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**Ben Drury:** It would be no surprise if you, as an investor, are feeling somewhat conflicted as we enter 2026. On the one hand, global indices have just delivered a third straight year of double-digit US dollar returns, a cumulative gain of over 75 per cent and an outcome far ahead of what many of us would have dared to hope for as we approached the end of 2022.

And yet, an unnerving cocktail of macroeconomic uncertainty, high valuations and eye-popping levels of investment into artificial intelligence all shout from headlines urging caution.

Certainly, markets are very unbalanced. Returns from US markets have continued to be dominated by the very largest companies, increasing market concentration to almost unprecedented levels. Outside of the US, money is crowded into sectors such as banks or resource companies, resulting in the dramatic outperformance of dollar companies over their growthier brethren.

In this context, Global Alpha delivered another year of strong returns, driven by great businesses growing strongly. And yet, global indices delivered even higher returns, with the portfolio lagging the benchmark by several per cent.

We are navigating this environment in two ways. Firstly, by ensuring that, in aggregate, the portfolio reflects a set of characteristics consistent with an ambitious growth approach, owning high-quality businesses, benefiting from a diverse and expanding range of growth drivers. Expected earnings growth of over 15 per cent a year for the portfolio is consistent with a doubling of earnings over the next five years. Against an index forecast to grow at around 12 per cent, this is a meaningful difference and one we expect to persist.

With performance driven entirely by this earnings growth, the valuation of the portfolio has barely moved. It costs the same as it did 12 months ago, even after delivering another strong year. In contrast, the index return was supported not just by earnings growth, but by rising valuations and exuberance. This matters for the sustainability of returns.

Finally, both the quality and resilience of the portfolio remain evident in superior gross margins, lower indebtedness and the increasing focus on profitability. Additionally, return on equity, the amount of profit generated from each dollar of shareholders' capital, has also moved further ahead of the index. The companies we own for our clients are becoming more profitable and are using capital more efficiently as they grow. This bodes well for future growth. Rather than growth being a strain for companies to cope with, it is acting as fuel for further expansion.

Our second focus is stock specific. It's on the companies themselves and ensuring that each of them is well aligned with our clear view of the future for their respective industries. The coming

years will bring extraordinary advances and extraordinary dislocations. Scale, ambition and adaptability will be rewarded. Complacency, inertia and the illusion of safety will be penalised.

Take banking, for instance. Not owning traditional established banks is one of the reasons why the portfolio has lagged the benchmark over the last year. We are unapologetic about this positioning.

We believe that the future lies with the likes of Nubank in Brazil, which offers a materially better, fully digital experience at lower cost versus more established competitors. Or in the ambitions of Block, a consumer finance platform providing financial tools that may grow to offer a genuine alternative to conventional banking. Healthcare also offers underappreciated and growing opportunities. The recent purchase of Medline, for instance, a supplier of medical equipment, illustrates a deliberate evolution towards broader beneficiaries of healthcare innovation over companies reliant on bringing single drugs to market.

Finally, in artificial intelligence, a focus of both much hope and much angst, we are focused on bottlenecks, where demand will continue to far exceed supply.

Taiwanese semiconductor foundry TSMC is a powerful example here. Its relentless pursuit of manufacturing scale and expertise has enabled it to capture 70 per cent of industry revenues, with even higher market shares in the highest performance chips. The voracious appetite for chips to feed the AI innovation engine can only be met by TSMC.

Downstream in the AI value chain, we favour companies that own distribution, such as Microsoft, or those that are already applying the technology to transformational effect in their own businesses, such as mobile game advertising platform, AppLovin, or Shopify, the ecommerce software provider.

We will keep adjusting our views as new information emerges. During the quarter, for instance, we added to Alphabet, as evidence is internal chip advantage accumulated, and reduced Meta, one of the strongest contributors to performance over recent years, but one where our view is now incrementally less differentiated. We are acutely aware that 2025 adds to a challenging run of underperformance that now stretches back to the fallout from the Covid pandemic.

The most important thing we can do in the face of such a persistent headwind is to be disciplined in sticking to our process and relentless in the hunt for underappreciated growth businesses. A valuation headwind can only persist for so long. And through maintaining our growth ambition, our quality hurdle, and our breadth of growth drivers, the portfolio is well-positioned to deliver significantly better returns to patient investors.

## Global Alpha

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

	2021	2022	2023	2024	2025
Global Alpha Composite (gross)	8.0	-28.6	20.3	11.9	18.6
Global Alpha Composite (net)	7.3	-29.1	19.5	11.1	17.9
MSCI ACWI Index	19.0	-18.0	22.8	18.0	22.9

### Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years
Global Alpha Composite (gross)	18.6	4.2	11.3
Global Alpha Composite (net)	17.9	3.6	10.6
MSCI ACWI Index	22.9	11.7	12.3

Source: Baillie Gifford, 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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