

# International Growth Q2 investment update

July 2024

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Investment manager Robert Wilson and investment specialist Katie Muir give an update on the International Growth Strategy for Q2 2024.

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

**Katie Muir (KM):** Welcome to our latest video update for the International Growth Strategy. I'm Katie Muir and I'm an investment specialist for the strategy. Today I'm joined by Robert Wilson, an investment manager in the International Growth team and a member of the Portfolio Construction Group.

In this update, we will discuss some of the recent drivers of performance and highlight some exciting new additions to the portfolio. Robert will also share some insights from his recent research trips to both Asia and Latin America.

First, as a quick reminder, the International Growth Strategy aims to invest in 50 or so of the most exceptional growth companies in international markets and own them in size for five, ten years and even longer. We are interested in two types of growth companies: those that can grow very rapidly and those with enduring growth prospects. In each case, we expect a holding to offer substantial upside over the long term.

So, Robert, welcome. Given our strategy's long-term outlook, three months is a very short time period to glean much about performance. However, what would you call out as being some of the positives and negatives for portfolio returns more recently?

**Robert Wilson (RW):** Sure. And thanks, everyone, for joining. So over the past couple of months, which, as you say, is a very short time period for us, I think there are two that I would highlight, probably Spotify and Adyen in particular, positively and negatively, respectively. With Spotify, I think there's been a real dose of self-help there in a very positive way. We've been having conversations with [CEO] Daniel Ek over a very long period of time about the need for a certain amount more of capital discipline, cost structure and so on. And we're beginning to see some of

that pay off. The market is rewarding that accordingly, translating some of that scale and quite clearly demonstrated competitive advantage now into additional profitability. And I think that's something that we did need to see and that is important culturally for Spotify. I would just say that is obviously to some extent a one-time thing. You can't obviously cut [costs] indefinitely. There are more than one way to grow. So we have taken some money accordingly off the table, largely made easier by the strength in the shares, which has been very strong in particular.

Then on the opposite side, Adyen. I think Adyen has been in a very volatile period for quite some time now. I don't think it's very well understood by the market still. I think there's a sort of US bias there. I think it's because of its European-ness and its maybe strangeness of communication, it's treated as slightly ephemeral. There's a psychodrama of beats and misses, none of which really bears on the question of, is this going to grow over the very long term, going to continue to take share both offline and online? And I think it will. And I think the long-term evidence remains very strong. So for that reason, in spite of the volatility, we've taken the opportunity to continue to build the position there. So those are the two that I would probably highlight from the recent period.

**KM:** Great. Thanks, Robert, that's very helpful.

Before we move on to talk about your recent travels, it's been great to see a variety of new companies added to the portfolio over the past few months. Can you maybe talk about where those ideas have come from and why we're excited about their growth and return potential?

**RW:** Sure. So, three I would highlight. So Zealand Pharma is a name that we've added from Denmark, BYD for clients who have EM (emerging markets) capacity in China and then the last of which would be Advantest, the semiconductor testing business from Japan. That's maybe the one I'll spend the most time on because my travel kind of dovetails with it. I did meet Advantest, I've met them a lot of times recently but most recently in Japan. And I was able to visit some of their facilities very usefully there.

So Advantest, I mean, stepping back and looking at the broader market environment, we've seen a lot of AI activity over the period. We continue to believe that this is a very real transformation to the structure of computing and that it will meaningfully change how people interact with technology over the period. That's not to say it won't be volatile. We believe it probably will. It'll be nonlinear. It might be painful at times, but we believe that it will continue to come through over the long period. And we want to gain continued market exposure to that.

And so for that reason, Advantest is a very interesting one. It is a name that we've held in IG in the past. We've always liked the team, very long-term, high-quality management team and a very good structure of returns in a duopoly in which Advantest is ultimately the leading of the two. And in particular, it's probably more exposed to high bandwidth memory and ultimately AI accelerators as well. So that's a name that we've added recently as well.

**KM:** Great, thanks. Advantest is a good segue to talk about your research trip to Asia in May. You spent three weeks on the road meeting various companies. I'm sure clients will be interested to hear which countries you visited and the types of variety of companies and management teams that you met.

**RW:** Sure, yeah. So as you said, [in] three weeks I was in Hong Kong, Guangzhou, Hangzhou, Shanghai, Seoul, Taipei, Tokyo and Kyoto. That was a lot of travel over the period. I guess it kind of fits into two broad clusters. The first of which was more of the China broader stuff, understanding, talking to some of the holdings there, and in particular focused on Pinduoduo, in particular as a holding for clients with EM capacity. It's been one that's been evolving very quickly. We think there's probably an opportunity there. We have added to it recently on the fundamental strength but the market hasn't really rewarded it particularly. I think there is an additional due diligence challenge with Pinduoduo. It's not a company that is particularly effusive in terms of communication, we're one of very few investors that get to speak to them at all. And in particular, I wanted to speak to other people in the supply chain, suppliers, ex-employees, competitors and so on, to get more feel for, in particular, how the international opportunity was developing with Temu, as they pivot quite quickly in some cases. So that was the focus, I would say, of the first part.

The latter part, the second two weeks or so, was really focused mainly on the semiconductor supply chain. There are a lot of very high quality, almost monopoly companies in Korea, Taiwan, Kyoto and so on that I wanted to meet and learn more about, partly for Read Across the whole space, partly because they are interesting candidates in their own right. Advantest is one that we've mentioned. TSMC is obviously another one that I met whilst there. So that was kind of the second topic that I was really spending a lot of time on.

**KM:** Great. Interesting. Thanks. And it sounds like a very busy few weeks for you.

Maybe just to focus on China for a bit longer, Chinese markets and the strategy's Chinese holdings have had a better run more recently after what's been quite a difficult few years. What has changed since you were last over in China and how are company management teams adapting and thinking to the domestic backdrop as well as the rise in geopolitical risk?

**RW:** Yeah, so I'll start with the Jeff Bezos quote about the important thing to focus on is sometimes what's not changing as opposed to what is changing. I mean, I think what's not changing is that there are a series of very high-quality management teams in China with very high levels of growth ambition that are very unusual in the global context, and that we think remain very attractive candidates.

There is additional risk in China. They are very aware that those risks, as you say, those risks are both domestic regulatory, but also international for companies that are export-exposed. In every case, we are very keen to audit and understand that companies are navigating and adapting to that risk accordingly. And then, as a more desk-based measure, that the valuation makes sense for us,

that given that risk, the reward makes it sufficient and that we're holding an appropriate size. So that's really how we're thinking about China, even more generally at the minute.

**KM:** Great. Thank you.

Maybe to move to the other side of the world now, you also traveled to Latin America a couple of weeks ago with strategy co-manager Lawrence. Again, it'd be good to hear which countries you went to. And I know you met with a number of our ecommerce and fintech holdings there as well as some new ideas.

**RW:** Yeah, so I was in Uruguay, Brazil and Argentina with Lawrence, which was very useful for getting to know companies like MercadoLibre and Nubank better, which are held for clients with EM capacity. And also some of the local operations of foreign names like SEA Limited, who operate Shopee in Brazil.

So that was a very interesting opportunity to kind of get to know those companies a little better. I had maybe less of a relationship with some of them than Lawrence might have done. But I think the big thing there for me was, as you say, on the ecommerce piece. I think there's been a narrative in the market for a while post-pandemic that ecommerce is kind of somehow over. It's no longer necessarily quite as much of a growth area.

I think that's not true. I think these companies in particular in Latin America show that in addition to rising penetration you're seeing increasing businesses be built on top of ecommerce. It's no longer just the same categories shifting from offline to online, but it's the financing piece, it's the advertising piece, it's additional businesses around those things. Coupang doing the same in Korea. Meli [MercadoLibre] doing that in Latin America. You know, in some of these markets, you're seeing that play out a lot more. So I think that really emphasises the sense in which this is still a really exciting growth area. And these companies are not like traditional retailers. They are, in some respects, more like “technology companies” leveraging those digital assets very broadly. So that's something that I think is probably the key thing for me coming out of the Latin American travel.

**KM:** Excellent thanks for sharing that, and thank you for joining me today Robert. And thank you to those watching, we hope this was helpful. Please get in touch with your usual client contact if you have any questions, and we look forward to updating you again very soon. Thank you.

## International Growth

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

	2020	2021	2022	2023	2024
International Growth Composite	30.5	44.1	-45.3	15.6	5.5
MSCI ACWI ex US Index*	-4.4	36.3	-19.0	13.3	12.2

### Annualised returns to 30 June 2024 (net%)

	1 year	5 years	10 years
International Growth Composite	5.5	4.6	5.4
MSCI ACWI ex US Index*	12.2	6.1	4.5

\*MSCI EAFE prior to 30 September 2018.

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.

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