Baillie Gifford™

International Concentrated Growth Q1 investment update

April 2025

Investment manager Paulina McPadden and investment specialist Paul Taylor give an update on the International Concentrated Growth Strategy covering Q1 2025.

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Paul Taylor (PT): Hello, and welcome to the Baillie Gifford International Concentrated Growth update for the first quarter of 2025. My name's Paul Taylor, and I'm one of the investment specialists working with the strategy. And I'm joined today by one of the managers of the portfolio, Paulina McPadden. Paulina, thank you very much for joining us.

Paulina McPadden (PM): Thanks for having me.

PT: Thank you. It's fair to say there's quite a lot going on in the world at the moment. The change in tone from the world's most powerful country towards global politics, global trade has been in a state of flux. The markets have taken a turn from what we've seen over the past few years. And the strategy hasn't had a super start to the year, but we're focused on much, much longer-term horizons. Three months is far too short a period of time to measure performance. We're focused on five years, and, over the long term, the strategy remains exceptionally well placed.

Paulina, thank you very much for joining us. Two things I think we should really be focusing on today. One is the shifting seas in the global autos industry. But before then, I know you went to the NVIDIA GPU conference last month. I'd be really keen to hear your thoughts around that. What were your key takeaways from the meeting?

PM: Well, it's a conference I've been going to for a couple of years now, and it's, I think, one of the best events in the calendar for just getting up to speed with what's going on in the AI space, what exciting things NVIDIA has got coming down the line, building up a network of contacts of people who are working in this industry and doing really exciting things. Obviously, the event itself is undeniably pro-NVIDIA. But the location makes it easy to go out and meet other companies at the same time and get a slightly more balanced view.

And the main takeaway for me is that NVIDIA's position in this space is as strong, if not stronger, than it has been in the past. So despite ongoing perennial concerns around the rise of custom silicon and ASICs – for example Amazon talks about its Trainium chips, Meta is pushing out version two of its MTIA as well – these alternatives have not been enough to unseat NVIDIA's GPUs. And the fundamental reason for that is that NVIDIA can just push performance improvements significantly faster than anybody else. Its only focus is on making these AI chips, whereas everybody else is having to spread their attention. And as a result, the price-performance improvement has been 17-fold since 2016, for example. And the roadmap going forward has a pathway to producing more than 40-fold improvement in compute over the next four or five years. So very exciting times.

PT: That is truly impressive. So, if I could paraphrase, so long as the speed of innovation in AI keeps up, we think NVIDIA's competitive edge is just going to continue to deepen.

PM: Yes, that sounds about right. I mean, the main reason for that is that an ASIC is fundamentally a specialised chip for a specific use case. So, in order for it to really make sense economically, you have to know what you're going to be using it for and the algorithm that is being used on top of that chip shouldn't change too much.

But I was speaking to developers, and they were saying that they can't keep up with the pace of improvements in this technology; that every day, every week, there's something new coming down the line. Yann LeCun from Facebook was saying that he would not be remotely surprised if there's another huge shift in technology over the next three or five years on the level of what transformers did in terms of enabling ChatGPT. And if that happens, you really need a generalised platform in order to implement that sort of shift.

PT: Yes, clearly a huge, huge amount more to come from this sector. We discussed this in our portfolio meeting yesterday. And one thing we've been reflecting on for the past year is how we balance that enthusiasm for the opportunity with NVIDIA, with market treatments and valuations. And it still operates in a cyclical market, essentially, for its equipment. Could you talk about how we've been balancing the enthusiasm with the portfolio sizing?

PM: Sure. I think it's important to note that we have been trimming the position over the course of the last year as the price went up. You're right that at the end of the day, semiconductors are a very cyclical industry, and I don't really see any structural reasons for why that should change going forward. I think the hypothesis that over time NVIDIA could develop a software recurring revenue, that's still a possibility. But again, I think that pace of change is such that, at this point, it's just not a priority for them. They can't produce enough chips to keep everybody happy. They've got quite a lot on their plate already. So I think we balance that enthusiasm for the long-term opportunity with the understanding that it's a cyclical hardware-based industry. And so that's reflected in the holding size in the portfolio.

TP: Thank you. I'm sure it's one we'll be coming back to again in the future. But moving on to the second topic I think would be of interest, the auto industry. We've held Tesla in the strategy for about 10 years and it's been a phenomenally successful investment. But we've sold the last remaining holding of Tesla during the quarter. And we had been reducing and reducing over a number of years. So, it's not like I think anything's materially changed just now. I think it's also interesting to reflect that we added the Chinese EV manufacturer BYD to the strategy about this time last year. So, first, what was the final trigger for removing Tesla from the portfolio?

PM: You're right. We've reduced that position over time. And to a certain extent, that's just a recognition of the fact that the auto industry has become much more competitive than it was when Tesla first started out. They were the dominant EV manufacturer for a very long time, but BYD, as of last year, stole that crown. And it's a reflection that, in order to make outlier returns possible from here for this company, you need to believe in a really strong second act in something like humanoid robotics or autonomous driving. And that's still possible, that could happen, but we just didn't have a high enough level of conviction to continue underwriting the position.

And then the final thing I would point out is we made quite a large reduction to the position last year after the election when you saw a very strong uptick in the share price on the basis of very little fundamental change in the company's operations. We felt that wasn't really reflecting true underlying value of the company and reduced significantly at that point.

PT: Thank you. To turn to BYD, we've held it for a year, hopefully we'll be holding it for a lot longer because they do seem to be really at the forefront of innovation. Only over the last three months we've seen them introduce charging technology that looked really special, but also, and I think probably more interesting, is their approach to autonomy. What's your take on their approach to autonomous driving at the moment?

PM: Well, that's been an interesting change because I remember meeting with BYD years ago, and they were extremely sceptical about the future of autonomous driving. They thought that people simply like the experience of driving cars. That's not going to go away. And they've clearly shifted that position slightly. I think that speaks to the value of having an engaged founder at the helm of a company that, when the environment changes, can change his mind and bring the entire company with him.

And what they've done is they're effectively giving it away for free. So the actual software platform itself may not be top of the line. But, let's be honest, when we talk about autonomous driving for any car company, it's not really autonomous in the way that people might understand the term. You still, generally speaking, need to have your hand on the wheel. You certainly need to have your eyes on the road. The car isn't taking complete control away from you. It's more like assisted driving at this point in time.

And Tesla charges quite a lot of money for that on an annual basis. BYD is giving it away for free. Does that start to pressure other car makers significantly and reduce their chances of making margins that are attractive to them? Does it open up the competitive space even further for BYD?

PT: I was surprised. I was looking the other day at folks viewing from America, I think it's $8,000 or $9,000 as an outright sale or $99 per month as a sort of royalty payment, for Tesla's FSD. So, the idea that they won't be able to, at least in China, and we're yet to see how BYD approaches the rest of the world, actually monetise that technology. So it's super interesting.

I'm conscious of time, do you have any view on their charging technology? Because it now looks now like they can charge their EVs at the same speed at which you can refuel a traditional gasoline engine.

PM: I mean, that's been one of the barriers to adoption for a long time. I think there are still probably structural, infrastructural barriers. Rolling out this charging infrastructure is going to take some time, although they have fairly ambitious targets for the next few years. There's just not enough power to go around. But there, I think they're helped by the fact that, again, they're a Chinese company and China leads the world in renewable energy generation and technology. And so, if anybody can solve that issue of getting enough power to fuel this infrastructure, it's probably them.

PT: Excellent. Thank you very much for joining us. It's always interesting talking to you about some of these leading-edge companies that we're investing in on behalf of clients, which just leads me to say thank you very much for your interest in our International Concentrated Growth Strategy. Please do reach out to your Baillie Gifford representative if you would like to hear any more. Thank you.

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International Concentrated Growth

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

	2021	2022	2023	2024	2025
International Concentrated Growth Composite	105.0	-20.3	-9.7	9.0	9.0
MSCI ACWI ex US Index	50.0	-1.0	-4.6	13.8	6.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
International Concentrated Growth Composite	9.0	11.9	12.1
MSCI ACWI ex US Index	6.6	11.5	5.5

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.

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