Baillie Gifford

Your capital is at risk. Past performance is not a guide to future returns. The following update is based on a representative portfolio. As such, stock examples may not be held in every client portfolio, and performance may differ.

Beatrice Faleri: 2025 has been a challenging year.

The International Alpha strategy underperformed in the fourth quarter. For the full year, the strategy actually delivered more than twice its long-term rate of return in absolute terms. But against an index that posted the best yearly number in almost 15 years, we fell behind.

Sentiment and style played a key role in market performance in Q4, continuing on the same trend that we have seen all year. Value stocks in international markets had their strongest year in decades, whereas the quality index suffered its largest drawdown versus the core index since the late 1990s. Among the top performing sectors of the MSCI ACWI ex-US this year, we find European and UK financials, Japanese utilities, and Emerging Markets materials companies.

At the same time, the market sharply derated quality companies—often, we think, with little justification. We saw numerous of our high-quality holdings report strong results only to see their valuation fall.

So, while this has been frustrating, the lion's share of underperformance came from style headwinds. Our long-standing quality growth tilt has been exceptionally out of favour this year.

But in fact, when we look at portfolio fundamentals, there's a lot to be encouraged by. Three-quarters of your holdings are expected to deliver double-digit earnings growth over the next three years. The aggregate quality and growth metrics of the portfolio have improved against both the index and the portfolio's own history, and the premium to the index falling to its lowest in almost a decade.

But let's look at the quarter in detail, starting with detractors and contributors.

Among the largest detractors were MercadoLibre and Tencent Music Entertainment. MercadoLibre has been weak for a few quarters – but let's not forget, it still remains one of the top performing stocks of the strategy since inception. This poor short-term performance reflects a tug-of-war between accelerating revenue growth and market concerns about margin pressure as MercadoLibre defends market share in Brazil.

Tencent Music Entertainment corrected after strong gains earlier in the year, with the market worried about a mix shift toward lower-margin concert and merchandise revenues. In both cases, we remain confident in those companies' growth runway and future execution.

On the positive side, Samsung Electronics was a notable contributor after successfully passing the HBM3E qualification with Nvidia— this is a critical milestone for the company. Its memory division reported record quarterly sales as the memory cycle turned.

Danish freight forwarder DSV also bounced back strongly this quarter. It has been a tough year for global trade, but news that the DB Shenker acquisition is progressing faster than expected has really bolstered sentiment.

In the portfolio, trading activity was high this quarter, but we believe the changes that we are making are leaving us with a better diversified portfolio that is resilient to future market volatility and benefits from a broader range of return drivers.

We made four new purchases, starting with Salmar, a leading salmon farmer, benefiting from growing demand for healthy protein globally. We also continued to explore opportunities in semiconductors, adding to Tokyo Electron - with its technology-agnostic portfolio of semiconductor equipment, and MediaTek, which offers underappreciated AI-driven growth as well as a steady cash flow from its smartphone chips business. And finally, we sought exposure to copper's structural growth through Lundin Mining.

We also exited four positions where conviction weakened: B&M due to operational challenges, EXOR where changes to the underlying portfolio have been less successful than expected, Amadeus as airline direct distribution and AI-driven booking erode its competitive position, and Dassault Systèmes where the Medidata division continues to drag on performance.

While performance is not what we would hope, we aren’t standing still.

At the beginning of 2025, we set ourselves three objectives: broaden our idea generation, embed better valuation discipline, and integrate AI tools into our process to make us better at all the above.

On broadening ideas, I hope I’ve convinced you that we've had some success. Beyond the diverse new ideas we added to the portfolio this quarter, we also purchased two well-run banking franchises with long-term family ownership in Q3, and we continue to look for well-run financial businesses.

On valuation discipline, the portfolio's valuation profile has normalised. Several stocks purchased this year trade at or below market multiples but bring significant growth. And we've also walked away from investments on valuation grounds.

On AI integration, our R&D team has developed tools that help us track company results against our investment thesis, automate background research to move faster, and get notified of developments that could trigger purchases - leaving us with more time for in-depth, value-added research.

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Beyond our process, AI is of course an important investment theme, and it will continue to matter in 2026.

The market has been quick to sort companies into AI "winners" and "losers"—too quick, in our view.

We hold enablers like TSMC and Samsung, and exploiters like Spotify and Shopify that are successfully monetising AI, and are being rightly recognised as winners. But we also hold many vertical software companies the market has labelled as ‘losers’ that continue to deliver strong operational performance.

This is a kind of situation where thinking differently and being patient really matters, so we are focusing much of our research to understand where the opportunities could be in this area.

Long-termism and bottom-up stock picking are, after all, the foundations of our philosophy and process, and for good reasons. We know that the top quintile of growth companies consistently outperforms over the long run. This intuition is what helped us achieve an almost perfect record of rolling five-year period outperformance since inception, up until 2021.

Much has happened since, from a sharp interest rate shock, to geopolitical tensions and conflicts, to the rise of AI. Market sentiment has turned against quality, growth, but we still believe that fundamentals will determine share prices over the long term. We are moving to the next quarter clear eyed, knowing that our process is solid, the portfolio fundamentals are strong, and we're fully committed to staying the course.

Thank you for your continued support.

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International Alpha

Annual past performance to 31 December each year (%)

	2021	2022	2023	2024	2025
International Alpha Composite (gross)	0.1	-28.4	19.8	5.9	20.2
International Alpha Composite (net)	-0.5	-28.9	19.0	5.3	19.5
MSCI ACWI ex US Index	8.3	-15.6	16.2	6.1	33.1

Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years
International Alpha Composite (gross)	20.2	1.8	8.4
International Alpha Composite (net)	19.5	1.2	7.7
MSCI ACWI ex US Index	33.1	8.5	8.9

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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