

Discovery Q2 investment update

July 2025

Investment manager Douglas Brodie gives an update on the Global Discovery and Worldwide Discovery strategies covering Q2 2025.

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

Douglas Brodie: Hello I'm Douglas Brodie, one of the Investment managers on the Discovery Strategies here at Baillie Gifford.

Even by modern standards, Q2 has been a whirlwind of news and noise. From the hiatus of "Liberation Day" to the ensuing tit-for-tat tariff battles and an escalating conflict in the Middle East, it's been a highly charged backdrop in which markets have had to digest a lot.

Against that turbulence, it's pleasing to see the Discovery portfolios generate positive returns, in both sterling and dollars, over the past quarter. Some of that likely reflects a rebound from fears that were baked in earlier in the year as markets digested the US administration's protectionist policies and retrograde actions. But we also suspect it reflects an investing environment that is beginning to gain a degree of comfort with the new paradigm.

One that's defined by simmering geopolitical tensions and a recasting of alliances, alongside a craving for better self-resilience, both at the corporate level through supply chain security, but also at the Sovereign level, with significantly dialled-up importance being placed on access to key technologies and defence capabilities.

That's a less harmonious backdrop for sure. But in many ways, it represents an emerging clarity that investors increasingly accept as the new normal, even if it comes with a host of embedded unknowns. We think this is important on two counts. Firstly, it increasingly allows investors to project forwards, reversing the trend of markedly compressed investment time horizons that started with the inflation and interest rates shock. Secondly, and we suspect more importantly, it provides a degree of clarity as to which areas of structural change, be it technologies, industries or company-led change, will be positioned to really thrive in such an environment.

Now we fully recognise that Discovery's performance over the last few years has been poor and that clients have endured significant drawdowns as economic and stock market cycles really hurt performance. Through that difficult period, we have resolutely stuck to our mission of identifying

the companies at the leading edge of change, those companies innovating and using technologies to create vast growth opportunities.

We are deeply excited about where these companies can go over the coming years. For companies like Alnylam and Axon, the key drivers of success sit outside of broader macro challenges, being technology and business model-led. For others, such as rare earth miner MP Materials and drone manufacturer AeroVironment, the growth opportunities carry a clear and direct link to the new paradigm given their importance to resilience/reshoring and defence, respectively.

For many of these names, the fundamental progress being made is now resonating with robust gains as shareholder attention returns to areas of the market that it's been all too willing to neglect recently. In that regard, AeroVironment, Axon and Alnylam were the largest contributors to performance over the quarter, all companies where we have shared the attractions in previous updates.

Detractors to performance included ophthalmic lens company RxSight and Sweetgreen, the healthy and salad-skewed restaurant chain. Not obviously areas where you would expect a linkage, but we think the combined effects of weak consumer discretionary spend alongside some competitive challenges are really at play in both cases, and we're watching progress closely.

Despite the political hiatus, the current three-year forward sales and earnings estimates remain robust at roughly double that of the benchmark. And the frontiers on which that growth is occurring are as dynamic as we recall them, and we're genuinely excited by the portfolio's prospects.

Discovery (representing Global Discovery and Worldwide Discovery strategies)

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
Worldwide Discovery Composite* (gross)	44.4	-52.8	1.2	-9.3	19.1
Worldwide Discovery Composite (net)	43.3	-53.1	0.4	-10.0	18.2
MSCI ACWI Small Cap Index	54.7	-21.5	13.6	11.2	14.1

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years	Since inception
Worldwide Discovery Composite (gross)	19.1	-5.7	-	5.7
Worldwide Discovery Composite (net)	18.2	-6.4	-	4.9
MSCI ACWI Small Cap Index	14.1	11.8	-	8.0

*Inception date: 30 June 2017.

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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