Baillie Gifford™

Sustainable Growth Q1 investment update

April 2025

Investment manager Katherine Davidson and investment specialist Alasdair McHugh give an update on the Sustainable Growth Strategy covering Q1 2025.

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

Alasdair McHugh (AM): Hello and welcome to this Sustainable Growth Update. For those of you that don't know us, what we're trying to do in sustainable growth is to build a portfolio that our clients can be proud of. Proud of for the financial returns, of course, but also proud of the value that it creates for society. I'm Alasdair McHugh. I'm an investment specialist on the strategy and I'm joined today by Katherine Davidson, who's one of our two portfolio managers. Katherine, it's been a pretty interesting quarter, first quarter of 2025. We've had a real flurry of executive orders coming out of the White House in the US that stoked quite a bit of market volatility. Do you want to just start by telling us what's happened and the impacts on the portfolio, please?

Katherine Davidson (KD): Yeah. Thanks, Ali. So, interesting would be possibly the nicest way of describing the quarter. It's been pretty brutal, pretty volatile. Tariffs have obviously been the big focus and markets have been moving around with every tweet or X or truth or whatever we call it now. In an interesting change to the last couple of years, the US has actually underperformed wider global markets. And while sustainable growth is underweight to the US, unfortunately, we're also lacking a lot of the defensive areas like consumer staples and utilities that have led performance. So, we've underperformed in a falling market.

The one silver lining, if I'm trying to find one, is that the performance in the first quarter has been driven very much by stock specifics rather than asset allocation or thematic risk, which is a testament to the risk management processes we've brought in over the last few years. If you're hiring an active manager, you want performance to be driven by stocks rather than by sort of top-down bets. But this is one quarter, so looking longer term, the absolute performance remains pretty good, but we're aware that the performance versus what is still a very concentrated index is not where we would like it to be.

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AM: Yes, so I guess silver lining being that Mag7 effect weighing less on performance this quarter. And clients can read about those enhancements to risk management in this quarter's letter. Let's get straight on to performance then. Where were the biggest impacts on the portfolio, both positive and negative?

KD: Let's start with a positive before we get too depressed. So, in an interesting sign of the times, one of the stocks that was one of our biggest detractors in the fourth quarter was one of our biggest positives in the first quarter. So, Mercado Libre has sort of swung back to being one of our top contributors, delivered very strong results in the first quarter.

Another very strong name has been Spotify, which has continued to deliver exceptional growth and operating leverage coming through. So, profit growth is also surprised to the upside. On the more negative side, as I said, the performance drag has been stock selection. And actually, it's really come down to two particular stocks, TradeDesk and Illumina. Illumina we've talked quite a lot about in recent videos and letters, so I won't expand on that except to say that there's no change to our long-term thesis. Again, more details in the letter. Trade Desk is a more interesting one and I think it's actually worth discussing a bit because it's really representative of the kind of market environment that we're in. So, in their last quarterly results, Trade Desk reported a 22 per cent revenue growth, which was 2 per cent lower than what the market thought they were going to deliver. That resulted in a one-third fall in the share price. So, a really outsized reaction to what looks like a very small miss. And obviously, the market wasn't just saying 2 per cent is worth X billion. It's more of a reflection of the fact that the shares were quite highly valued. And this is a management team that has a reputation for very good, consistent execution. And this is actually their first miss in 33 quarters. So it's more the sort of the shock factor and the sort of re-evaluation of management skill that's damaged the multiple. So we've spoken to Jeff Green, the CEO, and got a better understanding. And it's reassuring that they're acknowledging that there have been execution missteps. They did a wholesale reorganisation of the sales force at the end of the fourth quarter. They also delayed the rollout of a new AI-enabled product. So things that are within their control, which at least gives us more comfort that they can get back on the right track. And bigger picture, still 22 per cent revenue growth in a pretty week macroeconomic environment and a long runway for growth there. So, again, no change to the longer-term thesis.

AM: And probably worth saying that we had been making some reductions to our position when it was at those higher levels of valuation. So, good process there. You've made some interesting changes to the portfolio as well in the past quarter. Do you want to just talk us through some of the new additions, please?

KD: Yeah, so we've purchased three new names this quarter.

Firstly, Cadence and Synopsys, which are a duopoly in part of the semiconductor value chain called Electronic Design Automation, EDA. And it's a bit technical, but essentially they make the software that you use to design semiconductors. So they're getting increasingly complex, smaller, more technical. And this is what you use to make sure that your blueprint is going to make it to production stage and is going to work as you intended it to. And if you want your chip to be made by a foundry like TSMC, you have to have used the software from Synopsys or Cadence. Otherwise, they won't even accept your order. So they've got a really, really strong market position and they're beneficiaries of all the innovation going on in the sector, the number of companies like the Mag7 who are trying to make their own assets, their own ships, as well as the broader AI boom. And the reason for purchasing them now is that the share prices have corrected recently, which has given us an opportunity. We think it's a really, they're both really strong franchises longer term. And while they are exposed to the semiconductor cycle, their sort of revenues are driven by R&D spend rather than by CapEx. So they're much less cyclical and much less vulnerable than, you know, for example, and sort of wafer fab equipment companies, which we've also looked at.

Our other purchase is quite a different one, Sweetgreen, the US salad chain. It's not here in the UK, unfortunately, but if anyone hasn't tried it, we'd highly recommend on your next trip to the US. So, it's a really interesting company. It's quite early stage. It's got 240 stores in the US at the moment. So, very long runway for growth. And it might sound low-tech compared to our ADA names, but one of the interesting innovations there is what they're calling their infinite kitchen, which is this sort of automated salad construction conveyor belt thing which is very cool. And that's one of the things that's going to allow them to scale up faster. So they're targeting 1,000 stores, so a fourfold increase in the next five years. And we think there could be a much longer runway beyond that. And beyond that sort of core mission of providing healthy food to the masses, we really like the way the company is run, their focus on local sourcing and building relationships with local American farmers.

AM: OK, I'm sure clients will lose many minutes on YouTube watching videos of the infinite kitchen like I have. But three additions there of higher growth names in the US that we've been following for a while and are now more favourably valued. I think clients will also be interested to hear about how we funded those purchases. So with the sale of Amazon, do you want to talk about the rationale there, please?

KD: Yeah, Amazon's a tricky one. We've talked to clients a lot about it over the years and everyone will know that we have, you know, Baillie Gifford more broadly has engaged extensively with Amazon over our period of ownership. And we have seen some progress in areas such as working conditions in particular. But our sort of sense reflecting on this many years of engagements is that their response tends to be more reactive than proactive when it comes to dealing with shareholder concerns. And there's quite regular controversies and a lot of noise around it, which just sort of leads to broader concerns about the corporate culture and how seriously they take corporate citizenship. So, no like single catalyst here, but given that the shares have been strong over the last couple of years, we've taken the opportunity to recycle that capital into companies where we've got higher conviction both in their kind of sustainability in their business practices and also in the return prospects for our clients over the next couple of years.

AM: One area that's been sort of shrouded in controversy recently is sustainable growth investing more broadly. Do you want to talk about just like our outlook for our approach from here please and why we still have conviction in our particular style?

KD: Yeah, it's certainly not a fun time to be a sustainable investor and we really appreciate clients sort of sticking with us through that period. We hope that we're approaching the nadir, the sort of trough of maximum pessimism in the space. The one positive that we can take from this is that our specific approach to sustainability is much less vulnerable than what is broadly perceived sustainable investing. We've always been very careful to avoid companies that are really reliant on government policy for their business to be a success and to stay away from companies where ESG targets or greenwashing are a smokescreen for what is not really a great business. So we invest in companies where there's a virtuous circle, where the sustainability characteristics make it a better business and a better investment rather than just being box ticking. So we think that approach is much less vulnerable regardless of the sort of way the politics swing. So we're really focused on sticking to our knitting, finding companies that are creating value for society because those will be the big growers and we know that that growth is what will ultimately deliver return for our clients.

AM: Yes, and I guess from this starting point, we also have valuations on our side in a lot of cases as well. OK, well, thank you. That's a really comprehensive update. I think the summary really is that it's been a difficult quarter for markets and for our portfolio specifically. What we're doing is we're remaining focused very much on the inputs that we can control. So, whether that's making enhancements to our portfolio construction processes, our risk management processes or indeed making those continual upgrades to our portfolio. So, thank you for watching today and we'll look forward to updating you again next quarter.

Sustainable Growth

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

	2021	2022	2023	2024	2025
Sustainable Growth Composite	-	-	-	12.9	-1.0
MSCI ACWI Index	-	-	-	23.8	7.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	Since reorganisation*
Sustainable Growth Composite	-1.0	-	10.8
MSCI ACWI Index	7.6	-	17.3

*31 December 2022.
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.

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