Baillie Gifford™

Long Term Global Growth Q2 investment update

July 2024

Investment manager Gemma Barkhuizen and investment specialist Carla Bannatyne give an update on the Long Term Global Growth Strategy covering Q2 2024.

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Carla Bannatyne (CB): Hello and welcome to this Long Term Global Growth update. As a reminder, Long Term Global Growth looks to deliver exceptional returns for our clients by investing in a concentrated portfolio of what we believe to be the world's best growth stocks.

My name is Carla Bannatyne, and I'm one of the investment specialists in the strategy, and I'm delighted to be joined today by Gemma Barkhuizen, one of our decision makers.

Gemma, thank you for joining us.

Gemma Barkhuizen (GB): Thanks for having me.

CB: During this update, we'll take a look back on the first six months of 2024, talk about some of the portfolio activity that's taken place, performance, but more importantly, we'll be looking ahead to some of the areas of enthusiasm within the team.

Gemma, maybe we could start by talking about the strategy's performance. I guess this might be particularly interesting given the concentration that we've been seeing in the markets, this is being dominated by a narrow cohort of companies, and ordinarily this would present some challenges for active managers, such as ourselves. But this has not been the case for Long Term Global growth. I'd be keen to hear your view on what's been driving this.

GB: Thanks, Carla. Yes, clients of LTGG will be aware that a key premise behind our investment approach is the recognition that a very small number of companies will be disproportionately important to driving wealth creation in equities. And this is something that we've long observed in our own portfolios, but it's also a phenomenon that is consistently true at the broader market level. So, while the current degree of concentration is particularly pronounced in the index, the phenomenon is by no means unusual in kind. And it is also not without precedent.

Now, because LTGG's investment philosophy and process is set up precisely to capture those outlier companies that are going to benefit from increasing returns to scale, we've long since held substantial positions in companies such as NVIDIA, which have obviously been important to driving recent performance.

But looking beneath those examples that tend to capture a lot of the attention, some of our recent strength has also been driven by the likes of Spotify and Netflix, which have seen very strong performance, rebounding from sharp drawdowns in their shares. Now, our long-term focus allowed us to hold through that volatility because we believed that both companies had really strong earnings growth prospects, and we know that the key determinant of drawdown recovery is earnings growth.

At Netflix, those strong earnings growth prospects are driven by the ability to increase subscriber monetization, both through pricing power and through advertising. And at Spotify, we've seen strong margin expansion that has come from an increased focus on operating efficiency while continuing to deliver strong growth. And actually, our recent discussions with the co-presidents of that company provided really interesting insights into the organizational changes that they've been making to underpin this improved operating efficiency continuing going forward.

CB: Yes Gemma, it's absolutely brilliant to hear that we're getting the opportunity to get in front of these key people to really understand what is going on, given that it's such an important part of our research and our analysis.

And I guess continuing on the topic of performance, it is probably worthwhile spending a couple of minutes on Tesla. This is a company that has been held in Long Term Global Growth for 12 years now, has one of the highest holding period returns in the strategy's history. But 2024 has presented some of its own challenges, particularly when it comes to its EV (electric vehicle) operations. So how are we thinking about this holding in particular?

GB: Yes, you're right, Carla, that Tesla has been a fantastic long-term performer for LTGG clients. We have actually roughly halved the position in recent months, and that's primarily as the competitive backdrop for electric vehicles has deteriorated, particularly from Chinese challengers who have really compelling products at a lower price point. The same increased competitive intensity actually drove our recent sale of the Chinese EV company NIO.

And while Tesla is comparatively insulated from much of this competition in its US market, at least, where it's more difficult for the Chinese competitors to gain traction, what they've seen in that market, unfortunately, has been quite weak, short-term electric vehicle demand. And we actually currently have a member of the team engrossed in a deep dive on the evolving picture for electric vehicle demand. And you can expect that the outcome of that work will have some bearing on our Tesla position going forward.

Members of the team were also recently able to spend some time at the Optimist Lab, where Tesla designs its robots. because we believe that the robotics and autonomy opportunities are becoming an increasingly material driver of upside going forward.

CB: Yes, I recently saw a video of said robots folding shirts, so I'm definitely excited about some of the help it could even bring to my own home.

You touched on some of the recent changes to the portfolio there, and that gives me a good opportunity to maybe ask you about some of the trading that's taken place more recently. I'd be keen to dig in a little deeper into what was the reasoning behind selling the synthetic biology company Ginkgo Bioworks?

GB: Yes, so for context, Ginkgo was a subscale R&D holding for us, and that was really a mechanism to control the amount of capital that we committed to that company, out of recognition that the range of outcomes for that stock were very, very wide. So we saw transformative upside potential from the growth of the synthetic biology market, but also a significant downside risk, which really comes from just how early that market is in its development.

Initially, we were very encouraged by the really strong customer growth that we were seeing at Ginkgo because this attested to some early product market fit. But unfortunately, the company has not successfully translated that customer growth into meaningful revenue or earnings growth potential. And we have not been able to build sufficient conviction that Ginkgo has the right business model to really be able to capture value from this tremendous synthetic biology growth opportunity. And so it was fairly straightforward, with that in mind, for us to make a complete sale of that small holding.

CB: Yes. It certainly sounds like a challenging task that they have on their hands. I'm sure we'll be keeping close tabs on what they're up to, but from the sidelines from now on.
I guess maybe pivoting to where some of that capital has been recycled into, definitely a holding that's easier for myself to get my head around is e.l.f. Beauty. would you be able to share a couple of points on what's exciting about this company in particular?

GB: Yes, so in a nutshell, e.l.f. is really the low-cost disruptor in cosmetics and beauty products. And, they've had tremendous success in gaining share from some of the legacy beauty companies. We think they're runway to continue doing this in their home market of the US is sufficient for them to at least double the business. And we think that five times potential that we always look for in LTGG will come from the international expansion, primarily into Europe and India.

And this is progressing extremely well, albeit from an early base. So, we're really encouraged by what we're seeing there. Despite how early the company is in its growth journey, it actually already earns worthwhile mid-twenties returns on capital while accelerating growth. And so with these attractions in mind, we recently were able to take advantage of some short-term weakness in the share price to be able to initiate a holding for LTGG clients.

CB: Yes, I'd certainly recommend watching some of theirmarketing if no one has seen them. Their Super Bowl ads are one of a kind, I definitely find.

Gemma, we always like to end these updates with a sense of what the team is currently excited about, what they're working on. So, are there any highlights that you would like to leave us with today?

GB: Yes, I mean, as usual, most members of the team have recently been out on the road seeing companies, checking in with the progress of those businesses against our investment thesis on LTGG and comparing those against the competition for capital that we have in the growing pipeline of new ideas.

One highlight I'd call out from my recent trip to the Bay Area was the opportunity to learn hands-on about Intuitive's latest surgical robot product, which has brought meaningful improvements over its previous surgical robots, including a 10,000 times increase in computing power, which is just astonishing to comprehend. These product improvements will be important in continuing to gain share from laparoscopic surgeries and shift those over to robotic procedures, and that really benefits Intuitive's market share, so that was really encouraging.

Looking beyond existing holdings, we've been very intrigued by some of the growth opportunities on offer in the Indian market, where we've seen the share prices of some really high quality companies exhibit quite a lot of volatility. But we think that the underlying premiumisation and formalisation drivers are sufficient to underpin healthy double-digit earnings growth for a very long time. And so you should expect that we will be capitalising on some of these opportunities for LTGG clients. And we can say more about that in the coming months.

CB: Well, I certainly look forward to hearing more about the pipeline over the coming months. So, to summarise, Long Term Global Growth continues to do what we set out to do 20 years ago, a focus on finding and holding a handful of outlier companies at the forefront of multi-decade growth opportunities. Competition for capital within the portfolio remains intense, and it certainly sounds as though there is no shortage of growth opportunities for us to take advantage of.

Thank you for your time, Gemma, and to all those watching this update. Please do not hesitate to get in touch if you have any further questions. Thank you.

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Long Term Global Growth

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

	2020	2021	2022	2023	2024
Long Term Global Growth Composite	56.4	61.7	-48.9	24.2	21.4
MSCI ACWI Index	2.6	39.9	-15.4	17.1	19.9

Annualised returns to 30 June 2024 (net%)

	1 year	5 years	10 years
Long Term Global Growth Composite	21.4	14.2	14.5
MSCI ACWI Index	19.9	11.3	9.0

Source: Baillie Gifford & Co and MSCI. USD. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

Past performance is not a guide to future returns.

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