies as well.

MercadoLibre in the portfolio is a tremendously exciting company. It has three growth pillars that I think are worth pulling out. One is that ecommerce bit where they're investing in logistics to enable consumers to move their spending online. The second is fintech, where they're up against really sleepy incumbent banks that massively overcharge and there's a huge underbanked population that MercadoLibre can target. And then the third and somewhat more conceptual growth pillar is advertising. They have a tremendous amount of data about the behaviours and spending patterns of their customer base. And they're now moving that into, for example, ad-based streaming, where they have a partnership with Disney. And that's really exciting to see how that goes.

But I'd also pull out two new holdings in the portfolio over the last year, in Sea and Coupang. Very different companies, but very interested to see where they go from here.

PT: That's super to hear. We could talk about these for hours in their own right, but unfortunately, I'm going to have to call time there. That just leaves me to say thank you for your interest in the International [Concentrated] Growth strategy. If you would like to hear any more, please do reach out to your Ballie Gifford representative and thank you for watching.

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

International Concentrated Growth

Annual past performance to 31 December each year (net%)

	2020	2021	2022	2023	2024
International Concentrated Growth Composite	90.7	-0.8	-39.9	14.4	18.7
MSCI ACWI ex US Index	11.1	8.3	-15.6	16.2	6.1

Annualised returns to 31 December 2024 (net%)

	1 year	5 years	10 years
International Concentrated Growth Composite	18.7	9.1	12.6
MSCI ACWI ex US Index	6.1	4.6	5.3

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

Legal notice: MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Risk factors

This communication was produced and approved in January 2025 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

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 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.

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

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.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

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) Ltd (BGE) 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. BGE also has regulatory permissions to perform Individual Portfolio Management activities. BGE provides investment management and advisory services to European (excluding UK) segregated clients. BGE has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. BGE 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.

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

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.

Singapore

Baillie Gifford Asia (Singapore) Private Limited is wholly owned by Baillie Gifford Overseas Limited and is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence to conduct fund management activities for institutional investors and accredited investors in Singapore. Baillie Gifford Overseas Limited, as a foreign related corporation of Baillie Gifford Asia (Singapore) Private Limited, has entered into a cross-border business arrangement with Baillie Gifford Asia (Singapore) Private Limited, and shall be relying upon the exemption under regulation 4 of the Securities and Futures (Exemption for Cross-Border Arrangements) (Foreign Related Corporations) Regulations 2021 which enables both Baillie Gifford Overseas Limited and Baillie Gifford Asia (Singapore) Private Limited to market the full range of segregated mandate services to institutional investors and accredited investors in Singapore.

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