Baillie Gifford

Global Alpha
Q1 investment update

April 2025

Investment manager Michael Taylor and investment specialist Kirsty Potter give an update on the Global Alpha, Global Alpha Paris Aligned, Responsible Global Alpha and Responsible Global Alpha Paris Aligned strategies covering Q1 2025.

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

Kirsty Potter (KP): Hello and welcome to this quarterly strategy update for the Global Alpha strategy. My name is Kirsty Potter. I'm an investment specialist in the team and I'm joined today by Mike Taylor, who is one of the portfolio managers. Mike has recently joined as a decision maker, having previously headed up our US Alpha strategy and served as a trusted advisor for North America for the Global Alpha team. So welcome today.

Just a quick reminder before we start, Global Alpha is a diversified global growth strategy. We aim to invest across that really broad spectrum of growth. And that's referenced very much in our three growth profiles, which are the Compounders, the Disruptors, and the Capital Allocators. So today, we're going to cover a range of subjects, starting with market environment, moving on to performance, and some of the activity we've seen over the quarter in terms of trading before moving on to outlook for the portfolio looking forwards.

So Mike, turning to you now, we've seen another eventful quarter in terms of significant volatility, particularly in the US market. So how is the team navigating that complexity and disentangling that short-term noise with what's really important for long-term investment returns?

Mike Taylor (MT): Complex is certainly the right word. There's no denying that the range of answers to the question, what might the world look like in five years, is getting wider. But for us as long-term, bottom-up stock pickers, that is both daunting and exciting. And I say exciting because uncertainty is the friend of the stock picker if it leads to individual stock opportunities. Now, it's important to acknowledge that in the last quarter, that volatility has hurt us, in particular with some of our more disruptive names. So for example, The Trade Desk has essentially halved in price since the start of the year. There are specific reasons at a company level for that, but it's part of the general risk off appetite. But whilst that has hurt us, it is leading to an exciting range of opportunities for the portfolio to get new names in.

I'll give you a couple of quick examples. We've purchased shares in Nubank. This is a Brazilian bank that competes against a comparatively sleepy incumbent. It's got a great cost advantage and a customer proposition, and it is attracting new customers hand over fist in Brazil and elsewhere in Latin America. We purchased shares in Enphase Energy, which we think has a really attractive competitive position within microinverters for solar panels. Out of favour at the moment, we think a long-term attractive growth story.

So yes, that volatility has hurt, but it is allowing us, I would characterise it as to upgrade certain bits of the portfolio, get those new names in.

Now, to your question about managing through short-term noise, for me, as a bottom-up stock picker, it's always about asking, what does this broad macro headline mean for this particular asset? Now, we're growth investors, so the assets that we purchase tend to have something special or unique about them, which gives them that element of adaptability in choppy waters.

Quick example, AutoZone. We own shares in this car parts retailer. It imports a lot from Mexico and China, so it attracts concern for things like tariffs. But when you go into what makes AutoZone different, one of the facts that stands out is that 90 per cent of its revenue goes to customers that need the parts for either maintenance or repair. It can't really be put off. The customer also has a much broader selection of products than a lot of its rivals, which tend to be smaller businesses. This all gives the company pricing power, the ability to pass through tariffs and to gain market share. So whilst the headlines can seem negative for that particular asset, we think there's still an attractive long-term growth opportunity so we are happy holders of those shares.

KP: That's great, thank you. So, obviously geopolitics is a key consideration for the team at the moment. Another key theme that's never far from the headlines either is artificial intelligence. That's something that you've been thinking really carefully about. How would you say that the team's thinking has evolved over recent months on that front?

MT: The more we learn about AI, the more thrilling, the more head-spinning it seems to become. And if you have something as transformative or potentially transformative as AI, what tends to happen to the debate around it is it will fixate on narrow points that can be more easily understood. In this case, it's often NVIDIA, how many GPUs are needed, what about rival technologies? That's a fascinating and important debate we have around the desk. But what we're trying to do at the moment is broaden that out. So to get access to opportunities across the value chain.

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So for us, that means establishing positions in companies like Disco, which makes cutting and grinding equipment for the silicon wafers that then become the chips that power AI at the one end and at the other we want to think more sharply about those companies that will be able to use AI most effectively.

I'll give you an example. We've purchased shares, new position for the portfolio in Salesforce. This is a company that sells the eponymous customer relationship management software. It's entrenched in its customers. It has a lot of data about what they do. And it's using that position and that data to come up with some really powerful AI tools. It's a bit of a first mover in the space. We think that it's ahead of its rivals. And what I mean by those AI tools is it is allowing customers to use artificial intelligence agents to handle a lot of their customer contact. So if you want to get in touch with a business, you have a customer service enquiry, maybe you want to return something or you have a query, an AI agent can often handle that type of task more quickly and more effectively than a human being. That's going to lead to enormous cost saving for the customers of Salesforce and therefore we think a commensurately large revenue opportunity for the company. So the message there is one of breadth. We want access to opportunities right across the value chain.

KP: So as we are now at the beginning of the next quarter, how do you see the portfolio in terms of its positioning? And what are those key reasons for confidence in the outlook for the portfolio for you?

MT: I think the portfolio is in a really healthy place. We acknowledge performance challenges, but what we're able to do is bring in these attractive new opportunities to upgrade the portfolio. So we're confident in the growth outlook for the portfolio. We think that will be meaningfully superior to the benchmark. Yet at the same time, the valuation premium you are paying for the Global Alpha portfolio is comparatively modest in a historic context. We're confident about the growth, and we don't think you're paying too much for it.

And if there's one final point I might make, it's that, yes, we're upgrading the Disruptors, but at the moment we're seeing a real breadth of opportunity before us.

We're excited about AI, think we can manage through geopolitics, but we still think US infrastructure is not fit for purpose, and money will have to be spent there regardless of who's in the White House. We still think GLP-1s might change the world in significant ways. We're excited about Novo Nordisk. And then there are a variety of specific opportunities. We just purchased shares in Paycom. This is a payroll software company in the US with its own specific challenges and opportunities. And we're excited about things like that. So a real breadth of growth available to the portfolio.

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KP: So, summing things up today then, some key messages. Geopolitics and AI are two really important themes for the team at the moment, but they're just two of very many. And we've been looking at the range and diversity of those structural growth drivers that underpin the portfolio and making sure that that's as wide as possible.

This is a robust portfolio and looking forward it's got superior forward earnings prospects to the broad market. And so, we're looking at that balance as well across the three growth profiles to put in the best possible position for future investment returns.

So, that concludes today's update. Thank you for watching and we'll look forward to speaking to you again next quarter.

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Global Alpha (including Global Alpha, Responsible Global Alpha, Global Alpha Paris Aligned and Responsible Global Alpha Paris Aligned strategies)

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
Global Alpha Composite	73.0	-11.4	-10.5	20.2	-1.4
MSCI ACWI Index	55.3	7.7	-7.0	23.8	7.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
Global Alpha Composite	-1.4	10.2	8.1
MSCI ACWI Index	7.6	15.7	9.4

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.

Past performance is not a guide to future returns.

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