Baillie Gifford™

Long Term Global Growth Q3 investment update

October 2023

Investment manager Mark Urquhart and investment specialist Jonny Greenhill give an update on the Long Term Global Growth Strategy covering Q3 2023.

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Jonny Greenhill (JG): Hello, and welcome to this Long Term Global Growth update. Just as a reminder, Long Term Global Growth aims to deliver exceptional long-term returns for our clients by investing in a concentrated portfolio of what we believe to be the world's great growth companies. My name is Jonny Greenhill. I'm an investment specialist in the Long Term Global Growth team, and I'm delighted to be joined today by Mark Urquhart, co-founder of the strategy back in 2004, and still at the helm of the team today.

Mark, thanks very much for joining us.

Mark Urquhart (MU): Pleasure to be here.

JG: I would like to start by inviting your thoughts on performance in the strategy. We have seen quite the rollercoaster over the past few years, from remarkably strong performance during the 2020 Covid pandemic, that was followed in 2021/2022 by the most severe drawdown since the global financial crisis. And then since the start of this year, we've seen somewhat of a rebound, but then a little bit of a pullback over the past quarter.

It seems like markets are still in somewhat of a fragile, volatile state. What does that mean for how you're thinking about the companies in the portfolio and how you're thinking about performance at this point?

MU: Yes, I think you're right to describe 2020 to 2022 as a rollercoaster. I can't remember another period of such extreme outperformance and then drawdown, as you say. However, it's always been like this in LTGG [Long Term Global Growth]. Volatility is par for the course, whether it's at the individual stock level or at the portfolio level. Some of the long-term strongest contributors, the likes of Tesla, Hermès, Tencent, have individually all had big drawdowns during the duration of our holding.

I think what's happened in this year and the shorter term is the market is starting to look through some of the macro worries to operational performance. So, [the focus is now on] the companies that can show the market, almost grinding it out quarter by quarter, saying: "Look, we're still growing regardless of the economic circumstances". And they're being rewarded for that. And that is our bread and butter.

I can't control macroeconomics. Though you might speculate on peaks in interest rates, inflation rates, we're focused on the operational performance of companies. [For example], "What can this company grow at over the next five and ten years?" And my experience would suggest that over long periods of time, as you emerge from, as you say, more fraught market circumstances, it is those companies that can produce real growth that will be rewarded.

So I hope we're seeing a little bit more of that. It certainly feels like that in the past 6 to 9 months, but there will remain, definitely, volatility, because there's lots [for the market] to worry about.

JG: One of the companies in the portfolio which has delivered really strongly in terms of that growth year-to-date has been NVIDIA. How are you thinking about that stock?

MU: Yes, I think that's absolutely a great example of what I was talking about. This is a company that has just blown away estimates. There's never been a greater upside revision in terms of the scale. It's billions of dollars at the sales and, importantly, at the profit line, because of the margin structure of the business. It's at the epicentre of what's happening in AI and obviously has the very, very high-end chips, and that's been built on years of R&D and manufacturing.

Jensen [Huang], the CEO, is having visitors from China and India almost begging to get hold of the high-end chips. So they're in a great position in terms of pricing power, in terms of demand for their products. It's almost the great agglomeration of circumstances. And the market has seen that and rewarded it.

Now, because of the scale of the share price move and really the gradient of what's happened, we've decided to take a little bit of money off the table. It was getting very close to our 10 per cent max that's worked well for us over the years. So [we] took a little bit out of that, just reflecting how quickly the share price had moved. But [we're] still very bullish on the underlying operations, and we think it has the potential to be a $5tn company over the next decade or so.

JG: Can we turn now to one of the greatest detractors from performance in recent times and that's the international payments company Adyen, which I believe in the month of August saw something like a 50 per cent decline in its share price. What happened and how are you thinking about your thesis from here?

MU: Yes, Adyen is a Dutch company which we've liked for many years. Three things happened really. The first is, because it's Dutch, it reports in a six-monthly cycle, which has many advantages. It's not on that quarterly hamster wheel. But in this case [it] proved to be a disadvantage because in the last six weeks of that period we saw a deterioration in a specific area of the US online market, really from pricing competition from the likes of Braintree under PayPal. It's just one of those tough moments in a market like that.

That's combined with a rising cost base. It's been investing quite heavily in headcount in both its marketing and in its research area, which we think is the right thing to do. It has a great product, does lots for its customers, it adds value for customers. A lot of payment companies don't – they just complete the transaction.

Stepping back, the share price has fallen precipitously. As you said, [by] half in a month. We think that's the obverse of what happened in NVIDIA. It's a sad overreaction. It's people really focusing on that one area.

This is a company that's still growing at 20 per cent-plus, [which] we think has great long-term opportunities. We think they'll have learned some lessons from communication. We've been speaking to them about that and they're going to do an Investor Day in the United States in November, which my colleague Gemma is going to attend, and several meetings around that.

So, this happens. You know, markets like to obsess about the short term. They extrapolate the noise in that market, extrapolate falling growth rates. We're stepping back and thinking, yes, there's something going on there. But actually, the big picture is still intact. So [we're] currently debating the size of our holding in that one.

JG: And that leads to this point that, a recurring question when the markets especially are in this state of volatility, is: "What is the team doing?" "What trading activity is underway?" There's been one transaction that I'd like to perhaps get your views on over the past quarter, which is a reduction to IIllumina, which I believe is the second such reduction in the past 12 months. What's happening at the stock, and how are you thinking about your investment case?

MU: Yes, Illumina's core businesses is its gene sequencing machines. It's had a great position in that market over multiple years, but in the last probably 18 months or so, there's just been several things going on.

It's had a lot of regulatory difficulty with GRAIL in the European Union. Although it doesn't operate there, they [the European Commission] has got involved. That has led to that business [GRAIL] (a subsidiary which tries to identify early diseases, particularly in cancer, and is very exciting) to be operating in a very weird way at the moment.

And there's been management turnover. The CEO, Francis deSouza, who we had some questions about after he replaced the original CEO, Jay Flatley, when we first invested. There's also been board change and there's rising competition. You know, it's had such a strong position, that it has attracted new capital.

So you put all of those together [and] the growth rate just hasn't quite been where it should have been for us. So we've reduced it a couple of times. Are we on the way out? We're currently debating that. There is still a kernel of a good company there. It's a really interesting time for gene sequencing, obviously with the market exploding in terms of lots that's happening in healthcare. So we've reduced it to around about a 1 per cent position, reflecting some of those difficulties, but also wanting to just really think through what the long-term growth rate might return to. There's a new CEO just come in from Agilent who we're keen to meet, and to think through that.

That's the background to that reduction.

JG: But at this stage, exercising patience then, at this point.

MU: Yes, indeed, and trying to reflect the portfolio size and the ebbs and flows that I've described. But yes, to be patient as well.

JG: Okay. Maybe shifting gears a little bit, something that we spend a lot of time thinking about in the strategy are the sources of insight that we use. And there is perhaps no source as important as speaking to the management teams, the founders, the visionaries of the companies in which we invest. And one way we can do that is through direct company meetings, but another way is also attending events, conferences, and benefiting from having several around us in the same room.

I'm aware that you are just back from a conference in the US. Can you tell us a bit about what led you to attend that conference? What did it look like it, who was attending and what did you get from it?

MU: Yes, so that's an annual event in Wyoming, in the USA. It's attended by probably about four or five companies each year, [at a] senior [level], the CEOs typically, and a host of other US investors – about eight or ten investors from places like Fidelity, Sands Capital and some of the really interesting growth houses.

I get a lot out of it. You get time with the executives and you get time with the other investors. So, one of the biggest takeaways for me from this year's event was just how negative everyone is on China. It was extraordinary, you know, to the extent that some of them couldn't foresee ever investing in China again, which of course made me very bullish, you know, in that sort of contrarian strand when I've got companies like Pinduoduo growing at 60 per cent. It's an interview and a podcast in itself, that topic.

In terms of the companies there, there were a couple of existing holdings. The Trade Desk and Cloudflare were both there. So time spent with their CEOs was very useful and definitely strengthened my conviction in the growth opportunities they both have and the competitive advantages.

And then the most interesting non-holding was a company called Rivian, which is a new entrant in the EV space, which of course we know well from Tesla, but they're coming in at a different angle.

They're starting with very fast electric pickup trucks (very American) and SUVs. So, I got the chance to drive a pickup truck round Wyoming. My wife's asked me not to bring one back to Scotland (not very practical on the streets of Edinburgh). But really interesting, an interesting CEO, they raised a lot of capital at the IPO. The share price is down very substantially from that.

And I think there will be multiple winners in the EV space. I think Rivian deserves our attention as one that might be one of those winners as the world electrifies over the next decade and beyond.

JG: Right. Well, Mark, I think we will need to wrap up there, but thank you very much for your time.

MU: Pleasure.

JG: Just to recap, as Mark has mentioned, there is still very extreme volatility in markets at the moment. But for this portfolio, our focus is on the operational performance of the companies, and that can offer up extreme returns for long-term, patient investors.

As ever, stock selection matters and competition for capital in this portfolio remains very intense. And so, as we've just heard, the team is very much out on the road, kicking the tyres and trying to find those new sources of growth from here.

Thanks very much for watching, and we hope you can join us next time.

Long Term Global Growth

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

	2019	2020	2021	2022	2023
Long Term Global Growth Composite	-6.4	102.9	25.9	-48.8	19.9
MSCI ACWI	2.0	11.0	28.0	-20.3	21.4

Annualised returns to 30 September 2023 (net%)

	1 year	5 years	10 years
Long Term Global Growth Composite	19.9	8.0	12.9
MSCI ACWI	21.4	7.0	8.1

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.

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