Baillie Gifford™

US Equity Growth Q2 investment update

July 2025

Investment manager Gary Robinson gives an update on the US Equity Growth Strategy covering Q2 2025.

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

Gary Robinson: Welcome to the Q2 investment update for the US Equity Growth Strategy. I'm Gary Robinson, one of the four decision-makers on this strategy.

The US market delivered a strong positive outcome last quarter, and your portfolio did even better. If that's all you knew, you'd be forgiven for thinking it was a relatively uneventful period. But these good outcomes mask an underlying picture of volatility, which was sparked by Trump's Liberation Day tariffs and further fuelled by rising geopolitical tensions in the Middle East.

We are long-term bottom-up investors. Our edge is in analysing businesses, not in predicting the nature and short-term consequences of economic and geopolitical events. We chose to not act in the Liberation Day sell-off in early April, as times of panic are rarely the best times to make rational, long-term orientated decisions, and that discipline paid off when markets rebounded.

Whilst we are not trying to predict short-term outcomes, we are conscious of the overall shape of the portfolio. We want to retain a degree of balance to reduce the probability of the sorts of extreme outcomes that we saw before, during and post-Covid. To that end, we have taken note of the large percentage of the portfolio in names dependent on consumer spending, and reduced Shopify, the provider of software to online retailers, and DoorDash, the food delivery company, to temper this exposure.

Geopolitical risks continue to dominate the headlines, but we are more interested in the exciting technological progress that's underway. This is more consequential. The capabilities of AI continue to accelerate and have exceeded our most optimistic expectations of two years ago.

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It's surprising how little attention this is getting. The passing of the Turing Test in April barely generated a peep of coverage in the mass media. For decades, was seen as a critical milestone in the march towards super intelligence, but good news doesn't make for good headlines.

AI is starting to change the world. We're already starting to see this impacting on your companies. It's an incredibly exciting time for growth investing and very few people seem to be paying attention, and that's the opportunity.

I mentioned good recent performance. Most pleasingly this extends the very strong recovery that began at the end of 2022. Over that time, the strategy is ahead, of both the S&P 500 and the Russell Growth indices. It's worth pointing out that performance has been driven by a much broader set of companies rather than the narrowly driven returns of the concentrated benchmarks.

Three names stood out this quarter: Cloudflare, Duolingo and Roblox.

Internet infrastructure company Cloudflare secured major new enterprise clients and its largest-ever contract centred around its Workers developer platform. The company stands to be a key beneficiary of the build out of AI. It's distributed data centres have cost and latency benefits for companies who wish to run their AI workloads close to end users.

Language and education app Duolingo continues to perform well. It is one of a number of examples in the portfolio of companies which have successfully incorporated AI into their products. It's AI-powered, higher-priced subscription tier offers users the ability to have spontaneous conversations with a cartoon character in foreign languages. New tools such as these are helping Duolingo attract more advanced language learners onto its platform, opening up new avenues for growth.

Metaverse gaming giant Roblox continues to deliver excellent growth, with nearly 100 million daily active users. Its creator economy remains vibrant, and platform improvements support its evolution into a broader immersive experience.

On the other side, NVIDIA, Sweetgreen, and Watsco detracted from performance.

NVIDIA remains a vital player in AI infrastructure, but given the stock's recent strength, we've trimmed our position to fund earlier-stage opportunities. Long-term, we still see meaningful upside as AI adoption grows.

We increased our holding in Sweetgreen, where store traffic remains strong despite recent tariff concerns and macro pressure. Their labour-saving AI-powered robotic Infinite Kitchen model is showing promise in scaling nationally while reducing labour intensity.

Watsco, the heating, ventilation and AC distributor, underperformed amid softer short-term demand. However, we believe its scale and technological edge still make for a compelling investment in a fragmented sector.

We made two significant new buys this quarter: AppLovin and Circle Internet.

AppLovin runs an advertising network that allows advertisers to place ads on mobile games. The company benefits from a powerful flywheel effect where its scale results in better data collection, which results in better ad targeting, which attracts more advertisers, which generates more data, and so on. The company was an early adopter of AI, which helped to further fuel this flywheel effect. We have been impressed by the founder and his shrewd capital allocation and operational discipline. Indeed, despite being fast growing, AppLovin is one of the most profitable businesses we've ever seen.

We also participated in the IPO of Circle Internet, the issuer of USDC, a regulated stablecoin. Circle is helping to lay the financial plumbing enabling the shift from traditional to digital transactions. We think there is a chance this could become the foundational layer for the next generation of financial infrastructure. Unusually, the shares were very strong after the IPO and we felt it was prudent to take some money off the table and reduce the holding modestly.

Our job is clear: to identify and own exceptional growth companies. Those with ambitious cultures, meaningful long-term missions, and the potential to outgrow market expectations. Our five-year-plus horizon gives us the flexibility to look past short-term volatility and invest with real conviction.

We're living through an extraordinary period of technological advancement. The companies we invest in for you are building better products, serving customers in new ways, and growing more efficiently. Our portfolio companies are demonstrating resilience – they're adapting, scaling, and generating stronger cash flows and improved margins. And that makes us optimistic.

As ever, thank you for your continued trust and partnership.

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US Equity Growth

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
US Growth Composite (gross)	80.7	-61.5	31.9	19.8	35.5
US Growth Composite (net)	79.8	-61.7	31.2	19.2	34.9
S&P 500 Index	40.8	-10.6	19.6	24.6	15.2

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years
US Growth Composite (gross)	35.5	8.3	16.9
US Growth Composite (net)	34.9	7.7	16.4
S&P 500 Index	15.2	16.6	13.6

Source: Revolution, S&P. 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.

Past performance is not a guide to future returns.

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