Baillie Gifford™

International Growth
Q1 investment update

April 2025

Investment manager Tom Coutts and investment specialist Katie Muir give an update on the International Growth Strategy for Q1 2025.

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Katie Muir (KM): Hello and welcome to this International Growth Strategy April update. I'm Katie Muir and I'm an investment specialist for the Strategy and I'm joined today by Tom Coutts who is an investment manager and Chair of the Portfolio Construction Group.

Today we're going to provide an update and comment on [the] recent market environment. We'll talk about some of the recent performance drivers at a stock level and also some of the areas we've been uncovering from our research and new names we've been adding to the portfolio.

But first, as a quick reminder, the International Growth Strategy aims to be long-term owners of exceptional growth companies. We're aiming to find at least 50 or so holdings, and we're really interested in two types of growth. Those companies that can grow very rapidly and are disrupting industries and sectors of the world's economy, and those companies that can compound their growth at exceptional rates of return over long periods of time.

So, Tom, there's been a lot happening in markets the last few months, some big geopolitical moves going on, and that's made markets very nervous. Sentiment has turned quite negative, particularly towards US growth, and also that's been the same outside the US as well. With so much going on at the moment, how do you distinguish what is noise and what is signal?

Tom Coutts (TC): Yeah, it's a great question. It's at the core of our task in many ways. I think there are broadly two ways you try and do it. One is by just having a sense of history and being patient and trying to distil what is today's headline that's irrelevant in years' time from what are really long-lasting profound changes. And I think it's right to say that at the moment, we are seeing a potentially quite profound reshaping of the world economy and world trade system. So we need to take that seriously. There is probably more signal than noise at the moment, or proportionally more.

The second aspect is then talking to companies. I mean, they often know best. We've invested in companies that have been around through trade wars in the past, through actual wars in the past. And we're really looking for businesses that, to a large extent, control their own destiny. So many of them will be affected in the short term by the volatility of trade wars or economic growth and weakness. But over the long term, they should thrive regardless of what's happening in the world outside and the world around them. So it's about the adaptability and flexibility of great growth companies, their ability to respond to changing market environments. So that's the second thing, and that's really quite important.

KM: Yeah. And I think we'll go on to talk [about], there's quite a few examples of that in the portfolio of companies who've been able to do that. So we continue to keep our long-term perspective, focus on the fundamentals. That's really the analytical side of things. But what about from a behavioural perspective as an investor, given everything that's happening?

TC: Yeah, I think you're right. Behavioural stuff is really important. I'll make up a number. 80 per cent of investment behaviour is psychological. And there are three layers to that that really matter.

One is having patient, long-term clients. We feel very fortunate in that regard. We know we've tested their patience in the last few years, but we've got a fantastic base of clients, which we never take for granted. The second is our firm. We've been around for 117 years. I haven't been around that long, but it's up to those of us who have been around for 20 or 30 years to really show leadership at times like this and to remain calm and to remain patient and to not overreact to short-term conditions and noise. And then the third aspect is, again, companies investing in businesses that themselves take a long-term view in how they manage their affairs.

We were talking to L'Oreal three or four weeks ago, and we asked them why they'd had such good operational performance in the last few years. And it really all comes back to one decision taken in March 2020, when they decided to keep investing in their business, in product, but they also invested 500 million euros in supporting their customers, beauty salons, hair salons, that sort of thing, supporting their working capital needs in the early stages of Covid. And that was a critical decision,because it allowed them to keep investing, it gave them the platform to grow over the following few years and they've hugely out-competed their competitors as a result of one decision taken at a difficult time when there were easier alternatives but they did the right thing for the long-term health of the business. And I think that's the mental model we need to have both as business owners ourselves and in how we look for companies to respond.

KM: Yeah, and we've seen L'Oreal do things like that throughout its history in terms of deciding to invest in digital or go into China in a big way.

TC: Yeah, exactly. Some decisions really matter.

KM: Yeah. Okay, so turning to performance, it's obviously been a difficult period for the strategy more recently. We maintain our focus on the long term and we believe that [returns] will be driven by the underlying operational performance of individual holdings. But maybe just to comment on a couple of companies where their share prices have been weaker more recently, and also those that have maybe contributed more positively?

TC: Yes, of course. So on the weaker side, a couple of names. One would be WiseTech, which is an Australian logistics software business. They've had some governance issues. I think we're quite balanced on that. I'm personally quite close to the company and more enthusiastic, I'd be tempted to add. Some of my colleagues are being a bit more cautious on that, which I think is right. So, we're working through that discussion. As with any governance issue, we've engaged with the company a lot over the last six months or so as this has gone on.

Second area is a bit broader;some of our semiconductor names, the likes of ASML, have been a bit weak in the last few months. I tend to see that as just noise more than signal. It's a volatile industry in terms of its revenues and share prices are much more volatile. So, you do get these cycles in semiconductor names. We remain pretty optimistic about our position there. They've got great long-term growth prospects.

And then we have, as you always do, the odd real disappointment. And in this case, Genmab, I think, the Danish biotech business, is in that camp. Now, they'd had great success with their multiple myeloma product, which came to the market maybe eight or ten years ago. We're now getting towards the end of that. Probably by the end of this decade, it'll be off patent. And it's about what next. So, we more or less halved the holding six months or so ago. And we're now thinking about what the right position size is for Genmab from here. So those are all on the weaker side. I think with the exception of Genmab, we remain pretty happy with those.

On the positive side, many of our Chinese names have done very well. Pinduoduo [PDD], Wuxi Bio, BYD, the Chinese EV company, which is now making a million cars a quarter, bigger than Tesla, growing much faster. Their sales outside China grew by almost 90 per cent in the most recent period. So, they're going great guns. Some of our emerging market e-commerce companies have done really well. And then Spotify has done brilliantly;it's continued to grow its business while taking out a lot of costs, which is quite a good trick to pull off if you can manage it. And that's been reflected in good operational and now share price performance. So that's maybe a handful of names on both sides.

KM: And I know Spotify was one of those companies that, you know, it had to make one of those tough decisions, , back in 2021, 22. And they've continued to grow.

TC: Exactly,they seem to have done a great job of getting that balance right between taking cost out and reinvesting in the business, which is what really matters for long-term performance.

KM: Excellent. Thanks, Tom. And maybe turning to the research side of things. I know we've had quite a full research pipeline. There's been lots of new ideas being discussed within the team. But maybe talk about some of the newer buys for the portfolio.

TC: Yeah, and it's the research discussions that I think really get us excited. That's what gets our juices going, finding great growth companies. We've had a few new names come in. So we've been, as you say, broadening the funnel for a while.

The likes of Galderma, which is a Swiss dermatology business we've taken a holding in and topped up a little bit. I think that's a terrific business. Disco, which is a Japanese semiconductor business, again, I think pretty well placed over the next 10 years. Volatile in the short term, of course. And then on the sales side, we funded those with SMC, which is very high quality, Japanese industrial, but I don't think the growth prospects are sufficient. And we've taken money out of Spotify, which, as I mentioned, has been doing quite well. And one or two smaller things as well.

KM: Great. And overall, turnover has been a little bit higher over the past 12 months or so than maybe our history. But, on average, we'd expect to be between 10 and 20 per cent.

TC: Exactly. We've been at the upper end of that range, as you say, in the last year or so. In a sub-context, we'd been deliberately patient, I guess, coming out of the pandemic period [we have been] waiting to see how some of the businesses like Spotify performed coming out of that period. We've sold some, we've added to others, we've trimmed some now after they've done well, and we've gone through this process of broadening the funnel. Turnover has been a bit elevated, but I think you should expect to see it back in the 10-20 per cent range from here on.

KM: Excellent. Great, thanks. And just briefly, any final thoughts to leave us with in terms of the international opportunity set or positioning?

TC: Yeah, I mean we remain pretty excited about the opportunity set ahead of us. It's important in times like this when there is share price turmoil, we're recording this the day after Liberation Day when it was quite exciting yesterday in markets.

But it's important to remain focused on what really matters, and that's remaining true to what we're trying to achieve for clients. It's remaining focused on the operational performance and growth potential of the companies we invest in, and thinking about that potential relative to the price we are being asked to pay. Those are the key factors. And then managing our affairs internally so we're able to give ourselves the best chance of doing a good job for clients.

But for all the concerns about trade wars, 85 per cent of global trade is outside the US. So we feel as an international growth manager, we should be really quite well placed and excited about the opportunities ahead of us. The road will be bumpy, I'm sure, but I think it'll be a profitable one for us and our clients.

KM: Excellent. Thanks, Tom. And thanks for joining us today. We hope you've enjoyed this update and look forward to updating you again soon. Thanks.

International Growth

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

	2021	2022	2023	2024	2025
International Growth Composite	84.6	-27.2	-7.8	5.7	1.9
MSCI ACWI ex US Index*	50.0	-1.0	-4.6	13.8	6.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
International Growth Composite	1.9	5.9	5.9
MSCI ACWI ex US Index*	6.6	11.5	5.5

*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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