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Positive Change Q1 investment update

April 2024

Investment manager Thaiha Nguyen and investment specialist Alison Henry give an update on the Positive Change Strategy covering Q1 2024.

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

Alison Henry (AH): Welcome to the Positive Change update. I'm Alison Henry, an Investment Specialist for Positive Change, and I'm joined today by Thaiha Nguyen, an Investment Manager and key decision maker for Positive Change.

Before we jump into questions, I would like to introduce our 2023 ESG and Engagement Report, Positive Conversations, which is now available on our website. And now Thaiha, turning to you. We have a number of companies that have had a great start to the year in terms of delivering results and strong operational progress. Nubank is actually one of the top contributors over the quarter.

Can you briefly discuss why it's been doing so well, why these results have been so strong?

Thaiha Nguyen (TN): Yeah, sure. So, Nu is a Brazilian fintech that wants to reshape the Latin American financial system. Recently, the share price has performed very well as the market rewards the company's excellent operational progress. So, revenues have grown almost 11-fold and customers almost three-fold since 2020. And 2023 was a pivotal year for Nu as they were able to prove their thesis that technology will create a significant advantage around customer experience and cost structure. For the past 10 years, they have proven the customer experience part by achieving the highest net promoter score among any consumer companies in the world. And the second part was finally achieved in 2023, when Nu generated $1bn net profit. And importantly, the company believes that 2023 is not a one-off and they will be a lot more profitable in the future.

AH: Interesting. Thank you.

Now, although performance was positive over the quarter, we were behind the index and one of the detractors was WuXi, a Chinese company. I'm conscious that it is a relatively new addition to the portfolio.

Would you be able to talk us through what's been going on? I know part of it has been geopolitics, but there's a bit more to it than that.

TN: Yes. I'll point out two reasons. The first is the short-term macro weakness due to a weak biotech funding environment. A big part of Wuxi's revenue comes from small biotech companies so as those companies struggle with funding, we see a significant reduction in their R&D activities, which negatively impacts WuXi. The second reason which is more significant is geopolitics. So, in January, the US lawmakers proposed two trade bills that could prevent certain US companies from working with some Chinese companies, including WuXi. And although we think that the probabilities of those bills being passed in their current forms are low, the geopolitical risk will be hanging over the stock for the foreseeable future, particularly in this election year. So, we are now closely monitoring the situation and planning to visit the company's Irish manufacturing site to learn more about the trends of international clients' order.

AH: Great. And Wuxi is our only Chinese company currently.

Can you talk about the team's thoughts about China and Chinese exposure more broadly?

TN: Yes. So, the team has been of the long view that China could present many exciting growth opportunities, given the size of the country and many critical problems needing innovative solutions. But so far, we have not found many companies that can satisfy both of our investment and impact objectives. For example, we've looked at a wide range of companies in the energy transition space, from the producers of solar panels to solar inverters to batteries and EVs. But generally, we struggle to identify durable competitive advantage for those businesses. And more recently, we are cautious about the rising geopolitical tensions between China and the West, a lesson learned from our investment in Wuxi. That being said, we remain open-minded about the growth opportunities and we are discussing if we could find companies that are leaning more towards the domestic market or companies that are exposed to less geopolitically sensitive regions like Southeast Asia or Latin America.

AH: And speaking of Southeast Asia, there are actually two new buys in the portfolio over the quarter. And one of them is a Southeast Asian company Grab, but also US company Rivian.

Would you mind talking through each one, perhaps starting with Rivian?

TN: Yes. So, Rivian is an EV startup that is most famous for its pickup truck and the electric delivery vans for Amazon. Although Rivian's products at the moment are large vehicles in the premium segment, but the company is absolutely committed to bring cheaper, smaller vehicles to the market in the coming years. Rivian is still at an early stage, but we think that the company has many of the right ingredients to successfully scale up, including high quality product, strong product market fit, a decent amount of capital, a strong backup from Amazon as a big shareholder and commercial client, and importantly, a trustworthy and ambitious management team. So, in EV, software is one of the key elements. And Rivian is building its software from the ground up rather than outsourcing it to third parties. And we think that that tight integration between software and hardware could put Rivian in a strong competitive position against traditional OEMs who have so far struggled to transition to EVs. We have monitored Rivian's progress since its IPO in 2021. And although the EV industry is currently facing short-term demand challenges due to rising interest rate, we believe that the shift to EV is inevitable. And Rivian has a small but growing chance to become one of a few OEMs with a meaningful production volume on the race to decarbonize the transportation of both people's and physical goods. And for those reasons, we decided to take a small holding in Rivian.

AH: Great. Thank you. And a very different company, but Grab was the other new purchase over the quarter.

TN: Yes. So, Grab is often known as the Uber of Southeast Asia. It operates the largest ride-hailing and food delivery platform in the region, offering economic opportunities for millions of drivers and MSMEs. I mean, micro, small, medium-sized enterprises. And before investing in Grab, we commissioned third-party research [a company]called 60 Decibels, which shows the overwhelming benefits that MSMEs experience from joining digital platforms such as Grab, including higher income, greater digital literacy, and also improved financial resilience. The penetration of Grab's services at the moment is still low, but that should rise along with the economic growth of the region. Grab also had a strong competitive position, evidenced by its dominant market share across all the markets that it operates in. And importantly, we think that that market-leading position is defendable due to network effect and the company's heavy investment into technology. And at the same time, we are seeing a more capital-constrained environment, which tends to support more rational, competitive behaviours from peers. So, altogether, we think that should support Grab to achieve sustainable profits in the long term, similar to what Uber has been able to demonstrate recently. And in addition to ride-hailing and food delivery, Grab is in the early stage of expanding into financial services, which we think could provide additional upside.

AH: Brilliant. Thank you. And AI, the final question, as we've been asked a lot from clients on artificial intelligence, also known as AI.

There is quite a lot of broad exposure across the portfolio. Would you mind delving into that in a bit more detail?

TN: So, I would say that AI touches almost every company in the portfolio. And I would categorise our portfolio's exposure to AI into three different groups. The first group are companies that are providing the infrastructure to enable the growth of AI, such as ASML and TSMC, because those companies are critical to the production of AI chips. The second group are companies that are leveraging the power of AI to advance their products and services as well as lower their cost of production. A few examples here would be Tesla using AI to develop autonomous driving and recently the humanoid robots. In education, we have Duolingo and Coursera using AI to develop education content at lower cost. In healthcare, we have Moderna using AI to aid with drug development. And in agriculture, we have a 200-year-old company, John Deere, using AI to develop computer vision for its precision agriculture segment, as well as autonomous tractors. So, from these examples, you can see that AI touches almost every corner of the economy. And finally, the third group are companies that help to support the growth of AI in an environmentally sustainable manner. I was surprised to learn that Ecolab's water management and hygiene solutions are in strong demand as the growth of AI is going to require a lot more water-intensive semiconductor manufacturing facilities. And we also need a lot more water to cool down the data centres that power all of those AI applications.

AH: Yes, wow.

Thank you very much, Thaiha. And thank you, everybody, for listening today and for your interest in Positive Change.

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Positive Change

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

	2019	2020	2021	2022	2024
Positive Change Composite	8.4	107.5	-5.6	-12.2	6.2
MSCI ACWI Index	-10.8	55.3	7.7	-7.0	23.8

Annualised returns to 31 March 2024 (net%)

	1 year	5 years	10 years	Since inception
Positive Change Composite*	6.2	14.6	N/A	17.7
MSCI ACWI Index	23.8	11.5	N/A	11.2

*Inception date: 31 January 2017.
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.

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