Baillie Gifford

US Growth Investing: Where to next?

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Fraser Thompson, Investment Specialist Director, and Gary Robinson, Investment Manager and Partner, discuss the future of US growth investing and how they seek out companies that are positioning themselves for years of rewarding growth.

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

Fraser Thomson (FT): Good morning, everyone. Thank you very much for joining this webinar on the American fund. I'm Fraser Thomson. I'm one of the investment specialists on the US Growth Strategy and I am joined today by Gary Robinson, who is one of the US Growth Strategy's managers. He's a manager of the American Fund. He's also co-manager of the US Growth Trust and is a partner of the firm. So he is about the best person we could have on this webinar today to discuss US growth investing.

I know most of you will be familiar with the American Fund, but for those of you who are not, this is a concentrated and ambitious portfolio of growth stocks in the US, 30 to 50 holdings. We are seeking the companies which we believe can be the exceptional growth companies for the next five to ten years. We know that big winners drive stock market returns. We know that companies that grow substantially tend to be amongst those biggest winners. So we aim to seek them out in this portfolio.

Now, of course, there's been lots of talk about the investment environment of late, globally and in the US. Interest rates, technology leadership, political and social stability have dominated the conversation, and it's been a tumultuous time for all sorts of asset classes, but long-term growth investing in particular. And we're certainly grateful for your continued confidence in the fund. This type of investing only works if shareholders share the same kind of time horizon that we invest on.

It's also been a rewarding period over the past 12 months or so. We've seen a recovery in share prices and some real operational progress under the hood as well for our businesses. We think there's lots more of that to come, so we plan to focus this discussion on the future, on what we think comes next for growth investing.

Thank you very much for those of you who submitted questions in advance of this webinar. We will aim to cover them in the first 30 minutes or so of prepared discussion. But we'd be delighted to take questions as we go through the webinar too. So please do submit them through the Q&A function. We'll queue them up and answer as many of them as we can in the final 15 to 20 minutes. If we don't answer your question, please do leave your name. We'll try to get back to you after the webinar if we're not able to do it inside the allotted time today.

So perhaps, Gary, to you now to set the scene. Is the US still a special place for growth investing?

Gary Robinson (GR): Okay, yes. Well, thanks, Fraser, for the question. Thanks, everyone, for joining. I'm going to start by saying, on this topic, I'm very biased. So I've been investing in US companies for 16 years now at Baillie Gifford, so take what I say with a pinch of salt. But I genuinely believe that the US is still the best place in the world to find growth companies by far. And I don't think it's even close.

And I think this is a point which is arguably underappreciated in the UK, because the US is portrayed in the UK media as this great power in decline. And I think there's some truth in that. But when you actually focus in on the innovation ecosystem within the US, I think that's as strong as it's ever been. And AI is providing a very recent example of that.

If you think about the most important companies in the field of AI, almost all of them are in the US. Whether that's Nvidia in the hardware layer, AWS, Google Cloud or Azure, Microsoft's Azure in the cloud layer, or OpenAI and Anthropic in the large language model layer, it's the US companies that are leading the charge in this market again, as it was with mobile, as it was with internet, and as it was with computing prior to the internet.

So I don't see this dominance coming to an end, and if anything, America's dominance is as strong as ever, and I think it will continue to dominate. And that's for a number of different reasons. I think that the US has all of the right ingredients for the country to continue producing a disproportionate share of innovative companies.

So it's got, for example, the best academic research institutions in the world. It's got a strong talent pool. It's still the magnet for talent globally. I know it's going a little bit backwards on that measure, but I think for an entrepreneur starting a business anywhere in the world today, if you asked them what country is most appealing for starting a growth business, most of them would answer America.

There's the well-developed, broad, deep venture capital ecosystem that doesn't really exist elsewhere. There's IP protection. There's a relatively stable political backdrop, a business-friendly environment, and last but not least, and probably most importantly, there's a culture of optimism and ambition and a willingness to treat failure as a natural consequence of trying that I think doesn't exist in many markets around the world.

FT: Great. Thanks, Gary. How is that playing out right now for the US? Can you say, demonstrably, that the US is showing itself to be a stronger economy than others because of some of those features?

GR: I think so, yes. I don't think that the US can afford to take its position for granted. And I think there are some areas where it's gotten less strong over the last five, ten years. I think tighter immigration rules in the US are a bad thing. This is a country of immigrants, and I think it's benefited enormously from its willingness to welcome talent into the country. I also think the tendency of politicians in the US to villainise entrepreneurs, and billionaires in particular, they need to be a little bit wary of that. But I think these are minor issues in the grand scheme of things.

I also think we need to separate the innovation ecosystem from the US economy to an extent as well. When we talk about the innovation engine in the US, we're actually talking about mostly a very small, very powerful innovation cluster on the West Coast. And as I said, my impression here is that rather than going backwards, this area has actually been revitalised. I was over in San Francisco a couple of weeks ago, and it's the most energetic and vibrant that the city's felt in years.

But to answer your question directly, Fraser, on the economy, the US economy is actually doing rather well. And one of the most striking things about the performance of the economy over the last year is productivity growth. It was over 2 per cent last year, and so over double the medium-term average. And I think that's really, really intriguing.

FT: That does set it apart from a lot of what else we're seeing globally. Can you point to anything that might be driving that kind of productivity growth in the US?

GR: The honest answer is we don't know. I think it's probably too early to be down to AI. I personally think that AI is going to have quite a profound impact on the economy, but I think it is going to take a number of years for that to play out, although we're already seeing productivity boosts of 30 per cent to 40 per cent in certain occupations through the use of AI, so software development being one.

But in terms of the last year, I think if I was to speculate on it, one element that's driving that productivity growth is just companies have, coming out of Covid-19, been forced to get a lot more efficient. And what we're hearing from a lot of companies in the US is now that they think they can do a lot more with less. So there's been this shift from growth as the primary aim to more of a balance between growth and profitability. And I think what companies are finding is that they're able to produce a lot more with a lot less resource than they thought they would need to produce that amount.

FT: Right. Well, I absolutely would like to come back to your comments on AI. I'm sure others in the audience want to hear about that as well. But expanding on that do-more-with-less type hypothesis, and obviously in a scarcer capital environment, in a higher interest rate environment, how does that square with growth investing, if there is less capital available and firms are trying to be more efficient than perhaps they were previously?

GR: Yes. So we're in a higher interest rate environment now. Where we'll be in three, five years' time is anyone's guess. But it feels like we've reached the peak of that process. One of the biggest impacts for the portfolio was the valuation compression that we saw on growth stocks, where the discount rate rose and our growth stocks were disproportionately impacted by that. But I think that's mostly in the rearview mirror now.

But with regards to the operations of the businesses, I think companies have had to face up to the fact that capital is now more expensive and is scarcer. So these companies can no longer just assume that capital will be there to fund their growth if they need it. So as I mentioned, a lot of companies have had to make this adjustment to their operations and start not only just focusing on growth but also thinking about profitability along with growth.

So we've seen a number of companies in our portfolio shift in that direction over the last 12 to 18 months. And it's actually been really quite positive, and the feedback that I've heard from companies on recent investment trips is that having gone through this process of rationalising their cost bases, they actually feel like their businesses are coming out of this process more agile and more innovative than they went in.

I think for a lot of growth companies, when you're focusing on growth as your primary aim, it's very easy for there to be a fat and bloat build-up in the business. And I think what this period has done is it's given some of these companies the air cover necessary to take a look at their operations and actually make some tough decisions about where they really ought to be continuing to invest and where there might be opportunities for them to drive efficiencies.

So take Shopify as an example. Shopify, going back just over a year ago, was making double-digit negative free cash flow margins. Fast forward to today, and they're making double-digit positive free cash flow margins. And they've managed to make that transition without it having had a meaningful impact on the top line. So their revenue growth has continued to be very healthy throughout this process. In the most recent quarter, it grew revenues in the mid-20s, so way, way ahead of what we're seeing from the average company in the market.

And what we're hearing from Shopify now is that they think they can actually continue to grow the business, to grow the top line at a rapid rate, but whilst maintaining their employee count at its current level. So I think, going through this process, these companies are learning quite a lot about their businesses and learning how they can operate efficiently whilst continuing to drive growth.

And I think AI is playing a role in that too. So customer support functions at these organisations, they're able to serve more customers over time without necessarily adding more headcount, because a lot more of that customer service is happening through AI tools. So I actually think this is quite an exciting development for the portfolio. And I think there's a potential for a lot of the companies that we own, over the next two to three years, to surprise on the upside with regards to margins, as they start to gain leverage over their leaner expense bases that they've rationalised throughout this period.

FT: Would there be any examples in the portfolio of companies where the competitive position is shifting in their favour because of a scarcer capital environment?

GR: Yes. I think there are probably quite a few examples. The most obvious one would be a company like DoorDash. So DoorDash is the delivery company in the US. It's the US's version of Deliveroo, but its ambition is broader than just restaurant delivery. It's going into categories like grocery.

And that local delivery market was an area that was pretty hot, going back two or three years ago. There were a lot of companies that were receiving large cheques from the venture capital ecosystem. That's pulled back quite a lot. And it's enabled DoorDash to truly drive its core restaurant delivery business towards cash flow breakeven and beyond. So it is impacting on the competitive positioning of companies in the portfolio too.

I think there's a big difference between companies that were unprofitable because they were choosing to be unprofitable, and you'd put a company like DoorDash into that category, which was investing for growth, and companies which are unprofitable because they are pre-product-market fit or because the unit economics just don't work yet.

So if you're in the former category, you can make a decision to pull back on your investment spending and drive towards profitability. If you're in the latter category, there's nothing you can really do, because the only way you can get to profitability from the starting point of sub-par unit economics is by scaling. And to scale further, you need more cash. So it's companies in that category that have been more challenged in the current environment than those which were discretionarily unprofitable, which have this option of actually driving their business towards profitability.

FT: All right, thanks, Gary. That's really helpful. So I think you've mentioned AI a couple of times already in your comments. It's certainly coming through in the questions we're receiving. And please do keep on submitting questions through that function at the bottom of the screen. Could we dig a little bit deeper into AI, Gary? It's obviously very early stage, but the success of an Nvidia, which has risen to become the largest holding in the American Fund by the end of last month, has been striking. How are you thinking your way through the evolving opportunities here?

GR: Yes. So to state the very obvious, we think AI is going to be big and important. Beyond that statement, I think we have to approach this task with a lot of humility. It's very early. The field is rapidly changing, and no one really knows what this industry is going to look like in five to ten years' time. If you go back to when Apple launched the iPhone in 2007, I don't think there was anyone predicting Uber and Airbnb at that point in time. So I think there are going to be companies worth hundreds of billions of dollars, potentially trillions of dollars, that don't even exist yet.

So the way we've been thinking about this is been thinking about the different pieces of the value chain in AI. If you think about the value chain, you've got the hardware at the bottom of the value chain that's being installed into the data centres that the models are running on, and then you've got the data centres themselves above that hardware layer. And then above that, you've got the large language models. And then above that, you've got the applications that are running on the large language models.

Where we're seeing most opportunity at the moment is in the lower layers of the stack, so the hardware and the cloud layer. So in the hardware layer, we're investors in Nvidia, and then in the cloud layer, we have exposure via our holding in Amazon. We don't actually have any holdings in that large language model layer as of yet, and we don't have any holdings in the application layer as of yet. And we are continuing to look at those areas, but they are very dynamic and very rapidly changing, and we haven't yet identified a company that we've had the conviction in to actually take a holding in any of those points in the stack.

Nvidia, in the hardware layer, remains the only game in town in chips. I don't think that'll last forever. But for the time being, if you want to build a large cluster, you need to buy Nvidia chips. And one of the things that I think is still probably underappreciated about AI is just how much more compute you need when you go from one generation of large language model to the next. Now, we're talking a 10x increase in scale.

And so, so long as the scaling laws continue to hold, and that's not a given, but so long as the scaling laws continue to hold, as we go from the current generation to the next generation, i.e. GPT-5, to the next generation, i.e. GPT-6, we're going to need a lot more compute. And it's quite likely that the industry will remain undersupplied through that period so long as that does play out.

Another area where we're seeing opportunities outside of that direct value chain is in companies which are using AI to augment their businesses, either to improve their products or to drive cost savings.

Three that I would pull out there are Meta, which is using AI to improve its products and increase engagement but also to improve its advertising tools, enhance targeting, Duolingo, the language learning app, which has launched a new tier of subscription, where you can have spontaneous conversations with an AI bot, and Shopify, the provider of software for merchants to run their businesses online, which is using AI to help merchants better navigate the product. So rather than having to find all of these sophisticated tools through dropdown menus, etc., you can just tell the AI what you want to do to your shop, and then the AI will let you know how to do it.

And I think what these businesses have in common is a captive customer base, so a direct relationship with their customers, and a proprietary dataset that they're able to leverage. So that's going to be really important, I think, for companies to drive competitive advantage with AI. If you're building AI models based on data that everyone else has access to, then it's going to be very easy for those models to be copied, and I don't think there's going to be a lot of value in that, longer term.

But what the likes of Meta, Duolingo and Shopify have are proprietary datasets, datasets which are unique to them. And they can use those datasets to train their own versions of these models, which gives them a unique advantage versus others that they're competing with in the industry.

FT: Thanks, Gary. I'll maybe bring you back to Nvidia just for one more question. There's clearly interest in this as a holding. From a behavioural process perspective, how do you cope with something which has such substantial success and becomes a bigger part of your portfolio as a result in relatively short order? I know that's not a new thing for this fund. It's, in fact, the hallmark of our style of investing. But what is the process around owning a company like that?

GR: Yes. So I think you have to try and avoid anchoring. And one of the lessons that we've learned over the last couple of decades of investing in US growth stocks is that the best companies often turn out to be a lot better than even the most bullish of assumptions. So if you go back and look at our Nvidia notes at Baillie Gifford from 2015-2016, we were aware of it at the time, and we were attempting to paint what we thought was an outrageous upside case for this company.

And I think where we got to was about half a trillion dollars of market cap, and it's now four times that size. So it's four times our upper bull case. So I think when it comes to exceptional growth companies, it often pays to run your winners. And that's very hard to do behaviourally. So I think keeping that in mind is an important piece of it.

But I think you have to also have discipline. So there are two elements to that for us. One is we track the stock relative to the forward-looking hypothesis. So the forward-looking hypothesis outlines how we expect the operational performance of a business to play out over time. And Nvidia has been tracking way ahead of the forward-looking hypothesis that we'd outlined even just a couple of years ago.

And then the other piece that we track is valuation. Companies have to continue to meet our valuation hurdle, otherwise we won't own them. And so the question that we're asking with Nvidia is, is there a path to a 2.5 times return over the next five years with a greater than 20 per cent probability? We ask that question when we first buy stocks for the portfolio, but we continue to challenge ourselves on that question for stocks once they're in the portfolio and when they've gone up over time. So it's those two parts of the process that we're continuously reassessing Nvidia against.

FT: Great. Thank you. So there's lots of interest in AI. We may well come back to this in the live Q&A. And actually, the team as a whole have written on this topic. You can find it on The Long View series of articles on the website, where Tom Slater sets out some of his thinking around the AI paradigm as well.

But maybe just to shift gear, Gary, because we wouldn't want to give the impression that this portfolio is focused solely on that as a topic. There are threads of innovation right across the portfolio. So it would be interesting to hear about some of the newer ideas making their way into the fund and what's motivating those new purchases.

GR: Yes. So the first thing to say on that is that the portfolio turnover is still low, so it's consistent with a five- to ten-year time horizon. But there has been a little bit of an uptick in turnover in the last 12 months relative to the prior 12 months. And that reflects the fact that we're just finding a lot of really interestingly exciting opportunities in the market right now.

One example which some of you might find a little bit surprising is a company called YETI, which is a US consumer brand that's very famous for making high quality coolers and drinks containers that are used by people who go fishing and who do extreme sports. It's a company we've been monitoring for a number of years now, and we decided to take a holding recently, after doing quite a lot of work on brand positioning - we spoke to an external brand expert consultant - and doing a lot of work on management.

And one of the things that really appeals to us about this business is the management team and the way they steward the brand. They really are looking to build something lasting with the YETI brand, and they're very careful about how they expand into new segments and into new product categories, which is something that is critical in building an enduring brand.

YETI is a stock that falls into what I would call the enduring growth category. So the appeal here is the ability of the company to grow at high rates for a very long time rather than the company's ability to grow at supernormal rates for a short to medium period of time. There used to be quite a lot of these types of growth stocks in this portfolio, going back five, six, seven years, but they became a less prominent feature, mainly because these kind of stocks became very expensive during the low interest rate environment.

And given the predictable nature of growth, when there's a big increase in the valuation for these stocks, it's really hard to see a path to that 2.5 times upside case. But with the higher interest rate environment, we're seeing a number of these enduring growth stocks fall to more reasonable valuations. And that happened with YETI, and we used that as an opportunity to initiate a holding.

Another area where we've added a couple of new stocks into the portfolio is in the healthcare space. So one is a company called Insulet, which makes pumps for diabetes, and another is a company called Inspire, which makes surgical implants for sleep apnoea. We've been monitoring both of these companies for a while, but we hadn't pulled the trigger on either because we thought they were a bit expensive and we were struggling to see a path to that 2.5 times upside case that I mentioned when you asked about Nvidia, Fraser.

But what happened was that both of these stocks were exceptionally weak for very similar reasons. And the reason was the market started to worry about GLP-1s, the weight loss drugs that have become very popular in the US over the last couple of years. The market was concerned that the rising popularity of GLP-1s could have an impact on the scale of the market opportunities for Insulet in diabetes and for Inspire in sleep apnoea.

But we've done the due diligence on these companies, and we think that those concerns were overblown. Just to very quickly touch on one of them, for example, with Insulet, the pump maker, 80 per cent of Insulet's business is in type one diabetes, and that's not going to be impacted by weight loss drugs at all, because that's an autoimmune disease. So we used that period of weakness to add those two stocks to the portfolio.

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FT: Great. Thanks. What I might do actually is just to give people a sense of where that fits in, I will maybe show people the overall thematic exposure just briefly on the screen. This is one of the ways in which we think about our exposures as a result of the bottom-up stock selections that Gary's been talking through. And you can see that innovative healthcare is a relatively large part of our exposures here. So broadening out from those two specific examples, Gary, what makes that such an interesting space to go looking for growth investing?

GR: Healthcare? So the sector is massive and inefficient. There's a lot of unmet need. And so there's plenty of scope for innovative companies to make things better and to make a lot of money on the back of that. That's the short answer. Over and above that, we're starting to see a lot of technological innovations come through into the healthcare space that's changing the nature of healthcare, of pharma research and of healthcare delivery.

So low-cost whole genome sequencing is one example. The application of AI in healthcare and understanding the genome is another example. There are a lot of new tools in pharma which have come along, powerful tools, that are broadening the targets that pharma companies are able to go after and enabling pharma companies to go after those targets in a much more specific and much more predictable way.

So Moderna is a great example of a company that is leveraging these tools from AI through to its foundational technology platform, mRNA. And what we think that this is going to enable is for Moderna to be much more like a software business than pharma companies of old, where the learnings that they generate from one drug are leverageable into future drugs because those different drugs all work off that same foundational mRNA platform.

FT: Fantastic. Thanks, Gary. I think we've maybe got one more question for you before we open up to the live audience Q&A. And again, please do keep sending those questions in. We'll try to get through them all. I guess a simple one, Gary, before we open up. Why now, for growth investing in the US?

GR: So the last four years, in aggregate, have been tough for the fund. Performance isn't what we hoped it would be, and we're not happy with that. And if you break that four year period down, what you have is 2020 was a boom year on the back of Covid-19, and then we had 2021 and 2022, where we had very weak performance, and then 2023 performance has been a lot stronger again. But that 2021-2022 period was very weak.

And if I was to diagnose what went wrong there, I think there are two main factors that led to that underperformance. The first one was the rise in interest rates. So we had that unexpected rapid rise in interest rates. That drove up the discount rate, and higher discount rates mean lower asset values and lower valuations.

And long-duration stocks are the most sensitive to rises in the discount rate, because their cash flows are far out in the future. And the high-growth stocks that we invest in are long duration in nature, because their cash flows are far out in the future. And so this portfolio was disproportionately impacted by that.

The second factor was the demand volatility that was created by Covid-19. We went from being in lockdown, where a lot of the digital companies that we own in the portfolio were benefiting from everyone being at home and only being able to access services online, to the economy opening up again, and suddenly, a big part of the economy shifted from online back to offline again.

And the companies that we'd invested in had invested in their cost bases and the expectation that that demand that they saw during Covid-19 would remain sticky. But it turned out to not be sticky. And so they ended up not only with demand falling off but also with inappropriately large cost bases, which meant that their margins collapsed, and some of these businesses tipped unprofitable.

Importantly, we think both of these headwinds are now largely behind us and they're largely in the rearview mirror. Interest rates have most probably peaked and are quite likely to come down from here. And that demand volatility that was caused by Covid-19, that seems to have worked its way through the system. And so we're now at a point in time where I think the fundamental performance of these companies can really start to come through in share prices. And I think that's what we saw in 2023.

And just to give you a flavour for that, if you look at the median revenue growth rate for the American Fund last year, it was 23 per cent, so way, way above the market. And the structural growth drivers that we've been talking about for years, they're still in place, whether that's the rise of e-commerce, the rise of EVs, the digitisation of healthcare.

But what you've got over and above these long-term structural growth trends, which are mostly still early, they're now being augmented by this megatrend, which is AI. And I think that's going to lead to more change, more disruption and more opportunities for innovative companies, which is great news if you're a growth investor.

FT: Fantastic. Well, thank you, Gary. So we'll just open up to audience Q&A. I've got a good list of questions here, but again, please do feel free to keep on chipping in with additional questions. A couple of questions, Gary, around some of the biggest companies in the USA. Obviously, returns to scale are still possible, even at the very largest market cap businesses, and we've been buying into the likes of a Meta, again as you mentioned. Do you see a possible route back into the portfolio for the likes of an Apple or an Alphabet or other very large businesses in the US?

GR: Yes. I would never say never with any of these stocks. We set a high bar for this portfolio. It's 40-odd names in a universe of thousands. So the fact that we don't own Apple or Microsoft or Alphabet doesn't mean to say that we don't like these companies. It's just that we like other companies better than those companies. So I think these are fine businesses.

But we're looking for a minimum 2.5 times return over five years, and ideally more than that. And when you start talking about $2-3tn market caps, that gets challenged. So we're not intending to add any of those back to the portfolio right now. I think Apple's probably the least likely. The smartphone market is mature, and I think just because of scale and also partly because of culture, it's going to be difficult for Apple to do anything needle-moving there that would get us to that 2.5 times case.

I think the one that we're probably most likely to buy would be Microsoft. We've been wrong to not own that, and it's been run so well under Satya Nadella. The way that they've managed the AI transition, the rise of AI, has been something to behold. But it's still really hard to see how you can do a 20 per cent compound return in Microsoft from this starting point.

I think Microsoft and Apple are quite interesting, because these are two companies which, if you go back 10-15 years, they were trading on market multiples. There were existential questions that were floating around about these companies, and you could buy them for, say, 12 times earnings. And they now trade on 2.5, three times that multiple.

I wonder whether Meta is on its way there actually. And that's one of the things that appeals to me about Meta. It's a company which I think historically has been viewed as being a relatively undisciplined and potentially quite fragile company, with the potential for being disrupted through competitive threats and a management team which was spending money without much thought.

You fast forward to today, though, and you look at how well they've handled the competitive threat from TikTok and how well Reels is doing, you look at the discipline with which the company is being run now and the progress that they've made on margins, and I think there's a chance that the market could come to view Facebook in quite a different light. If it does, then this business could attract a significantly higher multiple than it's on today.

FT: We've had a couple of questions on another large American business and a big holding for us, Tesla, which by its own admission is between growth waves at the moment.

GR: Yes.

FT: What's your view on the longer-term prospects for that business.

GR: I think Tesla could be a lot bigger in the future than it is today. It made 1.8 million cars last year in a global car market of 80 million. There's precedent for companies making 10 million cars a year. You look at Toyota. So I think there's scope for Tesla's volumes to increase manyfold from here.

But I think we're going to have to be patient with that, because as you point out, Fraser, we're in between two growth waves right now. They're starting to ramp on Cybertruck, but that's probably not going to be a needle-mover for Tesla, just given the challenges of scaling manufacturing. And so we're going to have to wait for the next-generation platform. But we're talking a couple of years away, not ten years away for that.

And I think it's very difficult to time when exactly the market's going to start pricing in these future opportunities. And so I don't think it's wise to trade around stocks like this. If you believe that this is a company which could potentially be worth a lot more in five years' time than it's worth today, then I think the best course of action is to stick with it rather than to try and be too cute and trade around these growth waves.

Beyond the car business as well, I think one of the things that's still overlooked with Tesla is just how much opportunity there is for them outside of the auto industry, in energy generation and storage. That's a business which has been held back artificially historically, because Tesla couldn't produce enough batteries for its cars. It's now at the point where it has sufficient battery supply, and you're starting to see that business scale at quite an impressive rate. So I think that's something which could actually have an impact on the numbers on a five-year view.

FT: Thank you, Gary. Stepping away from the stock specifics and back to the broader environment, a couple of questions have come in on some of the other things which could affect the operating environment for the companies we hold. One might be around the changing global political environment and the potential for trade tensions to affect opportunities. And the other, I guess obvious one is the potential outcomes of a US Presidential Election. But how do, and to what extent do things like that feature in your thinking? How do you navigate around that as a long-term growth investor?

GR: We think about it. We think about these issues. We talk about these issues. I don't think it's our core competency to make predictions about geopolitics or the macro environment. We're bottom-up stock pickers. It's difficult to know. One, it's very difficult to predict what will happen. Then it's very difficult to predict the downstream consequences of what has happened. And then it's very difficult to predict how the stock market will react to what has happened.

And so going back to the election before last, I remember when Trump was elected the first time around, everyone thought that was going to be a disaster for the stock market, and people were selling ahead of it. And then it was bad in the very short term, but over the next couple of years, it was actually very, very good for the stock market, because he cut taxes and stimulated the economy and so on and so forth.

And so I think if you're investing in companies where the primary driver of growth is the economy, this matters a lot. I think if you're investing in companies where the primary driver of growth is the secular growth opportunities and disruption, it matters less. So for a company like Tesla, for example, I think policy with regards to EVs matters at the margin, and it could hurt them in the short term, but I don't think it's going to change the ultimate outcome. I think where we're going, long term, is towards an EV future, and that's being driven by the technology curves in batteries and in software.

And those technology curves are just going to continue to march on, regardless of who happens to be in the White House, and electric vehicle cars are going to get better relative to internal combustion engine cars and more cost-effective over time because of those technology curves, and it's going to get harder and harder and harder to get oil out the ground, and gas cars are going to become more expensive over time. And I think that equation just leads to almost an inevitable outcome. Now, almost inevitable. I wouldn't say inevitable. Almost inevitable outcome. So that's the sort of thing we're most focused on.

FT: Maybe taking that a little bit further for probably the last question, I'm afraid, for this webinar, there's been lots of talk, and we discussed it here, about the emerging trend of AI. And that's in the popular media a lot, as are electric vehicles and a broad acceptance that that transition is coming.

Are there other big untapped opportunities that you think are just sitting just below the public spotlight? The question here quotes robotics or industrial automation. But what are the big emerging trends that you think aren't being talked about yet but that you're excited about and that we have exposure to in the portfolio?

GR: So I don't think the healthcare one's been spoken about enough. I actually think there's quite a lot of scepticism around this at the moment. It is still a hypothesis, but I think that the healthcare sector, just given the size of it, given the level of unmet need, has got the potential to be similar to the software sector 10-20 years ago. If our hypothesis, which is that this new generation of pharma companies are going to benefit from increasing returns to scale, if that hypothesis proves to be right, then I think that that could be very impactful. So I don't think that that's being covered a lot in either the sell side or in the media.

I think robotics is actually a really good one to bring up. I think that that is really interesting because, I think Sam Altman said recently, it would be really depressing if humans were the effectors of AI. So once we have AGI, you'd want to run that on robots, so that the robots were doing the work. Otherwise, it's confined to the digital realm. So I think clever robots are a natural downstream consequence of clever software. And Tesla is working on this with its humanoid robot. So we do have exposure to that one as well.

What other ones would I draw out? Energy, I think, is still underappreciated as a trend. AI's allowing us to do stuff with fusion that we wouldn't have been able to do before. As I mentioned, solar and batteries are continuing to march down the cost curve, following Wright's Law. The more solar panels we produce, the cheaper they get. The more batteries we produce, the cheaper we get.

This is the opposite of what we had with finite resources. With finite resources, the more finite resources we took out the ground, the harder it was to get at the next unit of finite resource. The more solar panels we produce, the easier it is to produce the next solar panel. What this means is that energy's going from something which gets more expensive over time potentially to something which gets cheaper over time. And that could have profound consequences, particularly with AI.

So effectively, AI is going to probably end up, the cost of AI is going to end up converging with the cost of energy. And I think our demand for AI is going to be wholly dependent on the price of it. It's not like there are 8 million people in the world, and everyone is going to have one unit of AI. The cheaper AI is, the more we'll use. It is intelligence. And right now, I think if you look forward, the limit on how cheap will AI get is probably energy. And so if energy can get very cheap, then AI can get very cheap, then intelligence will be abundant, and the world will be a very rich and prosperous place.

FT: I think we can't end on a better note than that, I don't think, Gary. So thank you for that. That is us just about out for time, I'm afraid. Thank you to everyone who asked questions. Thank you for your attention throughout this webinar. We hope you found it useful. If we didn't answer your question and we have your contact details, we will endeavour to get back to you with an answer following the end of this event.

And as I mentioned, if you're interested to read more about the team's thinking, you can find The Long View articles on the website. That's a series of three very short pieces, outlining some of what we think could be the most important drivers of growth for the next decade. That includes AI, societal shifts and business culture shifts as well. And it's well worth the read if you have the time. But for now, thank you for your attention, and we hope to speak to you again soon.

GR: Thank you.

Baillie Gifford American Fund

Annual Past Performance to 31 December Each Year (% Net)

	2019	2020	2021	2022	2023
Baillie Gifford American Fund	26.6	121.8	-2.8	-50.6	40.7
Index*	26.4	14.7	29.9	-7.8	19.2
Target**	27.9	16.2	31.4	-6.3	20.7
Sector average***	24.4	16.2	25.5	-9.7	16.7

Source: FE, Revolution, S&P, total return in sterling.

*S&P 500 Index.

**S&P 500 Index (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA North America Sector.

Past performance is not a guide to future returns.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association North America Sector.

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