Baillie Gifford™

# Edinburgh Worldwide Investment Trust: manager insights

February 2024

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**Douglas Brodie, lead manager of the Edinburgh Worldwide Investment Trust, provides an update on recent performance, observations on the market environment and why the team is optimistic about future returns.**

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

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Hello, I'm Douglas Brodie, lead manager of the Edinburgh Worldwide Investment Trust, or EWIT. Welcome to this update post-final results to the end of October 2023, accompanying 2024's AGM. In this short update, I'll provide a reminder of what we seek to achieve with EWIT, touch on recent performance challenges, and then focus on our recent observations of the portfolio and the market environment which makes us optimistic about future returns.

EWIT strives to understand how the world is evolving and which companies are best positioned to both drive and benefit from that evolution. That demands that we look forward. It demands that we remain obsessed with technological and scientific drivers of change and seek companies that can convert the possible into tangible long-term commercial success. And to us, it also means actively looking at smaller businesses, those companies earlier in their life cycle, less mature and below the radar. Essentially aiming to access growth off a lower base and retain special businesses as they grow and thrive.

When we conceived the investment philosophy behind EWIT, we knew our distinct growth style wouldn't succeed in all market conditions. And there have been several times in the last two decades or so, when Baillie Gifford has been running the Trust, when that has indeed occurred. Nevertheless, the past three years, as defined by the post-pandemic turbulence and uncertainty, and the associated inflationary shocks, and that real contraction in investors' time horizons, have undoubtedly been incredibly disappointing, and we recognise the challenges this has posed for our shareholders.

Yet, as bruising as the recent performance has been, the prospect of robust long-term returns looks more attractive than at any time in recent memory.

This could be a pivotal moment with the potential to shape long-term returns. We believe being thoughtful, brave, and patient now can result in significant future rewards.

Such is the confidence in the Trust, its portfolio and its approach that we have been demonstrably increasing our personal holdings.

We feel comfortable making these claims based on a combination of three factors:

- firstly, the holdings are standing up to the more challenging environment;
- secondly, technological progress remains very much alive and well; and
- thirdly, valuations look attractive and present real opportunity.

## Holdings are standing up to the more challenging environment

We've previously suggested that the era of abundance and 'free money' was making way for an era that was rewarding better productivity and business efficiency, and this was being married with a tempering of demand in many areas.

We've observed accumulating evidence of our holdings responding well to these changes. I'd highlight Zillow in the US, where their real estate platform is performing well, JFrog, the software automation business, and LiveRamp, the advertising data insights business, all delivering good progress within harsh conditions.

Despite the challenging market environment, we are seeing many of our smaller holdings perform well commercially and, indeed, in share price terms. Demand for American Superconductor's resilient power systems grew strongly throughout 2023. Digimarc has seen increasing success in the adoption of its product digitisation technology, and there has really been robust demand for its products in the retail sector and for sorting and recycling plastic waste.

Notably, health systems globally have had to contend with a lot, all the way from staffing shortages, to rising costs of care and biotech funding pressures. And while our holdings have not escaped entirely unscathed, for many, their propositions address or chime with these issues.

Schrodinger's small-molecule modelling software allows for more digital drug discovery, saving both time and money. Cologuard from Exact Sciences, with its ease of testing and class-leading accuracy, facilitates earlier detection of colorectal cancer, and really catching these cancers earlier improves the patient's outlook and reduces subsequent strain on health systems. So, although the broader health sector is experiencing challenges, these could indeed act as accelerants for some of the holdings whose propositions are around lower cost and more efficiency than the current status quo.

A healthcare holding, Novocure, has been our most challenging investment over the year, albeit, we think, for idiosyncratic reasons. We have long seen a role for Novocure's novel tumour-treating technology to expand beyond glioblastoma, a rare, aggressive form of brain cancer. While its attempts to prove this technology in the treatment of late-stage ovarian cancer patients was unsuccessful, the clinical data in its pivotal trial in lung cancer we thought was very encouraging, especially the clear signal that when– ... its treatment works well when used alongside cancer-fighting antibodies that have really become the backbone therapy in many types of cancer.

## Technological progress remains alive and well

Secondly, we view the opportunity for innovation and progress as more potent than ever. Entrepreneurs, innovative companies are creating products and services on many frontiers that we think will transform societal expectations.

Generative AI, given its real domination of investors' attention over much of 2023, is perhaps the most topical and apparent example. The greater use of these capabilities was driven both by necessity and the transformational improvements in automation enabled by newer forms of AI. We're increasingly convinced that these will significantly impact many industries and shape the investment returns available.

In several portfolio companies, new AI capabilities are expanding the opportunity, adding aspects of competitive edge and generally contributing to these holdings' strong execution. For example, for CyberArk, the information security business, that increased ability for AI to almost impersonate humans is driving up corporate spend on cybersecurity around user identification, while for Upwork, its freelance marketplace has become the go-to venue for accessing AI talent.

So, while much of the early, headline-grabbing, AI-led excitement has been around the chips and the infrastructure, the more impactful opportunity will come as these tools are applied to solve real-world problems. Excitingly, that is only just getting going.

Yet, we'd stress that the portfolio is exposed to several influential and exciting structural growth themes. Be it in next-generation healthcare, with Alnylam recording good commercial progress from its launched drugs and indicating promising results from earlier-stage treatment for both hypertension and Alzheimer's disease. Or unlocking the vast potential in space, with SpaceX really cementing its edge in launch capabilities while developing Starship and driving Starlink to greater commercial maturity.

These types of examples demonstrate that innovation and human ingenuity are very much alive and well. It's understandable to have lost sight of this amid the recent struggles and concerns. But we believe these themes are the profit pools of the future, with not only the most significant potential to influence society over the coming decade and grow meaningfully as economic areas, but also generate companies with the potential for super-normal returns.

## Valuations look attractive

Finally, what's exciting is that the recent market turbulence has re-based the valuations of smaller capitalised growth businesses. This allows us to access and own more of these influential companies at attractive valuations. With our ability to access what we feel are the most relevant companies, whether they be publicly listed or private, it's a fascinating and enticing situation.

We believe many of the companies with the greatest potential to deliver change are ones the market is shunning. And in this current risk-averse environment, they're seen as reckless pre-profitable companies, early in their lifecycle, with the temerity to believe that things can be different. With the stock market reflexively punishing such companies and aggressively discounting their potential, those of us who believe in progress, long-term relevance and human ingenuity have become the contrarians.

Our recent portfolio activity has been geared towards capturing the current opportunities. We've exited companies where the investment case was not progressing as hoped and reduced holdings in companies where we felt the market was catching up to our view. We've deployed the resulting funds into other holdings where we think the current market pricing does not reflect the long-term potential and recent execution. Therefore, notable additions were made to Oxford Nanopore, to Sprout Social, LiveRamp, Beam Therapeutics and Kingdee.

We've also taken an initial position in MP Materials, an American miner of rare earths used in high-strength magnets for electric vehicles and wind turbines, at what we think is a very attractive entry point.

## Conclusion

The vibrant operational health of the portfolio, the outstanding potential for novel innovation, and current attractive valuations are we think, a potent and potentially rewarding combination. We recognise it's been painful for clients recently and we are grateful for their patience and tolerance, but we believe the probabilities of long-term attractive returns now look tilted in our favour.

Finally, can I please remind viewers that EWIT's AGM is on 5 March and encourage you all to cast your votes in advance of this where possible. If you hold your shares through a share platform or other nominee, you should contact these organisations directly as soon as possible to arrange for you to submit your votes in advance of the AGM. Alternatively, The Association of Investment Companies' (AIC) website has information on how to vote your shares, if you hold them, via one of the major platforms. Thank you very much for watching.

## Annual past performance of the Edinburgh Worldwide Investment Trust to 31 December each year (net %)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Share Price | 33.5 | 87.7 | -20.9 | -39.8 | -10.9 |
| Net Asset Value | 24.7 | 85.5 | -17.4 | -34.4 | -4.8 |
| Index* | 20.4 | 12.6 | 16.4 | -7.8 | 9.4 |

*S&P Global Small Cap Index.

Source: Baillie Gifford & Co, Morningstar, S&P. Total return, sterling.

Past performance is not a guide to future returns.



## Important information and risk factors

This film was produced and approved in February 2024 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

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The specific risks associated with the **Edinburgh Worldwide Investment Trust** include:

- The Trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

- Unlisted investments such as private companies, in which the Trust has a significant investment, can increase risk. These assets may be more difficult to sell, so changes in their prices may be greater.

- The Trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.

- The Trust can make use of derivatives which may impact on its performance.

- Investment in smaller, immature companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller, immature companies may do less well in periods of unfavourable economic conditions.

- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.

- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

- The aim of the Trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the Trust.

Further details of the risks associated with investing in the Trust, including a Key Information Document and how charges are applied, can be found in the Trust specific pages at **www.bailliegifford.com**, or by calling Baillie Gifford on **0800 917 2112**.