Baillie Gifford™

# International Concentrated Growth Q4 investment update

January 2024

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**Investment specialists Paul Taylor and Hamish Maxwell give an update on the International Concentrated Growth Strategy covering Q4 2023.**

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**Hamish Maxwell (HM)**: Hello, I'm Hamish Maxwell, an investment specialist on Baillie Giffords International Concentrated Growth Strategy or ICG. ICG is a concentrated portfolio of exceptional international growth companies, 20 to 35 businesses that are right at the heart of driving change in societies and economies. This can be a really valuable way to invest as change, such as in technologies or business models, can rapidly take market share from incumbents.

Now, to earn these returns, we need to back conviction, and this means meaningful position sizes. Hence our high active share around 90 per cent. And it means much longer holding periods than the market, at least 5 to 10 years to allow competitive advantage to become financial success. I'm joined by Paul Taylor.

**Paul Taylor (PT)**: Hello.

**(HM)**: Hello. Who is also an investment specialist on ICG. And in this video, we're going to talk about what the strategy he's been up to in the recent period, Q4 2023. Paul, thanks for joining the chat. There is some evidence recently that the headwinds, that growth has experienced the last couple of years, such as inflation and interest rates, they're starting to ease, but it has been a difficult couple of years performance for us.

So start with that. It's a really broad question. What's on our minds?

**PT**: Sure. So, I mean, what we saw at the end of last year, you're absolutely right. The signs that inflation is easing, there's been rhetoric from developed market central banks that we could be seeing the first interest rate cuts in 2024. When that comes, we don't invest on those along those lines or hold any sway in being able to call those one way or the other.

But we did see a very strong finish to Q4 on the back of these. But taking 2023 more broadly and following, as you say, a tough 2022, we saw a period of essentially stabilization with, positive absolute returns and relative returns just behind the benchmark. But really, the timelines we're thinking along are sort of 5 to 10 years, and over those sorts of more meaningful periods, performance of the strategy remains excellent, although during the period of volatility we have certainly in Q4 taken the opportunity to capitalize on buying what we think are some excellent businesses at some very attractive prices.

**HM**: Yeah, so it's interesting to think about the opportunities that can come in periods of volatility. So have you got an example you'd like to talk about?

**PT**: Yeah, I mean, we've maintained throughout the past couple of years our core belief and philosophy, and what we're looking for to identify is truly exceptional businesses capable of either driving or benefiting from deep trends, multi-generational trends in our economies.

But as I said, we remain open to and trying to be more opportunistic in identifying some of these companies and selling some of the more established companies in the portfolio that are maybe starting to diminish in terms of the growth opportunity on offer and rejuvenating the portfolio for the next 5 to 10 years over this period.

**HM**: So now we are interested in these trends, but we're ultimately a bottom-up strategy. So what are the examples of companies in terms of transactions?

**PT**: Yes, so quite active for us in Q4, turnover does remain low in line with our long-term investment horizon. We've added three new businesses in Q4, one in the health innovation space and two in digital ecommerce.

In health innovations, it's a company called BioNTech. People probably know BioNTech best for its partnership with Pfizer during the Covid pandemic. They were the technology behind Pfizer's Covid vaccine, but they were actually established as a cancer business. They're an mRNA business, and they pivoted to meeting the needs during the pandemic. But now, they are with a much healthier balance sheet, given the COVID windfall revenues that they generated in partnership with Pfizer, going back towards trying to solve a lot of the unmet needs in the cancer space.

So we think the technology is validated now that we've seen what it can do in the COVID arena and looking at valuations now, there's very little to nothing in the price today for potential future success. So we took a new holding there. The two ecommerce businesses I mentioned are both in the emerging market space. There's a company called Coupang in South Korea and PDD, which used to be called Pinduoduo in China.

And both of these look really, really exciting. Coupang in particular is probably a more established business. It's the leading digital retailer in South Korea with the largest market share, but we think they can expand further beyond the current offering and use the address book, if you like, that they've generated to build into other parts of people's lives.

Certainly at the end of last year they were acquiring some assets in the luxury space and they're also expanding geographically into Taiwan. And we think that could be a really interesting opportunity for them. PDD is sort of a two pronged business, so they've got a very strong domestic Chinese exposure serving the less well affluent in society who the likes of Alibaba don't really touch or aren't particularly interested in serving.

But they've also got a very interesting growth opportunity internationally. Some viewers may have heard of a company called Temu, and Temu is a part of PDD. They're now operating in over 40 countries. I've used Temu to order some bits and pieces for our dog, but that could go through a period of really rapid expansion.

And we've invested in both of those businesses along with BioNTech in the fourth quarter. The other side of that, as I mentioned, funding those trades were complete sales of companies that have been in the portfolio for a very long time, but whose growth prospects we think could be diminishing. Alibaba is one of those. So we've completely sold Alibaba with associated and involved with that business for quite some time but also Illumina, we think Illumina's growth prospects could be diminishing.

So as I say, turning the portfolio over to bring new fresh ideas in for the next 5 to 10 years.

**HM**: Yeah. So in terms of the fresh ideas part there then, so I suppose a different company's bottom up individual qualities, but a commonality across those choices is really attractive entry points in terms of share prices for businesses that we've admired for some time and are exposed and align to these long-term structural trends that we're interested in.

**PT**: Yeah, absolutely. I mean, we continue to remain very committed to our core philosophy of exposing the portfolio to the underlying deep structural trends we see that are happening in society. We speak about them quite a lot. I think it's probably worth revisiting and we've been thinking a lot last year and continue to think about opportunities in AI, digitization of our economy, the energy transition, but also health innovation.

And you can see that some of these new purchases fit directly into those categories that we talk about.

**HM**: So we are very excited about these different secular trends, these different growth trends that we're taking the bottom-up view on the individual companies. Is there anything that you could say as a sort of similarity across the board? What is it that our stocks might have in common as different companies?

**PT**: I suppose a unifying theme behind it would be that they are genuinely trying to solve real world problems. So demand for their services can be driven by changes in the economy, changes in society, changes in geopolitics. And so those are really the areas that we're trying to if you really boil it down, tap into.

And what we're seeing at the moment is the world is swinging from a period of abundance to a period of scarcity. Be that in the rising cost of capital, be that in natural resources, we're seeing shifts in geopolitics. There's a huge amount of change going on in the world at the moment and the pace of that change is accelerating. We think that our philosophy of long-term growth investing is ideally suited to capitalize on those changes and also that a lot of legacy economy businesses, those that aren't represented in the portfolio, will be disrupted by these new technologies as they come through. So we're super excited about what the future holds.

**HM**: Okay. Well, thank you very much for offering that overview of what the team in the strategy has been up to in the recent quarter, which is Q4 2023. We appreciate your time. Our viewers as well, and we hope this has been a useful insight into our recent work. If you've got any more questions about the strategy, our portfolio, performance and the research pipeline, please do reach out to your client contacts. And Paul and I will be happy to assist in any way we can. Thank you very much.

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## International Concentrated Growth

### Annual past performance to 31 December each year (net%)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| International Concentrated Growth Composite | 44.9 | 90.7 | -0.8 | -39.9 | 14.4 |
| MSCI ACWI ex US Index | 22.1 | 11.1 | 8.3 | -15.6 | 16.2 |

### Annualised returns to 31 December 2023 (net%)

| | 1 year | 5 years | 10 years |
|---|---|---|---|
| International Concentrated Growth Composite | 14.4 | 13.5 | 10.8 |
| MSCI ACWI ex US Index | 16.2 | 7.6 | 4.3 |

Source: Baillie Gifford & Co and MSCI. 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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