Baillie Gifford™

International Concentrated Growth Q1 investment update

April 2024

Client relationship director Kelly Cameron and investment specialist Hamish Maxwell give an update on the International Concentrated Growth Strategy covering Q1 2024.

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

Kelly Cameron (KC): Hello, I'm Kelly Cameron and I am a director in the Clients Department here at Baillie Gifford. Today I'm joined by Hamish Maxwell, who is one of our investment specialists on the International Concentrated Growth strategy, and we call it ICG for short. A brief reminder on ICG, it is a concentrated portfolio of exceptional international growth businesses. It holds 20 to 35 names right at the heart of driving change in societies and economies. We believe that this is a really valuable way to invest as companies that are at the forefront of change, for example, in technologies or business models can rapidly take share from those slower incumbents.

To deliver strong returns for our clients, we need to then back those investments with high conviction. And this means taking meaningful stock position sizes, hence our active share at around about 90 per cent. It also means investing over much longer time horizons. Typically, we invest on a five-to-10-year time horizon, which is very different from the market. And that allows those competitive advantages to come through as financial successes. Hamish, this style of investing can be really valuable when it allows us to capture those most extreme winners. However, it can also be volatile in the shorter term. So how have things been more recently?

Hamish Maxwell (HM): Thanks, Kelly. And hi, everyone. Thanks for watching. So since 2004, ICG has really leant into its competitive advantages. And you touched on a couple there, which is long-termism and risk tolerance in our stock picking. And that's created some really good long-term returns for our clients, about 5 per cent above the benchmark per annum since 2004. So really good long-term numbers.

Macro has had a volatile effect on returns recently. So the decade since the global financial crisis was pretty good for growth. Innovation flourished and discount rates were held down. We then had this big style rotation after the pandemic. Interest rates rose rapidly, which caused our share prices to fall sharply. Roughly 2021 into 2022. And you can see that now in our three year numbers. But those macro pressures have been settling down. And we ended last year ahead in Q4. And in Q1 of this year, we were up around 10 per cent to the benchmark's 5 per cent. So that's a pleasing start to the year.

KC: Great. And you mentioned macro has been a driver of returns more recently, but we are bottom-up stock pickers. So what impact have our holdings had on performance?

HM: Sure. So it is the success of our individual holdings that will ultimately determine the success of our portfolios. And there's been some really encouraging operational progress to point at, and I'll pick out a few examples.

So our top contributors in Q1 included some tech and platform businesses. So chip designer NVIDIA was our strongest performer. It's no secret that NVIDIA's chips have been in huge demand, especially for new AI uses. And its revenue from data centres exceeded $18bn in Q4, which was a fourfold increase year on year. Semiconductor company ASML announced a record €9bn of order intake in Q4, far exceeding expectations. And Spotify, the audio streaming platform, reported its largest ever four-year growth of users, adding 113 million net users in 2023.

Our recent detractors, included online grocery business Ocado, which recently grew its active customers by about 6 per cent year on year. So that's in the right direction. But sales *price* growth has still to catch up. But overall, a big opportunity for Ocado with the move to online. Tesla was a detractor. Its energy storage business, and you hear a bit less about that side, but it keeps getting stronger. And the Model Y car sold over a million units last year. But Tesla is still working through some cost rises, hence the share price pressure. And MercadoLibre, the Latin American ecommerce and fintech business, also detracted after a very strong 2023. Its most recent revenue was up an impressive 40 per cent year on year. So not too bad. But the share price fell due to costs from Meli+, which includes free delivery. Meli+ is a long-term strategy aimed at customer loyalty. And we've got optimism in its growth potential.

KC: So that sounds a little bit like Amazon Prime.

HM: Yeah, that's a comparison for those who aren't familiar, I guess, with MercadoLibre.

KC: It sounds like there's been lots of good operational progress, but clients are interested in returns from here. So as a team, I know we're feeling optimistic about the future, but can you share a sense as to why?

HM: Yeah, exactly right, Kelly. We are feeling really optimistic about the future. So we know from academic research and from our own experience that equity returns are just not normally distributed. It's not an even distribution across the market and it's not a normal distribution curve. Rather, it's a very small number of companies that create the majority of returns. This goes back years and it's the case today. Our philosophy is therefore about looking for these rare businesses and owning them, as you said at the start, in size for the long term.

KC: So where are these fantastic opportunities today?

HM: That's the exciting question. Yeah. And that's what our job is all about.

So markets over the last two centuries have reflected the primary economic drivers of their times. So from the Industrial Revolution to the mid-20th century dominance of oil and gas, capital has now shifted to new business models and again, a few companies driving that change that you talked about. For instance, there are really amazing opportunities in artificial intelligence and digitisation across all sorts of industries. But it's not just computing. So we also see important companies in luxury like Ferrari and Hermes, which create really strong emotional connections with their customers. There's economic transformation taking place in Asia as economies there move from being manufacturing focused to innovation focused. And there's revolution in renewables and in health care. So there's lots and lots to be excited about as growth investors.

KC: That sounds great. And in terms of transactions, while the turnover of the portfolio remains low, which is consistent with our five-to-10-year time horizon, our analysis this quarter did lead to some activity. So could you touch on that as well, please?

HM: Sure. Yes. We took a new holding in TSMC, which is exciting. That's the world's leading semiconductor foundry. We think it'll be crucial to progress in computers, big, strong competitive position, lots of demand for years to come. We added to the British fintech company Wise, which recognises that transferring money abroad can be really, really expensive and really awkward. So Wise offers an attractive alternative for its customers. And we added to Korean ecommerce business Coupang, which has a superb logistics network and is now targeting its strategy at new markets.

To pay for these, we sold out of NIO, the Chinese electric vehicle company. Unfortunately, despite growth over the last six years, NIO has struggled to achieve the sort of scale we think it really needs to compete in an intense industry. We also reduced ASML, which is another company right at the heart of progress in computing. Our reduction to ASML is in part because it's a very large position for us. So we can't afford to take a bit off it. But we also want our exposure in semiconductors to be across what we see is the three best companies in that large and growing sector. So ASML, which makes the leading machines for producing semiconductors. NVIDIA, which designed some of the best chips in the world. And now we've added TSMC, which uses machines like ASMLs to produce chips like NVIDIA. So that's the three strong positions in a large and growing sector.

KC: Great. Thank you very much, Hamish. So in summary, there are continuing signs that macroeconomic pressures on growth are starting to ease. This, combined with our exposure to long-term growth trends, as well as our holdings delivering excellent operational progress, means that we are very excited about delivering long-term returns going forward for our clients. We hope that you have found this a useful update today on the ICG strategy. If you've got any questions, please just reach out to your client contact. Thank you very much for watching and goodbye.

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International Concentrated Growth

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

	2020	2021	2022	2023	2024
International Concentrated Growth Composite	7.7	105.0	-20.3	-9.7	9.0
MSCI ACWI ex US Index	-15.1	50.0	-1.0	-4.6	13.8

Annualised returns to 31 March 2024 (net%)

	1 year	5 years	10 years
International Concentrated Growth Composite	9.0	11.6	11.9
MSCI ACWI ex US Index	13.8	6.5	4.7

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.

Past performance is not a guide to future returns.

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