Baillie Gifford™

Multi Asset Q2 investment update

July 2025

Investment manager James Squires gives an update on the Multi Asset Strategy covering Q2 2025.

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

James Squires: Welcome to our July 2025 multi-asset update, which will focus on performance, portfolio and outlook for our diversified and defensive growth strategies. I'm James Squires, head of the Multi Asset Investment Team here at Baillie Gifford. Sitting here now and looking back, it's been a remarkable quarter. Three months that began with the Liberation Day tariff announcements and finished with US military strikes on Iranian nuclear facilities gave the markets plenty to digest. Pleasing them that our portfolios generated good returns over the period in line with our investment objective. And particularly pleasing that we navigated the market volatility successfully with a drawdown that was markedly less than that seen in equity markets.

Portfolio performance was led by infrastructure. Several other asset classes, including commodities, played supporting roles, but infrastructure led the way. At around 25 per cent, it has been the biggest allocation in our multi-asset strategies for a while now, owing to our high estimate for its long-term return potential. We see it offering a compelling mix of durable income, structural growth, and a positive duration, which makes it a very attractive diversifier.

We're invested in three types of infrastructure, and all three contributed over the last three months. We've got transmission and distribution utilities, such as Germany's RWE. Now, in addition to delivering stable, inflation-linked, regulated returns, these are at the forefront of structural growth right now, building and enhancing Europe's power grids to take the load from our ever-growing consumption of data and demand for AI applications. Our largest utilities made an average 10 per cent over the quarter as they delivered strong earnings and outlooks.

We also have renewable energy trusts, such as **Octopus**. Now, these have struggled a bit in recent times, trading down to discounts to their net asset values, despite delivering consistent underlying cash flows from their wind and solar energy generation. The combination of those cash flows and discounts has made for high dividend yields, which the market has finally started to recognise. So our largest trust holdings, which we stuck with, made an average 15 per cent over the quarter as valuations rebounded.

And finally, we also have economic infrastructure. For us, that's the companies driving the energy transition, like **EDPO** and **Abebas**, a global renewable energy business with Portuguese roots. Developers like these have been market casualties of President Trump's drill-baby-drill agenda and the sentiment around that since he took office. But, the likes of EDP and Abbas have many growth opportunities outside of the US. And as markets paused for breath and remembered that, EDPR shares rose by 25 per cent. So infrastructure has delivered meaningfully over Q2 and driven the performance of the multi asset strategies.

Importantly, alongside protective positions, such as credit default swaps, it also contributed to their resilience. Looking forward, we believe infrastructure remains attractive, and many of these themes will persist. But we also see plenty else to be excited about. There are many opportunities to benefit from yields, for example.

We made an important addition to high-yield credit during the worst of the tariff sell-off. And we also added to emerging market debt, which we believe will benefit from continued weakness in the US dollar. Now, our dedicated specialists in both these areas have been finding several opportunities that have been thrown up in the market turmoil. This includes a new investment in Kyrgyzstan bonds, the country's first international issue. These government bonds were specifically issued to finance new hydroelectric projects, but they benefit from the country's excellent fiscal position and low debt burden. Nevertheless, as a relative unknown

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to markets, Kyrgyzstan was priced in line with much weaker countries, creating an opportunity for us as multi-asset investors.

Within alternative credit now, we continue to be heavily invested in structured finance and insurance-linked securities. These alternative investment acts continue to offer strong yields and risk-adjusted returns to investors, and we think better value than regular equity and bond markets. Since we increased our allocation two years ago, insurance-linked securities have been one of the best-performing asset classes across our opportunity sector. We added bonds covering both U.S. windstorms and Asian earthquakes over the last three months.

One other investment to have come more firmly into the public eye in recent times is rare earth metals. Now, we gain access to these commodities through two mining companies, **Lynas** and **MP Materials**. And in an industry dominated by China, MP is the US's only domestic producer of some important rare earth metals that have critical uses in the power and defence sectors. So its strategic value has really been highlighted by the trade war and tariff negotiations, as we've seen China seek to leverage its market dominance. And so the strategy's investment in NP shares has benefited accordingly. This is a long-term structural growth opportunity in our view. And it's also one that actually benefits from the geopolitical shenanigans that we've been seeing. And so again, one that has helped the portfolios remain resilient.

All in all then, we have a number of investments that we expect to provide attractive and diversifying returns over the long term. Many of them have demonstrated their value over this latest period, with our diversified and defensive growth strategies generating good returns and substantially limiting the drawdown at those moments of market stress. We're excited about where they can go from here.

Now I hope this update has been useful for you. Please do get in touch with your regular contact here at Baillie Gifford if you'd like to discuss anything I've covered in greater detail. Thank you for watching.

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Diversified Growth (representative of Multi Asset, Multi Asset Growth, Diversified Return, Defensive Growth)

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

	2021	2022	2023	2024	2025
Diversified Growth Composite (gross)	14.6	-9.3	-1.6	6.8	8.5
Diversified Growth Composite (net)	13.9	-9.8	-2.1	6.2	7.9
Base rate +3.5%	3.6	3.9	6.7	8.8	8.3

Annualised returns to 30 June 2025 (net%)

	1 year	5 years	10 years
Diversified Growth Composite (gross)	8.5	3.5	3.3
Diversified Growth Composite (net)	7.9	2.9	2.6
Base rate +3.5%	8.3	6.2	5.1

Base rate: UK Bank of England.

Source: Revolution. Sterling. 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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