Baillie Gifford™

US Equity Growth
Q2 investment update

July 2024

Investment manager Kirsty Gibson and investment specialist Patrick Stapleton give an update on the US Equity Growth Strategy covering Q2 2024.

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

Patrick Stapleton (PS): Hello and welcome to this US Equity Growth investment update.

As a reminder, the US Equity Growth strategy is a concentrated portfolio of 30 to 50 of some of what we believe to be the United States' most exceptional growth companies. We look for long-term growth, and that's because we believe that's what drives share price returns over the long term.

Now, today, we're going to cover investment performance, we're going to cover positioning, and we're going to cover some of the areas that are driving the investment team's enthusiasms at the moment. My name is Patrick Stapleton, an investment specialist here at Baillie Gifford, and I'm joined today by one of the strategy's four decision makers, Kirsty Gibson. Hello, Kirsty.

Kirsty Gibson (KG): Hi, Patrick.

PS: So, Kirsty, we saw very strong performance in 2023. That's carried on into the first half of this year as well for the strategy, albeit lagging a more strongly performing market, and we've seen some volatility in individual names. How are we thinking about all of this?

KG: I think it's fair to say it's been a volatile period. And interestingly, if you were to look at the S&P as a whole, its performance has been quite serene over that period of time. But it's actually the most volatile period underneath that that we've experienced in the past 25 years.

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So, there are individual stocks that have been much more volatile, even though the S&P has been serenely cruising along. It's also been an environment where the market is quite narrow. So, the number of really high performing businesses has been smaller than we've experienced in the past.

We don't see a lot of evidence to believe that this is a structural change. And there are a couple of reasons for that. Firstly, we continue to believe that the US will remain the innovation ecosystem of the world. This is a country where people come to when they want to start a business.

And I think the second reason is that the fundamentals of the companies in the portfolio that we invest in, they're really shining through. We're really seeing progress in what the companies are doing.

PS: OK, so maybe we can look at some examples. What would be some of those?

PS: Absolutely. So in the last quarter, Netflix delivered 18 per cent revenue growth. It saw its subscriber numbers up by 16 per cent. And the company is on track to deliver a 25 per cent operating margin for the full year.

Pinterest delivered 23 per cent revenue growth for a total revenue for the quarter of $740m. That's the fastest that we've seen that company growing since 2021. They saw the seventh consecutive quarter of their user base growing. And they also delivered free cash flow of over $340m in that period.

And then we have DoorDash. DoorDash is a food delivery company in the US. It does food delivery from restaurants, but also from grocery stores and convenience stores. They saw their revenue also grow by 23 per cent year over year, they saw their losses narrow, and they delivered nearly 500 million of free cash flow during the quarter.

PS: Very good. And so earlier we mentioned volatility. How has that influenced adding new ideas to the portfolio?

KG: I think, in all honesty, the opportunity set has never felt broader. We are looking, as you mentioned earlier, with this portfolio, we are looking to invest in the most exceptional growth businesses that we can over the next decade plus.

We're seeing really solid opportunities in the companies that are really leveraging their scale to their advantage. So, the Amazons, the Netflixes, the NVIDIAs, the Metas of this world. We're also seeing our capital allocator companies really bringing their playbooks to bear.

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So, we own a business called Watsco. Watsco is an HVAC distributor in the US. Over the past five years, they have continued to improve their margin profile. And they've been also looking for strategic opportunities to make acquisitions to continue the roll up of this very fragmented industry.

And CoStar, which is a commercial and residential property business in the US, they've been counter cyclically investing their more than $5bn cash pile.

We've also seen some really exciting opportunities in the growthier names. So, we've taken a holding in Block, which is a payments company in the US. We've taken a holding in Aurora Innovation, which is a self-driving truck business. And we've most recently participated in the IPO of Tempus, which is a testing healthcare company.

PS: Okay, that's helpful. Now, you've talked about a widening of opportunity in the market right now. You've also talked about how the performance of the market has been driven by a relatively narrow band of names. So why is breadth such an appealing prospect for US growth investors right now?

KG: I think the market's been very focused on names like NVIDIA. We have a large holding in NVIDIA, and we remain excited about its growth opportunities. But I think we can't close our eyes to the other businesses that exist in the world right now, and it's really interesting to see that we actually have a company in the portfolio that has outperformed NVIDIA year to date.

And that is a salad chain called Sweetgreen. Now, Sweetgreen has around about 220 stores in the US. So, the opportunity for Sweetgreen to grow is large. To put it into some perspective, McDonald's has about 1200 stores in Texas alone. So there's plenty of opportunity for Sweetgreen to deliver a traditional restaurant rollout story.

We also are really interested in the fact that the company has an offering called the Infinite Kitchen. This is a robotic salad assembly product, and they are rolling that out into their new restaurants that they're opening, but also potentially retrofitting it into existing restaurants.

And the opportunity there is the fact that this saves on labor. And by saving on labor, it allows restaurant-level margins - so those are the margins that the individual restaurants are generating. This excludes any of those centralized costs - they are actually industry leading when the Infinite Kitchen is fitted or installed.

So we can see lots of potential for this to be a really exciting growth opportunity going forward. And I think that just goes to show that, you know, exceptional growth businesses do come in lots of different shapes and forms.

PS: That's fantastic. And I think it might surprise some to learn how broad the opportunity set is in the US right now. Is that what makes it exciting to be a US growth investor?

KG: I think so. I think there are three other reasons. I think one is that, you know, it is volatile at the moment, but volatility makes this a stock picker's market. And we can see that from the example of Sweetgreen and NVIDIA that I mentioned there.

I think the second reason is that we continue to believe that the US will remain the innovation capital of the world and that great businesses will be established and grow from there. And finally, we can see in the fundamentals of our businesses just how much strength there is.

PS: That's fantastic. Great place to leave it. Thanks very much, Kirsty. So I hope this highlights just how excited we are by the current environment for US growth investing. Join us next time. Thank you very much.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
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US Equity Growth

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

	2020	2021	2022	2023	2024
American Equities Composite	49.9	79.8	-61.7	31.2	19.2
S&P 500 Index	7.5	40.8	-10.6	19.6	24.6

Annualised returns to 30 June 2024 (net%)

	1 year	5 years	10 years
American Equities Composite	19.2	10.0	13.4
S&P 500 Index	24.6	15.0	12.9

Source: Baillie Gifford & Co and S&P 500. USD. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

Past performance is not a guide to future returns.

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