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International Growth Q3 review:

Katie Muir (00:04)

Hi everyone. And welcome to this third quarter update for the International Growth Strategy. I'm Katie Muir. I'm a Portfolio Manager and Investment Specialist on the strategy. I am joined by Katie Shepardson, who's our Client Relationship Director overseeing our intermediary relationships across the West Coast. But unfortunately, Katie is having some technical difficulties at the moment. So, I will kick off and hopefully Katie can maybe join us at some point.

But before we dive in, some quick housekeeping up front. So, the information discussed today is specific to the international growth strategy and may differ slightly from the vehicle you're invested in. And to provide a quick update on AUM, as of the quarter end, Baillie Gifford oversees around \$290 billion on behalf of our clients globally, and for the International Growth strategy, assets sit at around \$48 billion.

At a high level, International Growth seeks to identify and own a diverse collection of exceptional growth companies. So typically, about 50 or 60 holdings, and for five years or longer. The goal, as ever, is simple, but I think powerful. We're trying to capture the outsized returns created by a small number of transformative or transformational growth businesses.

So maybe we'll kick off with the investment backdrop in terms of what's been driving markets around the world recently. So global and international equity markets rose again in the past quarter. But I think perhaps what's a bit more interesting to look at is the drivers of equity markets outside the US for the year so far. What we've seen is while tech, US tech and growth as a style has continued to narrowly lead the US markets and global markets too, as US is more than about 70 per cent of the global index. International markets have actually been a different story. So, if you look at by industries, for example, the leading sectors year to date for markets outside the US are European banks, UK telecoms and UK banks. And the pattern is similar across Japan and Europe as well. So those three sectors are all up between 50 and 70 per cent in US dollar terms, and then there's a long tail of industries beyond that.

So quite different drivers to what you've seen in the US, where it's all been about tech and about excitement over AI. In the third quarter, emerging markets, particularly in Asia, performed very strongly, also on policy easing in China, but also strong demand in technology supply chains.

So similar theme there in emerging markets as in the US in terms of enthusiasm for AI. But that is now also benefiting Chinese tech and Asian semiconductor supply chain names. So overall, International Growth sort of style indices, if you look at the different style indices, have underperformed the broader market over the past quarter, year to date. And that's also true over 12 months, three years, and five years. So again, quite different to what's been driving the US market over the same periods. And that's quite a difficult backdrop for performance for long-term International Growth investors like us. But that divergence also creates opportunities for us.

So, in terms of how we've been thinking about this, our focus remains on the enduring structural drivers that we believe transcend those cycles of style preference or indeed region performance. So, we're not trying to time certain styles or short-term regional performance. We're bottom-up, long-term growth investors, so we're focused on identifying exceptional companies on the right side of change and giving them time to realise their potential. And that allows us to largely look past any short-term noise and share prices and through volatility and stay aligned with long-term compounding opportunities. So how did this strategy fare in this environment? So, the portfolio delivered modest gains in absolute terms during the quarter but lagged the broader international benchmark. For the year to date, we've generated strong returns on an absolute basis. But again, we're a bit behind a very strong international market rally, which has largely been value-driven. We've had no exposure to the industries I mentioned earlier that have driven the bulk of international market returns. And that's therefore been a headwind to performance when you look at attribution. And, you know, frankly, we don't think banks or telecoms, you know, offer a sustained or structural growth opportunity. Which is why we don't hold any of them.

But over the past year or so, we have looked at a few defence companies in Europe. That's been another area of strength for the broader international universe. But so far, none have met our high bar for inclusion in the portfolio.

Clearly, periods of underperformance aren't welcomed. However, these phases are part and parcel of long-term growth investing. What we've observed over time is that the best companies, particularly those that go on to be the biggest long-term wealth creators, rarely move in a straight line. And importantly, when I look at portfolio fundamentals over the past year, sales and earnings growth, these remain well ahead of the index and the broader market. So, what we see is a disconnect, really, that's going on between the fundamentals of the portfolio and the underlying businesses and share prices.

And importantly, the long-term drivers also remain intact. You know, our holdings are continuing to reinvest heavily. They're continuing to innovate and extend their competitive advantages. And that's the foundation for compounding over the long term.

So maybe to go into that a little bit in more depth, you know, in terms of the holdings that stood out during the quarter, you know, for better or for worse. So maybe to look at sort of areas on the positive first, more recently. So, investment, our holdings in semiconductor companies, those that are really benefiting from the surge in demand for AI was definitely another source of strength this quarter.

A second area was the portfolio's health care stocks, so innovative biotech holdings such as Genmab and ArgenX, plus newer holding Galderma, which is a specialist dermatology business, also stood out in terms of contribution to performance. And finally, Shopify, the sort of infrastructure for getting merchants to sell online, that also has been a very strong contributor more recently.

But maybe to hone in on Advantest and ASML in a bit more detail, which are two of the portfolio's semiconductor holdings. Both of those were standout contributors to performance more recently. Advantest, we first invested in June last year, so it's a relatively new holding in this portfolio. It's a global leader in semiconductor testing equipment. It's a Japanese company

listed in Japan, but it's very much a global business. And as chips become even more powerful, more complex, and AI workloads intensify testing at every stage of the process of manufacturing these chips becomes critical and demand for advanced systems has surged and the market is beginning to recognise that strength, you know, with the shares more than doubling over the past year.

And then also on the theme of semiconductors, ASML, which has actually been held in the portfolio for more than a decade, so definitely not a new addition to the portfolio. ASML continues to dominate advanced lithography, essentially holding a monopoly in EUV technology, which is extreme ultraviolet technology, which is used to etch patterns onto even smaller chips or wafers. As AI drives customers towards ever more advanced chips, ASML is remaining indispensable. Both these companies, Advantest, ASML, sit at the heart of what we believe is the most valuable supply chain in the world, semiconductors. Chips are the foundation of the global economy and our increasingly digital world.

So that's some of the positives in the most recent quarter. On the downside, I'll again kind of group these in a couple of areas. So we had, you know, first, some of our digital platform holdings had a period of weaker share price performance. Spotify, Adyen, MercadoLibre all fell following their results. Which were fine from our perspective. Another area of weakness was logistics, some of the logistics names on more cautious outlook for the macro economy and global trade, so names like DSV and WiseTech.

And finally, our Chinese holdings in the portfolio performed strongly in absolute terms, but they didn't quite keep pace with the Chinese market rally. And we had a bit of mixed share price performance from holdings there.

Again, to provide a bit more detail on some of those names, turning to Adyen, Spotify, and MercadoLibre, these digital platforms were notable detractors. Adyen issued some cautious guidance on US trade rules, which dampened sentiment. But the fundamentals there remain robust, strong cash generation, loyal customers, and a unified software stack that we think will underpin long term growth for this global payments platform. Spotify, you'll have heard me talk about before, it's been a long contributor to performance, one of the top contributors over the past year, three years and five years, and that's because it's continuing to evolve from a user growth story into a growth and monetisation story. It's got 700 million users globally, rising free cash flow, and these are impressive foundations for a business that's still growing strongly today. And we think the market is still catching up on what this platform could become, you know, and it's interesting that Spotify has a similar number of paid subscribers as Netflix, so around 300 million globally, but its market cap is a third of the size of Netflix. So for us, we see that that's the monetisation runway or opportunity that Spotify has.

And then finally, on the downside, MercadoLibre, again, a name we've spoken about a lot. It's another name that we've held in the strategy for more than a decade. Shares were weaker in the last quarter as it announced it's going to be investing in free shipping for its e-commerce platform in Brazil. So, it's lowered the basket size before you qualify for free shipping in Brazil. But how we read that is a little different to the market. We've seen this playbook before. It's a short-term cost for long-term dominance. And this is how and why MercadoLibre commands a 40 per cent market share in Brazil today, while Amazon only has around 8 per cent. It's through this ability to continually invest in the business to cement its dominance. So, its position versus

Amazon today has been driven by more than a decade of investment in its own sophisticated logistics arm. And when we look forward, the growth opportunity for MercadoLibre in both e-commerce and financial services in Latin America remains vast.

So as much as these holdings were weaker in the quarter, you know, they're still among our largest, some of our largest positions in the strategy, and that's really down to our conviction in the long-term investment case and the upside potential that we see from here. So maybe just to move on.

Katie Shepardson (13:57)

I'm so sorry to you all for the tech issues, but I'd love to jump in if that's okay with you, Katie. Perfect. Yes, thank you.

Katie Muir (14:06)

I wasn't sure if that was me echoing or that was you coming back.

Katie Shepardson (14:11)

No this is great. Thank you. So, I did catch your previous chat, and it seems like semiconductors are the strength and digital platforms are continuing to invest in their customer proposition for long term dominance. So that's really quite consistent with what you've said in prior updates. Am I correct?

Katie Muir (14:30)

Yeah, yeah, no, exactly. So, we see that these are enduring growth engines. You know, these companies are optimising their business for long-term value creation rather than short-term profitability. And the market really struggles with that. You know, as most participants in the market are renters of company shares, you know, they're they're looking to hold shares for less than a year on average. So, whereas we take very much a long-term ownership mindset, you know, so we don't expect every quarter to line up perfectly. But we're confident that the businesses we own are structurally advantaged for years to come.

Katie Shepardson (15:07)

Yeah. Wonderful. We did have a question come in about Spotify, specifically the news that the CEO and founder Daniel Ek is stepping back. So, does this have any implications for our investment thesis?

Katie Muir (15:21)

Yeah, sure. No, it's a good question because the quality of management teams, their ability to execute on that growth opportunity in front of them and sustain a company's competitive edge are sort of key things we look for when assessing whether a company has the potential to be an outlier or is an exceptional growth company. So, the news itself was that Daniel Ek, who founded Spotify and has been the CEO, he's actually moving to an executive chairman role. So, he's handing over formally the day-to-day operations to two co-CEOs, Gustav and Alex, who have been with the company about 15 years each.

We last saw Daniel Ek and the team in Stockholm in June, and we also had a call with him on the 1st of October after the news broke. But he's previously described his role to us over the past few years as more of a coach than a player, which we thought was quite interesting and talked about his role as being one where he takes the lead on strategic vision, and capital allocation, and leaving the operational execution to other members of the management team. So really, the announcement was not a surprise in that context. Our understanding is that simply formalising what was already happening. But we do monitor these things closely. His vision and ambition has been a huge part of Spotify's success to date, and what we thought made the company special. Our expectation is that he's still going to be very involved and hands-on. He talked to us about his office being next door to his new co-CEOs. We've got to remember that Spotify has been his third child for 15 years. He still owns a huge stake in the company. As investors, you know, there's still alignment there.

And it's maybe worth noting, you know, MercadoLibre, which I spoke about earlier as well, is actually going through a similar transition at the moment, you know, its founder and CEO Marcos Galperin announced earlier this year, last year, that he's moving to an exec chairman role and handing over the reins to Ariel Szarfsztejn, who, you know, we've actually known since 2018. He joined the company in 2017, and he was really responsible for building the logistics business at Mercado Libre, which has become a huge part of their competitive edge. So, you know, we've got real insight into his conviction to, you know, his ability to execute and also know that Marcos is still going to be there, involved in the background and still very much aligned with us as long-term shareholders too.

Katie Shepardson (18:15)

That's very helpful. Your recent quarterly letter highlighted a couple of themes on innovation, sovereignty and the long game. So could you unpack this a bit for us. Yeah, sure.

Katie Muir (18:27)

Yeah, we wrote about this quarter. The letter really reflects on how innovation and geopolitics are converging, especially when it comes to technology. So, nations from Washington to Beijing now view semiconductors as strategic assets. We've seen the US, on one hand, investing heavily to reshore production. TSMC is building three massive plants in Arizona, which, you know, down the road from UKC, and China is also accelerating efforts to build domestic alternatives.

And, you know, as the author Chris Miller said in his fantastic book, if you haven't read it, called *Chip War*, semiconductors are the new oil. You know, they are critical to the global economy and national security. So, while we don't try to predict policy outcomes, we do pay a lot of attention to the direction of travel. And what we think is, it's clear that compute capability and supply chain resilience are national priorities. And that's why we continue to back the sort of picks and shovels of the digital age, you know, so the enablers of our increasingly digital world.

So companies like TSMC, like ASML, like Advantest, like Disco. And then beyond semiconductors, we've also been revisiting some of our consumer platforms like C and Coupang and deepening research into health care innovation. So, especially in emerging biotech ecosystems like China, which we think are quite exciting.

Katie Shepardson (20:14)

Yeah, absolutely. Maybe let's jump to activity in the portfolio. Has there been any notable transactions this quarter?

Katie Muir (20:22)

Yeah, sure. We initiated a couple of new name positions, first CATL and another Akeso. I guess what these two have in common is we think they exemplify Chinese homegrown innovation. That is or is already, I should say, or has the potential to be world-leading, not just domestic Chinese champions.

So, first, CATL, if you haven't heard of it, it's the world's largest electric vehicle battery producer. It's a global leader in innovation and scale. And it's expanding from supplying batteries for EVs into grid-scale energy storage. So, it's positioning itself at the core of the energy transition.

And then Akeso is a fast-growing Chinese biotech. It's developing a strong pipeline of antibody therapies. And its next-generation lung cancer drug, Ivo, has shown really compelling data going up against current drug leaders such as Merck's Keytruda in lung cancer and has already secured a landmark licensing deal with Summit Therapeutics in the US. So, it's partnered basically to be able to commercialise the drug in the US, Europe and Japan. So outside of China, which is quite exciting. And these investments, we think, broaden the portfolio's exposure to the energy and healthcare revolutions that we believe will define the next decade.

Katie Shepardson (22:07)

Absolutely. So, as we head towards the year end, what's your outlook and what's really exciting the team looking forward?

Katie Muir (22:17)

Yeah. Well, we remain optimistic, of course. Our companies in the portfolio, on average, reinvest around 8 per cent of their sales annually into research and development. And that's more than double the market average. And what that means is that fuels long-term innovation and really underpins the projected portfolio earnings growth. Which is in the mid to high teens over the next few years.

But when I look at the portfolio's positioning, there are three areas of structural growth that I'm particularly excited about. The first is semiconductors and digital infrastructure, which I talked about earlier. It's the companies that are powering AI and transforming industries. Second, it's digital platforms. So, these platforms are reshaping how billions of people around the world connect, shop and spend. So from Shopify, which is enabling merchants to sell online, to C and Coupang, which like MercadoLibre, are digitising commerce in emerging economies.

And then finally, heritage and innovation. So, from iconic brands like Hermes and Ferrari, to companies like Akeso, who are bringing world-class science from emerging markets to global relevance. So we believe our portfolio, which is filled with these scarce, compounding franchises, is not just adjusting to the change that's happening all around the world, but is

actively creating it. These are businesses that are really shaping the future. So looking forward, we think the strategy is exceptionally well positioned for the decade ahead.

Katie Shepardson (24:01)

Thanks, Katie. Fantastic overview. It's great to see you and the team continue to really balance that conviction and patience in equal measure. As many of you know we're going to wrap it up right here. Sorry for the delay in getting started. This webinar is a segment of a series a quarterly series. So, we would be thrilled if you could join one of our three remaining sessions all taking place at 8 a.m. Pacific Time 11 a.m. Eastern.

So tomorrow our emerging markets team will take the stage. Wednesday, Katie will return to speak to our international concentrated growth strategy. And Thursday, our private companies team will wrap up the series. We do truly thank you for your partnership and for taking the time to join us this morning. Please do not hesitate to reach out if you'd like to explore any of the topics in more detail. We very much appreciate your time and look forward to seeing you next quarter. Katie, thanks for the great overview.

Katie Muir (25:03)

Thanks Katie. Thank you all.

International Growth

Annual past performance to 30 September each year (%)

	2021	2022	2023	2024	2025
International Growth Composite (gross)	16.9	-45.7	14.7	29.6	12.8
International Growth Composite (net)	16.2	-46.1	14.1	28.8	12.1
MSCI ACWI ex US Index*	24.4	-24.8	21.0	26.0	17.1

Annualised returns to 30 September 2025 (%)

	1 year	5 years	10 years
International Growth Composite (gross)	12.8	1.2	10.3
International Growth Composite (net)	12.1	0.6	9.7
MSCI ACWI ex US Index	17.1	10.8	8.5

*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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