

International Growth Q3 investment update

October 2024

Investment manager Tom Coutts and investment specialist Paul Taylor give an update on the International Growth Strategy for Q3 2024.

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Paul Taylor (PT): Hello and welcome to the Baillie Gifford International Growth update for the third quarter of 2024. My name is Paul Taylor and I'm one of the investment specialists working with the strategy and I'm joined today by Tom Coutts, one of our investors and also chairman of the strategy. We'd like to give you an update today in terms of some of the recent drivers of share price performance, but also give you some detail in terms of the new exciting growth areas that we're finding to invest in on your behalf.

Before we get into that, a very quick reminder of what we do on the strategy. We're aiming to identify around 50 or so of the most exceptional growth investment opportunities from the international markets. We're aiming to identify two types of companies, really those that are able to grow very rapidly and those that are able to grow over very, very long periods of time. We aim to hold these companies for periods of 5 to 10 years, maybe longer. But in every case, we expect every holding to be able to deliver exceptional investment returns over the long term.

So, Tom, thank you very much for joining me.

Tom Coutts (TC): Thanks, Paul.

PT: We've had some very positive performance over the summer months. Also, over the last year, performance has been good. Could you give us a flavour of some of the drivers behind that performance?

TC: Of course, yeah, very happy to. And it's great to see the performance over 3 and 12 months looking a bit better. As you say, we think over a 5 and 10-year period. So, it's a small positive, but we're really thinking out the long term. And we're also very aware that the 3-year numbers in particular, the experience we delivered for clients is dreadful. So, we need that to turn around. We're confident the companies are delivering in a way that will improve. And yes, over the last few months, we've seen good operational performance and share price returns from a range of companies. Some will be quite familiar names like MercadoLibre, Latin American e-commerce business, Spotify, or Adyen, a Dutch payments processing company.

I might pick up on Wix, which is a less familiar name maybe, but quite symptomatic of what we've seen over the last few years. So, Wix is a website development company. If you own a bakery and you want to sell your bread online, you need a functioning website, and Wix is one of the providers of that technology. As you can imagine, we've owned it for several years, but as you can imagine going into the pandemic period, if you didn't have a fully functioning website, you were really going to struggle. So, demand for Wix's products really took off massively during 2020 and carried on into 2021. And then it had a big hangover in terms of demand and how they actually managed that growth for a couple of years after. But what's been great to see is that they've been resilient, they've adapted, they've continued to grow now. In the latest quarter, they're growing 12 to 15 per cent. Sales this year will be about twice what they were before the pandemic, about \$2bn. So, it's grown very nicely through that period, and it's much more profitable. Net margins and free cash flow margins will be in the high 20s. So, this is a business we liked. It's had a sort of whipsaw experience, both operationally and in share price terms. The shares were very strong and then fell way over 80 per cent and they've recovered quite nicely since. It's kind of symptomatic of that category of company that were kind of pandemic winners, but we liked them before the pandemic. We still like them now. In many cases, we like them even more. I mean, it's been right for us to be patient, again, the 5, 10-year perspective and hold them through that period, despite the very volatile experience along the way.

PT: And that's a pattern we've seen play out in a number of other holdings as well, I think. Is it fair to say?

TC: Yeah, completely. So MercadoLibre would be an example of that. Spotify, again, great illustration. Spotify is now back above its pandemic highs in share price terms or at around that level. And again, huge demand during the pandemic, a bit of a weakness afterwards, followed by a collapsing share price or accompanied by a collapsing share price, and then self-help and improvement to really focus on the customer proposition. So, we've seen that play out a few times and it's been, I think, validation of the importance of being patient. There are some cases where that hasn't worked out and we've sold and moved on, and that process is sort of coming to an end. I think we've got a couple more names like that in the portfolio.

PT: So, just moving on. On to the other side of the ledger. ASML is a company that we've held in the strategy for a very long time. It's been one of the best contributors to performance over the last 10 years. It's been weaker more recently. You met with management a few weeks ago. Any reflections you could share from this?

TC: Yeah, so we had an afternoon in Veldhoven in the Netherlands a few weeks ago. So ASML is a Dutch lithography business. They make the machines that are critical to the continuation of Moore's law of semiconductor shrinkage in a broad sense. And to give an example of or to illustrate the importance of their machines; a single EUV machine, the next generation one, will cost something like \$380mn. These are not things you buy off the shelf. We saw the management a few weeks ago. I think a couple of things struck us. One is that they are just going through a management transition after two really important people have stepped down in the last few months. We think they're handling that pretty well. We think they're very thoughtful about that transition, and it's been managed and planned for a long time. I think on the business, we are still very happy to own ASML. We think it's going to be a critical enabler of continued technological progress. I do think, though, that the drivers of that progress are likely to broaden out. One of the things we've seen is that the amount of semiconductor spending going on lithography, which is what they do, has risen steadily over the last 10 or 15 years. That may be coming to an end. So, it'll remain important, but it may not become more important. And conversely, we're seeing other areas of semiconductor

spending probably pick up. We think testing is likely become more important. We have taken a holding in a Japanese business called Advantest, for example. So, we still like ASML. We admire it a great deal. We think it's got good growth prospects and it'll remain a core holding, but probably more at the 4 per cent to 5 per cent level rather than 7 per cent or 8 per cent as it has been previously.

I guess in that I haven't mentioned recent share price performance. I mean, that's kind of largely noise as far as we're concerned. There's nothing fundamental going on at the company. But we're still thinking about the long-term prospects and the recent share price weaknesses is really just noise as far as we're concerned.

PT: Thank you very much.

You mentioned a few new companies in the Advantest one we added earlier in the year. We've been very active on the research side, or as active as ever, but portfolio turnover has moved up within the corridor that we'd expect to be in, 10 to 20 per cent turnover a year commensurate with our long-term outlook. We've added DSV recently, also Novo Nordisk. It'll be interesting to hear what brought us to DSV and why now for Novo?

TC: Yes, okay, so you're right. I mean, this is a slight tick up in a sort of pre-disciplined way. Our turnover shouldn't go up too far, but partly reflecting some of my comments on Wix, there are a couple of companies that were sort of the pandemic beneficiaries that have not re-emerged stronger as Wix has done and we're selling those.

PT: Can we stop there, with HelloFresh?

TC: HelloFresh, yeah, M3 would be an example. In GenMab, we've taken a bit of money out of recently. That's a slightly different case. But yeah, HelloFresh is online food delivery, for example, food delivery boxes. You know, as you can imagine, great success during the pandemic. And then it really matured very quickly. Zalando is probably in that camp as well. So, a few of those companies we're kind of working through. The more important side, I think, is the buying side, so the opportunities that we're finding. And you touched on this. And again, there's something there that's important to mention of the broadening out of the research funnel. I think we've got a bit narrow in the types of companies we were looking for

in the late 2010s, probably too consumer focused, e-commerce, digitally enabled type businesses. I'm simplifying a bit, but at the margin we went a bit too far down that path and we're broadening out the types of companies we're owning.

So DSV is a good example of that. It's a freight forwarder. So, it competes with businesses like Expeditors, C.H. Robinson, or DHL. Freight forwarding is the business of getting goods from the BCO, the beneficial cargo owner, through to the retailer or the wholesaler or the customer at the end. It's the everything in between, and it's a very capital light business. You don't own the ships, trucks, etc, it's a brokerage type business. DSV is one of the consolidators of what is probably the best consolidator of what is a very fragmented market. The top 25 freight forwarders have something like 20 per cent volume today. We think that's going to continue to consolidate, and we think DSV will drive that. It's a very good business, we have admired it for a while, and we've taken a hold on it. They've actually just done another big deal, which we think will be transformational.

And then Novo Nordisk. Novo, along with Lilly, obviously dominates the relatively new market for obesity, weight loss drugs. We've owned Novo in the past. This is a sin of omission, really, for us. We sold it a few years ago because of concern about the pricing of insulin.

PT: When you say a few years, 2017, I think?

TC: Yes, seven years ago, yeah so, we sold it a while back. And I think, actually, in a way, those concerns were right. What we didn't see coming was the success of some of their newer weight loss drugs. And that business has really taken off in a way we didn't anticipate. So, this is addressing that omission on our part. We think it's very well placed with Lilly. We think this is still in the very early stages as a growth market, and we think the dominant position those two companies have is likely to endure. This is quite difficult from small molecule drug manufacturing. This is much more about the manufacturing process, the expertise in metabolic systems, trial design, all that kind of thing. We see Novo as likely having a very strong position alongside Lilly for the next decade at least. We've taken an initial probably one, one and a half per cent position and we will, I think clients can expect that to tick up over the next six to 12 months.

PT: Excellent.

Thank you very much for your thoughts.

TC: Thanks Paul. Very much appreciated.

PT: Thank you for watching. I hope we've provided some insights in terms of the drivers behind recent performance, reminding you that it's for us remains about the five-to-10-year horizon and that we've been active in seeking out new growth opportunities on your behalf. We look forward to updating you again in the future.

Thank you.

International Growth

Annual past performance to 30 September each year (net%)

	2020	2021	2022	2023	2024
International Growth Composite	53.7	16.2	-46.1	14.1	28.8
MSCI ACWI ex US Index*	3.4	24.4	-24.8	21.0	26.0

Annualised returns to 30 September 2024 (net%)

	1 year	5 years	10 years
International Growth Composite	28.8	7.2	7.1
MSCI ACWI ex US Index*	26.0	8.1	5.9

*MSCI EAFE Index prior to 30 September 2018.

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.

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