Global Discovery manager update

March 2024

Head of Global Discovery Douglas Brodie joins investment specialist Bill Chater to share observations on technological progress, the operational performance of portfolio holdings, and the market environment.

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

Bill Chater (BC): We're delighted to welcome you to this Global Discovery Manager update. I'm Bill Chater, a specialist for Global Discovery, and I'm very pleased to be joined by Douglas Brodie, head of the Global Discovery team.

Douglas, how are you today?

Douglas Brodie (DB): Hi, Bill. I'm doing very well, thank you.

BC: Good.

So, before we get into the presentation right away, I want to acknowledge the strategy's recent poor returns. The asset class as a whole has had a difficult time, but our recent returns aren't representative of what we intend to deliver, and we are incredibly grateful for clients' patience to this point. Yet that withstanding, we are excited about the strategy's prospects from here.

Global Discovery aims to understand how the world is evolving and the special companies capitalizing upon or driving these trends, often through the innovative use of new technology or novel business practices. We're looking for smaller companies, which are early in their lifecycle. We want to access their primarily structural growth from a lower base, and then retain that access as they grow in scale. In this role, in this remit, we attempt to look out over the coming decade, thinking about how the world could be different, all whilst not losing sight of the here and now.

Based on that analysis, and the current set of circumstances, we think the prospects for attractive returns now look firmly tilted in our favour, with there being some exciting and meaningful catalysts

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on the horizon. These factors and our work frankly give us optimism that our investors may not need to wait much longer for their patience to be rewarded.

During this webinar, we'll share this analysis with you and what's contributed to our view and optimism. We're going to speak for around 30 minutes, leaving 15 minutes for audience Q&A, so please do submit your questions in the text function throughout.

Now, the presentation will focus on the broader Global Discovery strategy, but we'll draw some specific examples from its associated pooled vehicles, notably the Global Discovery Fund. Please note that although these vehicles are all managed by the same team using the same approach, bear in mind that they may not all be available in all jurisdictions.

So Douglas, I'm going to start by quoting a standout line from your recent commentary on the strategy, which is, to us, the prospect of robust returns is more attractive than at any time in recent memory. Perhaps you could explain that confident and reassuring statement, drilling into what you're seeing that perhaps the market isn't.

DB: Sure, happy to do that, Bill, and hello to everyone.

So maybe I'll start by saying when we built the philosophy behind the Global Discovery strategy and product, we knew that our distinct style, our growth style, wouldn't be able to succeed in all market conditions, so frankly, it couldn't, and I think almost the more focused your investment style, the higher the likelihood that you will have periods like that. But you say, nonetheless, that the past three years in that post-Covid period, it's undoubtedly been very disappointing. We recognise the challenges that clearly this has posed for our shareholders, our unit holders, and we appreciate the recent returns have been bruising, and we feel that.

We do strongly believe in the long-term prospects from here. We see that particularly in the smaller companies' asset class, but I think particularly when you come down to the early-stage businesses in which we look at those companies early in their lifecycle. And as you sort of hinted, we think this could be a really pivotal moment with the potential to shape long-term returns, and being thoughtful, brave, long-term now, and being patient and seeing this through can generate significant future rewards.

And we're comfortable making this claim really based around three critical factors. Firstly, that just the pure technological progress that underpins these businesses and a strategy like this remains very much alive and well. And secondly, the holdings in aggregate are delivering what we want them to do in what is undeniably a challenging environment. We have about 90 holdings, so there's always some doing slightly better, slightly worse, but in aggregate, we are comfortable with the performance of the businesses themselves. And thirdly, valuations look attractive. We've had this aggressive sell-off over the last couple of years, and I think particularly as you come down that market cap scale, the inefficiencies around pricing and valuation anomalies are rife. And we're

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putting substance behind that. I personally have put substantially more money into the strategy, colleagues have done likewise, so we are putting our money behind this as well.

BC: So, based on what you've said there, then, can we assume that you think we've reached and then passed the point of peak market pessimism? And if we have, what does that mean for the strategy and our approach?

DB: Yeah, the markets have been incredibly uncertain and volatile, I think, at points over the last three years. And if you step back, I think it's almost understandable, just given that immensely kind of weird potent cocktail of things that investors have had to navigate, Covid, the supply-demand shocks, the inflation, the interest rates, you know, it knocks confidence. And I think as a result of that, it's sucked in time horizons, and it's impacted people's willingness to engage with businesses attempting to build new things. And it's created a market environment that's all about the here and now.

And it feels like our approach to investing, you know, looking for these ambitious early stage companies, has been really out of sync. And that's tough to go through. But it's almost positioned what we do in a very sort of contrarian fashion. And that's been painful. And it also intuitively feels wrong when you delve into these companies. So I think it's always felt like a pretty extreme reaction. We have seen that in past instances, with regard to market cycles and interest rates. And we think there was a long-term pattern that, you know, once stock markets navigate the challenges of the time, the smaller companies area tends to respond very strongly.

In this particular cycle, we think we are largely past the points of maximum pessimism. You know, go back a few months, all these sort of disaster scenarios about inflation and interest rates. You know, we've navigated that, I think. You know, much of that feels in the rearview mirror. You see that in the inflationary stats. You know, almost now you're in this sort of waiting game as to what happens next on interest rates. But we're hopeful that we are moving to an environment that is more cognizant of company fundamentals, where elements of this weird backdrop flow out, elements normalise, the inflation, the interest rate environment normalises. And we think that could be both a mechanical benefit through valuation, but also primarily through sentiment. And if that were to happen, given we've not waived in our approach, we think we should be well positioned to benefit from that. And I think that almost if you overlay the progress of the companies have made in those multiple years in that time, we think that's a very interesting juncture.

BC: Okay. So perhaps let's talk about those three initial factors you mentioned, innovation, operational progress, and valuations. And we'll talk about each in a little bit more detail.

Let's start with technological innovation. Capturing opportunities presented by technological change is a long running objective for the strategy. What's exciting about that right now?

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DB: Oh, look, you know, stepping back, I mean, we think the opportunity for innovation and progress is more potent as they've ever been. We countlessly encounter entrepreneurs, innovative companies, creating products and services across a whole host of frontiers that we think will genuinely surprise people in terms of what they're capable of.

Like I guess near term, you've had a lot of excitement around generative AI, local language models, et cetera. And I think in the second half of 2023, it's been really pleasing to see several of our companies using these new AI capabilities, expanding the opportunity set available to them, using that to reinforce their edge. And I think contributing in many cases to actually very robust performance in these companies. I particularly pick out cyber art in terms of that, involved in privileged account management and aspects of cybersecurity. As that whole wave of AI has come along, the threat from a cybersecurity angle changes. Companies have had to really up their game and spend a lot more in this.

We also see that in aspects like Upwork, a freelance network that we know are known for a number of years now. They are providing a lot of AI talent into this sort of real demand that companies have. And increasingly, you actually see these AI tools being used by the freelancers and having aggregated those networks, we think Upwork is very well positioned to be a beneficiary of that. But I think there's countless examples in the portfolio where companies will be indirect beneficiaries of these too.

So, yeah, that's one prevalent theme. But I'd stress that the portfolio has several influential themes that really run deeply through it. One that's very close to my heart would be just around how there were some really foundational tools coming in terms of how clinicians and academics and researchers are being able to use and exploit DNA. I think we've got some fascinating businesses with companies like Alnylam and Beam Therapeutics really on the cutting edge of taking all this insight around DNA and making it therapeutically relevant and repeatable and modular in terms of how diseases are treated.

Companies like Twist Biosciences providing tools to write DNA, DNA as a reagent effectively. Companies like Oxford Nanopore here in the UK, an exquisitely interesting way of reading and interrogating DNA. Companies like Exact Sciences in the US doing diagnostics and screens around DNA. So, yeah, foundational tools really, really early, I think, in their end commercial exploitation.

There's another sort of area that's popped up a little bit more in the portfolio, and I would say that's around companies that are using hardware and industrial type changes to sort of almost generate a techno-industrial revolution is a little thing possible here. So companies using new technologies, revolutionising traditional physical processes that typically are outside of technological cycles. So companies like American Superconductor making really interesting progress in power management and utility scale generation. But for companies, newer additions like MP Materials, Air Semiconductor sort of testing tools for compound semiconductor manufacturing, Ceres Power in terms of fuel cells and electrolysers. So companies that are active in areas of big capital

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expenditure, and there's elements clearly there that companies themselves can't directly control. But the bits they can control, we think a lot of these businesses are making real interesting progress.

So for me, I think that's just touching on a few things where I think elements of that innovation and that human ingenuity, they really are alive. And maybe it's understandable where stock markets have lost a little bit of focus on that. But we think these will be the relevant profit pools of the future. And that's where we focus all our efforts.

BC: So just given how interesting and exciting these are, I'm going to push you a bit further on this. So is there any one theme that's represented within the portfolio which has surprised you over the last 12 months? I guess I'm really interested if there's one which the market hasn't been particularly alive to, but has, in your mind, significant relevance for the coming five years and beyond.

DB: Yeah, it kind of began more of an observation for us. But I think it is actually evolving into a very prominent theme in the portfolio and something where I think there was actually real proper deep substances of why this could be a broader theme in time. So you're coming off the back of a multi-decade period where digital businesses, software led businesses were the defining businesses of their time. They were the ones with the network effects. They were the ones with the capital scaling.

But I think now you're at the point where a lot of businesses, a lot of areas of commerce have gone down that digitization route. And there's, I think, this new wave of innovation and entrepreneurial activity coming down the path, which is increasingly fusing hardware and software capabilities.

I cut my teeth as an investor where hardware was almost a dirty word. It was products that ultimately were commoditised. They had very short product life cycles. They were low margin. Avoid hardware businesses like the plague. But I think now this fusion of hardware and software is radically changing that. And it's not just changing what the products are capable of. It's changing the monetization routes and the competitive advantages of these companies.

So, you know, maybe two early businesses that we owned were actually sort of very interesting drivers of this change. Two of our most successful businesses were Tesla and Dexcom. Both of them actually had elements of fusing hardware and software to make devices either autonomous in the case of Tesla or very insightful in the case of Dexcom.

One of our bigger holdings now, which I think is really driving this sort of thing forward, would be a company called Axon. To those that don't know Axon, they make the Taser device for police forces. They also do most of the body-worn cameras that police forces wear. So in essence, hardware type products. But behind the scenes, they built a tremendous software business, which is all about the analytics of the data files that come primarily from the cameras, but also the tasers. They are using that to broaden out into the broader ecosystem of software tools for law enforcement. And then

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within that, you can infuse all the AI tools, produce automated transcripts, build training modules based on this huge data advantage that you've got. So yeah, that would be one that really sort of speaks to that theme.

Companies like Oxford Nanopore are very active in that. A hardware device for sequencing, fusing in biology and all the algorithms to decode that. Companies like Air Environment, they do various flavours of drones or the flight control systems. The autonomous threat detection, the swarming capabilities, built-in analytics, cargo here in the UK, the automation of their on-grid picking robots, etc.

So I think what began as observations are increasingly the crux of where businesses build their competitive advantage. And I think mastery of lots of different skills and integration of those across hardware, software and other domains. You know, you have to be good at lots of things. And if you do that well, you build up a really good moat. And I think hardware is also learning a lot of lessons from software. And that whole, you know, software went through this transition where it's all about selling one-off licenses to then becoming these SaaS business models and recurring revenue streams. And as you embed software into hardware, you can really change this from being a sort of one-off sale into a very high quality recurring revenue stream in time.

BC: Now, if that's something which you think is flying slightly under the radar, something which has very much been on everyone's minds is AI more broadly. Seemingly, it's underscored the dominance of big tech. I think most people be aware of the fact that Magnificent 7 is dominating US market returns and has reached historic levels of concentration.

What's your thoughts on this and does it impact your case for investing in smaller companies at all?

DB: Yeah, these are very successful businesses. And to be sort of an observer in businesses, it's phenomenal to see companies like that come through and dominate their respective areas. But I think, you know, it's worth remembering that many of these businesses, they were the upstarts, you know, frankly, not that long ago. You maybe touched on some of the reasons as to why they are so strong now. But maybe just to add to that, they're almost perceived as the default digital utilities of their time. They carved out these really interesting places around dominance of their respective parts of the ecosystem. As you say, the market's excited around where that leads them from a sort of artificial intelligence, local language model type area.

And you know, I get that to some extent. They either own the data, they host the data, they process the data from their chips, et cetera. But they are the visible, tangible infrastructure that businesses or individuals need to engage with to get to AI. And in some cases, that's very much reflected in their current growth. But almost, if you step back a bit, technology like generative AI is interesting because of the problems that are solved by it. It's interesting because of all the things that could now be done that couldn't be done, all the things that could be automated that used to be manual. And look, I get that the infrastructure, the cloud, GPUs, they are required for that. But they are

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fundamentally the tools, not the solutions. And I think you'll enter a period of business creation and problem-solving on the back of AI.

And for businesses, you know, small and mid-cap businesses, the types of things that we look at, that's very much a fair game for them. You know, almost in the way that, you know, think back to the dot-com boom-bust, you know, the Cisco's, the Dell's, the Vodafone's, they were the infrastructure of that period of the market. But then the subsequent decade or so, it was all about the Amazons, the Googles, the Facebooks, that built their businesses out using that infrastructure.

So, yeah, the fact that there are some big winners doesn't surprise me. I'm a big believer in investment asymmetry. You make multiple times your money in some of these businesses. And I hope that many of the viewers have owned these businesses and have benefited from that. But, you know, they do, they kind of represent delivered asymmetry. And if you've owned them, brilliant, well done. But the only asymmetry that really has value is future asymmetry that can be unlocked by future returns. And I think doubling when your market cap is $1tn, $2tn, $3tn, that's really hard. I know some people are sort of banded around numbers, but, you know, if that magnificent seven wanted to double their valuation through creation of sort of economic value, they'd be having to create, you know, economic worth that's the GDP of, I think, Japan, Germany and the UK.

It is almost like a case of the law where large numbers eventually has to catch up here. You know, believe in asymmetry, but asymmetry is best exploited when it's accessing growth of a low base, when the market is inherently sceptical and mispricing that opportunity. And that's when the opportunity for outsized returns is vast. And to me, none of that intuitively applies to the magnificent seven. Now, that doesn't make them bad businesses, far from it. But, yeah, it does shape that potential for returns from them.

Maybe to sort of loop back slightly to some of the things I was hinting at the start, markets are inefficient at the best of times. They become very, very inefficient at periods of stress. And almost you could then overlay onto that the more you come down the market cap scale, those efficiencies become even more pronounced. But even amongst these companies, the magnificent seven, probably some of the most looked at analysed companies, the share price returns just hint at some of the inefficiencies that are out there. And I think as people come down the market cap scale, just imagine the inefficiencies that reside down there.

BC: Well, let's move on to the second of your initial points we've spoken about in previous webinars, and you've touched on it already today, that the operating environment has become more challenging for many holdings. I wonder if maybe you could speak about what you've observed from the holdings and how they are adapting to this new, kind of more tricky environment.

DB: Yeah, sure, happy to do that. So I guess you're coming off an era where it was all about free money, low barriers to entry, but getting access to funding. And this was now making way, we

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thought, for one that was much more about business productivity, business efficiency. Yet that was being sort of married with a period of soft demand, frankly, in many, many aspects of markets.

But we've been pleased to see many of our companies actually do well in that environment. So I'd highlight Zillow, the U.S. real estate platform, JFrog, the U.S.'s range software automation business, LiveRamp, the advertising data insights company. These are all delivering really good progress in areas where you'd look at their sort of raw area of economic activity, say conditions there have been fairly tough. And I think the best businesses can do this. In essence, they have a proposition that offers a better and cheaper way forward. And these are characteristics in a product, in a service that tends to ensure they take market share in tougher times.

We see that, you know, like in police budget pressure all the time exists. Police forces are asked to do more with less. They seek out efficiency tools in the form of Axon. We see also in our healthcare area, there's been a lot of challenges in healthcare, frankly, around staffing shortages, rising costs of care, biotech funding pressures. And we think we can come up with some companies that really aid and benefit and overcome some of those obstacles. So Schrodinger, in terms of all their small molecule computational drug design, saving time and money. We see that with Exact Sciences, their testing of class-leading accuracy in colon cancer detection, getting these things identified early, making them more actionable and saving costs and effort in the long term. These are fundamentally better and cheaper and more efficient ways of doing things.

BC: Thank you, Douglas. Now, let's move on to the third and final one, valuations. And what's giving you the confidence to say there's an opportunity here?

DB: Yeah, I think it's, we'll try to talk at a high level and not get sort of sucked into individual stock cases. But I think that the recent market turbulence has rebased valuations of smaller capitalised businesses. And we sort of evidenced that earlier on. And I think that's particularly pronounced amongst these more credible businesses. And one that we're seeing is really that the companies where they have the most long-term potential, that's where the market is shunning them. That the stock market is almost reflexively punishing businesses, which are investing for the future, sacrificing their current potential for profitability for long-term gains. Investing in R&D, so the marketing is scaling out their effort.

And I think identifying these companies where we can get convinced about the long-term potential and tolerate the fact that they're investing, that that's really where the crux of the opportunity is, I think, for us. So additions to companies like Beam Therapeutics, Oxford Nanopore, QuantumScape in terms of solid state battery technology. And we just think that the market is fundamentally mispricing the long-term potential and we think relevance of these companies. We get that these are not easy businesses to value. They are in their formative stages. You have to project forward and you have to be prepared to engage in that task of thinking where a business might get to. And with the time horizons condensed, we think there's a lot of people out there that just aren't engaging in that.

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We've taken new positions in businesses like MP Materials and Ayer, which I discussed earlier on. We’ve also taken a new business in a company called Skywater. They're very interesting sort of foundry capacity for that. So we've got a lot more exposure now into the semiconductor area. And we've been able to buy these businesses at what we think are very attractive prices.

BC: Now, along with those changes to the portfolio, I know you've also made some enhancements to your process, incorporating learnings from the last few years. I wonder if you could just talk the audience through those and any other portfolio changes which happened as a result.

DB: Yeah, I mean, you do a lot of reflection after a three or four year period that we've all been through. What could we do better? Where can we improve? There is a clear requirement to be patient with the types of companies that we like. But you have to recognise the dangers of pure execution in these companies. Be honest when that poor execution nullifies what actually might have been a really interesting investment hypothesis. I think we've had that with Teladoc more recently, with Wayfair, with Liveperson. And we've moved on from those names. And you need to recognise around just enforcing risk reward upside, especially when that risk reward dynamic changes quickly.

That would always be difficult for a strategy like us, where we are projecting and thinking about these businesses where they can get to in the long term. But we've been deploying a more formal review process of looking at the remaining upside in businesses that have typically done well for us. We have various trigger points around that. I think in the past, we've been pretty good at teasing out when we've done well in businesses and it's time to move on. We've done that with Tesla and Dexcom. Over the past three years, but maybe take some of that valuation discipline and bring that to companies that are just early on their journey. We've maybe done quite well, but are we actually going to do really, really special out of this? We've engaged in sort of cleaning out elements of the tail of the portfolio, where we've given businesses sufficient time. So yeah, we've made a number of changes at the top end and particularly the lower end of the portfolios. And that's actually reduced the number of holdings quite meaningfully.

BC: Now, with all of that, though, I think it's worth reiterating for the audience that the portfolio remains in excellent operational health. We've seen delivered growth substantially ahead of the benchmark. It's forecast to grow at multiples of that of the benchmark and the quality of that growth looks really good.

You're seeing gross margins double that of the benchmark and a significantly higher rate of reinvestment in R&D. We're also really pleased with the resiliency of the holdings. This is a portfolio which is sitting on net cash versus an indebted benchmark. And yes, whilst there is a meaningful proportion of holdings which aren't yet delivering positive earnings, these companies generally have substantial cash reserves. And as Douglas has spoken about, frankly, these are the companies where we're seeing the greatest valuation opportunity.

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So maybe just a couple of questions to quickly wrap up and then we'll get into audience Q&A. So please do, if you have questions, fire them into the text function at the bottom of the screen.

Douglas, what's exciting you within the portfolio right now? Or let's phrase it another way. We're in the early part of 2024. What developments are on the horizon that you're trapping for the rest of the year that's capturing your attention and your enthusiasm and excitement?

DB: Yeah, and it may be thinking in terms of ones where this could be a really pivotal year. I've mentioned Alnylam earlier on, but that might be one just delving into a little bit more. We've owned Alnylam for a decade in this strategy. And I think for me, it's been proving itself as one of the most powerful drug development platforms that we've seen. It's really benefiting from that explosion in genetic knowledge and how genes drive disease, but making that directly therapeutically relevant. In the summer of this year, we got a really interesting readout, one of their heart disease trials. And we're confident that they should be the best in class in that area, given their mode of action and everything we understand about their technology. I'm also very interested in some of their progress they're seeing in their Alzheimer's related programs. And that really gets to the crux of their system being able to do things that others can't do easily. So yeah, one of the 12 months might be very interested in.

Another one that sort of popped up in the portfolio and become a lot more significant would be LiveRamp, a really interesting business in the area of digital and online identification. So the theme there in the backdrop is cookies, these classic sort of old school identifiers in that digital world are being phased out. And the broader advertising industry, in fact, the data processing industry in the whole, needs better identification tools. And not just better, but ones that are very compliant with all the local rules and all the local jurisdictions. They think of things like GDPR. And LiveRamp appears to be really the emerging industry standard identifier.

Maybe another one, a business called TransMedics, very interesting technology for organ perfusion and doing both the hardware and practical service function around that. I think over the next 12 months, we might get some very interesting readouts around just how market expansive that technology is. Can it increase the number of transplants that can be done and the number of organs used?

BC: Excellent. And now just one final one from me, and then we'll get into audience questions.

The three areas we've spoken about today, so the opportunity for innovation, operational performance of the portfolio, and valuations. Which of those three have the greatest impact on strategy long-term performance?

DB: Well, I guess that valuation correction that we've seen over the last two to three years, and the gap between the small and large cap that we've discussed. If you combine that with the current operational progress that we've seen with the companies, that almost creates a very attractive

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starting point. But essentially a strategy like us, it's all about capturing the opportunities presented by the long running cycles of innovation, technological change, human ingenuity, innovation, and all the benefits that we see in the world around us because of that.

And just to reiterate, I think the backdrop there, the opportunities for that are as strong as they've ever been. We've touched on how that might be impacting healthcare, computing, automation, et cetera. And that kind of wave of progress, it sort of sits outside the conventional influence of equity markets and slightly tighter funded environments. It's driven by big structural shifts, new combinations of technologies. And these things are in play. They are already underway. The combinations are done. The commercialisation and progress is coming through.

So many of the companies we think with the greatest potential to deliver, they are the ones that the stock market is shining. They are the one working to this bigger long-term agenda. And it feels to me odd, the market is reflexively punishing them because they are the ones with the greatest potential to shape the long-term returns. And that's what we're interested in.

BC: Okay, thank you very much for that, Douglas. Now, let's move to audience Q&A.

And a question has come in about AeroVironment specifically. And it's been asked if what we've seen in AeroVironment recently is a good example of the market now beginning to shift towards looking at fundamentals rather than just focusing almost entirely on the macro. What's your thoughts on that?

DB: Yeah, I guess to some extent, AeroVironment is a business that, you know, we've long been intrigued by what it does. And for those that don't know it, it does small scale, often hand-launched drones, primarily for frontline troops around aspects of surveillance and in time, these things have been weaponised as well. You know, it does carry a clear link to the broader macro, potentially the geopolitical debates that we've seen pop up a lot more on the agenda of late. You know, the world in some ways is a less stable place, conflicts in Ukraine. But frankly, most of the R&D and the innovation began around here with the Afghanistan conflict and a desire to protect troops on the frontline and get basically more bang for your buck out of your military. And that, as the product set has developed, those fundamentals have really come through to the fore. And particularly the surveillance and the ability to weaponise these products has really pushed them right up the agenda. So it is the fundamentals that have driven it, that the company kind of forced that agenda, but it's an unusual one. It does have this sort of geopolitical link to it as well.

BC: I see. Now, the next question is backward looking. So it asks that the growth potential of the portfolio is reassuring, but what have been the reasons, the drivers, the catalysts for underperformance over the last three years? Why have valuations been under such scrutiny when the areas in which you're investing in have so promising and have been in the headlines themselves? I mean, I think this will bring together a few elements of what you've said already,

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Douglas, but I don't think there's any harm in just reiterating this and directly answering the question.

DB: Sure. At that sort of bigger picture level, I would say our company is all about the building of long-term future cash flows. Now, many of them will come at the point that they are early on their journey. Some of them, as we saw, they will be in that cash consumptive phase. Some of them, a small portion, will be dependent upon future funding to deliver upon that. So in sort of industry terms, they would be called long duration, that their cash flows skew to out of years. And the way that valuation models work, particularly at times of rising interest rates, people just become, they put a bigger discount factor on those future values of cash flows.

Now, as a long-term investor, what was relevant for me is, you know, in 10 years' time, when I want to come and sell those businesses, what's the prevailing interest rate at that point in time? And I could perform a detailed cash flow analysis then. But in the intervening time, the way that stock markets deal with this is they just discount these cash flows. So that's been something that's been uniform across the portfolio, but probably more punitive to our earlier stage businesses.

You know, we can't hide from the fact that in that post-pandemic period, a number of companies found that very difficult. There were some very odd signals in their end markets. Matching supply and demand became very difficult. You know, in aspects of healthcare, we saw some companies turn some clinical cards over that were maybe less than optimal.

One that really sort of impacted us in that regard would be Novacure, a business where we actually took some very positive signals around the long-term relevance of that therapy. But if you were very interested in what might that mean for the next 12 months of Novacure's revenue, that there were perhaps some negatives in it. So again, it's one where it's fundamentally been, I think, this bigger picture issue. But, you know, we could delve into a number of stock examples in a portfolio of sort of close to 100 names where individually stocks would have communicated that too.

BC: Now, there's a couple of questions which I'm going to bring together. So firstly, there's a question around the geographic spread within the portfolio and geographies which you are over or underexposed to. And then linked to that, an attendee is asked about the potential impact on the future strength or weakness of the US dollar and whether that's significant to the types of companies in which we invest. I guess I will broaden that out and say, how much are you considering that within your process?

DB: You know, I'd probably... I'll treat them separately, but there'll be strands that sort of link between the two. We position our team to get out there and find the companies that we think are most relevant. The companies solving the biggest problems. Where that resonates the most is where the problem that they're seeking to solve has itself a global relevance. Almost that that's the biggest sort of cheat to find companies where the outsized returns can be the biggest.

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So yes, we can slice and dice the portfolio by sort of geographic listing of where that company is. For what it's worth, I think we're in the order of sort of 60, 65 per cent into the US. Frankly, that's not radically different from where the index is. You know, we can slice and dice it in terms of where the revenue profile of the companies are. At that point, it starts to normalise out a little bit. But, you know, to cut to the chase on it, the geographical profile will look like where we find the most interesting relevant businesses. And, you know, it slightly disappoints me to say that, but the US is phenomenally good at building that value chain, the seeding companies early, providing growth capital, listing them. And it's, frankly, it's the natural go-to market for many growth businesses. Now, it doesn't have the monopoly on that, but the ecosystem for doing that works very well.

You know, I'm not a currency predictor. I get very nervous if I ever turn around and start predicting currencies because I have no direct training in that. I don't know the models that people would reliably call on in terms of that. I'd be second guessing all the currency management that the companies themselves do. And they will employ people within their own businesses that understand the currency exposure and then various hedging elements around that. So personally, I have no qualms with sort of just backing off from that and going with the geographic exposure is what the geographic exposure will be. And in the short term, the currency overlay will be frankly what it is.

BC: Okay. Now, a question has come in asking you about which areas of innovation that you are currently looking at or exploring. Now, I'm not going to ask you about the names you're looking at, but Douglas, is there any kind of areas that you haven't yet mentioned on the webcast today that you're excited about and looking at companies within?

DB: One, I very briefly mentioned it, and it would be gene editing. And I must admit I've sort of over the last five years or so I've changed my tune on gene editing. I think some of the technologies that are coming through now are really profound in terms of that. And there's potentially a bridge for gene therapy now to do all the things that sort of gene editing to do all the things that originally gene therapy offered to do. Now the foothills of that involves sort of little changes to DNA but there was a path to go from that to really interesting disease fixing treatments.

BC: Okay. Now, one final question is just about Oxford Nanopore. I'm conscious that we're coming up on time, Douglas, but if you could share just a brief update on what you've seen from the company. I know it had results recently, maybe how those are indicating it's doing and your thoughts within the team on that.

DB: Yeah, sure. We've known Oxford Nanopore going back to about 2015. We actually, it was our first private investment for the Edinburgh Worldwide Investment Trust. And I think to watch that business come from a very low base to the revenue profile that it's got now, having watched the product set evolve, I'm hugely enthused by where they've got to. It's currently selling into a market that I would describe as fairly constrained in terms of its end use cases. And by that, I mean, the use of genomics in medical, clinical applications, in research, in academia, you know, it's a well-established market, but it's quite defined in terms of the use cases. And the thing that really

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appeals about the Nanopore technology is breaking out from that defined market into areas where genomics and DNA-based insights are just currently not used or they're used in sort of suboptimal ways. And I think everything that we see about their technology in terms of the form factor, the real-time readouts, the price points, just the user-friendliness of that, to me, it positions genomics to break out from this sort of constrained market into something much bigger.

BC: Okay. Now we're up against the allotted 45 minutes, so we will draw it to a close there. Douglas, thank you for the update you shared today. Do you have any final comments that you'd like to share with the attendees before we wrap up?

DB: Well, I think we've covered a fair bit of ground today, so hopefully we've conveyed a bit of the flavour of the portfolio, a bit of why we think it's one of the most interesting portfolios out there. And maybe, yeah, just reiterate that we're backing that and put some of our own money in a meaningful way as well.

BC: Good. Well, look, thank you to everyone who has attended today. Thank you for your questions. And most importantly, thank you for your continued support of the strategy. It is greatly appreciated. We'll leave it there. I hope everyone has a good day. Thank you very much and take care. Bye-bye.

Global Discovery

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

	2019	2020	2021	2022	2023
Global Discovery Composite	31.6	83.4	-21.2	-42.6	1.4
S&P Global Small Cap Index	25.2	16.2	15.3	-18.2	16.0
MSCI ACWI Small Cap Index	25.2	16.8	16.5	-18.3	17.4

Annualised returns to 31 December 2023 (net%)

	1 year	5 years	10 years
Global Discovery Composite	1.4	2.0	4.7
S&P Global Small Cap Index	16.0	9.7	6.7
MSCI ACWI Small Cap Index	17.4	10.3	7.1

Source: Baillie Gifford & Co and underlying index providers. 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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