Baillie Gifford™

Disruption Week 2024
Far and wide: private company investing

November 2024

In this Disruption Week conversation, we explore how our Private Companies Team builds relationships with some of the world's most exciting entrepreneurs and tell you about some of their endeavours, from beaming broadband from orbit to reimagining how we enjoy live sports.

Your capital is at risk.

Leo Kelion (LK): In the early 20th century, Armand Spitz had an epiphany. "Planetariums are the greatest teaching instrument ever invented," he declared. The problem was they relied on eye-wateringly expensive equipment, involving dozens of projectors and lenses. Only six US cities could afford one. So, Spitz set about building a DIY alternative to inspire his daughter. He displayed the stars' movements by beaming light through hundreds of precisely drilled holes in a mechanised metal ball. And he founded a company to sell the invention to schools for $500.

Spitz proved to be a resourceful entrepreneur. When faced with an engineering challenge, he called on Albert Einstein to solve it, and over time, he grew the privately owned business, creating more elaborate systems that led to the opening of hundreds of planetariums across the US and overseas.

Today I'll be speaking with investment manager Alexander Nicolier. He'll tell you about other transformational private companies expanding and creating new markets, and why many pick Baillie Gifford as their partner, providing you with rare access to some of the world's fastest growing companies. In addition, we'll reveal how Spitz's legacy lives on in one of our most recent investments. Welcome to Disruption Week.

A reminder, these webinars are about 45 minutes. Alexander and I will be chatting for the first 30 or so, and then we'll take questions from you, the audience, for the last 15. We'd love to hear what you want to know, so please use the 'Ask a Question' tab on your screen.

Alexander, thanks for joining me. Great to have you with us.

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Alexander Nicolier (AN): Thank you for having me.

LK: Let's start with a general question. What is it that you think most people misunderstand about investing in private companies?

AN: I think people still think of private companies as the typical Silicon Valley startup founded by two or three college dropouts working in a garage. That very few of these companies get to reach the $1bn valuation and be called the so-called mythical unicorn. The reality is that private companies are real businesses. Some of them can be as old as 34 years old, as one of our holdings is, and have valuations based on fundamentals upwards of $200bn.

Today, believe it or not, there are 1,500 of these unicorns staying private for later, much longer than before. And so, what this means is that access isn't so much of a thing that most people get. It's not so much about finding these unicorns. It's about getting through the right doors and finding the ones that are special, the ones that are going to grow. And to do that, you need a very strong network and you need a strong reputation as a firm to open those doors. And that's how we go from meeting close to 800 companies to investing in just 10 or 12 a year.

LK: And as you say, relationship building's really important because these companies get to choose us as investors, which isn't what normally happens in the public markets. So, can you give me an example of when you have established and developed a relationship with company founders?

AN: Sure. This year I travelled to São Paulo and to Bogotá to understand the ecosystems that are developing for private companies in Latin America. And this trip was amazing because it made me realise that Brazil is probably ten years ahead of the US and Europe on anything fintech related, and that companies there are using this environment to their advantage to then go global and perhaps take over.

I met close to 30 companies when I was there, and about half of them I reached out to directly, but the other half, one of the founders of one of our holdings called Loft, he reached out to many of his own founders and entrepreneurs, contacts that he thought would be fitting with our own philosophy and the way that we invest at Baillie Gifford. Believe it or not, those were the best meetings that I had in Brazil, and I came back to my team very excited and we did due diligence on at least four of them. So, I think that shows the power of connections to that network, to have the trust and alignment to open up the right doors.

LK: And how much did they know about Baillie Gifford before you met them? Did they know about us by reputation or other means?

AN: Our reputation in the public side also filters through to the private side. I was surprised how many entrepreneurs already knew about Baillie Gifford and our philosophy, and this is due to our longstanding investments in the likes of Tesla and Amazon. But related to Latin America, it's also because we invest in very large success stories there like Nubank and Mercado Libre. These are companies that have made that leap to the public side and are worth close to $70, $80, $90bn.

What tends to surprise them, though, is how long we've been investing in private companies, which is over a decade. We started off with Alibaba in 2012 and then later on with Airbnb in 2015. I think we're incredibly fortunate to have a brand like Baillie Gifford that has been established over 115 years, focusing on one thing. And that is growth investing.

So, this is what opens a lot of doors, and in fact, we get a lot of inbound demand from founders. We get weekly emails, because as they start to think about their next journey, as they start to plan how to go public and who to have in their register afterwards, that's when they start to ask their VCs (venture capitalists), that's when they start to ask their own board members, who are the best people to have? And we get these emails, and we're very fortunate for that.

To give you a figure, close to 81 per cent of our investments come from our own unique network. That is when we either reach out to founders, they reach out to us, or some of our existing founders introduce us to companies, or we have some trusted sources that we also are keen to explore.

LK: And before we move on, I should mention you're Colombian-born, you speak Spanish, you're more than familiar with the local culture. Does that play to your advantage when you go on a trip like this?

AN: I didn't expect to speak Spanish when I was in Colombia, but very soon, once the founders realised that I spoke Spanish, they immediately reverted to their native tongue, because English is sometimes their second or third language. And in this way, I got an unfiltered view of what they were actually trying to build and their vision. It felt like a genuine conversation, more so than something that could have been lost in translation.

And actually, there's a funny story here. I met one of the founders at a restaurant, and he arrived earlier than me and he asked a waiter, if you see a gringo go through the door, make sure you direct him to my table. Well, I walked right through the door. The waiter went straight to the founder, and you should have seen the shock on his face when he realised that I was the gringo, this fellow Colombian.

LK: That's funny. Can you give us an idea of the global scale of the opportunity, because there's probably more private companies out there that are investable than many people appreciate.

AN: That's right. It's an enormous asset class. It's close to $5tn. To give you an example, this is not too far off from the $7.9tn that the Global Small Cap Index represents. Arguably, though, this is where you'll find companies that have the greatest upside potential, and also where we like to believe the next $1tn companies are being made today.

LK: And from our clients' point of view, what's the advantage of investing in private companies via us rather than other means?

AN: We are on the hunt for companies that are on their growth inflection point, and this is when they're starting to show scale benefits, their costs are clearly coming down as revenues are increasing, and where they're showing that they're on a path to profitability, if they haven't already reached that. And what this means is that we are far off the embryonic stage of where VCs operate, which is backing an idea or maybe backing a product that is looking for a product-market fit.

LK: And by VCs, you mean venture capitalists?

AN: That's right. So, we are not VCs. Instead, we are much closer to the hunting ground of Baillie Gifford where we invest in public companies. We're doing that in the private space using the same techniques, using the same analytical rigour. And so, we just see it as a natural extension of what we've always done.

What's great about that is, as I said, we get to apply the same frameworks, but also, we get to leverage the insights and the research written by 180 investors across the firm. And so, we believe that that makes us have better conversations and to have a different point of view. For example, if we're talking about ByteDance, the parent company of TikTok, we will in the same sentence talk about Tencent and Meta and have a much broader perspective of what is going on.

It also means that we can bear to invest in places like India and Brazil, because we can go to our experts in the Emerging Markets Team and ask them how they think about these countries for the next five and ten years. If they're concerned about the Brazilian real, I want to know that. So that, I think, is something that is quite special.

LK: Okay. I want to move on to some specific company examples, starting with one of our biggest holdings in SpaceX. Many in the audience will have seen last month when it caught one of its rocket boosters with giant metal arms. This thing I think was about the size of a 20-storey building. Quite incredible. And the firm also recently announced that it's surpassed more than four million subscribers to its Starlink satellite broadband service.

Baillie Gifford first invested in the company in 2018, and we couldn't have known it would achieve either milestone, let alone on this timeline. So, what I wonder is, when you're investing in a company like SpaceX that's truly pioneering, doing something nobody else has ever done before, how do you deal with the uncertainty that's involved?

AN: We don't know how every investment will ultimately pan out, and we know that there's a lot of uncertainty, especially for companies like SpaceX that, as you said, are doing something radically new. It just has never been done before, zero to one type of stuff. That said, at Baillie Gifford we're very comfortable leaning into uncertainty because we like the asymmetries that this creates.

LK: What do you mean by asymmetries?

AN: By asymmetries, we mean that the worst case of an investment is that it goes to zero, but the upside is unlimited. And so, when we think about that, I often think of a quote from Jeff Bezos which means that, given a 10 per cent chance of a 100x payoff, you should make that bet every time.

The way that we think about uncertainties in the team is twofold. Number one, during our analysis we think of many different scenarios of what can go right, what can go wrong, and we assign probabilities to these outcomes. Secondly, we are backing excellent management teams. These are people that are great at following their plan and executing as they should be, but that are also flexible enough to adjust given the environment and how it changes.

With Tesla, we invested in 2018, and already they were showing a reusable and dependable Falcon 9 system, which is more than any non-government agency has ever achieved. We also had a lot of respect and admiration for what Musk has built, and the team that he had assembled at SpaceX was very special, from Gwynne Shotwell, that she's able to just manage this incredible business to the tee. And there was something special about the culture as well, being able to pull the best engineers [from] all over the world and from NASA, to align themselves towards being interplanetary one day.

So, this is I think the type of company and the ingredients that we're looking for when we invest in companies. Something interesting is that when we were doing our due diligence on SpaceX and we wanted to speak with Gwynne Shotwell, she actually did some background checks on us, and she spoke with the people at Tesla to know if we were worth an hour of her time. We were obviously of her calibre, so that went great.

And now when we think of Tesla, yes, there was enormous uncertainty at the time, sorry, SpaceX at the time, but now they're essentially operating like an elevator to space. They have an almost monopoly of getting there. They even helped Boeing bring back their stranded astronauts from the ISS (International Space Station) recently. So, we're seeing that this is a company in control of its own cost curve and it continues to scale with bigger and bigger rockets.

And the potential for Starlink, which you mentioned, is only getting started. Soon, anybody with a smartphone will be able to connect to Starlink, to first send messages, but eventually the internet. That change could be revolutionary. We think of this as a once-in-a-generational asset. We're privileged to be able to invest in it for our clients.

LK: But not every investment lives up to its potential, or at least the company involved can face a major setback, maybe change its business plan. How do you deal with that?

AN: Of course. I think businesses have to earn their right to exist, and unfortunately, some will fail along the way, even if they have raised an enormous amount of capital throughout their journey. I'm currently dealing with a situation that is not easy, and that is ongoing and dynamic, but it makes you reflect that this is still far from the typical venture capitalist ecosystem. So, very early on, investments have a rate of failure of 95 per cent, which is extremely high, and that's at the early stages. Where we invest, which is at the latter rounds, C or D, this is closer to 20 per cent.

Now, in our own experience, we have seen some investments go wrong, and that's only a handful of them in over 140 that we have invested in since 2012. But as I said, that situation is not easy. It relates to Northvolt. Northvolt is Europe's biggest chance of creating an independent and sustainable battery ecosystem, one where the energy transition and the advancements of sustainability are not beholden to Chinese manufacturers.

Our thesis was that this opportunity was very large and that one could create a very big and profitable business if it gained a lot of the scale and contracts from EV (electric vehicle) manufacturers. And this was very much along the case, but two years ago, I think things started to change. We have seen that Chinese manufacturers ramped up supply and flooded the market with low-cost batteries. We know that subsidies for EVs have also come down. And there have been some operational missteps at Northvolt, where perhaps they scaled way too quickly and tried to go international without focusing on the production and the quality of the cells, which apparently were not up to scratch.

So, at this point, the company has undergone a strategic review. It has scaled back some of its ambitions, refocused on the core in northern Sweden, but we simply don't know where it's going to go next, and maybe the strategic review is not going to be enough.

LK: Okay. I'd like to move on to some of our more recent investments, some of the more recent ones that the Private Companies Team has made, starting with Bending Spoons. It's based in Italy, and it's probably unfamiliar to many in our audience, so what can you tell us about it?

AN: Yes, very few people know what I'm talking about when I say Bending Spoons and they think I've watched *The Matrix* a few times. Bending Spoons is a Milan-based company that has figured out how to take advantage of a misconception in tech companies.

It's that tech companies or software companies are not asset-light, which is what most people think. In fact, these companies spend tons in R&D and just spend a lot of marketing inefficiently, and that's because they hire some of the most expensive coders in the world. In Silicon Valley, they pay them six and seven figures a year, all to maintain or just to keep a product that is good but never great, and a business that never reaches its full potential because it never becomes profitable.

So, Bending Spoons is tipping that model upside down. It acquires these sorts of companies, these sorts of products, and eliminates a lot of the excess cost, these operational expenses that maybe shouldn't be there. And so, instead of Silicon Valley engineers, it gets rid of them and replaces them by Italian engineers that are just as smart, but at a third of the cost. It also is able to update the pricing, the business model, and to use some of its own internal systems to make these products much more efficient than ever.

So, our thesis was there is not a shortage of targets to go after. It reminds us of a company that we invested in in the public space called Constellation Software, which also acquires software companies, and it's based in Canada. By the way, it's worth over $90bn. So you can clearly get up to scale with this model. And thirdly, we thought these internal systems that they had, that was the real Bending Spoons product. Have you ever heard of Evernote?

LK: Yes, I'm a longtime user. It's really got better in the last year, the AI search and user interfaces.

AN: Oh, I'm glad to hear that it got better, because it was acquired by Bending Spoons. So, they acquired it at about a third of the sunk cost capital to build this company. It also replaced 70 per cent of its engineers with, as I said, Italian ones that are just as skilled. It increased pricing. You may have noticed that. But the experience is so much better because of these algorithms that they're using to improve how this business works.

And it's not just Evernote, although Evernote is growing at 30 per cent and is more profitable than ever. There are many more like it in its portfolio, like Remini and Splice, which are doing some AI videos and also some video editing.

LK: So, how did the company come to our attention?

AN: Bending Spoons has operated outside of the venture capitalist ecosystem for most of its existence. And it was starting to look for partners that could be there for the long-term, so perhaps at some point undergo an IPO (initial public offering) and you wouldn't change hands. And that's when it reached out to an investment firm called Allen & Co that we trust and that has brought us some great investments for Baillie Gifford. And it was our long-term philosophy that attracted the founder to us.

LK: That's great. And your team invested in Bending Spoons last year. More recently you have invested in Cosm, which traces its origins back to Armand Spitz, who I was talking about at the start. But these days its focus isn't on planetariums, is it?

AN: No. Cosm right now are creating a new form of entertainment. So, you can think of what they're doing as enormous planetarium-sized theatres that are perfect for watching live sports, concerts and certain types of documentaries. It's almost like an IMAX, but where you're standing having a lunch and interacting with 500 other people as if you were in a stadium, as if you were in the best seats at every angle.

LK: I think we can actually bring up a photo to show our audience.

AN: Oh, great. Yes.

LK: That's a crowd in front of its screen in Los Angeles, watching one of the World Series baseball games. Can you tell us a little bit more about its business model then?

AN: Yes. Well, just before that, this is called 'shared reality', where it's almost as if you were in a virtual reality, but without the headsets. And what this creates is a social phenomenon where you can see people standing up to sing the national anthem. Some of my colleagues have been to these theatres, and I'm very jealous of them, but they said, you have to see it to believe it, because you get the same type of behaviour as if you were in a stadium. You have people that are standing up and cheering, but you also have the Mexican wave phenomenon where they stand up at their own turn, which is amazing to see.

You mentioned the business model. We like that it is vertically integrated. So, what this means is that they own everything that is related to Cosm, from the production, from the equipment needed to create these big videos. They own the construction company, Spitz, which has its history with planetariums. And they're able to even think about licencing this content to third parties. So, they're in control of their own destiny, and they're just expanding and expanding.

LK: Okay, that's Cosm, C-O-S-M?

AN: Correct.

LK: If our audience want to have a look at it and maybe even book a seat.

AN: Actually, I met the founder, the CEO, rather, last week. And I asked him, how do you think about concerts like those of Taylor Swift, where she's travelling from city to city to city, and they last for a year? Why not just have one big live concert and broadcast it all over all the Cosm venues that it eventually will have? And he said, this is very much in discussion. So, I look forward to seeing what comes out of that.

LK: I bet that'll be popular. What other recent investments has your team made?

AN: We recently invested in Tenstorrent. Tenstorrent is a semiconductor design company that is looking at creating the next CPUs and chips for workloads and the future datacentres. So, as I mentioned, they create CPUs (central processing units) and AI accelerators that then go on to enable a lot of the innovations that we're seeing in the news and anything to do with AI. What attracted us to Tenstorrent is its CEO, Jim Keller. You may never have heard of Jim Keller, but over the past 40 years his products and his innovations have impacted all of us. He was part of the founding team that let Apple create its first silicon chips that were low-powered enough to go into the iPads and the iPhone.

He then moved on to AMD, the CPU company. And he created a new family of CPUs that essentially turned this company around from near bankruptcy. He then moved on to the hardware for the autonomous vehicles at Tesla, and now he's creating a company that has a new standard, is revolutionising how we think about designing chips, and this is something that attracted us to the case. He's essentially a magnet for talent, and it's rare to see somebody as smart as him but also with the pedigree and history to back it up.

LK: So, that's another new investment. I want to discuss what happens when companies stop being private. One of Bailie Gifford's advantages is that we can continue to hold after a flotation, maybe even increase our stake if we're still convinced of the business case. So, can you give me an idea of the current state of the IPO market, because it's been a bit subdued, and that had affected valuations.

AN: Yes. Actually, I'll start by saying that one of the big secrets of Silicon Valley is that 80 per cent of companies end up just getting acquired. So, they are playing a game of just the next round and the next round, until somebody comes along, puts a big cheque and the company is taken out. We're focused on the 20 per cent, the ones that have the ambition and the capability of going public, or at least where going public is part of that journey. So, this makes us very different, and it means that we engage with companies that are of a different calibre.

Now, you mentioned the IPO market, and it's true that there are fewer and fewer companies going to market, as I mentioned at the beginning, with so many unicorns around and this asset class being so large. We have seen close to 190 IPOs this year. And to put that in context, there were about 300 back in 2020/2021. So, some people think that that means the IPO market is closed. The way we think about it is it's open for the right companies.

And in fact, we've had two of our own holdings go public recently. One of them is Tempus AI. They're using machine learning and genomic sequencing to detect early and hopefully to treat cancer. The other one is Oddity. Oddity are using technology, but also a direct-to-consumer business model to create better skincare brands for people.

LK: Thanks, Alexander. We'll be coming to audience questions soon. So if you haven't already done so, please do submit one via the 'Ask a Question' tab on your screen.

Before we do that, I just want to pick up what we were talking about [with] IPOs, because not all companies have to list, have to float, do they? You referenced earlier Epic Games, which has been private for 34 years and shows no sign of listing soon. Can you just explain why that's not a concern?

AN: Yes, absolutely. So, I think this also goes back to the idea that we can do all the research that we want as investors, but companies get to pick their investors if they're private, who they want along for their journey. And Epic Games is on an epic journey that's going to be probably 10 to 20 years in the making. So, we need to think along those timelines just to even have a proper conversation with them. Tim Sweeney, the founder of the company, is in no rush to go public, so if you're the type of investor that wants control, to tell Tim Sweeney what to do, or is hoping that they go public, you're not going to get a seat at the table to even have a conversation.

For those of you that don't know Epic Games, this is the company behind the mega hit Fortnite. It's been around for seven years, but still manages to convince 100 million people to play. Maybe your kids play. I've certainly played my fair share. But what's interesting here is that they are trying to create a synchronous, permanent and interoperable digital world, which is perhaps a fancy way of saying they're trying to create the metaverse.

And by the metaverse, we mean a digital world where creations, where the assets that people purchase, where their experience is, can last for many years, where these things have value. And if you go back in ten years, things will still be there, and perhaps an ecosystem can develop that is closer to the one that we see in real life today.

But to build the metaverse, you need three ingredients. Number one, you need to have engine, which they have, called the Unreal Engine. This is the tool used by some of the biggest gaming companies in the world like Activision, EA and Square Enix to create their own digital worlds. And over time, Unreal Engine is going to get so much better that it's going to create photorealism, in the sense that it's going to be almost indistinguishable from real life. The way that I see you, you might be exactly that way in a video game. And that creates a lot of interesting potential things.

LK: And Disney recently announced, didn't they, that they're going to invest $1.5bn in Epic. And I guess that underlines the opportunity for patient investors like us.

AN: Yes. So, what Disney are after is still with the idea of the metaverse, where they need to see that there's going to be hundreds of people, hundreds of millions of people going into these worlds, and there's going to be a creator economy where people like you and I could create our own worlds and monetise them. I've tried to create my own game. It's very basic and it will never see the light of day, but it shows how Epic is onto something very different.

And Disney, I think, has realised that it is in a pole position with Epic to create what could be the future of theme parks and maybe even the future of the internet. So, instead of going on disney.com to purchase an item or a ticket, you will just go and experience it in real life, and that could be quite novel. Imagine interacting with Luke Skywalker or some of the characters that are within Disney's IP (intellectual property) and creating something that is completely new. It's something fascinating. We have to keep it ambiguous. But this is the vision that they're going towards, and we're happy to back them.

What's great is that it's not just Disney. And by the way, Disney cares enormously about its IP, so it's carefully chosen Epic to handle it.

LK: Intellectual property.

AN: Intellectual property. There's also Lego that partnered up with Epic. And we think that this is the start of many more companies that have a lot of IP that are trying to digitise it to go into this new era of entertainment. And Epic might just be the perfect home for them.

LK: Wow, that sounds like it's going to fascinating to see how it plays out. Time for some audience questions now. Let's see what you have sent in.

Okay, let's have a look and see what's on the iPad. The first question here is regarding new funding rounds in private companies. If you don't continue to invest more money, your share gets diluted. Can you explain that?

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AN: That's true. So, companies, if they continue to raise capital, often they will dilute the existing shareholders. And this is something that we take into consideration every time that there is a new round. We want to understand how the company has progressed, given our own understanding and forecasts. If it's going exactly as we thought, or even better, then we are happy to back them and to keep our position or even increase it. If not, then we just say, let this round pass and we will revisit at the next time.

The best of cases is when companies don't need to raise more capital and where the round that we invested in was a lucky one where the next one could be an IPO. So, we're on the hunt for the ones that don't need that much more capital, but if they do, we are patiently backing them for achieving what they are hoping for.

LK: Okay. And I've got a question here about valuations. How are private company shares within your portfolios valued? Is there a standard formula in the absence of a supply-and-demand provided by traded shares?

AN: We value the companies in our portfolio in different ways. Number one, we have our own view as analysts, as investors, of where the shares or how the valuation of a company should be. And this could be completely different to what the current round or even what the secondary markets are showing.

There is a secondary market where you can trade shares, and this really depends on each company. So, not all will be available to trade. And usually, the quantities are not that big. So there is a bit of distortion as well as to what price these secondaries are showing. There could be some discount to them, rarely a premium, but discounts of maybe 30 to 40 per cent at times of distress or when certain VCs have backed a company for a long time and now they're forced to sell shares.

Internally, we have our own valuations team, and they are looking independently without us telling them what to do or what to think. They're using their own models and their own estimates to think about the valuation of a company, and this is what gets presented into our NAV (net asset value) and the models that we show our clients.

LK: And NAV is?

AN: Net asset value.

LK: Okay. Asked here, what companies that Ballie Gifford identified when private are now public and remain a worthwhile investment? You've mentioned Tempus AI and Oddity already. Can you give other examples?

AN: Well, Alibaba is a great example of one of those. Spotify is another great example. I don't know if you've seen the recent share price, but it makes being long-term investors rewarding. Obviously, the journey is a difficult one at times. The hardest thing is holding on. But you can see with Spotify that the promise of creating an ecosystem for the creator economy has really flowed through. What started with music then went on to podcasts and advertising. We know they're going into education. So it just expands and expands. So, Spotify is a fantastic example of one that we were happy to invest [in] when it was private, at IPO, and afterwards.

LK: Okay. And I've got another question here that ties back to what you were just saying about net asset value. Do investors and potential investors in private equity funds get too obsessed with net asset values?

AN: It's not something that we talk about every day around the desk. It is something that we certainly notice. And the fund managers that are able to make decisions on whether to buy back shares or to increase the share count look at these values. It's not something that I spend much time [on] as an investor, so maybe that's a different ballgame for private equity. We're slightly different than that.

LK: And another topical question here. Does the prospect of the Trump presidency shift the dial in favour of, or against, any particular type of private company investments?

AN: That's the million-dollar question, to which the honest answer is, I don't know. It's too early to see. What we do know is that he is assembling a set of people to help him make decisions, of which Musk is one of them. I don't know how close Musk is to Trump and whether that relationship will stay positive for the next four years. But we know that Musk is ruthless when it comes to looking for efficiency and for innovation. So, this leaves us with some optimism that maybe it could be a great place for startups to emerge.

LK: And here's another Trump-related question. Baillie Gifford has a sizeable stake in the Chinese company ByteDance. They own TikTok. How do you expect its value to be impacted by a forced sale of its TikTok platform if the US demands it? And this is picking up on the fact that under President Biden, it was being told it had to spin it off. But I guess that might now change.

AN: Sure. So, ByteDance is one of our largest holdings. And the way that we think about this investment is that overall, it's a collection of many different businesses. But ByteDance is known as Douyin in China. It also has Toutiao, which is a news application. And around the world, it's known for TikTok. But TikTok, believe it or not, even though it's very, very big and it has close to two billion monthly active users, it is actually loss-making. Whereas ByteDance as a whole is making $140bn in revenue. It's growing at 40 per cent annually. It has 25 per cent profit margins, and it's trading at a single multiple.

So, if it had to sell TikTok, and we don't know if it will have to, I'm optimistic that there are workarounds with data protection and ways to fork algorithms that could prevent that. But if it was forced to sell TikTok, well, the existing shareholders would gain something out of that, but also, TikTok would be even more profitable than it is now. Sorry, ByteDance would be even more profitable than it is now with TikTok. So, either way, clients are in a great position by holding this asset, even though there's enormous uncertainty as to what will happen to TikTok.

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LK: Okay. And this is quite a general one, but can you give a bit more detail about how your search process works?

AN: The search process is down to each individual. We're given free rein to explore industries or companies that we believe are interesting. And that's what led me, for example, to Latin America earlier this year. We do multiple screens. We look at PitchBook. We see a list of the companies that are interesting, and also those that are backed by VCs that we think are well-aligned with our way of thinking. And that's helpful. It creates a list, perhaps a first net that we're casting.

But as I mentioned, what's great is when our own network gives us an introduction to companies perhaps that we didn't know, and that opens up doors that would have been very difficult to do. And so, in any given year, each investor will meet close to 50 or 80 different companies, and they will come back to the team and write a one-pager on each company that they thought was worthwhile pursuing. This one-pager talks about the growth opportunity, the competitive advantage, the financial characteristics, as much as we can tell from a first go.

And if the team thinks there's something in here, then we do a much bigger due diligence, a report that could take close to a month to complete. And also, we engage with our own legal team to make sure that every T is crossed out here. So, it's a lot of research. It can be rewarding but also can be a bit frustrating, as you can imagine, when you spend a month looking at a company and you think it's great, but your colleagues still have a lot of questions, which, overall, if it means that we make better investments for clients, then that's great.

LK: Okay, time for just one more. You haven't invested in any of the big private AI companies, OpenAI, Anthropic, etcetera. Is that a deliberate choice or because you haven't had the opportunity?

AN: We've had the opportunity, and this is more of a deliberate choice. This is about us being honest with ourselves that we simply don't know where value is going to accrue in the AI space. This is an incredibly exciting space, and with ChatGPT becoming a household name, it means that there's going to be something that will emerge out of this that will be special. We just don't know if that specialness is going to create companies that are sustainable and that have a durable competitive advantage, and that this advantage will be accruing to OpenAI or Anthropic.

So, it's about thinking about the different layers, whether it's the foundational models of these large language models, or the applications built on top that will essentially be the winners. There are many ideas that we're discussing, and perhaps the portfolio will look different in a year's time. But at this point, we're happy to continue to ask questions, even if we don't have the answers.

LK: Thanks, Alexander. We haven't had time to answer all your questions, but we'll aim to respond to some of those that we didn't get to on our Disruption Week website. Details of that coming up in just a minute. Before we get there, Alexander, could you leave our audience with one final thought?

AN: Sure. The thought is that private companies as an asset class is too big to ignore. This is where you will find the next potential $1tn companies, or at least, I like to believe so. And this approach of ours, looking for businesses that are real, that are scaling, that are showing a path towards profitability, and that are close to the way that we invest as public investors, this is the way that we believe we will find great companies to invest in. Personally, I'm super excited to be invested in companies like SpaceX that could change the world, could change how industries function, when any day now their Starlink satellites will allow anybody with a smartphone to access the internet. And that could be revolutionary.

LK: Alexander, thank you. It's been fascinating talking to you.

AN: Thank you for having me.

LK: And I hope you, our audience, have enjoyed this conversation as much as we have. If you want to find out more about Disruption Week, please visit **bailliegifford.com/disruptionweek**. And make sure to register for tomorrow's session on the age wave, where we will explore how the fact that people are living longer but having fewer children is giving rise to new investment opportunities.

You'll also find a writeup and recording of yesterday's session on the US' infrastructure renaissance. And as ever, if you have any specific questions, don't hesitate to get in touch with your client contact or email us at **disruptionweek@bailliegifford.com**. But for now, I look forward to seeing you again soon.

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